



**A Report to the
Audit Committee**

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Audit of Metropolitan Office of Trustee Cash Collections Process

July 24, 2015

Metropolitan
Nashville
Office of
Internal Audit

EXECUTIVE SUMMARY

July 24, 2014



Why We Did This Audit

The audit was initiated due to the significant amount collected and the importance of the process to the financial health of the Metropolitan Government.

What We Recommend

- Tighten user privileges and deactivate obsolete user accounts in the TaxMan system.
- Reduce the number of users that can process reversal of tax payments in the TaxMan system.
- Enhance accountability of till custody transfers and security of checks received.
- Enforce segregation of duties between cash collections, deposits, and TaxMan administrative privileges.

For more information on this or any of our reports, email Mark.Swann@nashville.gov

AUDIT OF METROPOLITAN OFFICE OF TRUSTEE CASH COLLECTIONS PROCESS

BACKGROUND

The Metropolitan Office of the Trustee plays a critical role in the revenue cycle as it is responsible for the billing, collecting, depositing, and recording of all property taxes. Property taxes are by far the largest revenue source for the Metropolitan Nashville Government representing approximately 50 percent of the total.

OBJECTIVES AND SCOPE

The objectives of the Trustee Cash Collection audit were to:

- Determine if cash and cash equivalents collected were complete, existed, and recorded in the Metropolitan Nashville Government accounting records.
- Determine if cash and cash equivalents were deposited and recorded in the general ledger in accordance with Metropolitan Nashville Government financial policies.
- Determine if general and application controls for the TaxMan system were in accordance with the Committee of Sponsoring Organizations of the Treadway Commission, Internal Control – Integrated Framework, Principle 11, Selects and Develops General Controls over Technology.

The audit scope included all work performed in tax years 2012, 2013, and 2014. The table below summarizes the amount in property taxes budgeted versus collected for each of these tax years.

Tax Year	Budgeted	Actual
2014	\$907,900,000	\$863,574,023 ¹
2013	891,600,000	890,788,054
2012	793,700,000	789,208,815

Source: Metro Nashville's Citizens Guide to the Budget Book

WHAT WE FOUND

The property tax amounts collected and reported by the Office of Trustee were complete, existed, deposited, and recorded in the Metropolitan Nashville Government accounting records.

The Trustee's Office should enhance internal controls related to segregation of incompatible duties, reversal of tax payments, cash till custody transfers, and securing checks. Also, enhancement opportunities to application controls within the TaxMan system existed.

¹ As of July 24, 2015.

GOVERNANCE

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 Property Assessor places the appraised value on residential and commercial properties, the Trustee accepts the Certified Real Property Tax Roll from the Property Assessor, the Metropolitan Nashville Council sets the property tax rate, and the Office of the Trustee bills and collects all taxes. Delinquent taxes in excess of one year are collected by the Clerk and Master's office.

The State of Tennessee Comptroller of the Treasury Office of State Assessed Properties manages the Public Utility Taxes and State of Tennessee Tax Relief Program.

OBJECTIVES AND CONCLUSIONS

1. *Were cash and cash equivalents collected complete, exist, and recorded in Metropolitan Nashville Government accounting records?*

Yes. Controls were in place to ensure that cash and cash equivalents collected by the Trustee's Office were complete, existed, and recorded in Metropolitan Nashville Government accounting records. Audit procedures demonstrated:

- Property assessed values agreed between the Property Assessor's and the Trustee's computer systems.
- Tax bills were prepared and computed using the approved assessed value, tax rate, and property use type percentage.
- Adjustments (primarily tax relief or tax freeze), payment reversals, and refunds were valid.

However, internal controls should be strengthened to improve the billing and collection process (see Observations A through G).

2. *Were cash and cash equivalents deposited and recorded timely in accordance with Metropolitan Nashville Government financial policies?*

Generally yes. Cash and cash equivalents were deposited in the bank within one business day. However, amounts deposited were not consistently recorded in the general ledger within two business days of deposit of funds as recommended by Metropolitan Nashville Government Financial policies (see Observation G).

3. *Were general and application controls for the TaxMan system in accordance with the Committee of Sponsoring Organizations of the Treadway Commission, Internal Control – Integrated Framework, Principle 11, Selects and Develops General Controls over Technology?*

Generally yes. The network security and physical security controls were in place and operating effectively. Applications controls were available in the tax management system, however, user security privileges did not take full advantage of "least privilege" practices and obsolete accounts were not deactivated promptly (see Observations A, B, and E).

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 – Segregation of Duties

Segregation of cash collection duties could be enhanced. Segregation of duties includes separating the authorization, custody, and recording of assets. The following conditions existed:

- Parties with administrative rights to the TaxMan system had access to cash. These staff members had the ability to reverse/adjust transactions from individual accounts. Specifically one of these staff members had access to the safe where deposits in transit were retained. Two other managers involved in the counting of amounts submitted by cashiers to TaxMan reports also had the ability to reverse/adjust payments within the system. These staff members also periodically, albeit seldom, operate a cash drawer.
- A designated employee was responsible for opening the mail, processing payments received in the mail, preparing deposit slips, and recording cash receipts in the accounting records.

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

Recommendations for management of the Metropolitan Office of the Trustee to:

1. Segregate bookkeeping responsibilities from cash collection responsibilities.
2. Ensure parties with administrative rights and the ability to reverse or adjust a transaction do not have access to cash.

Observation B – Reversing Payments from Tax Payer Accounts

It was difficult for the Office of Trustee to demonstrate the reason for a tax payment reversal or the completeness of monitoring reviews for tax payment reversals. Areas of concern related to processing of payment reversals were:

- There were no comments or pre-established codes to identify the purpose of the reversal.
- Only four designated parties have been approved to reverse a payment. However, application privileges within TaxMan were set up whereby some cashiers had the ability to reverse a payment.
- When supervisors review or reverse a payment, the reversal transaction was attributed to the cashier's user identification code. This makes the periodic management review of the reversal less likely to identify inappropriate reversals.

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.

Recommendations for management of the Metropolitan Office of the Trustee to:

1. Establish a comment or pre-established code field within the system to help identify business purpose of the reversal.
2. Ensure that only those who have been designated to make reversals are set up within the system to do so.
3. Ensure reversals only be done under the user identification code and password of the person actually making the reversal.

Observation C – Custody Transfer of Cash Tills

Cash handling practices diminished assignment of individual responsibility for cash tills. Multiple employees were responsible for cash tills because three employees had access to the safe where cashiers deposit slips, TaxMan reports, and actual collections were secured overnight prior to transfer to the bookkeeping function. On the next business day a designated member of management counted all the tills and reconciled them to the TaxMan reports. Once this was completed, this designated person would initial the deposit slip verifying the amount submitted for deposit agreed with the amount submitted by the cashier. The deposit slip was then initialed by the cashier to confirm agreement.

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.

Recommendations for management of the Metropolitan Office of the Trustee 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.

Observation D –Security of Checks

Checks were not always secured. Checks were retained on various employees desks unattended while pending processing. Also, checks processed by cashiers were retained in an unlocked drawer until the end of the day.

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.

Recommendations for management of the Metropolitan Office of the Trustee to:

Implement a procedure whereby all checks are secured in a locked drawer or other means.

Observation E – Maintenance of TaxMan User Accounts

Obsolete TaxMan user accounts and excessive administrative privileges could be used as a conduit for unauthorized activity within the system. Out of 98 computer ID's, 12 were service accounts, non-existent employees, or previous vendor support accounts which no longer had a requirement to remain active. Also, there were 19 computer accounts with administrator access. These conditions increase the risk that the integrity of data within the TaxMan system could be compromised.

Criteria:

- COSO, Control Activities— Principle 11—The organization selects and develops general control activities over technology to support the achievement of objectives.
- ISO 27000 (2005), Section 11 Access Control, 11.2.2-The allocation and use of privileges should be controlled, and 11.2.4-Management should review user rights at regular intervals.

Recommendations for management of the Metropolitan Office of the Trustee to:

1. Create a procedure to remove ID's from the TaxMan system and provide assurance to management that the process is completed for each change in access.
2. Reduce the number of administrators to the minimum necessary. That level of access should only be used to perform administrator duties, such as account maintenance.

Observation F –Tax Relief Payments from the State

The Trustee's Office does not have a procedure in place to reconcile the tax relief amounts billed to the State of Tennessee amounts actually received. This was due to administrative differences in how the State of Tennessee submits payments.

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.

Recommendations for management of the Metropolitan Office of the Trustee to:

Implement a procedure whereby payments billed to the State for tax relief payments are reconciled to amounts received.

Observation G – Treasury Policy Compliance

Daily cash collections were not consistently recorded in the Metropolitan Nashville accounting system within two business days of deposit. Of the 60 applicable daily cash collection selections, 33 deposits (55 percent) were not recorded within two business days of the deposit of funds. Exceptions ranged between 3 and 33 business days of deposit.

Criteria:

- COSO, Monitoring Activities—Principle 16—The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.
- Metropolitan Nashville Government Finance Department Policy – Treasury Policy #9

Recommendations for management of the Metropolitan Office of the Trustee to:

Ensure all remittances are recorded in the Metropolitan Nashville accounting system within two business days of deposit.

Observation H – Human Capital Succession Plan

The Trustee’s Office lacks a succession plan for the potential loss of employees. The Trustee’s Office has a veteran staff with many years of experience. Many of these employees will be of retirement age in the near future. The loss of institutional knowledge could have a detrimental impact on the operations of the office. There were 20 full time employees in the Trustee’s office. Of this number 8 have been with the Metropolitan Nashville Government for over 30 years, with another 7 having over 20 years. The current Trustee has served in his position since 1993.

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.

Recommendations for management of the Metropolitan Office of the Trustee to:

Develop a succession plan to facilitate the smooth transfer of knowledge to future employees who will eventually replace those employees coming upon retirement.

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 audit analytic software.
- Considered risk of fraud, waste, and abuse.
- Considered information technology risks.

AUDIT TEAM

Mark Swann, CPA, CIA, CISA, Metropolitan Auditor

Bill Walker, CPA, CIA, Senior Auditor

Joe McGinley, CISA, Senior Auditor



METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

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July 21, 2015

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

RE: Audit of Metropolitan Office of Trustee Cash Collections Process – June 15, 2015

Dear Mr. ~~Swann~~ *Mr. Swann,*

This letter acknowledges that the Metropolitan Trustee's Office received the Audit of Metropolitan Office of Trustee Cash Collections Process 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,

Handwritten signature of Charlie Cardwell in cursive script.

Charlie Cardwell
Metropolitan Trustee

CC:wb

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
Management of the Trustee Office should:		
A.1 -Segregate bookkeeping responsibilities from cash collection responsibilities.	Partially Agree: Unfortunately, due to personnel restrictions, complete segregation of duties is difficult to obtain. However, we will reassign duties to the best of our ability to ensure that employees who have access to cash do not also have administrative/bookkeeping responsibilities.	September 1, 2015
A.2 - Ensure parties with administrative rights and the ability to reverse or adjust a transaction do not have access to cash.	Agree: Our new tax accounting software will have the capability to give specific controls to employees so that parties with access to cash do not also have the ability to reverse or adjust transactions.	September 1, 2015
B.1 - Establish a comment or pre-established code field within the system to help identify business purpose of the reversal.	Agree: Our new tax accounting software will have the capability to make a comment to help identify the business purpose of reversals. There will be several pre-established codes to choose from, but administrators will also have the ability to enter a specific comment in a free-form field.	September 1, 2015
B.2 - Ensure that only those who have been designated to make reversals are set up within the system to do so.	Agree: Our new tax accounting software will have the capability to limit controls so that only those who have been designated to make reversals are set up within the system to do so.	September 1, 2015
B.3 - Ensure reversals only be done under the user identification code and password of the person actually making the reversal.	Agree: Our new tax accounting software will only allow reversals to be completed by an administrator under their user identification code and password.	September 1, 2015
C.1 - 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.	Partially Agree: We will be updating our procedure to restrict the number of employees who have custody of cash at a given time and to verify the amounts transferred at the time of transfer. Additionally, we are looking into the possibility of purchasing locking money bags which will eliminate the number of people handling the deposit.	September 1, 2015
D.1 - Implement a procedure whereby all checks are secured in a locked drawer or other means.	Agree: We are currently in the process of adding locks and insert slots to the drawers on our front counter so that checks will be secure.	September 1, 2015

APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

Recommendations	Concurrence and Corrective Action Plan	Proposed Completion Date
E.1 - Create a procedure to remove ID's from the TaxMan system and provide assurance to management that the process is completed for each change in access.	Agree: Our new procedure is to send user lists, quarterly, to all departments with access to our new tax accounting software for updates so that we can remove inactive ID's regularly.	July 1, 2015
E.2 - Reduce the number of administrators to the minimum necessary. That level of access should only be used to perform administrator duties, such as account maintenance.	Agree: Our new tax accounting software will have the capability to give specific controls to employees so that only those who truly need administrative rights will have them.	September 1, 2015
F.1 - Implement a procedure whereby payments billed to the State for tax relief payments are reconciled to amounts received.	Agree: Our new tax accounting software will have the capability to reconcile payments billed to the State for tax relief with amounts received.	September 1, 2015
G.1 - Ensure all remittances are recorded in the Metropolitan Nashville accounting system within two business days of deposit.	Agree: We have already begun the process of cross-training employees on how to record remittances in the Metropolitan Nashville accounting system. When the primary employee is out of the office, the back-up will be able to record remittances in their absence. This will ensure that remittances are recorded within two business days of deposit.	October 1, 2015
H.1 - Develop a succession plan to facilitate the smooth transfer of knowledge to future employees who will eventually replace those employees coming upon retirement.	Partially Agree: We have already begun a succession plan which includes cross-training our current employees and hiring new employees as often as budgetary restrictions will allow.	Ongoing