



**A Report to the
Audit Committee**

Mayor
David Briley

**Nashville and Davidson
County Register of Deeds**
Karen Johnson

Audit Committee Members

John Cooper
Charles Frasier
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Metropolitan
Nashville
Office of
Internal Audit

Audit of the Register of Deeds

January 24, 2019

EXECUTIVE SUMMARY

January 24, 2019



Why We Did This Audit

The audit was requested by the then-incoming Register of Deeds, Karen Johnson.

What We Recommend

The Register of Deeds should:

- Enhance access controls to the Business Information System
- Monitor internet subscription payments.
- Perform a compensation study.
- Leverage software applications and professional services of the Metropolitan Nashville Government.
- Ensure all expenditures relate to a public purpose and documentation is maintained for the minimum retention requirements.

Audit of the Register of Deed

BACKGROUND

The mission of the Register of Deeds is to “record all documents pertaining to real estate and documents relative to the Uniform Commercial Code. To maintain the integrity of all official records and offer courteous, friendly, and expeditious service to all who use the Register’s office. “

From July 1, 2016, to June 30, 2018, (24 months) the Register of Deed’s recorded 265,475 documents and collected \$101,472,020 in taxes and fees.

OBJECTIVES AND SCOPE

The overall objective of the audit is to provide assurance the Register of Deeds has controls in place to ensure compliance with sound financial practices. Specific audit objectives include:

- Reported revenues are complete, deposited within two business days, and recorded in the accounting records.
- Payroll expenses are accurately stated, recorded, and for work actually performed.
- Goods and services procured by the Register of Deeds are authorized, received, recorded, and for a public purpose.
- Management’s corrective action plans from the April 17, 2012, Register of Deeds internal audit report were implemented.

The audit scope included activity between July 1, 2016, and June 30, 2018.

WHAT WE FOUND

The Register of Deeds controls are generally in place to ensure financial objectives are met. However, inappropriate user access rights were assigned within the Business Information System. Incoming mail requests for service are not logged and subsequently reconciled to ensure the work is completed. A number of peripheral information systems are used which are redundant to systems operating within the Metropolitan Nashville Government. Expenditures did not consistently contain supporting documentation, and thus the public purpose could not always be determined. A compensation study has not been performed.

GOVERNANCE

The Register of Deeds Office is a constitutional office established by Tennessee Code Annotated §§ 8-13-108 through 8-13-117. The Register of Deeds is an elected position which serves four-year terms. Bill Garrett served as Register of Deeds from 1998 to August 31, 2018. Karen Johnson is the current Register of Deeds and began her term on September 1, 2018.

FINANCIAL HIGHLIGHTS

The Register of Deeds is one of the few offices within the Metropolitan Nashville Government that operates on a net of fee basis and also receives an annual budget appropriation from the Metropolitan Nashville Government. The annual appropriation covers building rent, internal service fees, and other miscellaneous expenditures. The Register of Deeds, in turn, collects fees and generates expenditures throughout a given year. In December and June of each fiscal year, any net gains are forwarded back to the Metropolitan Nashville Government.

Expenditures related to the Metropolitan Nashville Government appropriation and the excess fees returned are recorded in the EnterpriseOne financial system. All other financial transactions are recorded internally by the Register of Deeds utilizing QuickBooks financial software. The Office of Internal Audit obtained trial balances for transactions recorded in both QuickBooks and EnterpriseOne. A summary of fees collected by the Register of Deeds as well as the cost of operations and net receipts are presented in Exhibits A and B.

Exhibit A – Fees, Other Funding Sources, and Expenditures for Fiscal Years 2018 and 2017

Accounts	2018	2017
<u>Fees and Other Funding Sources</u>		
Recording Fee	\$3,269,222	\$3,561,877
Fee for Collecting State Taxes	1,189,042	1,056,643
Other Service Fees	556,730	737,027
Metro Nashville Government Appropriation	266,000	259,100
Total Funding	<u>\$5,543,702</u>	<u>\$5,614,647</u>
<u>Expenditures</u>		
Payroll	\$2,708,019	\$2,653,016
Internal Service Fee	108,300	103,400
Rent, Building & Land	122,956	121,238
All Other Expenditures	70,540	84,795
Total Expenditures	<u>\$3,009,815</u>	<u>\$2,962,449</u>
Excess of Fees and Other Funding Sources over Expenditures	\$2,271,179	\$2,652,198
Distribution to Metro Nashville Government	<u>2,000,000</u>	<u>2,600,000</u>
Balance after Expenditures and Distribution	<u>\$ 271,179</u>	<u>\$ 52,198</u>
Fund Balance June 30, 20xx	<u>\$ 865,091</u>	<u>\$ 602,510</u>

Source: Metropolitan Nashville Government EnterpriseOne Financial System and Register of Deeds QuickBooks Software

Exhibit B – Computer Fund Fees and Expenditures for Fiscal Years 2018 and 2017

Accounts	2018	2017
<u>Fees and Other Funding Sources</u>		
Recording Computer Fee	\$257,208	\$272,046
Metro Nashville Government Appropriation	5,500	11,800
Total Fees and Other Funding Sources	262,708	283,846
Total Expenditures	236,006	7,489
Excess of Fees and Other Funding Sources over Expenditures	\$26,702	\$276,357
Fund Balance June 30, 20xx	\$1,962,280	\$1,980,950

Source: Metropolitan Nashville Government EnterpriseOne Financial System and Register of Deeds QuickBooks Software

Exhibit C – Metro Fund Top Vendors for Fiscal Year 2018, 2017

EnterpriseOne Purchases Vendor	Amount	Fifth Third Credit Card Purchases Vendor	Amount
Pitney Bowes Reserve Acct	\$9,000	1105 Media Events	\$1,695
Myoffice Products	8,138	Comcast	1,178
American Paper & Twine Co	2,483	Country Inn By Carlson	1,144
Pitney Bowes (Neenah Wi)	1,389	Sir Francis Drake Hotel	1,131
Aramark Refreshment	1,221	Successories	980

Exhibit D – Excess Fees and Computer Funds Account Top Vendors and Category for Fiscal Year 2018, 2017

Vendor	Amount	Pinnacle Credit Card Purchases Category	Amount
Business Information Systems	\$219,075	Computer Fund Purchases	\$3,044
DEX Imaging	3,893	Food/Meals	2,529
Document Technology Systems Ltd	3,750	Air Travel/Travel	3,133
RACO Industries	2,672	Repairs & Maintenance	1,946
Comcast Business	2,135	Miscellaneous Expense	862

Source: Metropolitan Nashville Government EnterpriseOne Financial System and Register of Deeds QuickBooks Software

INFORMATION SYSTEMS

In addition to QuickBooks, the Register of Deeds utilizes a document recording system called Business Information System to manage documents recorded, and payments received. The Business Information System server is managed by the Metropolitan Nashville Government Information Technology Services.

Business Information System was implemented on September 11, 2018, in the Register of Deeds office as an upgrade of the system. Prior to that, Document Technology System was used for the same purpose. Business Information System has all the functionalities of the document recording management system as the previously used Document Technology System. The system also improved the ways that the cashier function can take various types of payments. The other improvement is an audit log of changes made inside the system has been added.

OBJECTIVES AND CONCLUSIONS

1. *Are reported revenues complete, deposited within two business days, and recorded in the in the accounting records?*

Generally yes. All revenue sources were captured in the Business Information System. Twenty-five out of 497 business days were reviewed. For the business days reviewed daily deposit amounts in the Business Information System agreed with the deposit slips as well as with the bank statements. Financial information entered in QuickBooks agreed with the financial report in the Business Information System and by category. Revenue collected on behalf of the State of Tennessee was filed correctly and remitted timely. Customer escrow account balances and vendor receivable account balances were accurate and up to date.

Processes over incoming mail and monitoring of internet subscription services need to be improved. (See Observations C & D.)

2. *Are payroll expenses accurately stated, recorded, and for work actually performed?*

Generally yes. Five out of the 48 payroll periods during the audit scope were reviewed. Payroll deductions were compared to employees' payroll records for correct deduction types. Deduction amounts were recalculated for mathematical accuracy. Three out of the 30 employees' leave balance were recalculated based on years of service, accrual schedule, and leave time used. All employees reviewed leave balances agreed to the April 2018 employees leave balances when the Register of Deeds switched to APS payroll system.

The total salary of all employees in the office was calculated and compared with the total salary stated in the Register of Deeds Letter of Agreement with the Metropolitan Nashville Government's Director of Finance for the 2017 and 2018 fiscal years. While the total maximum payroll amount as a whole was not exceeded, five employees total pay for the 2017 fiscal year was above the agreed-upon range for their job title. (See Observation C.)

Furthermore, a formal compensation study should be completed to ensure the current compensation structure conforms to industry standards. (See Observation E.)

3. *Are goods and services procured by the Register of Deeds authorized, received, recorded, and for a public purpose?*

Unable to determine. Purchases made from Metropolitan Nashville Government appropriation were authorized, with supporting documents, and for a public purpose. However, purchases made from the excess fee account, especially for Pinnacle Bank credit card purchases and travel-related purchases, lacked supporting documents to determine the public purpose of the expenditure. (See Observation A.)

4. *Were Managements' corrective action plans from the April 17, 2012, Register of Deeds internal audit report implemented?*

Yes. The April 17, 2012, audit report contained 19 recommendations. Five of the 19 were rejected. The remaining 14 have been implemented.

AUDIT OBSERVATIONS

Internal control helps entities achieve important objectives and sustain and improve performance. The Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework (COSO)*, 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 – Expenditures Public Purpose Documentation Retention

Expenditures did not consistently contain supporting documentation, and thus the public purpose could not always be determined. The following conditions were observed:

- The public purpose for 52 out of 60 credit card transactions reviewed could not be determined, mostly related to in-town meals. Out of the 60 transactions reviewed, receipts could not be located for 28 transactions (47 percent).
- Seven out of 115 (6 percent) direct paid expenditures reviewed did not have supporting documentation. Eight of the transactions included sales tax.
- Itemized receipts for approximately \$2,500 in Comcast service at an employee’s home for 24 months could not be located. Management asserted that this expense related to an employee who worked from home. Without an itemized receipt, it could not be determined if the expenditure was limited to internet services.
- Supporting documentation related to \$1,300 in travel advances to Register of Deed employees could not be located. Register of Deeds staff use travel advances for meals and incidentals. Travel advance amounts exceeded CONUS rates by \$1,300. Explanations for the variance could not be provided.

Criteria:

- Metropolitan Nashville Government Finance Policy #14 – Capital Asset
- Metropolitan Nashville Government Finance Policy #19 – Credit Card
- Treasury Credit Card Cardholder Acknowledgement
- Metropolitan Nashville Government Finance Policy #20 – Purchasing
- Metropolitan Nashville Finance Delegation of Purchase
- Metropolitan Nashville Government General Records Schedule 221- Credit Card Files states: “Records related to purchase made by Credit Cards issued by Finance has retention of six years.”
- Register of Deeds Travel Policy
- *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 Register of Deeds to:

1. Ensure all expenditures are related to a public purpose, are well documented, excludes sales tax, and documentation is maintained for the minimum retention requirements.

Observation B – User Access Rights to the Business Information System/ Segregation of Duties

Inappropriate user access rights were assigned within the Business Information System. Specifically;

- One employee responsible for bank reconciliations was also given unrestricted access to the cashiering function. This employee will also on occasion makes deposits.
- Four employees have access to the cashiering function without a business need to have this access.
- Eleven employees who are not supervisors have level three access to pricing which has the ability to void an instrument or batch.
- One employee who is not a supervisor has the highest level of access to all major modules, although specific functions were assigned appropriately to this employee, this practice increases the risk of unauthorized access to the system.

Ensuring employees are only granted system rights to tasks related to their job enhances system integrity and security.

Criteria:

- *COSO*, Control Activates – Principle 11 – The organization selects and develops general control activities over technology to support the achievement of objectives.
- *COBIT5*, DSS05 Process Practices, Inputs/Outputs and Activities– DSS05.04 Manage user identity and logical access. – Ensure that all users have information access rights in accordance with their business requirements and coordinate with business units that manage their own access rights within business processes.

Recommendation for management of the Register of Deeds to:

1. Review the user rights in Business Information System to ensure that access privileges will be assigned based on employee business need.
2. Ensure that employees who are responsible for the generation and reconciliation of the financial records do not have access to the revenue operating cycle at the same time.

Observation C – Incoming Mail/Work Reconciliation

The Register of Deeds lacks a process whereby incoming mail requests for service are logged and subsequently reconciled to actual work completed. The Register of Deeds has one designated employee who receives the mail. This person forwards unopened mail to a supervisor. The supervisor counts all incoming mail and distributes requests for service proportionally to the number of recorders available on a given day. The distribution is based on the number of pieces of mail received without taking into account that a single piece of mail may contain multiple requests for service. Once the requests for service are input into the Business Information Systems, multiple controls are in place to ensure the request for services are completed.

Developing and executing a process to log all incoming requests for service and related payments and then reconciling to work processed in the Business Information System can help provide assurance all requests for service received by the Register of Deeds are completed.

Criteria:

COSO, Control Activates – Principle 10 – The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to an acceptable level.

Recommendation for management of the Register of Deeds to:

1. Implement a process where two employees retrieve and open the incoming mail at the same time. A log listing all payments and request for services should be maintained and signed by both employees.
2. Ensure that a supervisor reconciles the number of payments and request of services to the number of requests completed/returned in the Business Information System periodically.

Observation D – Internet Subscription Fee Reconciliations

Internet subscription fees are not monitored and/or reconciled to subscriber account information. Business Information Systems sends in subscription income periodically without sufficient supporting documentation. Monitoring and evaluating outsourced service can improve management control over revenue and enhance transparency.

Criteria:

COSO, Control Activates – Principle 10 – The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to an acceptable level.

Recommendation for management of the Register of Deeds to:

1. Perform periodically reconciliation between the subscriber's detail reports to the ACH payments received in the bank.

Observation E – Need for a Compensation Study

The Register of Deeds has never had a formalized systematic compensation study performed. Total compensation including bonuses is determined by management professional judgment and discretion without the input of external analysis. The Register of Deeds does enter into a Letter of Agreement with the Metropolitan Nashville Government Department of Finance which outlines total amounts that can be paid in payroll expenses and provides general salary guidelines for various pay classes.

However, payroll practices do not always conform to this Letter of Agreement. There were five Deputy Registers that had total compensation of \$75,000 and above for the fiscal year 2017. The Letter of Agreement only indicated three positions should earn this amount. In addition, three out of these five Deputy Registers received annual compensation over the agreed upon maximum amount of \$92,000 per position.

A formal compensation study and systematic bonus structure can help ensure employee compensation is aligned with the required skill set and experience.

Criteria:

- Letter of Agreement Compensation of Employees for the fiscal years 2017 and 2018.
- COSO, Control Activates – Principle 10 – The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to an acceptable level.

Recommendation for management of the Register of Deeds to:

1. Ensure each employee is paid within the agreed salary range outlined within the Letter of Agreement.
2. Obtain an independent, formal compensation study in order to ensure pay rates and salaries are commensurate with job functions and industry norms.

Observation F – Transparency and Utilization of Metropolitan Nashville Government Systems

The Register of Deeds uses a number of peripheral information systems that are redundant to systems operating within the Metropolitan Nashville Government. The utilization of these peripheral systems reduces transparency and accountability.

The Register of Deeds uses QuickBooks to record all excess fee-related activities. Prior to April 2018, QuickBooks was also used to record all payroll related transactions. Systems utilized by the Register of Deeds can only be accessed by Register of Deeds personnel reducing the ability to monitor financial activity by the Department of Finance and other entities. The Metropolitan Nashville Government has invested a significant amount of resources in software applications such as iProcurement and EnterpriseOne to facilitate various financial and payroll activities. Moreover, the Department of Finance has qualified professionals who can provide expertise and oversight in these areas.

Utilization of Metropolitan Nashville Government financial and payroll information systems improves transparency and reduces redundancy of information systems.

Criteria:

COSO, Control Activates – Principle 10 – The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to an acceptable level.

Recommendation for management of the Register of Deeds to:

1. Use Metropolitan Nashville Government services and applications to record all financial and payroll activities.
2. Work with the Metropolitan Nashville Council to change from an excess fee-based system to an appropriation based system for funding of all expenditures.

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 Register of Deeds.
- 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.

AUDIT TEAM

Nan Wen, CPA, In-Charge Auditor

Laura Henry, CFE, Assisting Auditor

Bill Walker, CPA, CIA, Quality Assurance

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



KAREN JOHNSON
DAVIDSON COUNTY REGISTER OF DEEDS

P.O. Box 196398 Nashville, TN 37219-6398 615-862-6790 www.nashville.gov/rod

January 22, 2019

Bill Walker, CPA, CIA
Metropolitan Nashville Office of Internal Audit
404 James Robertson Parkway, Suite 190
Nashville TN 37219

Dear Mr. Walker:

This letter will confirm that the Davidson County Register of Deeds office has received the Audit Draft Report and Management Response Matrix issued by the Office of Internal Audit. We have completed the Management Response Matrix, and it is attached.

My staff and I are appreciative of the findings in the report with regards to the operations of the previous administration and look forward to implementing the majority of recommendations contained in the report that do not conflict with State Statutes. We acknowledge the outstanding work of your team and have begun the process of implementing recommendations, as noted in the Management Response Matrix.

We have enjoyed working with you and your team of auditors. The audit has been a positive experience for the Davidson County Register of Deeds office.

If there is any further information needed, please let us know.

Thank you,

A handwritten signature in blue ink that reads "Karen Johnson".

Karen Johnson
Davidson County Register of Deeds

KYJ/trq

APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

We believe that operational management is in a unique position to understand best 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>Recommendation for the Management of Register of Deeds to:</i>		
A.1 Ensure all expenditures are related to a public purpose, are well documented, excludes sales tax, and documentation is maintained for the minimum retention requirements.	Accept.	Implemented
B.1 Review the user rights in Business Information System to ensure that access privileges will be assigned based on employee business need.	Accept.	February 1, 2019
B.2 Ensure that employees who are responsible for the generation and reconciliation of the financial records do not have access to the revenue operating cycle at the same time.	Accept - These duties are now being done by two separate employees whose duties do not cross.	Implemented
C.1 Implement a process where two employees retrieve and open the incoming mail at the same time. A log listing all payments and request for services should be maintained and signed by both employees.	Accept - Will take more resources than what is available at this time, but will look at implementing this at a future date.	December 31, 2020
C.2 Ensure that a supervisor reconciles the number of payments and request of services to the number of requests completed/returned in the Business Information System periodically.	Accept - This is a reasonable request, and will be implemented.	In process
D.1 Perform periodically reconciliation between the subscriber's detail reports to the ACH payments received in the bank.	Accept - This is currently being done and has been implemented by the new accountant.	Implemented
E.1 Ensure each employee is paid within the agreed salary range outlined within the Letter of Agreement.	Accept - Any employee out of range for the previous administration will be corrected in the 2019 Letter of Agreement.	August 31, 2019
E.2 Obtain an independent, formal compensation study in order to ensure pay rates and salaries are commensurate with job functions and industry norms.	Accept - If not cost prohibitive, will work with other Register of Deeds Offices throughout the State to leverage resources and data already completed.	December 31, 2022
F.1 Use Metropolitan Nashville Government services and applications to record all financial and payroll activities.	Reject - Pursuant to State statute, we are a fee-based office and we will continue to operate under our fee based structure.	Not applicable
F.2 Work with the Metropolitan Nashville Council to change from an excess fee-based system to an appropriation based system for funding of all expenditures.	Reject - State law under statute dictates that the Register of Deeds is a fee-based office and operates off of fee based services, and we will continue to do so.	Not applicable