



**A Report to the  
Audit Committee**

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**Metropolitan Trustee**  
Erica Gilmore

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Kevin Crumbo  
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Metropolitan  
Nashville  
Office of  
Internal Audit

# Audit of the Office of the Metropolitan Trustee

January 12, 2021

## EXECUTIVE SUMMARY

January 12, 2021



### Why We Did This Audit

Metropolitan Trustee, Erica Gilmore, requested this transition audit to review the finances and operations of the Office of the Trustee.

### What We Recommend

- Update policies and procedures and revise annually.
- Ensure two-person integrity is followed and documented when counting cash.
- Adjust user access within eGovernment Solutions so that only authorized individuals can process voids and add or edit users.
- Segregate the duties of collecting cash and adjusting property tax bills.

# Audit of the Office of the Metropolitan Trustee

## BACKGROUND

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The primary function of the Office of the Trustee is the collection of real property, personalty, and public utility property taxes. These taxes represent approximately half of the annual revenue for the Metropolitan Nashville Government. The Office of the Trustee also administers the State of Tennessee Tax Relief Program, Tax Deferral Program, and Tax Freeze Program.

## OBJECTIVES AND SCOPE

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The objectives of this audit are to determine if:

- Controls are in place to ensure cash receipts are complete and accurate.
- Cash receipts are deposited within one business day and recorded in the Metropolitan Nashville financial system within two business days.
- Duties are segregated within the tax collection process.
- Recommendations from the July 2015 [Audit of the Metropolitan Office of Trustee Cash Collections Process](#) were implemented.

The scope of this audit included the operations of the Office of the Trustee between July 1, 2018, and June 30, 2020.

## WHAT WE FOUND

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The Office of the Trustee is effectively managing the property tax collection process. Cash receipts are deposited within one business day and generally recorded within two business days of deposit. However, two-person integrity should be consistently used and documented when counting cash receipts.

Policies and procedures are outdated and do not represent current practices for some critical business processes. Users within eGovernment Solutions had permissions exceeding their job responsibilities. Some employees could process voids and add or edit users unnecessarily. The Office of the Trustee also lacks segregation of duties between collecting cash receipts and adjusting property tax bills.

## GOVERNANCE

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The Office of the Trustee is a Constitutional office established as a tax collection agency for each county in the State of Tennessee. The Metropolitan Trustee is elected to a four-year term and is tasked with the collection of real property, personalty, and public utility taxes.

The operations of the Office of the Trustee were overseen by two Metropolitan Trustees during the audit period of July 1, 2018, to June 30, 2020. Charlie Cardwell was the Metropolitan Trustee from 1993 until his passing on May 13, 2019. The Metropolitan Nashville Council appointed Parker Toller as Metropolitan Trustee to serve the remainder of Mr. Cardwell's term. The current Metropolitan Trustee, Erica Gilmore, was elected on August 6, 2020, and sworn into office on August 26, 2020.

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.

## BACKGROUND

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### [Property Tax Overview](#)

The primary function of the Office of the Trustee is collecting property taxes, which represent the largest single source of revenue for the Metropolitan Nashville Government. Property taxes are ad valorem taxes, meaning that the amount paid by the taxpayer is dependent upon the value placed on the property being taxed. Three factors determine the amount paid by the taxpayer which include the appraised value of the property, the assessed value of the property, and the property tax rate. The appraised value is the fair market value of the property. The Assessor of Property determines the appraised value of real property in Davidson County, and the Tennessee Comptroller of Treasury determines value of public utility real property. The assessed value is computed by multiplying the appraised value by an assessment rate percentage. The assessment rate depends on the classification of the property and is set by the State Board of Equalization.

The tax rate is set each year during the budget process in the Mayor's recommended budget. The Metropolitan Nashville Council has the option of amending the Mayor's recommended tax rate with a differing tax rate in a substitute budget. Once a budget is approved, the tax rate is set by the Metropolitan Nashville Council in the form of a tax levy ordinance. The property tax rate is further broken down into mill rates within the tax levy ordinance so that tax collections are applied to specific funds. Property tax bills are calculated by the Office of the Trustee using the eGovernment Solutions property tax collections software. A property tax bill is computed by dividing the assessed property by 100 and then multiplying the result by the tax rate.

### [Property Tax Collections](#)

The Assessor of Property places an appraisal on each residential and commercial property in Davidson County on a four-year cycle. Each September, the Office of the Trustee obtains the Certified Real Property Tax Roll file from the Assessor of Property through an intermediary in Metropolitan Nashville Information Technology Services. The Office of the Trustee follows a process while working with property tax collection software vendor, eGovernment Solutions, to compile the tax roll and upload appraisal and assessment information into the eGovernment Solutions property tax collection software.

Property tax bills are printed and mailed to property owners each year in October and must be paid by the last day in February. Davidson County property owners are given multiple avenues to pay including online by credit card or bank draft, over the phone with a credit card, through the mail to the Office of the Trustee or lockbox at First Horizon Bank, or in person at the Office of the Trustee or First Horizon

Bank. Property tax bills that remain unpaid after one year of delinquency are sent to the Chancery Court Clerk and Master for collection.

**Exhibit A – Property Taxes Budget versus Actual**

<b>Fiscal Year</b>	<b>Budget</b>	<b>Actual</b>
<b>2020</b>	<b>\$ 1,065,480,700</b>	<b>\$ 1,088,030,766</b>
<b>2019</b>	<b>1,036,267,500</b>	<b>1,045,855,441</b>
<b>2018</b>	<b>1,021,267,500</b>	<b>1,002,584,197</b>
<b>2017</b>	<b>972,030,500</b>	<b>976,303,558</b>
<b>2016</b>	<b>938,830,600</b>	<b>948,010,325</b>

*Sources: Oracle E-Business Suite R12 / Metropolitan Nashville Recommended Budgets*

## OBJECTIVES AND CONCLUSIONS

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1. *Are controls in place to ensure cash receipts are collected and accurate?*

**Generally, yes.** Assessment data was reconciled between the Office of the Trustee and Assessor of Property with no exception. A total of 94 property tax bills and 47 public utility tax bills mailed during the 2018 and 2019 tax years were recalculated for accuracy and found to be correct. The Office of the Trustee should ensure that policies and procedures related to critical office functions are updated and reviewed annually. (See Observation C.)

A review of 47 voids of transactions and 47 property tax adjustments processed during the audit period were found to have a documented valid business purpose. However, changes should be made to user access for eGovernment Solutions to ensure that only those authorized to perform voids and reversals of transactions can do so. (See Observation B.) A review of 47 tax relief credits for Davidson County taxpayers who applied for tax relief were found to be accurately processed by the Office of the Trustee staff. A methodology for reconciling State of Tennessee tax relief vouchers applied to taxpayer accounts and the reimbursement from the State of Tennessee for the vouchers should be developed. (See Observation D.)

2. *Are cash receipts collected by the Office of the Trustee deposited within one business day of collection and recorded in the Metropolitan Nashville financial system within two days of deposit?*

**Generally, yes.** A review of 47 deposits on randomly selected business days found that all selected cash receipt deposits were made within one business day of collection. Cash receipt deposits were generally recorded timely as 44 out of 47 (94 percent) were recorded in the Metropolitan Nashville financial system within two business days of collection. However, two-person integrity was not documented when reconciling daily cash collections on 5 out of the 47 (11 percent) reviewed days. (See Observation A.)

3. *Are duties segregated within the tax collection process?*

**Generally, yes.** The Office of the Trustee has mostly segregated critical functions such as billing from collections and the custody of cash, reconciliation of cash, depositing of cash, and the recording of cash. Areas of improvement include ensuring employees who collect cash cannot adjust property tax bills, ensuring that only administrator accounts can void and add or edit eGovernment Solutions users, and limiting voids and adjustments by eGovernment Solutions employees. (See Observation B.)

4. *Were recommendations from the July 2015 Audit of the Metropolitan Office of Trustee implemented?*

**Generally, yes.** Out of the 12 recommendations in the previous audit, 8 recommendations have been implemented, 3 recommendations have not been implemented, and 1 recommendation is no longer applicable. (See Observation D.)

## AUDIT OBSERVATIONS

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Internal control helps entities achieve important objectives to 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. See **Appendix B** for a description of the observation *Assessed Risk Rating*.

### ***Observation A – Controls over Cash Collection and Recording***

The Office of the Trustee has a two-person integrity system in place for the counting of cash receipts, but documentation of this control could be improved. The cashier and a member of the senior staff will reconcile the daily cash receipts collected on the cashier’s till in the presence of one another. Both employees will document this reconciliation by signing the closing report from eGovernment Solutions. It could not be determined whether the two-person integrity process was followed for 5 out of 47 (11 percent) instances because both the cashier and member of senior staff did not document their reconciliation. The two-person integrity control strengthens accountability and protects the employee from the risk of being falsely accused if cash receipts were to be found missing during deposit preparation.

Additionally, 3 out of 47 (6 percent) cash receipt deposits were not recorded within two business days of deposit. The three exceptions were for deposits that were recorded four days, six days, and nine days after being deposited in the bank. If deposits are not recorded timely, there is risk that the Metropolitan Nashville Government’s financials will not be accurately reflected in the financial system.

#### *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 Government Finance Department Treasury #9 – Cash Deposits

#### *Assessed Risk Rating:*

**High**

#### *Recommendations for management of the Office of the Trustee to:*

1. Ensure two-person integrity is documented by both the cashier and senior staff member when reconciling daily cash receipts.
2. Ensure cash receipts are recorded within two business days of being deposited in the bank.

### ***Observation B – Segregation of Duties within eGovernment Solutions***

Segregation of duties was lacking related to property tax bill adjustments and the ability to process voids and add or edit user access within eGovernment Solutions. Cashiers within the Office of the Trustee can adjust property tax bills. Adjusting property tax bills should be considered a billing function and employees who collect cash should not have the ability to adjust property tax bills. A total of 467 out of 22,561 adjustments made to property tax bills during the audit period were made by employees in the

Receipting user group for eGovernment Solutions. This user group includes cashiers that accept payments at the front desk within the Office of the Trustee. The 467 adjustments were largely to adjust interest after a correction was completed for the Board of Equalization. When the cash collection and bill adjustment functions are not segregated the opportunity and risk for the misappropriation of cash receipts is increased.

Additionally, three adjustments and four voids were processed by eGovernment Solutions employees during the audit period. Best practices for segregating duties within information systems include development staff not having access to production data unless specifically authorized by the data owner to repair a limited number of records. Only two out of the seven instances had notes stating the void or adjustment was made due to a request from a staff member at the Office of the Trustee. The risk of production data getting modified without the knowledge of the data owner increases when development staff make adjustments and process voids.

The Lockbox and Receipting Alternate user groups can void transactions and add or edit eGovernment Solutions users. These two permissions should be limited to the Administrator user group in which Office of the Trustee management belong. Additionally, there were two instances where voids were processed by the "MTGTAPEPAYMENT" user within the Administrator user group. The MTGTAPEPAYMENT account is used to post escrow payments from mortgage companies to taxpayer accounts within eGovernment Solutions. Users that cannot be traced back to specific employee should not be in the Administrator user group and have permission to process voids or adjust property tax bills due to the risk that an improper void or adjustment would not be traced back to a specific individual.

*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 Government Finance Department Treasury Policy #9 – Cash Deposits

*Assessed Risk Rating:*

**High**

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

1. Adjust user access within eGovernment Solutions to ensure that employees accepting cash receipts cannot also adjust property tax bills.
2. Ensure that voids and adjustments completed by eGovernment Solutions employees are for limited instances where a request is made by Office of the Trustee management and the reason is documented.
3. Remove the permissions to process voids and add or edit users from the "Receipting Alternate" and "Lockbox" eGovernment Solutions user groups.

### ***Observation C – Outdated Policies and Procedures***

Many of the policies and procedures for the Office of the Trustee have not been updated since 2012 and 2013. The procedures for critical areas such as tax statement preparation and billing have not been updated since the tax collection software was changed to eGovernment Solutions in 2015. The documented procedures do not reflect the current processes for these functions. The Office of the Trustee should review and revise all policies and procedures for all critical office functions and ensure current practice is reflected in the procedures. Outdated policies and procedures ensure that critical office functions are carried out consistently and that business operations are not affected in times of employee turnover.

#### ***Criteria:***

*COSO, Control Activities—Principle 11—The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.*

#### ***Assessed Risk Rating:***

**Medium**

#### ***Recommendation for management of the Office of the Trustee to:***

Ensure policies and procedures are updated to reflect current practices and are reviewed and revised annually.

### ***Observation D – Prior Audit Recommendations Status***

Out of 12 accepted recommendations from the July 2015 Audit of the Metropolitan Office of Trustee Cash Collections Process, 8 recommendations were implemented, 3 recommendations were not implemented, and 1 recommendation was no longer applicable.

#### ***Not implemented***

Recommendation B.2 was to ensure that only those who have been designated to make reversals are set up in the system to do so. The Office of the Trustee has authorized senior staff members in the “Admin” user group to process voids and reversals. This audit identified two user groups “Receipting Alternate” and “Lockbox” that have permissions to process voids. See Observation B above.

Recommendation E.1 was to create a procedure to remove IDs from the property tax collection software and provide assurance to management that the process is complete for each change in access. Moving forward, the Office of the Trustee will communicate with departments on a quarterly basis to ensure terminated employees do not have access to the eGovernment Solutions application.

Recommendation F.1 was to implement a procedure whereby payments billed to the State of Tennessee for tax relief payments are reconciled to amounts received. Payments are received each week to reimburse the Metropolitan Nashville Government for tax relief vouchers given to Davidson County residents. Each week these payments are received in eGovernment Solutions to produce a receipt and then the payment is recorded into the R12 financial system. There is not a methodology in place to ensure that these payments from the State of Tennessee are complete. A comparison between the State



of Tennessee tax relief vouchers applied in eGovernment Solutions to the payments received from the State of Tennessee for tax relief can be seen below.

**Exhibit B – State of Tennessee Tax Relief Vouchers Compared to Payments Received**

Fiscal Year	State of Tennessee Vouchers in eGovernment Solutions	State of Tennessee Payments Received	Over / Under
2019	\$1,256,181.24	\$1,193,171.78	\$(63,009.46)
2020	\$1,053,004.50	\$1,006,394.15	\$(46,610.35)

Sources: Oracle E-Business Suite R12; eGovernment Solutions

**No Longer Applicable**

Recommendation H.1 was to develop a succession plan to facilitate the smooth transfer of knowledge to future employees. This recommendation is no longer applicable due to the recent transition to a new Metropolitan Trustee and leadership team. However, the Office of the Trustee should continue to ensure policies and procedures are in place to help train new employees during times of employee turnover.

*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.

*Assessed Risk Rating:*

**Medium**

*Recommendation for management of the Office of the Trustee to:*

Complete the implementation of recommendations from July 2015 Audit of the Metropolitan Office of the Trustee Cash Collections audit.

## **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:

- Interviewed key personnel within the Office of the Trustee.
- 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**

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Seth Hatfield, CPA, CIA, CFE, In-Charge Auditor

Lauren Riley, CPA, CIA, CMFO, ACDA, Metropolitan Auditor

## 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>Risk</i>	<i>Recommendations for the management of the Office of the Trustee to:</i>		
<b>H</b>	A.1 – Ensure two-person integrity documented by both the cashier and senior staff member when reconciling daily cash receipts.	Accept – The office will increase efforts to document two-person review when reconciling daily cash collections.	January 31, 2021
<b>H</b>	A.2 – Ensure cash receipts are recorded within two business days of deposited in the bank.	Accept – The office will increase efforts to record funds within two business days.	January 31, 2021
<b>H</b>	B.1 – Adjust user access within eGovernment Solutions to ensure employees that accept cash cannot also adjust property tax bills.	Accept – The office reviewed the user access for all employees internally and with the software provider. We will remove permissions from any staff member that receipts and can void tax bills.	January 31, 2021
<b>H</b>	B.2 – Ensure that voids and adjustments completed by eGovernment Solutions employees are for limited instances where a request is made by an Office of the Trustee management and the reason is documented.	Accept – The office has reviewed the software provider’s voids and adjustments with the software provider. The software provider will post comments in the software noting who requested the change and their internal ticket number. The ticket number will have details of the request.	January 31, 2021
<b>H</b>	B.3 – Remove the permissions to process voids and add/edit users from the “Receipting Alternate” and “Lockbox” eGovernment Solutions user groups.	Accept – The office has reviewed the user access for all employees internally and with the software provider. We will remove permissions from any staff member that receipts and can void tax bills.	January 31, 2021
<b>M</b>	C.1 – Ensure policies and procedures are updated to reflect current practices and are reviewed and revised annually.	Accept – The office will review the policies and procedures on record and update those to reflect the current procedures.	October 31, 2021
<b>M</b>	D.1 - Complete the implementation of recommendations from July 2015 <u>Audit of the Metropolitan Office of the Trustee Cash Collections</u> audit.	Accept – The office has reviewed the July 2015 recommendations and will implement each one.	October 31, 2021

## APPENDIX B – ASSESSED RISK RANKING

Observations identified during the course of the audit are assigned a risk rating, as outlined in the table below. The risk rating is based on the financial, operational, compliance or reputational impact the issue identified has on the Metropolitan Nashville Government. Items deemed “Low Risk” will be considered “Emerging Issues” in the final report and do not require a management response and corrective action plan.

Rating	Financial	Internal Controls	Compliance	Public
<b>HIGH</b>	Large financial impact >\$25,000  Remiss in responsibilities of being a custodian of the public trust	Missing, or inadequate key internal controls	Noncompliance with applicable Federal, state, and local laws, or Metro Nashville Government policies	High probability for negative public trust perception
<b>MEDIUM</b>	Moderate financial impact \$25,000 to \$10,000	Partial controls  Not adequate to identify noncompliance or misappropriation timely	Inconsistent compliance with Federal, state, and local laws, or Metro Nashville Government policies	The potential for negative public trust perception
<b>LOW/ Emerging Issues</b>	Low financial impact <\$10,000	Internal controls in place but not consistently efficient or effective  Implementing / enhancing controls could prevent future problems	Generally complies with Federal, state, and local laws, or Metro Nashville Government policies, but some minor discrepancies exist	Low probability for negative public trust perception
<b>Efficiency Opportunity</b>	An efficiency opportunity is where controls are functioning as intended; however, a modification would make the process more efficient			