

August 19, 2003

Mr. Vic Lineweaver  
Juvenile Court Clerk  
100 Woodland Street  
Nashville, TN 37213

### **Report of Internal Audit Section**

Dear Mr. Lineweaver:

We have recently completed a review of the Office of Juvenile Court Clerk (JCC) for the period January 1, 2001 through August 30, 2002. This review was conducted at your request in conjunction with you assuming the duties of this elected office.

### **Background**

The Office of the Juvenile Court Clerk is responsible for receiving, accounting for, and disbursing funds; maintaining files and records; and keeping minutes for the Juvenile Court. The Clerk is an elected official, and the salaries of the Clerk and other employees are established by court order, as required by Tennessee law. All of the salaries and other expenditures related to the Juvenile Court Clerk operations are budgeted and paid from Metro's General Fund and were \$1,219,914 for the 2002 fiscal year. There were a total of 37 positions budgeted for the 2003 fiscal year. Other financial activities are accounted for by the Juvenile Court Clerk and are reported as a fiduciary fund in Metro's Comprehensive Annual Financial Report.

Cash receipts and disbursements for 2002 and cash balances at June 30, 2002 were as follows.

**Revenues and other receipts**

Judgments	\$ 61,307
Child support	6,910,822
Agency cash receipts	36,529
Fees and commissions	420,728
Fees collected for others	333,891
Interest	<u>23,250</u>
Total revenues and other receipts	<u>7,786,527</u>

**Expenditures and other uses**

Judgments	51,431
Child support	6,917,436
Agency cash disbursements	192,272
Funds transferred to Metro	420,971
Other fees and commissions	<u>15,099</u>
Total expenditures and other uses	<u>7,597,209</u>

Excess of revenues and other receipts over expenditures and other uses	189,318
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Cash and cash equivalents – July 1, 2001	<u>2,015,541</u>
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Cash and cash equivalents – June 30, 2002	<u>\$ 2,204,859</u>
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**Objectives, Scope and Methodology**

The overall objectives for this review included: (1) Review JCC business processes, (2) Evaluate key operating and financial controls, (3) Identify weakness and strengths in the processes and control systems, and (4) Develop findings and recommendations for any areas where performance could be improved.

For the purpose of this report, we have classified the processes tested into the following categories:

- Revenue, teller operations and cash receipts
- Personnel and payroll
- Purchasing, expenditures and cash disbursements
- Petty cash
- Fixed assets

The scope of the work included the JCC's primary operations and largely focused on January 1, 2001 through August 31, 2002 financial results and transactions and on the policies, procedures and operations in place during that time. Certain other audit work and analyses required the consideration of financial results, performance and operations outside of those time periods.

The methodology employed throughout this review was one of objectively reviewing various forms of documentation, including written policies and procedures, financial information, and various other forms of data, reports and information maintained by the JCC and other Metro Departments. Various aspects of JCC operations were observed, and JCC personnel and other Metro employees and stakeholders were interviewed.

### **Findings and Recommendations**

1. Internal accounting controls should be strengthened over teller functions and bookkeeping operations.

We reviewed the teller processes covering the receipt of cash and traced transactions for March 2002 to bank deposits and to the monthly bank reconciliation. Based on our review, we noted the following weaknesses and exceptions:

- The tellers at JCC do not have documented procedures for the receipt of cash and for daily reconciliations and other processing, including the handling of voided transactions and partial payments received. For example, child support payments are sometimes not recorded in the system until the next day, tellers can void transactions from the system without management approval, and manual receipts for child support payments are not reconciled to the child support tracking and accounting system during deposit preparation.
- Receipt books are not used in a continuous order, providing an environment where errors or misappropriation of cash could occur and not be detected timely.

- Customer balances for non-child support payments are only maintained in the case files, which does not provide the tellers with readily available information regarding customer payments and balances due. Additionally, the case files used to track payments are not complete and sometimes include inaccurate financial information. A formal system for tracking amounts receivable does not exist.
- Two bank deposits are made each day, causing the tellers to close their drawer in the middle of the day and creating extra work.
- The teller area does not have sufficient security for the safeguarding of cash and the protection of tellers. We noted a lack of security cameras and protective glass in the teller area.
- Only one employee on the JCC staff was knowledgeable about the accounting records. Accounting policies and procedures were not documented, and nobody was cross-trained to perform the accounting duties.
- Funds received by JCC are not deposited with Metro for up to three months so that bank account balances can be maintained at a high level to decrease the amount of bank fees paid.
- Differences in the monthly reconciliations are not documented and resolved in a timely manner. In addition, Excel worksheets used do not provide sufficient information for transactions. We noted differences between the receivable warrant amounts deposited with Metro and the JCC's cash receipts records of \$2,025 and \$159 for the month of March 2002 that could not be explained by JCC staff. The amounts were included in the deposit with Metro but the supporting documentation could not be located for verification purposes.
- Monthly financial information recorded to JCC accounting records for March 2002 did not agree to receipt book detail for March 2002. According to the receipt book there was \$3,089 more cash received than was posted to the accounting records.
- The amount deposited into the bank for March, 2002 does not agree to the Daily Balance Sheets supplied by JCC accounting staff for March 2002, indicating a possible deposit shortage of \$167.
- There were six bank accounts utilized by JCC. There was an account for each type of fee received (court costs and clerk fees), a child support account, an escrow account, an imprest account, and a State transfer account. The escrow and imprest accounts have little or no monthly transaction volume.
- Several checks from May 2000 through July 2002 totaling \$10,057 had not cleared the bank. These reconciling items had not been investigated and corrected.
- Injury compensation funds held in trust were maintained on a manual ledger and excel spreadsheet. The balance of \$1,530,797 reported in the Comprehensive Annual Financial Report at June 30, 2001 did not agree with the spreadsheet total of \$1,535,928 maintained by the JCC, and the accounting personnel could not explain the variance.

- Injury compensation trust fund bank account statements were not reconciled monthly.
- The JCC did not have a formal written agreement with the banks where the trust funds are maintained, and the accounts still had the name of the former Juvenile Court Clerk at the time of our testing.
- We located several JCC checks (469538 through 469578) that had been pre-signed by the former Juvenile Court Clerk.

### Recommendations

The new Juvenile Court Clerk should implement basic internal accounting controls to include the following:

- Operational policies and procedures should be created to strengthen internal controls over cash receipting and other processes and to ensure accountability for all funds under JCC responsibility. In addition, appropriate cross training for staff needs to be completed.
- Improvements should be made to the teller, reconciliation, and accounting processes that address the specific exceptions and weaknesses identified and to provide an acceptable level of accountability.
- A computerized accounts receivable system should be implemented to process all transactions, and all entries should require adequate supporting documentation.
- JCC should work with the Metro Treasurer to utilize the current Metro-wide banking contracts.

JCC management should address each finding and correct the associated internal control weaknesses. Managerial supervision of the accounting function by an individual experienced with internal accounting controls and financial reporting would reduce the risk of undetected accounting errors or losses of cash. We also recommend that management review past accounting records and deposits for a one-year period to substantiate the accuracy and completeness of cash deposited the year prior to the new Juvenile Court Clerk taking office.

2. The payroll time and attendance functions were manual, creating an increased risk for errors. In addition, staff were not properly trained and did not have established performance goals.

We reviewed the payroll function for the calendar year 2001. Along with reviewing the payroll function, we tested the time and attendance records for ten employees to ensure the accuracy and completeness of amounts entered into FASTnet. Of the ten employees tested, five were Civil Service. Based on our review, we noted the following weaknesses:

- Personnel policies for non-civil service employees were not documented.
- Performance measures and staff development plans were not in place to provide goals and growth for employees.
- Vacation and sick time amounts taken per departmental records for six employees did not agree to what was entered into FASTnet.
- One employee's compensatory time used per departmental records did not agree to what was entered into FASTnet.
- None of the five Civil Service employees had current employee evaluation forms in their personnel files.
- Manual records were utilized to maintain time and attendance balances for all employees. In addition, staff preparing time and attendance records maintained duplicate records (a manual log sheet and a calendar), increasing the opportunity for errors.

#### Recommendations

The new Juvenile Court Clerk should implement basic payroll and personnel procedures and internal controls to include the following:

- JCC should create written policies for non-civil service employees.
- Employees should be properly trained to enhance efficiency, effectiveness, and job satisfaction.
- Performance evaluations should be completed annually for all employees.

JCC management should implement procedures to address all exceptions noted. Corrections to time and attendance records need to be made to prevent misstatement of leave balances.

3. Purchases for travel did not follow Metro travel policies.

We tested twenty-seven travel transactions from fiscal year 2002. Transactions were selected from FASTnet and compared to departmental source documentation for compliance with Metro procurement policies. Based on our review, we noted the following exception:

- One transaction for \$548.81 did not follow Metro Travel and Procurement Policies. The former Metro employee stayed in Nashville for three days and two nights and charged meals without a clearly documented business justification. In addition, the meal allowance for in-state travel was exceeded by \$31.85. Finally, the transaction was booked to object account 502451, Employee out-of-town travel, instead of the proper object account of 502453, Employee local travel/park.

Recommendations

Ensure compliance with travel regulations for all future travel.

4. Fixed assets over \$5,000 included in departmental records were not properly accounted for.

We identified all fixed assets over \$5,000 (14) and all computers (51) at the JCC for existence and proper valuation. Based on our review, we noted the following exceptions:

- Two Lektrievers and one copy machine with a combined book value of \$28,177 in FASTnet could not be located at the JCC office. Since these items were acquired prior to 1994, it is likely that they had been disposed but that the fixed asset records had not been updated to reflect the dispositions.
- Three fixed assets that appeared to have a cost over \$5,000 located at JCC were not in FASTnet.
- Three fixed assets located at JCC had asset tag numbers that did not match the fixed asset listing per FASTnet.
- Two fixed assets located at JCC were listed in FASTnet as belonging to a different department.
- Eight new computers received approximately three months earlier had not been tagged by JIS and were not being used.

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- Twenty-three computers listed on the JCC computer inventory list were not included on the JIS inventory list. Four computers on the JIS list are not on the JCC list.
- Three computers identified at JCC were not included on the JCC or the JIS inventory list.

### Recommendations

We recommend the exceptions noted in FASTnet fixed asset records be corrected for the items noted and that appropriate departmental ownership be determined. In addition, we recommend that JIS and JCC reconcile the differences between the computer inventory lists and make any necessary corrections.

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The Juvenile Court Clerk has reviewed this report and will prepare a response, which we will forward to the Metropolitan Council Audit Committee upon receipt.

We greatly appreciate the cooperation and help provided by all JCC staff.

This report is intended for the information of the management of the Metropolitan Government of Nashville and Davidson County. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Internal Audit Section

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Internal Audit Manager

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