



*METROPOLITAN GOVERNMENT OF NASHVILLE
AND DAVIDSON COUNTY*

DIVISION OF METROPOLITAN AUDIT

Professional Audit, Advisory, and Consulting Services

AUDIT REPORT

Financial Control and Compliance Audit of the Metropolitan Government of Nashville and Davidson County General Sessions Court Traffic School

Date Issued: July 17, 2007

Office Location and Phone Number

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*METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON
COUNTY*

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**BILL PURCELL
MAYOR**

**METROPOLITAN
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DIVISION OF METROPOLITAN AUDIT

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July 17, 2007

Mr. Warner Hassell, Court Administrator
Justice A.A. Birch Building
408 2nd Avenue North
Nashville, Tennessee 37201

Report of Internal Audit Section

Dear Mr. Hassell:

Per your request, we have completed a financial control and compliance audit, which follows the procedural standards of a performance audit, of the Metropolitan Government of Nashville and Davidson County ("Metropolitan Government") General Sessions Court Traffic School focusing on revenue collection and related transactions.

Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States define performance audits as follows:

Performance audits entail an objective and systematic examination of evidence to provide an independent assessment of the performance and management of a program against objective criteria as well as assessments that provide a prospective focus or that synthesize information on best practices or cross-cutting issues. Performance audits provide information to improve program operations and facilitate decision-making by parties with responsibility to oversee or initiate corrective action, and improve public accountability. Performance audits encompass a wide variety of objectives, including objectives related to assessing program effectiveness and results, economy and efficiency, internal control, compliance with legal or other requirements, and objectives related to providing prospective analyses, guidance, or summary information.

A performance audit is different than a financial statement audit, which is limited to auditing financial statements and controls, without reviewing operations and performance. Internal control objectives relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal control includes the processes and procedures for planning, organizing, directing, and controlling program operations, and the system put in place for measuring, reporting, and monitoring program performance.

Objectives, Scope, and Methodology

The primary objectives of this financial control and compliance audit included the following:

- An examination of the business processes employed by the Metropolitan Government General Sessions Court Traffic School for revenue collection, purchasing and expenditures, payroll and personnel, fixed assets, and petty cash;
- Identification of weaknesses and strengths in the internal control environment and their impact on operations;
- Identification of the actual financial and/or operational impact on operations from weaknesses and strengths identified; and
- Provide recommendations to the Metropolitan Government General Sessions Court Traffic School management that can serve as a tool for improving the overall internal control environment.

Our work focused primarily on the period January 1, 2006 through March 31, 2007 financial balances, transactions, and performance on the processes in place during the time of the audit. Certain analyses required the consideration of financial results, performance, and operations outside that time period.

The methodology employed throughout this audit was one of objectively reviewing various forms of documentation, including written policies and procedures, financial information and various forms of data, reports and information maintained by the Metropolitan Government General Sessions Court Department's Administrative Office. Management, administrative and operational personnel, as well as personnel from other Metropolitan Government departments and other stakeholders were interviewed, and various aspects of the Metropolitan Government General Sessions Court Traffic School were directly observed. We performed our procedures in accordance with *Generally Accepted Government Auditing Standards*.

In discharging our professional responsibilities, we observed the principles of serving the public interest and maintained the highest degree of integrity, objectivity, and made decisions that were consistent with the broader public interest. Additionally, we were free both in fact and appearance from personal, external, and organizational impairments to independence. In applying *Generally Accepted Government Auditing Standards*, we used professional judgment when establishing scope and methodologies for our work, determining the tests and procedures to be performed, conducting our work, and reporting results.

Summary and Conclusion

In order to assist subsequent users, we have summarized below the findings from each reporting section detailed in the "Audit Findings and Recommendations" section of our report.

- The payroll processes need improvements. We tested the accuracy of the leave balances for vacation, sick, and compensatory time for all applicable employees in our test population and calculated a variance of 353.75 hours. Additionally, timesheets are not

reviewed and approved on a weekly basis by management and documentation is not consistently completed to support time worked and accrued leave taken;

- We identified two payments totaling \$100,000.00 (10,000 online classes at \$10.00 each) to a vendor that were improperly recorded as a debit to a revenue object account. The effects of debiting an expenditure to a revenue object account will ultimately understate the actual expenditures incurred during a specific time period, and also understate revenues; and
- Cash deposit overages and shortages should be recorded to the designated object account supplied by the Division of Accounts and tracked for management review. We identified two deposits that had overages totaling \$25.00 that were deposited with the regular daily deposit and did not have an explanation documented.

Details regarding the specific audit findings are included in the “Audit Findings and Recommendations” section of our report. Management has responded with a memorandum attached to the end of our report.

Auditors’ Responsibility

In order to maintain and broaden public confidence, auditors need to perform all professional responsibilities with the highest degree of integrity, professionalism, and objectivity when dealing with audited entities and users of the auditors’ reports. Additionally, auditors should be honest and candid with the audited entity and users of the auditors’ work in the conduct of their work, within the constraints of the audited entity’s confidentiality laws, rules, or policies.

Service and the public trust should not be subordinated to personal gain and advantage. Auditors should be objective and free of conflicts of interest in discharging their professional responsibilities. Auditors are also responsible for being independent in fact and appearance when providing audit and attestation services. Independence precludes relationships that may in fact or appearance impair auditors’ objectivity in performing an audit or attestation engagement. The maintenance of objectivity and independence requires continuing assessment of relationships with the audited entities in the context of the auditors’ responsibility to the public.

In applying *Generally Accepted Government Auditing Standards*, auditors are responsible for using professional judgment when establishing scope and methodologies for their work, determining the tests and procedures to be performed, conducting the work, and reporting the results. Auditors need to maintain integrity and objectivity when doing their work to make decisions that are consistent with the broader public interest in the program or activity under review. When reporting on the results of their work, auditors are responsible for disclosing all material or significant facts known to them which, if not disclosed, could mislead knowledgeable users, misrepresent the results, or conceal improper or unlawful practices.

In discharging our professional responsibilities, we observed the principles of serving the public interest and maintained the highest degree of integrity, objectivity, and made decisions that were consistent with the broader public interest. In discharging our professional responsibilities, we were free both in fact and appearance from personal, external, and

organizational impairments to independence. In applying *Generally Accepted Government Auditing Standards*, we used professional judgment when establishing scope and methodologies for our work, determining the tests and procedures to be performed, conducting our work, and reporting results.

Management's Role

Process owners and managers are entrusted to properly manage the resources under their control. To meet their obligations, process owners and managers are responsible for:

- Applying those resources efficiently, economically, effectively, and legally to achieve the purposes for which the resources were furnished or the program was established;
- Complying with applicable laws and regulations, including identifying the requirements with which the entity and the official must comply and implementing systems designed to achieve that compliance;
- Establishing and maintaining effective internal control to help ensure that appropriate goals and objectives are met; resources are used efficiently, economically, and effectively, and are safeguarded; laws and regulations are followed; and reliable data are obtained, maintained, and fairly disclosed;
- Providing appropriate reports to those who oversee their actions and to the public in order to be accountable for the resources used to carry out government programs and the results of these programs;
- Addressing the findings and recommendations of auditors, and for establishing and maintaining a process to track the status of such findings and recommendations; and
- Following sound procurement practices when contracting for audits and attestation engagements, including ensuring procedures are in place for monitoring contract performance.

Department Overview

The Judges of the Metropolitan Government General Session Court formally began the Traffic School in 1983 with the State of Tennessee approving a two-hour First Offenders Training ("FOT") course to approximately 10,000 students the first year. The course offerings have grown from the original two-hour FOT class to include Alive at 25 ("A-25"), Defensive Driving Courses 4 and 8 ("DDC-4" and "DDC-8"), and Attitudinal Dynamic of Driving ("ADD-8"). In August 2005, the Metropolitan Government General Sessions Court Traffic School was approved to offer the FOT and DDC-4 classes on-line through the National Safety Council.

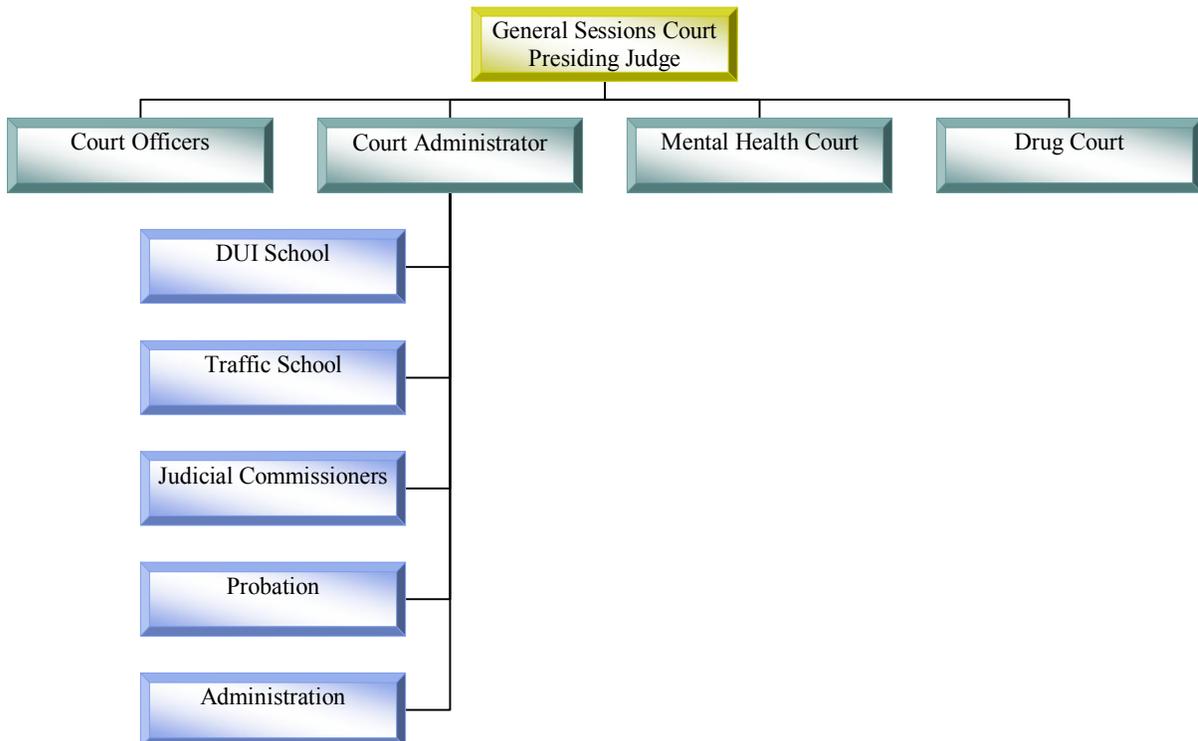
In 1983, the school was offering 40 classes per month with one part time instructor. Today, the Metropolitan Government General Sessions Court Traffic School conducts 180 classes per month with one full-time and 19 part-time instructors. The traffic safety classes serve as educational alternatives to monetary retribution but are self-sustained and contribute a profit to Metropolitan Government's General Fund through the collection of enrollment fees. In 2006, the National Safety Council approved and provided classes for 34,134 students that generated approximately \$2.4 million in revenue. Class fees are \$65.00 each with an additional \$42.00 paid directly to the Traffic Violations Bureau. For nine consecutive years,

the Metropolitan Government General Sessions Court Traffic School has been recognized by the National Safety Council for its outstanding performance in the administration of defensive driving courses, most recently in 2004 receiving the "Best Performance" award for training achievement in DDC-4, DDC-8, and A-25. Below are the class descriptions:

- First Offender (2 hour class) - A two-hour curriculum covering traffic safety rules and consequences, including laws on seat belts, child restraint, speeding, dui, and most commonly committed traffic offenses.
- Defensive Driving (4 hour class) - Certified by the National Safety Council, this course teaches the importance of safety belts and other restraints, dangers of speeding, proper following distance, and effects of alcohol and drugs.
- Defensive Driving (8 hour class) - A more intensive version of the 4 hour course with emphasis on preventing traffic deaths and injuries.
- Alive at 25 (4 hour) - Designed to reduce risk-taking behavior of young people 15 to 24 years of age. The course utilizes video tapes and group discussions.
- Coaching the Mature Driver (one, 6 hour class or two 3 hour classes) Designed for drivers, ages 55 and older. Specific curriculum intended to refresh the mature driver's knowledge of defensive driving techniques and upgrade their driving skills. The course utilizes video, workbook, and class discussion.

Organization Structure

The Traffic School reports to the Court Administrator who reports to the Metropolitan Government General Sessions Court of Nashville-Davidson County. The organizational chart below depicts the current structure.



Available Positions Summarized:

- Director – 1
- Manager – 1
- Supervisor – 1
- Office Support Representative III – 1
- Office Support Representative II – 1
- Office Support Representative I - 4

Financial Information

The Metropolitan Government General Sessions Court Traffic School had a total of nine budgeted full-time and 31 part-time positions for fiscal year 2007. The fiscal year 2007 budget for expenditures is \$860,300.00. The actual revenues and expenditures for fiscal years ended June 30, 2006 and June 30, 2005 are summarized below:

	Actual FYE 2006	Actual FYE 2005	\$ Variance	% Change
Revenues:				
Operating Revenues				
DUI \$ Safety Ed Pg	\$ 2,447,954	\$ 2,340,286	\$ 107,668	4.60%
Total Revenues	\$ 2,447,954	\$ 2,340,286	\$ 107,668	4.60%
Expenditures:				
Personal Services	\$ 548,333	\$ 595,181	\$ (46,848)	-7.87%
Other Services	\$ 81,248	\$ 68,036	\$ 13,212	19.42%
Supplies & Materials	\$ 114,811	\$ 84,018	\$ 30,793	36.65%
Other	\$ 1,863	\$ 56	\$ 1,807	3226.79%
Total Expenditures	\$ 746,255	\$ 747,291	\$ (1,036)	-0.14%

Audit Findings and Recommendations

We have listed below the reportable findings and recommendations for the objectives listed above. If an objective is not discussed below, no issues were identified or the issues identified were not to the level of a reportable condition and were verbally communicated through the course of fieldwork. Management has responded with a memorandum attached to the end of our report.

Payroll

We reviewed the payroll records for seven of the nine full-time and five of the 31 part-time employees from the period July 1, 2006 through April 30, 2007 and matched the supporting documentation received from the Metropolitan Government General Sessions Court Traffic School to the audit prepared re-created time and attendance figures for accuracy. Lastly, we reviewed the general process for preparing payroll entries. From the review completed, we noted the following deficiencies:

1. We obtained the payroll timesheets for all applicable employees in our test population. After our review, we identified that a majority of the timesheets were not sufficiently completed. After conversations with the Metropolitan Government General Sessions Court Traffic School management, we advised them that due to the lack of adequate time and attendance information, we needed to recreate the employees' timesheets to perform our standard testing procedures. Each employee should complete and submit their timesheet, signed and dated, by the end of each pay period to their supervisor. Their supervisor should then review and approve their timesheets in a timely manner. By employees not completing timesheets correctly, timely, and submitting their timesheet to their supervisor for approval, errors or irregularities may not be detected and corrected in a timely manner preventing the accurate maintenance of time and attendance information.

Audit Recommendation

We recommend conducting a weekly routine review of the timesheets so errors can be discovered in a timely manner preventing discrepancies between what an employee has actually worked to what is recorded in official records. Each employee should be required to complete and submit their timesheet signed and dated at the end of each work week to their supervisor.

Prior to the release of our audit report, management started implementing the appropriate corrective action(s) to remedy the control weaknesses identified above.

2. The Metropolitan Government General Sessions Court Traffic School is not conducting a periodic leave balance verification for sick, annual, personal, or compensatory time. By not conducting a routine verification between what is on file to what each employee has recorded as their stated leave balance, errors may not be identified in a timely manner preventing any under or overstated leave balances from being detected.

Audit Recommendation

At a minimum of once a year, leave balances for sick, annual, personal, and compensatory time should be verified and communicated to each employee. Each employee should then sign a statement documenting that they are in agreement with their stated leave balances. Because annual and compensatory leave is an accrued liability that is paid out to an employee when they separate from their job, the Metropolitan Government General Sessions Court Traffic School should pay particular attention to these balances. By conducting a routine verification of leave balances, errors can be discovered in a timely manner preventing discrepancies between what an employee has recorded for leave balances and what the department has on file as the official record for leave balances.

Prior to the release of our audit report, management started implementing the appropriate corrective action(s) to remedy the control weaknesses identified above.

3. Employees are allowed to earn and accrue compensatory time without formal supervisory approval. Currently, supervisors are aware that employees are earning compensatory time, but are not approving the amount earned on a daily basis. By allowing employees to earn unapproved compensatory time, supervisors cannot effectively manage the amount of hours worked to eliminate excessive hours by flexing time or requiring shorter work schedules during the work week.

Audit Recommendation

Supervisors should approve all compensatory time before it is earned. Additionally, each employee should maintain the compensatory time earned and used on their timesheet for supervisors to review. Supervisors should maintain the carrying balance for compensatory time for all applicable employees.

Prior to the release of our audit report, management started implementing the appropriate corrective action(s) to remedy the control weaknesses identified above.

4. We reviewed the accuracy of compensatory time balances for all applicable employees in our test population. To arrive at the compensatory time balance, we obtained the beginning of the year compensatory leave balance from the Metropolitan Government General Sessions Court Traffic School and added compensatory time earned from employee timesheets then subtracted compensatory time used from the employee timesheets. We calculated a total variance of 80.75 hours (54.50 overstated and 26.25 understated) of compensatory time.

Audit Recommendation

Because compensatory time is a liability the Metropolitan Government General Sessions Court Traffic School must pay their employees, proper accounting for compensatory time earned and used needs to be improved in order to prevent misstatements of compensatory time balances.

Prior to the release of our audit report, management started implementing the appropriate corrective action(s) to remedy the control weaknesses identified above.

5. We reviewed the accuracy of accrued vacation and sick time balances for all applicable employees in our test population. To arrive at the measurable time balance for each category, we obtained the beginning of the year leave balance from the Metropolitan Government General Sessions Court Traffic School and added the time earned from employee timesheets then subtracted the time used from the employee timesheets. We calculated a total variance 143.15 hours of vacation (99.98 overstated and 43.17 understated) and 129.85 hours of sick leave (129.85 understated).

Audit Recommendation

Because accrued vacation is a liability the Metropolitan Government General Sessions Court Traffic School must pay their employees upon termination, proper accounting

needs to be improved in order to prevent misstatements of amounts paid to departing employees. Additionally, accrued sick time should also be accounted for in the same manner as accrued vacation.

Prior to the release of our audit report, management started implementing the appropriate corrective action(s) to remedy the control weaknesses identified above.

6. The departmental supplied beginning and ending balances for accrued vacation, sick and compensatory time cannot be relied upon for future calculations. Because the timesheets are not recalculated until the end of the fiscal year, are not supported by leave request slips, and balances are not agreed to by employees, the risk of misstating balances is extremely high. When we calculated the ending balances for all accrued leave, we identified a variance of 353.75 hours (143.15 for vacation, 129.85 for sick, and 80.75 for compensatory time).

Audit Recommendation

Because all accrued time is potentially a liability, the Metropolitan Government General Sessions Court Traffic School should investigate the effort required to recalculate all applicable employees accrued leave balances.

Prior to the release of our audit report, management started implementing the appropriate corrective action(s) to remedy the control weaknesses identified above.

7. Currently, Metropolitan Government General Sessions Court Traffic School employees are not required to complete a leave request slip when requesting to use either accrued vacation, sick, or compensatory time. Because of the variances identified above, departmental leave slips should be filled out, turned in, and approved by the applicable supervisor with the weekly timesheets by Metropolitan Government General Sessions Court Traffic School employees whenever they request to use any accrued time. By not having written documentation of the request for time off with a supervisor's approval, future discrepancies can arise in determining the employee's accrued balances.

Audit Recommendation

Timesheets should be backed up with the required approved departmental leave slip so that actual time off is properly documented and supported in writing.

Prior to the release of our audit report, management started implementing the appropriate corrective action(s) to remedy the control weaknesses identified above.

8. Of the seven employees tested, two exceeded their maximum vacation accrual amount by 360.40 hours (136.40 and 224.00). By allowing employees to accrue more than they are allowed, payments made to employees when they depart could be inaccurate.

Audit Recommendation

Metropolitan Government General Sessions Court Traffic School management should review the carrying amount for all accrued leave for all employees and make the appropriate adjustments.

Prior to the release of our audit report, management started implementing the appropriate corrective action(s) to remedy the control weaknesses identified above.

Revenue

We reviewed 18 (\$76,344.00) of the 113 (\$3,175,023.07) batch deposits from January 1, 2006 through March 31, 2007 for compliance with the Metropolitan Government deposit procedures and general cash handling controls. The 18 batches selected for testing were verified with the validated deposit slips and agreed to the actual support from the Metropolitan Government General Sessions Court Traffic School's monthly reconciliation. Additionally, we analyzed the actual enrollments (based on each paid class assigned to a traffic violator) for each month to the actual cash deposited. We also looked at online classes purchased from National Safety Council from March 2006 through March 2007 for accuracy. Based on our review, we noted the following deficiencies:

9. We identified two payments totaling \$100,000.00 for payments to the National Safety Council for online courses that were improperly recorded as a debit to revenue object account by the Traffic School. Debiting expenditures to a revenue object account will ultimately understate the actual expenditures incurred during a specific time period, and also understate revenues, leading to inaccurate assessments when reviewing financial budgets by the Metropolitan Government General Sessions Court management and decision makers.

Audit Recommendation

We recommend reviewing invoices to ensure they are coded to the correct expenditure object account. Transaction like the purchase of the online courses from National Safety Council normally would have been recorded to an inventory account on the balance sheet and periodically expensed. Since the classes are attended within a two month period, we recommend expensing the transactions at the time of purchase. In addition, all expenditures should be properly recorded to the appropriate expenditure object account to accurately account for expenditures.

Prior to the release of our audit report, management started implementing the appropriate corrective action(s) to remedy the control weaknesses identified above.

10. Monthly reconciliations of enrollments from OTS should be completed to actual cash collected to ensure enrollments and cash collected are in agreement. We reviewed the OTS reports and detected variances for all the months of or scope between the batch date assigned by Traffic Violations Bureau and the enrollment date. The variances were computed by comparing the cash collections and the average fee from the number of students that enrolled in classes. The Metropolitan Government General Sessions Court Traffic School management stated that due to a timing difference between the Traffic Violations Bureau and the Traffic School, checks were not received timely and entered into OTS. By not reconciling the enrollments to cash collected monthly, software issues or other procedural issues may not be detected in a timely manner.

Audit Recommendation

We recommend that a monthly reconciliation of enrollments from OTS should be completed to actual cash collected to ensure enrollments and cash collected are in agreement.

Prior to the release of our audit report, management started implementing the appropriate corrective action(s) to remedy the control weaknesses identified above.

11. Cash deposit overages and shortages should be documented and tracked to isolate problems with the cash receipting process and employee performance. In addition, overages should be deposited to the designated object account supplied by the Division of Accounts for overages and shortages. We identified two deposits for \$20.00 and \$5.00 over with no explanation documented. The overages were coded to the same object account as the remaining deposited amount. Recording overages to the general revenue object account overstates revenues and prevents management from assuring that excess funds are treated properly by the department.

Audit Recommendation

We recommend that overages are included with the daily deposit, but recorded to a designated object account supplied by the Metropolitan Government Division of Accounts.

Prior to the release of our audit report, management started implementing the appropriate corrective action(s) to remedy the control weaknesses identified above.

Procurement Cards

We reviewed 16 of the 76 procurement card transactions from the period January 1, 2006 through March 31, 2007 obtained from the Metropolitan Government procurement card transaction database (PaymentNet) and compared them to departmental source documentation for compliance with Metropolitan Government procurement card policies. Total procurement card expenditures from our test period were \$3,983.06. From the review completed we noted the following deficiencies:

12. To comply with Metropolitan Government procurement card policies, the cardholder is required to make sure tax is not charged. We identified two invoices which tax was charged totaling \$7.73.

Audit Recommendation

To comply with Metropolitan Government procurement card policies, the cardholder should maintain a record of each purchase by maintaining the receipts of purchases, receiving documents, making sure tax is not charged confirmations (telephone orders), packing slips, and all travel related receipts.

* * * * *

We greatly appreciate the cooperation and help provided by all of the employees of the Metropolitan Government General Sessions Court and Traffic School.

This report is intended for the management and policy makers 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

Don Dodson
Internal Audit Director

Copy: Mayor Bill Purcell
David L. Manning, Director of Finance
Honorable Gloria Dumas, General Sessions Court Judge
John Slate, Director of Traffic School
Sue Cain, Deputy Director of Law
Eugene Nolan, Associate Director of Finance
Talia Lomax-O'dneal, Deputy Finance Director
Metropolitan Council Audit Committee
Richard V. Norment, Assistant to the Comptroller for County Audit
KPMG, Independent Public Accountant



METROPOLITAN GOVERNMENT OF NASHVILLE & DAVIDSON COUNTY
GENERAL SESSIONS COURT

July 17, 2007

GLORIA A. DUMAS
JUDGE, DIVISION IV

PRESIDING JUDGE
2006-2007

408 Second Avenue North, Suite 4140
P. O. Box 196300
Nashville, TN 37219-6300
(615) 880-3694
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Mr. Don Dodson,
Internal Audit Director
Metro Department of Finance
222 3rd Avenue North, Suite 401
Nashville, TN. 37201

Dear Mr. Dodson,

This is to acknowledge receipt of the Audit Report for the Davidson County General Sessions Court's Traffic School which was conducted by the Internal Audit Office of the Finance Department.

We have reviewed the audit report and are in agreement with its findings. Therefore, we have begun implementation of the recommendations applicable to each finding. This audit will serve as a valuable instrument and management tool in our overall objective to improve policy implementation and operational procedures of the Traffic School.

The professionalism of your staff and the open manner in which your staff conducted the audit was appreciated.

Sincerely,

Gloria A. Dumas,
Presiding Judge
Metropolitan General Sessions Court
Nashville-Davidson County