



**A Report to the
Audit Committee**

Mayor
John Cooper

Juvenile Court Clerk
Lonnell Matthews

Audit Committee Members

Kevin Crumbo
Thom Druffel
Charles Frasier
Brackney Reed
Jim Shulman
Zulfat Suara

Audit of the Juvenile Court Clerk Collections and Victims' Trust Account Management

March 17, 2021

Metropolitan
Nashville
Office of
Internal Audit

EXECUTIVE SUMMARY

March 17, 2021



Why We Did This Audit

The audit was conducted due to the vulnerable nature of the citizenry served and the length of time elapsed since the last audit.

What We Recommend

- Improve controls over the Juvenile Information Management System.
- Improve internal controls over collections.
- Ensure reconciliations are performed between the Oracle R-12 system and the Juvenile Information Management System.

Audit of the Juvenile Court Clerk Collections and Victims' Trust Account Management

BACKGROUND

The Juvenile Court Clerk's Office collects fees and fines such as litigation taxes and court fees. Non-revenue receipts owed to outside parties, such as child support payments, are also collected.

The Juvenile Court Clerk's office also oversees the Victims' Compensation Trust Accounts. These accounts are initiated by the Tennessee Department of Treasury's Claims and Risk Management - Criminal Injuries Compensation division. Each account relates to a juvenile who has been the victim of a crime and was awarded compensation from the Criminal Injuries Compensation Fund. Victims' Compensation Trust Accounts are established at local banks. All disbursements on behalf of juvenile victims must be approved by a judge. As of May 14, 2020, \$1,418,370 were held in Victims' Compensation Trust Accounts.

OBJECTIVES AND SCOPE

The objectives of this audit are to determine if:

- Victims' Compensation Trust Accounts were accurately accounted for and properly safeguarded.
- Collections received by the Juvenile Court Clerk's Office were complete, properly recorded, monitored, safeguarded, and deposited timely.

The scope of this audit included cash collections and trust management by the Juvenile Court Clerk's Office between July 1, 2018, and March 31, 2020.

WHAT WE FOUND

The Juvenile Court Clerk's Office has generally established controls over collection receipts. Additionally, the office has generally established controls over the stewardship of the Victims' Compensation Trust Accounts.

Opportunities exist to improve controls over segregation of duties in collections, and the Juvenile Information Management System. Reconciliations between the Juvenile Information Management System and the Oracle R-12 system are not being conducted.

GOVERNANCE

The Juvenile Court Clerk's Office was established and is governed by the Metropolitan Government of Nashville and Davidson County Code of Ordinances, Article IV, Section 30, *Welfare of Children*. The administration of the Victims' Compensation Trust Accounts is governed by Tennessee Code Annotated, Title 29, Chapter 13, through the Tennessee Department of Treasury's Claims and Risk Management - Criminal Injuries Compensation division.

The Juvenile Court Clerk is a constitutional office and is elected by the citizenry to serve a four-year term. The current Juvenile Court Clerk, Lonnell Matthews, Jr has served since 2018. The Juvenile Court Clerk's Office administers the Victims' Trust Accounts and other various collections with a staff of one Office Manager, one Finance Officer and three Collection Clerks.

BACKGROUND

Victims' Compensation Trust Accounts

The Juvenile Court's Clerk's Office oversees the Victims' Compensation Trust Accounts. Victims' Compensation Trust Accounts are monies awarded to juveniles by the Tennessee Department of Treasury's Claims and Risk Management - Criminal Injuries Compensation division. The awards are for juveniles, or their parents, who have been the victims of crimes.

The Tennessee Department of Treasury will order an account to be established by the Juvenile Court Clerk's Office for a specific juvenile, their parents, or legal guardians. The Juvenile Court Clerk's Office will create an account in the Juvenile Information Management System. The amount received from the Tennessee Department of Treasury is deposited into a local bank account chosen by the Juvenile Court Clerk's Office. Checks received from the Tennessee Department of Treasury are made payable to the applicable juvenile, parent, or legal guardian, not the Juvenile Court Clerk's Office. All activity related to the life cycle of these accounts is recorded in the Juvenile Information Management System.

All disbursements from an account must be initiated by, and conform to, a court order. Most disbursements relate to when a juvenile becomes 18 years old. Disbursements before a juvenile becomes an adult are rare. An example would be disbursements related to education.

Exhibit A: Victims' Compensation Trust Accounts Under Age 18 as of May 14, 2020

Age Range	Count	Amount
2 - 10 years old	40	\$ 372,910
11 - 17 years old	161	1,045,460
Total	201	\$ 1,418,370

Source: Juvenile Information Management Systems

Fines, Fees and Other Receipts

The Juvenile Court Clerk collects payments for fines, fees, child support payments, litigation taxes, and other miscellaneous items on behalf of juveniles. All activity related to fines, fees, and other receipts are recorded and tracked in the Juvenile Information Management System. A summary of amounts collected during the scope period is shown in Exhibit B.

Exhibit B: Total Collections July 1, 2018, through March 31, 2020

Category	Amount
Child Support Payments	\$ 434,401
Paternity / Legitimization / Parentage	91,829
Set Child Support	87,327
All Other Petitions	82,824
Litigation Taxes	72,169
Contempt	71,540
Hearing Costs	63,147
Custody	61,898
Garnishment - Pay Out	54,674
Service Fee - Davidson County	46,447
Copy Storage	41,044
Guardian Ad Litem Fees	33,970
Service Fee - Out of County	25,538
Set Visitation	20,604
Other Categories	116,258
Total	\$ 1,303,670

Source: Juvenile Information Management System

Examples of other categories include overpayments, fees to modify visitation or child support, operating account interest. The largest type of collections is child support payments, which are often disbursed to the state Child Support Disbursement Unit, but some are due to private individuals.

Fines and fees are treated by the Juvenile Court Clerk's Office as revenue. Revenue is recorded in the Metropolitan Nashville Government's Oracle R-12 system and remitted to the Metropolitan Nashville Government's Department of Finance monthly. Other collections are not considered revenue. They are remitted to the Metropolitan Nashville Government's Department of Finance or appropriate parties but, historically, have not been recorded in the Oracle R-12 System.

OBJECTIVES AND CONCLUSIONS

1. *Are collections complete, properly recorded, monitored, safeguarded, and deposited timely?*

Generally, yes. The Juvenile Court Clerk's Office has generally established controls over its collection processes. Management followed their established daily procedures. Bank deposits were made accurately and timely.

Control enhancement opportunities exist over the Juvenile Information Management System. A formal review of user access based on job specific responsibilities has not been conducted since 2003. A listing of active staff members and their respective access roles needs to be generated, periodically reviewed, and updated. Terminated employees also had access to the Juvenile Information Management System. (See Observation A.)

Additionally, controls over segregation of duties, transfer of custody, and reconciliations need improvement. (See Observation B.)

2. *Are Victims' Compensation Trust Accounts managed by the Juvenile Court Clerk's Office accurately accounted for and properly safeguarded?*

Generally, yes. Victims' Compensation Trust Accounts are being properly established, maintained, and safeguarded. Funds were properly disbursed when the juveniles turned 18 years old. All disbursements were supported by adequate documentation such as an applicable court order. However, there are no reconciliations between account listings sent by the Tennessee Department of Treasury to the Juvenile Court Clerk's Office's internal records. Similar reconciliations were also not being conducted regarding juveniles who became adults. (See Observation C.)

Additionally, as noted above, control enhancement opportunities exist around the Juvenile Information Management System. (See Observation A.)

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 – Controls over Software Application

General application controls over the Juvenile Information Management System need improvement. Access to the Juvenile Information Management System is controlled by roles which have access to perform specific functions such as to create, update, and delete information and records. The Juvenile Court Clerk’s Office does not maintain a listing of each staff member and the roles that each person has. A formal evaluation of what specific roles are needed for each position has not been conducted since 2003. Such evaluations ensure access is limited to the operational functions needed by staff members. Access is granted based on the role of the previous employee who held the position. A list of roles and specific functions for each staff member was compiled with the assistance of Justice Integration Services. Thirty-two staff members with the ability to create, update, and delete information and records were identified.

Terminated employees also had access to the Juvenile Information Management System. Five out of 27 employees (19 percent) with access on September 9, 2020, had not worked for the Metropolitan Nashville Government since 2018.

Access that is not routinely reviewed against the needs of specific job duties increases the risk of inappropriate activity such as theft or fraud occurring without detection. Additionally, compensating controls such as managerial review of exception reports were not being conducted.

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.*
- *COSO, Control Activities—Principle 11—The organization selects and develops general control activities over technology to support the achievement of objectives.*

Assessed Risk Rating:

High

Recommendations for management of the Juvenile Court Clerk’s Office:

1. Conduct a formal evaluation of the access rights needed to perform each job role. Ensure the Juvenile Information Management System access privileges properly correspond to each job’s responsibility and are properly segregated. Conduct this evaluation periodically.
2. Maintain an active listing of all employees, their access privileges within the Juvenile Information Management System, and their specific job responsibilities.
3. Ensure that access to the Juvenile Information Management System is terminated timely when an employee leaves the Juvenile Court Clerk’s Office.

Observation B – Internal Controls Over Collections

Controls and processes related to collections need improvement. Specifically:

- *Segregation of duties* – One employee has physical access to the amounts collected, has record keeping responsibilities, performs reconciliations, and has the ability to create, update, and delete information in the Juvenile Information Management System. There are compensating controls such as transfer of custody, reviews, etc. However, the risk of fraud, loss, or error would be reduced if someone outside the cash collection and record keeping process confirms that the amounts actually deposited in the bank agrees to the internal records.
- *Transfer of custody* – Cash is moved from the vault to the cashier windows without being counted and documented.
- *Reconciliations* - Reconciliations between the Juvenile Information Management System and the Oracle R-12 system are not being conducted.
- Exception reports -- Periodic exception reports are not being generated and reviewed.

A random sample of 25 days of deposits totaling \$137,509 revealed that all 25 of the amounts deposited in the bank agreed to the cashiers' daily Juvenile Information Management Systems records. All 25 deposits were made timely and in accordance with Metropolitan Nashville Government Treasury Policy Number 9. However, there were not adequate transfer of custody controls for any of these daily collections or deposits. Having strong controls over segregation of duties, transfer of custody, security of assets, and reconciliation reduces the risk of fraud or loss.

Criteria:

- *COSO, Committee of Sponsoring Organizations of the Treadway Commission 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

Recommendations for management of the Juvenile Court Clerk's Office:

1. Ensure a person independent of access to collections reconciles the shift reports, daily total reports, and actual daily bank deposits.
2. Ensure proper transfer of assets controls are in place. Specifically, collections should be counted by two parties, documented, and signed anytime a transfer takes place.
3. Ensure reconciliations between the Oracle R-12 system and the Juvenile Information Management System are being routinely conducted.
4. Management should run a periodic report of exceptions, such as voided transactions, to ensure that transactions are necessary and authorized.

Observation C – Controls over Victims’ Compensation Trust Accounts

Reconciliations on the Victims’ Compensation Trust Accounts are not being performed. Specifically:

- Reconciliations agreeing amounts ordered by the Tennessee Department of Treasury to Juvenile Court Clerk Office internal records are not being conducted.
- Reconciliations to ensure all juveniles that have reached the age of 18 during a given time period are not being conducted.
- Managerial review of accounts being closed out are not being performed.

A sample of 25 Tennessee Department of Treasury warrants for awards, from a population of 54 warrants, were reviewed. Bank records, signature cards, and applicable dates were reviewed. Each of the 25 sample items was properly handled. Accounts were established timely at the bank and were established for correct amounts. Seven juveniles reached the age of maturity during the scope period. All seven accounts were properly closed with adequate supporting documentation such as a motion to encroach and majority letters. Lack of reconciliations and managerial review increases the risk of theft, fraud, or errors.

Criteria:

- *Committee of Sponsoring Organizations of the Treadway Commission – 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 Juvenile Court Clerk’s Office:

An employee independent of the duties over the Victims’ Compensation Trust Accounts should reconcile the accounts which should have been established, maintained, or closed to the actual accounts established, maintained, or closed.

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:

- Studied applicable laws, regulations, and Juvenile Court Clerk's Office policies.
- Interviewed key personnel.
- 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

Mary Cole, CPA, CISA, CFE, In-Charge Auditor

Bill Walker, CPA, CIA, CFE, Principal Auditor

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

APPENDIX A – MANAGEMENT RESPONSE AND 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>Recommendations for the management of the Juvenile Court Clerk's Office to:</i>			
H	A.1. Conduct a formal evaluation of the access rights needed to perform each job role. Ensure the Juvenile Information Management System access privileges properly correspond to each job's responsibility and are properly segregated. Conduct this evaluation periodically.	Accept: We plan to provide evaluation of JIMS access rights on an annual basis, beginning with an initial evaluation immediately to be completed by the end of April 2021.	End of April 2021 & Ongoing
H	A.2. Maintain an active listing of all employees, their access privileges within the Juvenile Information Management System, and their specific job responsibilities.	Accept: As part of the initial evaluation JIMS access rights will be charted in a format deemed appropriate by our office IT manager.	End of April 2021 & Ongoing
H	A.3. Ensure that access to the Juvenile Information Management System is terminated timely when an employee leaves the Juvenile Court Clerk's Office.	Accept: This step will be added to the list of responsibilities of our office manager to confirm when an employee is terminated or transfers from our office.	Immediately
M	B.1. Ensure a person independent of access to collections reconcile the shift reports, daily total reports, and actual daily bank deposits.	Accept: Most of this is being done already. We will add an additional step of having the independent reviewer confirm the bank deposit after it is made, daily.	Immediately
M	B.2. Ensure proper transfer of assets controls are in place. Specifically, collections should be counted by two parties, documented, and signed anytime a transfer takes place.	Accept: An additional member of admin, outside of bookkeeping will account for any transfer of asset controls.	Immediately
M	B.3. Ensure reconciliations between the Oracle R-12 system and the Juvenile Information Management System are being routinely conducted.	Accept: Management will reconcile between R-12 and JIMS at the time of approving monthly JEs.	Immediately
M	B.4 Management should run a periodic report of exceptions, such as voided transactions, to ensure that transactions are necessary and authorized.	Accept: Bi-annually management will randomly audit voided transactions by comparing void receipts reports in JIMS, with the daily reconciliation reports.	Immediately

APPENDIX A – MANAGEMENT RESPONSE AND ACTION PLAN

	Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
M	C.1. An employee independent of the duties over the Victims' Compensation Trust Accounts should reconcile the accounts which should have been established, maintained, or closed to the actual accounts established, maintained, or closed.	Accept: Management sign off when these accounts are being opened. Management will also conduct random audits monthly of maintained accounts. Someone from records will confirm and verify when these accounts are closed.	Immediately

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
HIGH	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
MEDIUM	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	Potential for negative public trust perception
LOW/ Emerging Issues	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
Efficiency Opportunity	An efficiency opportunity is where controls are functioning as intended; however, a modification would make the process more efficient			