



**Internal Audit Service Center
City Court Clerk's Office
Traffic Violations Bureau
Revenue Collections Performance Audit
September 30, 2015**

INTERNAL AUDIT TEAM

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ACRONYM	DESIGNATION
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CICA	Certified Internal Controls Auditor
CISA	Certified Information Systems Auditor
CRMA	Certified in Risk Management Assurance
CMFO	Certified Municipal Financial Officer

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A C WHARTON, JR. - Mayor
JACK SAMMONS - Chief Administrative Officer

EXECUTIVE DIVISION
Internal Audit Service Center
DEBBIE BANKS, CFE, CICA, CMFO
Interim City Auditor

September 30, 2015

The Honorable Thomas E. Long
City Court Clerk
City of Memphis
201 Poplar Avenue, LL-80
Memphis, TN 38103

Dear Mr. Long:

As a follow-up to recent incidents related to fraudulent activities in the Traffic Violations Bureau (TVB), we conducted a performance audit with four specific objectives. The objectives of the engagement were to 1) evaluate internal controls over TVB revenue receipts process, 2) evaluate process efficiency and effectiveness, 3) evaluate information technology controls related to the system supporting the revenue collection process, and 4) determine if information technology is adequate to provide process effectiveness and efficiency. We really appreciate the patience and cooperation of you and your TVB management team as we worked through several project delays due to higher priority audit projects.

To accomplish our objectives, we gained an understanding of the processes, procedures, technology, and documentation used within their revenue receipts process. We interviewed pertinent management, staff and system support personnel. The scope was limited to the revenue collections and processing activities. On a judgmental basis, we tested selected transactions for fiscal years 2014 and 2015. We performed a variety of audit procedures to identify and evaluate relevant and available documentation for the audit period.

Conclusion:

Overall, auditors concluded the following:

- The internal controls over TVB revenue receipts process were reasonably designed and implemented to provide some assurance that all revenues for traffic violations were being collected and remitted for deposit. We noted some control design deficiencies and other opportunities to strengthen the control environment and overall controls effectiveness.

City of Memphis – Internal Audit
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- The entire revenue receipts process needs some improvement to gain better operational efficiency and to ensure compliance with applicable policies and regulations.
- The IT system controls, overall, were satisfactory but we noted some control deficiencies that should be addressed by management.
- The TVB's use of technology can be enhanced to provide a more effective, efficient, and controlled revenue collection process. We identified several technological opportunities for improvements.


The following pages of the report provide additional details regarding objectives, findings, observations, recommendations, and management's response.

We conducted this performance engagement 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 concluded that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit may not necessarily disclose all weaknesses related to the revenue receipts process.

Our audit process encourages management to provide a written response to the draft report for inclusion in the final report. We presented you with the draft report dated September 2, 2015. Your comments taken verbatim from your response to the draft report received on September 23, 2015, are included in the report and detailed in bold, italics as "***Management Response***". We will evaluate the response and the adequacy of corrective action during subsequent follow-up activity.

We appreciate the cooperation of the management and staff of TVB, City IS Division, and Xerox representatives during our examination. Please feel free to give us a call if you have any questions or need additional assistance.

Sincerely,



Catrina McCollum, CFE, CICA, CMFO
Project Manager

APPROVED:



Debbie Banks, CFE, CICA, CMFO
Interim City Auditor

City of Memphis – Internal Audit
City Court Clerk Office – TVB
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c: A C Wharton, Jr., Mayor
 Jack Sammons, Chief Administrative Officer
 Brent Nair, Director/CIO, Information Services Division
 Linda Gale-Evans, Chief Deputy, City Court Clerk

BACKGROUND

The City Court Clerk's Office manages the operations of the Traffic Violations Bureau (TVB) and is responsible for the three (3) divisions of City Courts. TVB is responsible for collecting City revenues generated by the Memphis Police Department through the issuance of traffic citations, traffic summons, and ordinance summons. Additional revenue is generated through docket sales to the attorneys. In addition, the clerks collect monies for the red light camera violations using the ATS website. All revenues collected by TVB are deposited daily via Loomis Fargo courier into the City's concentration account at First Tennessee Bank.

TVB consists of three (3) cashier clerks (Cashier A, B, and C), mail clerks, and one bankruptcy clerk at the main location. There is one cashier at each precinct (Old Allen, Raines, E.H. Crump, and Mt. Moriah) that is responsible for the TVB revenue. Three (3) bookkeepers rotate monthly and are responsible for initialing cash balance reports, locking revenue in safe, generating opening/closing reports, and reconciling the revenue.

TVB utilizes eTIMS to process payments. The cashier opens a session in the eTIMS system and chooses a location and pay source with an individual login and password. TVB accepts cash, checks, and credit cards as payment.

In addition, clerks are responsible for data entry of traffic violations into the eTIMS system. Long term storage (LTS) is used by TVB to store data entry errors (e.g., 88-888 violations, 77-777 violations, and xx-deletes). The area is accessed only by the supervisor and inventory clerks.

BACKGROUND

The purpose of the table is to illustrate the revenues collected by TVB for various fines and fees processed from FY2011 through FY2015. This data is for informational purposes only.

Revenue	FY 2011 (base Year)	FY2012	FY2012 % base change over Base Year	FY2013	FY2013 % base change over Base Year	FY2014	FY2014 % base change over Base Year	FY2015	FY2015 % base change over Base Year
Court Fees	5,460,427.10	4,780,161.69	-12.46%	5,616,904.03	2.87%	6,813,619.69	24.78%	5,693,907.07	4.28%
Court Costs	4,550,169.04	5,113,201.87	12.37%	6,299,507.57	38.45%	6,879,429.32	51.19%	6,264,380.03	37.67%
Fines & Forfeitures	98,113.87	109,882.34	11.99%	72,069.74	-26.54%	83,187.91	-15.21%	94,609.18	-3.57%
Total	10,108,710.01	10,003,245.90	11.91%	11,988,481.34	14.77%	13,776,236.92	60.76%	12,052,896.28	38.38%
Automated Photo (Red Light Camera)	2,084,939.54	1,637,772.56	-21.45%	2,243,114.26	7.59%	2,774,240.85	33.06%	2,961,171.01	42.03%

As of: 9/4/2015

Source: Oracle Appropriation Statements

OBJECTIVES, FINDINGS & RECOMMENDATIONS

OBJECTIVE 1:

To determine whether internal controls related to revenue handling are adequate and to determine accuracy and propriety of revenue generated from traffic citations, traffic summons, and ordinance summons for main office and/or precincts.

FINDING 1:

Internal controls over revenue receipts for TVB were reasonably designed and implemented but needs improvement. There is a significant control deficiency in the revenue reconciliation process related to manual adjustments.

Internal controls are processes designed to provide reasonable assurance regarding the achievement of the entity's objectives. Overall, TVB's internal controls for revenue reconciliations are designed to provide some assurance that revenue was deposited to the City's bank account. We noted the following controls:

- daily revenue reconciliation at main branch with two people,
- review of precinct reconciliation by bookkeeper,
- review of revenue reconciliation by independent individual prior to entering into Oracle,
- two persons witness funds placed in safe for overnight safekeeping,

Control Deficiencies

The daily revenue reconciliation process includes making manual adjustments for transactions (i.e. chargebacks, dockets sales, etc.) in order to reconcile the eTIMS Big Payment Report to the revenue documentation. It is unlikely that errors or irregularities would be identified, which given the volume, is a significant control deficiency. In addition, there is no adequate audit trail in the system. TVB management has begun reviewing an Adjustment Detail Report from eTIMS to help mitigate the risk associated with the almost daily manual adjustments.

- 21 of the 21 (100%) revenue reconciliation reports reviewed contained manual adjustments. The manual adjustments consisted of chargebacks, sale of dockets, shortages, overages, etc. The manual adjustments are made by the bookkeeper to reconcile the funds collected to the eTIMS Big Payment Report. Excessive handwritten manual adjustments provide an opportunity for errors and irregularities to materialize.

Revenue Reconciliation Process

Revenue reconciliation process provided reasonable assurance of funds being accounted for daily. Auditors review of 21 TVB revenue reconciliation reports and support documentation resulted in the following:

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- 20 of the 21 (96%) deposits/revenue were traced back to Oracle in the appropriate account.
 - We noted instances where the online payments were entered incorrectly in Oracle and a reversal error was used to correct the error.
 - We noted instances of overages and shortages which were not properly recorded to the general ledger to the over/short account. Rather the overages and shortages were included in the net revenue figure.
- We noted the majority of the samples reviewed for the main office did not include the check name and amount listed on the deposit slips. According to the City Manual, Title 5, Chapters 11 and 14, Sections 5 and 7, "Municipal officials should ensure that deposit slips are completed in duplicate (at least). Regardless of whether the remittance is received by mail or paid directly to the cashier, each check should be listed individually on the deposit slip or an attached list, itemizing the name of the payer and amount. The precinct cashiers and mail cashier complete a form which lists the name and the amount of check; however, the list is not included with the reconciliation documentation.
- Some clerks have the ability to review the Standard Totals Summary for Combined Data: Fines & Fees report in the eTIMS system throughout the day to ensure the cash drawer is not out of balance at the close of the business. Employees' having the ability to view the balance makes it easy for an employee to perpetrate and conceal errors and irregularities.

Red Light Camera Revenue Reconciliation Process

- There were no written policies and procedures to provide guidance for the red light camera revenue reconciliation process, including but not limited to instructions for ensuring accountability for all red light camera wire transfers and verification that wire transfers and bank confirmations are made in a timely manner.
- We requested and reviewed the red light camera monthly statements from November 2014 to June 2015 to trace the red light camera wire transfers to Oracle for accuracy, completeness and timeliness of deposits. We noted that 14 of 35 (40%) of the wire transfers reviewed were not confirmed in Oracle in a timely manner. The date variance between the wire transfer and Oracle confirmation dates ranged from 16 to 100 days.

Policy and Procedures

Although there are written policies and procedures, we noted deficiencies that require management's attention to enhance the overall control effectiveness. We noted the following:

- The written policy and procedures were last revised in December 2010 and does not include procedures

OBJECTIVES, FINDINGS & RECOMMENDATIONS

for the eTIMS system that was implemented in 2012 to process payments for traffic violations. The written policies and procedures should provide clear, concise and consistent guidance for all staff involved in the revenue process.

- In the TVB Revenue Reconciliation Limited Scope Review dated December 18, 2012, Internal Audit (IA) recommended that management comply with the City Manual, which requires all disbursements (including refunds) be made by prenumbered checks and revise the policy to remove the issuance of cash refunds. The policies and procedures have not been revised to remove the issuance of cash refunds to comply with the recommendation.
- We found no written guidance for employees to handle voids, shortages, and overages and handling returned checks.
- The written procedures for handling mail are not compliant with the City Manual. According to City Manual, Title 5, Chapter 14, Section 4, “all mail is delivered intact (unopened) to two or more designated employees.” All checks should be stamped “FOR DEPOSIT ONLY.” The money/checks received through the mail should be given to the cashier, who gives the persons opening the mail a prenumbered receipt. The prenumbered receipt should be attached to the list prepared by the employees opening the mail.” IA observed the mail being opened by one clerk sitting at a desk, clipping the payment to the envelope, entering the payment on a spreadsheet, and stamping the payment for deposit only. A second clerk was also sitting in the area opening mail. Both the actual and written procedures need to be revised to comply with the City Manual.

RECOMMENDATION(S):

- Management should implement a technology solution to streamline manual adjustments made during the revenue reconciliation process. In addition, management should re-train employees on the eTIMS system.

Management Response: Technology solution implemented July 27, 2015. Currently employees are trained and re-trained as needed specifically to their location.

- Management should periodically monitor revenue activity to:
 - ensure internal controls are working.

Management Response: Management is currently complying with recommendations.

- ensure employees are following established policies and procedures.

Management Response: Management is currently complying with recommendations.

- identify errors and irregularities.

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Management Response: Management is currently complying with recommendations.

- Management should require cashiers to attach the forms that detail check deposit details with the reconciliation documentation to ensure compliance with the City manual.

Management Response: Management is currently complying with recommendations.

- Management should restrict the clerk's ability to review their balance on the Standard Totals Summary for Combined Data: Fines & Fees report throughout the day prior to the close of business.

Management Response: Management is discussing software modification with vendor to comply with recommendations.

- Management should develop procedures for the red light camera revenue reconciliation process to include instructions for ensuring accountability for red light camera wire transfers and verification that wire transfers and bank confirmations are made in a timely manner.

Management Response: Management is in the process of developing a procedure.

- Management should revise written policies and procedures to :
 - provide operational guidance relevant to the current software system

Management Response: E-Tims manual is in the process of being updated.

- remove procedures for the issuance of cash funds,

Management Response: Implemented.

- include procedures for handling voids, shortages and overages,

Management Response: No transactions are ever voided in the CCC. All transactions are captured. Written policy and procedures for shortages and overages are being revised.

- ensure cash shortages and overages are recorded in the "over/short" general ledger account 49126 for their service center,

Management Response: Management will comply with recommendation.

- ensure mail is handled in accordance with the City Manual.

Management Response: In compliance implemented September 10, 2015.

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OBJECTIVE 2:

To evaluate process efficiency and effectiveness.

FINDING 2:

Overall processes related to efficiency and effectiveness were satisfactory. However, auditors noted opportunities to strengthen controls.

An evaluation of processes is completed to ensure the organization is operating efficiently and effectively. To evaluate the efficiency and effectiveness of TVB processes, we observed day-to-day operations, conducted various tests and evaluated compliance with the City Manual and other audit references. We evaluated the following processes:

- revenue reconciliation
- ticket inventory
- monitoring of errors and irregularities
- compliance with the City Manual

Opportunities to Strengthen Controls

- We observed only one mail clerk handling the payments received through the mail. According to the City Manual, Title 5, Chapter 14, Section 4, "Municipal officials should ensure that all mail is delivered intact (unopened) to two or more designated employees". IA spoke with TVB management on one occasion regarding the handling of mail and management stated that two people would be involved in the process. IA observed the two individuals handling mail were sitting at two different desks, which does not create a dual control environment.
- IA also observed envelopes kept in a file cabinet that contained cash for customers that paid their fine/fee online and needed an immediate release letter. According to the City Manual, Title 5, Chapter 11, Section 2, "Municipal officials should ensure that collections are deposited intact. Intact means that collections are deposited in the form and amount in which they are collected. All money collected must be deposited in the next deposit. No collections should be withheld from the deposit for any reason. TVB management stated that they no longer keep cash for customers that need an immediate release letter.
- IA observed a bookkeeper preparing a deposit slip and tearing up the deposit slip because of an error made by the bookkeeper. Deposit slips are in sequential order and if an error is made on a deposit slip, the deposit slip should be voided and initialed by a supervisor.
- Although the system flags "bad check" accounts, there is no process in place to ensure the cashiers are

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not processing checks from “bad check” customers.

- There is no exception report for monitoring/tracking “bad check” accounts to ensure payments are not processed.
- As part of the revenue reconciliation process, refunds regarding the overpayment of city court cost were reviewed. Based on ticket data analysis, we found 6,503 potential overpayments of court cost before the actual effective date of the ordinance. Thus, the difference between the higher rate (\$135) and the old rate (\$61), the potential overpayment exposure was determined to be $6,503 \times \$74 = \$481,222$.
- We reviewed the check request and invoices for ordering tickets. We noted for some invoices the packing slip that details the beginning and ending number for the tickets were not always attached.
- There is no monitoring of tickets isolated in the system and excluded from processing, referred to as long term storage, to ensure that they are removed from this category in a timely manner and accounted for properly.

Risk Assessment

The City Manual, Title 3, “Risk Assessment”, Chapter 1, “Identifying Risks”, Section 1, states management should review operations periodically and reassess the risk related to entity wide and activity-level objectives. TVB management does not have a documented process for a risk assessment.

RECOMMENDATION(S)

- Management should revise written policies and procedures to include but not be limited to:
 - ensuring compliance with the City Manual (i.e. mail payments, deposits in tact).

Management Response: Management agrees with recommendation.

- ensuring deposit slips that contain errors are properly voided rather than torn up and thrown away.

Management Response: In compliance.

- implementing a process for handling “bad checks”.

Management Response: Policy and Procedures will be revised after process has been developed with software vendor.

- Management should develop a process for refunding court cost that were potentially overpaid.

Management Response: In compliance.

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- Management should ensure that the packing slips for the ticket book orders are attached to the invoices to provide better accountability and oversight of ticket book orders.

Management Response: In compliance.

- Management should implement a process for monitoring of the long term storage tickets to ensure they are removed in a timely manner and properly accounted.

Management Response: Management will comply with recommendation.

- Management should perform an annual risk assessment to ensure compliance with the City Manual.

Management Response: Management will comply with recommendation.

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OBJECTIVE 3:

To evaluate the overall information technology (IT) controls related to the eTIMS system.

FINDING 3:

IT controls related to the eTIMS system are satisfactory with some opportunities for improvement.

IT controls are specific activities and processes designed around the IT environment and within individual IT applications to help ensure that organizational objectives are met. These activities help ensure the confidentiality, integrity, and availability of data used by the organization. Generally, the IT controls designed and implemented around eTIMS were adequate to provide reasonable assurance for the system to capture revenue transactions and provide for an adequate audit trail. However, auditors noted some control deficiencies that could impact the revenue collection process.

The IT control environment included:

- Application input and output controls such as standardized screens, form fields, drop down menus, edit checks, mandatory fields, validation checks, warning messages, management reports, etc. that help ensure data accuracy and integrity.
- Identity management component requiring unique login accounts.
- Password administration component requiring the use of passwords.
- System provisioning component which allows system rights to be granted based on need.

Control Deficiencies

- User rights have not been formally reviewed since implementation, approximately 2 ½ years ago.
- The system has been provisioned to allow all cashiers and higher to have elevated rights to make adjustments related to revenues, i.e. they have the right to enter a payment and then to adjust the payment if necessary. This is a known deficiency which is monitored through the use of an adjustment report that supervisors review the following day.
- The system has been configured to allow cashiers and assistant cashiers to be able to view running cash balance during the day. This could allow cashiers to improperly manipulate cash on hand in order to agree balance prior to close out.
- Access to password and pin not restricted to individual user. The access approval process could allow a staff member's Supervisor or the Program Manager to reset a user's password without

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the user knowing. Completed User ID Request Forms are submitted to the Supervisor for approval and then forwarded to the eTIMS Program Manager to be forwarded to Xerox to set up the account. The completed form includes a visible user-selected pin and security word needed to reset the password.

RECOMMENDATION(S):

The following are recommended to correct identified deficiencies:

- Management should conduct a 100% formal review of all local user rights. This review should be conducted periodically thereafter. Permissions for each eTIMS function need to be reviewed for appropriateness. Functions and permissions need to be reconfigured as necessary based on enabling only the minimum rights needed to perform day-to-day duties. TVB management should establish a process to manage changes to user rights thereafter.

Management Response: System administrator and supervisor will review 100% of all local users rights. There after reviews will be done quarterly.

- Management should remove the right for cashiers to make adjustments related to revenues and modify the process to require supervisors to approve adjustments in the system. If this is not feasible, modify the process to require that supervisors be notified immediately whenever adjustments are required.

Management Response: Currently all cashier adjustments are approved and verified by bookkeeper and supervisor. Bookkeeper adjustments are approved and verified by a supervisor.

- Management should reconfigure the system to remove the ability for cashiers and assistant cashiers to be able to view running cash balance during the day but still be able to key in denominations that make up their final drawer count.

Management Response: Management is currently discussing software system changes with vendor.

- Management should modify the user access approval process to remove the ability of the Supervisor and the Program Manager to view completed forms that include the user-selected pin and security word.

Management Response: Will comply with recommendation.

OBJECTIVES, FINDINGS & RECOMMENDATIONS

OBJECTIVE 4:

To determine whether or not the overall IT environment effectively and efficiently supports the revenue collection process.

FINDING 4:

The overall IT environment can be improved to more effectively and efficiently support the revenue collection process.

To effectively and efficiently meet their objectives, organizations leverage IT resources. TVB utilizes a variety of IT resources throughout the revenue collection process. We reviewed TVB's IT environment to look for opportunities to enhance the effectiveness and efficiency of the revenue collection process and found the following:

- The manual adjustment process is inefficient. The current process of making manual adjustments for chargebacks from Paymentus could be automated through coordination with Xerox, Paymentus, and City IS.
- Manually counting cash is inefficient. Cash counters could be added for use during end of day closeout activity to reduce reconciliation time.
- Check verification is not in place. Check verification service could be added to verify checks prior to accepting them to reduce the risk of returned checks.
- Additional functionality not currently available in eTIMS could be added that could improve efficiency:
 - Currency tracking by denomination could be added to eTIMS to track what denominations are taken in and given out during payment transactions.
- An electronic capability could be developed to connect eTIMS with Paymentus and with the red light ticket system to reduce data entry and the potential for errors related to manual data entry.

RECOMMENDATION(S):

The following enhancements should be evaluated based on cost vs. benefit and implemented if feasible:

- Consider automating the current process of making manual adjustments for chargebacks from Paymentus through coordination with Xerox, Paymentus, and City IS.

Management Response: Software vendor is currently working with third party vendor to comply with recommendation.

OBJECTIVES, FINDINGS & RECOMMENDATIONS

- Consider adding cash counters for use during end of day closeout activity.

Management Response: Cash counters purchased.

- Consider adding check verification service to verify checks prior to accepting them.

Management Response: In contact with vendor to purchase this service.

- Evaluate the feasibility of adding currency tracking by denomination to eTIMS.

Management Response: Currently contacting vendors to discuss the feasibility of adding currency tracking.

- Evaluate the feasibility of developing an electronic capability to connect eTIMS with the Paymentus and the red light ticket systems.

Management Response: Discussing with vendor feasibility of developing software connecting systems.