



**Audit Report
Cash Collections
October 2, 2014**

**City Auditor's Office
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Purpose and Scope

The purpose of this audit was to determine whether the design and operation of internal controls over the City's cash collection sites are effective. (For purposes of this report, references to cash collections also include checks, credit cards and money orders.) This audit addressed City-operated sites and did not include third-party collectors, including certain parking decks and Western Union sites.

Auditors evaluated the adequacy of existing cash collection policies, and whether operational procedures throughout the City are adequate. Due to the large number of collection sites, audit staff limited their detailed reviews to those locations with the greatest activity. Audit steps included the following:

- Surveyed Department Fiscal Control Officers (FCOs) and collection site managers about procedures, activities and key personnel;
- Conducted several site visits to observe collections and interview staff;
- Identified key internal controls required by the Finance Department policy; and
- Examined deposits and supporting documents for selected departments for one week in January 2014 and one week in April 2014 (before and after the audit was announced). If a smaller department with infrequent collections had no deposits for the weeks selected, alternate dates were chosen.

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 findings and conclusions based on our audit objectives.

This report is intended for the use of the City Manager's Office, City Council and all City Departments.

Conclusion

All employees and departmental Fiscal Control Officers need to be regularly reminded of the City policy and State Statutes that require timely deposits. Regular audits should be scheduled to ensure compliance.

Summary Results

Except for the theft by a contractor's employee identified in 2013, no losses from collection sites were identified during the audit. However, corrective actions must be taken to reduce the City's risk of loss that could occur through lost or stolen funds which can go undetected if insufficient compliance and monitoring is not addressed. The following findings are detailed below:

- Cash collection controls should be consistently applied throughout the City.
- All checks should be deposited timely.
- Finance should aggressively monitor and enforce the City's Cash Collection Policy.

The Finance Department has provided satisfactory responses to each of the audit recommendations. In addition, departments which were not in compliance with deposit policies have taken actions to improve employee performance.

Background

In September 2013, an embezzlement of City funds totaling \$50,750 related to CATS' fare evasion fine collections was discovered at the Park It! office. (A separate audit report dated June 25, 2014, concerning that loss has been issued.) In January 2014, after completing the FY13 financial statement audit, the City's external auditors (Cherry Bekaert) reported to City Council a significant internal control deficiency, as follows:

Cash collection sites throughout the City are not monitored to ensure internal controls are designed and operating effectively.

To address the deficiency, Cherry Bekaert recommended the following:

The City should establish monitoring controls of the cash collection sites throughout the City to ensure internal controls are properly designed and operating effectively.

The City's response to Cherry Bekaert's recommendation noted that a new cash collection policy includes procedures for cash collections, and that the City Finance Department and Internal Audit would implement a plan to monitor cash collection sites throughout the City. Subsequently, Internal Audit initiated an audit of the City's collection sites.

Collections Overview

Cash collection activities within City departments range widely in the dollar amount of daily deposits, as well as in the form of collections, i.e., cash, credit card, and check. Customers can be citizens paying for various City services such as parking fees at the airport, transit riders, and pet registration. Customers can also be company

representatives paying for permits at the Fire Prevention Bureau, or paying the fee to obtain design documents from the Planning Department.

There are at least 20 active cash collection sites operating throughout the City. The City collects payments for airport parking fees, water and sewage use, bus and light rail fares, fire inspection fees, and many other services. Approximately 30 collection sites make infrequent deposits. These low volume sites include the City Attorney's office, which occasionally receives a settlement check. Also, many departments and divisions collect reimbursements from employees (e.g., for personal long-distance phone calls, or the return of a travel advance). See the Appendix beginning on page 9 for a detailed listing of the most active collection sites.

Cash Collection activities are governed by North Carolina General Statute 159-32 and City policy FIN 1 (revised version effective August 1, 2014), which is administered by the Finance Department and its Revenue Division. Among other requirements, the statute and policy require daily deposits and submission of supporting documents approved by a department's Fiscal Control Officer (FCO) or the FCO's designee – to the Revenue Division Central Cashier – that support the amount deposited.

Findings and Recommendations

1. Cash collection controls should be consistently applied throughout the City.

As noted above, there are at least 20 active cash collection sites throughout the City. Some have put adequate controls in place, while others are lacking. Due to the widely varying levels of activity, no one level of control may be appropriate for each site. The following are among the internal controls in use at City collection sites:

- Daily deposits of collected cash, checks, money orders, and credit card payments, per City policy and NC General Statute 159
- Submittal of documentation of the deposits to the Central Cashier
- Written procedures for the handling of collections
- Separate tills for each cashier
- Surprise cash counts
- An accountability record for independent comparison to deposits
- An independent approver and reconciler of the record versus the deposit amount
- Security cameras

The larger collection sites use most of the above controls, while sites with minor activity may not use cameras and often don't have more than one cashier till or written procedures.

Recommendation: To ensure that cash collections are secured at an adequate level which is consistent throughout the City, Finance should establish a matrix of controls and procedures applicable to the varying activity at collection sites. Control levels

may be impacted by total collections, amount of cash handling versus non-cash transactions, staffing, hours of service, and the relative safety of a specific location (e.g., a Police station versus a cemetery). This evaluation should consider a reduction or consolidation of low activity level collection sites. Expansion of electronic depositing should also be considered.

Finance Response: We agree. We will complete our analysis of the control levels that would be appropriate at collection sites throughout the City by calendar year-end. At that time, we will circulate a draft of the proposed requirements and obtain input from those impacted. We will follow-up with the FCOs to ensure timely compliance with the requirements.

2. All checks should be deposited timely.

During the audit, multiple departments informed Internal Audit or the Revenue Division of recently discovered checks that had not been deposited in compliance with City Policy and State Statutes. Daily deposits are a key requirement of the City's FIN 1 policy, as well as being mandated by NC General Statute 159. Failure to make deposits within 24 hours of receipt violates both policy and law. In addition, non-compliance exposes the City to reduced revenues that can occur through lost or stolen funds.

The table below details the policy violations noted during the audit.

Department(s)	Number of Checks	Date Range (months)	Date Deposited	Dollar Range	Total Amount
Charlotte Fire Department	7	5 – 13	April 2014	\$4,900 - \$26,194	\$82,267
Charlotte Department of Transportation (CDOT)	1	3	April 2014	\$9,384	\$9,384
City Attorney's Office / Charlotte Mecklenburg Utilities Department (CMUD)	2	6	May 2014	\$1,500	\$3,000
Neighborhood & Business Services	3	2 – 7	May 2014	\$150 - \$360	\$860

We met with staff from each department and received the following explanations:

- Fire – Checks (mostly grants) were held by a grant coordinator and/or administrative staff, who did not recognize the importance of following statutory rules. The employees stated that sometimes they forgot that they had stored the checks in their desks, resulting in deposit delays of up to 13 months. The Fire Chief will put in measures to ensure there are no recurrences, such as converting to electronic checks and periodic inspections by managers.
- CDOT – A former employee of a contractor stored a check in a desk drawer. The check was discovered after the employee was terminated from the firm for other performance issues.
- Attorney's Office/CMUD – Two money orders were received in the City Attorney's Office related to a CMUD settlement. The money orders were held a few days or more, and eventually interoffice mailed to CMUD. They were not deposited for a total of five months after receipt. Initially, employees were trying to determine proper coding for the deposit and did not understand the overriding requirement to follow the state statute. The location of the money orders from January through May could not be determined.
- N&BS – Loan fees were stored in a desk by the responsible employee and forgotten. In response to the incident, N&BS sent an email to remind staff of City policy that requires that all receipts be deposited on the day collected.

Actions Taken: All checks in question have been deposited by the Central Cashier. The revised FIN 1 policy effective August 1, 2014, addressed the issue of checks received. FIN 1, Procedure 2-D provides that "...checks shall be placed in a locked cash till until the daily close out and deposit is prepared."

Recommendation: Currently, the Revenue Division keeps a listing of deposited checks dated more than 30 days prior to submittal. For the period of September through December 2014, Revenue should adjust the threshold (e.g., 15 days for deposits greater than \$1,000) in order to identify collection sites which may not be in compliance with City policy and State statute. Revenue should share these results with Internal Audit for additional follow-up by auditors.

Actions Planned: Revenue staff will identify the collection sites which deposit the oldest checks (understanding that check dates are not always completely accurate and that postal service delivery schedules may impact the timeliness of receipts). Internal Audit and Revenue will work together to conduct a follow-up with selected departments in FY15.

Department Responses: The departments found to be non-compliant with the depositing requirements all agreed to monitor compliance within their departments

more closely in the future. Each is aware that Finance and Internal Audit will follow-up FIN 1 requirements on a regular basis.

3. **Finance should aggressively monitor and enforce the City's Cash Collection Policy.**

A. **Liaisons**

The City's Cash Collection Policy (FIN 1) requires departments to designate a Fiscal Control Officer (FCO) to serve as the official liaison between the department and Finance/Revenue. When validating the Revenue Division's master listing of FCOs, auditors noted four instances in which a department had changed the designated employee, but had not notified Revenue. This lapse could result in communications from the Revenue Division not reaching the employee actually performing FCO duties.

Recommendation 3A: The Revenue Division should periodically update its record of the FCOs for each City Department. The FCO's primary designee and an alternate for each collection location should also be obtained at each update. The FCO should be required to annually certify compliance with Collections Policies.

B. **Site Listing**

The Revenue Division provided a list of departments with collections and types of revenues collected, but did not have a complete list of cash collection sites throughout the City. Maintaining a current inventory of collection locations is critical to understanding the scope of the collections process for the City as a whole, and to designing other controls for continuous monitoring.

Recommendation 3B: Periodically, in conjunction with its update of FCOs and designees, the Revenue Division should require the FCO's to submit a complete, detailed listing of all cash collection sites operated by departments throughout the city. This should enable the Revenue Division to maintain a complete listing of all departments' locations receiving cash collections.

C. **Monitoring**

Despite the City's comprehensive Policy addressing the cash collection responsibilities of each department, Finance necessarily must rely upon about 40 collection site managers (site managers can be responsible for multiple sites) to complete their daily responsibilities in order for the City to be in compliance with the state statute covering this activity. For recurring deposits, the Revenue Division's Central Cashier uses Outlook reminder messages as a way to monitor whether a particular City department's deposit has been submitted. Also, a computer system display or printout lists those locations that had deposits posted for a particular day, but doesn't highlight a deposit that could be missing. These current procedures may

not be sufficient to effectively reduce the risk of a collection site not submitting its deposit.

Recommendation 3C: The Revenue Division should work with FCOs to identify a consistent (e.g., daily or weekly) reporting method for sites which normally have significant collections. That is, for the largest collection sites, each should communicate that a deposit has been made or is not required, on a regular basis.

Finance Response: Finance will distribute a memorandum at the end of each fiscal year to each Department Director requesting that they confirm their FCO designee and update their listing of cash collection sites. Finance will maintain a checklist of the largest deposits and expected frequency determined by analyzing iNovah cashiering reports by Department. Finance will inquire with the Departmental FCO/designee if a deposit does not arrive by its expected delivery time.

4. Other

We noted a number of other issues which Finance staff brought to our attention during the audit, or which were already being addressed by Finance and did not require detailed review by auditors. The issues are noted here because they reflect upon the internal control environment and could impact revenue operations negatively if control monitoring were to deteriorate.

A. *Missing change funds* – In March 2014, Revenue Division staff advised Internal Audit that a \$2,000 auction change fund and a \$275 till change fund kept in the main safe at the Charlotte Mecklenburg Government Center (CMGC) were missing. New procedures have been implemented by the Revenue Division, including more frequent reconciliations and surprise cash counts. The Finance Department Risk Management Division replaced the \$2,275 to the Revenue Division from the self-insured loss fund in April 2014.

B. *Escheat records* – North Carolina statutes require the funds related to checks which have not been deposited by their recipient to be forwarded (“escheated”) to the State. The State makes these funds available for reclaiming by their original recipient. A Finance Revenue procedure made effective in March 2013 notes that periodic searches of the unclaimed property database maintained by the North Carolina State Treasurer’s office will be performed. Any property discovered during the search will be investigated and a claim will be submitted if appropriate. Finance Revenue submitted the results of the first search of this nature in December 2013, and it included a request for payment of 54 items that belonged to the City. Further investigation showed the City was due \$15,995.81 from these claims. Although a claim has been submitted, these funds have not been turned over to the City. Finance followed up with the State multiple times before receiving instructions to complete, sign, and notarize an Affidavit of Claim Form and supplied additional supporting documentation. The form and documentation

were sent to the State on August 21, 2014. It should also be noted that the Treasurer's database includes very limited descriptions of the escheat items making it difficult to confirm whether or not funds are due to the City. In addition, the Finance Director must certify that the escheat claim is valid, and is subject to criminal prosecution for any fraudulent claim.

- C. Badge Access to Revenue Collection, Lobby level, CMGC* – Finance Revenue Division identified 344 employees with badge access to the revenue collection area in CMGC. Upon further review, the Finance Revenue Manager identified 102 employees on that list that do not need badge access to this area. The Revenue Division is working to further reduce the access list to those who work in the area on a daily basis or have an emergency need for access.
- D. Witnessing of Central Cashier Cash Count* – We noted that a departmental FCO or designee does not remain to witness the counting of submitted cash collections by the Revenue Division Central Cashier. Such witnessing is a requirement included in the FIN1 policy and should be followed without exception.

Appendix: Most Active Collection Sites

\$200 million	Aviation Accounts Receivable Division (mostly non-cash)
\$123 million	Finance – Central Cashier (20% cash)
\$42 million	Aviation Parking (75% cash)
\$19 million	CATS Bus & Light Rail Treasury Room (90% cash)
\$10 million	Charlotte Mecklenburg Utilities (non-cash)
\$5.7 million	Finance – West Service Center (61% cash)
\$3.8 million	Finance – CMGC Lobby (32% cash)
\$2.3 million	CATS Charlotte Transit Center (50% cash)
\$2.1 million	Finance – Old City Hall (48% cash)
\$2.0 million	Fire Department – Fire Prevention (mostly non-cash)
\$1.4 million	Charlotte Department of Transportation – Park It! (25% cash)
\$1.2 million	Charlotte Mecklenburg Police Department – Animal Control (35% cash)
\$875,000	Finance – Risk Management Division (non-cash)
\$410,000	Engineering and Property Management (non-cash)
\$375,000	Charlotte Mecklenburg Police Department – Property Room (mostly cash)
\$172,000	Charlotte Department of Transportation – General (mostly non-cash)
\$21,000	Aviation – Operations/Security (mostly cash)
\$17,530	Solid Waste Services (mostly non-cash)
\$15,000	Fire Department – Administration (20% cash)
\$5,450	Neighborhood & Business Services (non-cash)
\$2,050	Charlotte Mecklenburg Police Department – Records (mostly non-cash)

Aviation-Accounts Receivable Division

The Accounts Receivable Division of Aviation receives mostly non-cash collections from three revenue types: invoiced receipts, passenger facility charges and miscellaneous payments. During FY13, the Division collected approximately \$200 million as reported.

Finance – Central Cashier

The Central Cashier is responsible for verifying and posting Departmental Daily Cash Reports (DR's) that are sent in from different departments and divisions into the Inovah Cashiering System, and for making bank deposits. These DR's are validated with the Central Cashier's signature and sent back to the corresponding department or division to be included in their backup documentation. There are some departments and divisions that post directly into the Inovah Cashiering System. In this case, the Central Cashier verifies that those batches have been closed out before processing the end of day report.

Aviation-Parking

Parking revenues are primarily cash, along with a sizable amount of credit card transactions. A key control relied upon by Airport managers is a parking management software system that produces a total for each cashier's shift; the total is not available to the cashier and is independently compared by other staff to the amount submitted for deposit. Parking revenues totaled a reported \$42.5 million during FY13.

CATS Bus & Light Rail Treasury Room

Funds received from CATS light rail and bus fare boxes are verified at the CATS Treasury Room. The Treasury Room receives the cash from the light rail ticket vending machines and the bus fare boxes. Controls include on-premises security officers, secured access to counting areas, camera monitoring and three-person verification of funds. CATS reported average daily deposits of \$14,000 in cash and \$4,450 in credit cards from rail and \$35,000 in cash from bus fares. All funds are deposited by Dunbar Armored Services and verified by CATS' Finance Department. The above reported totals compute to over \$19 million received on an annual basis.

Charlotte Mecklenburg Utilities

Charlotte Mecklenburg Utilities (CMUD) provides various online payment options for customers. Collections received in house vary from day to day. The most significant amount of collections is handled at the North Tryon location which accepts only checks for connection and capacity fees. In FY13, CMUD received a reported total of over \$10 million in capacity fees.

Finance – West Service Center

Finance-West Service Center is a satellite payment processing center that handles utilities, property taxes and Private Vehicle for Hire renewals. The collections vary from day to day. The deposits are stored in a secured vault at the end of the day and a member of the Charlotte Mecklenburg Police Department picks up the deposit on the following day for delivery to the bank or Central Cashier.

Finance – CMGC Lobby

Finance – CMGC Lobby handles transactions from walk up customers. Cashiers at this location handle all types of transactions, but utility payments are the majority of collections. At the end of the day, all deposits are verified and stored in secured bank bags and placed in the vault until the deposit is ready for delivery to the bank.

CATS Charlotte Transit Center

The Charlotte Transit Center (CTC) collects mostly cash and credit cards for bus and light rail passes, fines and transit identification cards. CATS' fiscal staff reported average daily deposits of \$7,500, comprised of \$3,800 in cash and \$3,700 in credit cards, for a computed annual total of about \$2.25 million. Each employee is assigned a set number of bus passes daily to control the inventory. Cameras are strategically placed within the booths and there is a panic button in the event of an emergency. All deposit information is sent to CATS Finance Department for verification.

Finance – Old City Hall

Finance – Old City Hall is a drive up payment location for the Revenue Division that processes utility payments. This location is operated by two cashiers and the collections

are picked up daily by a member of the Charlotte Mecklenburg Police Department for delivery to the Central Cashier.

Fire Department – Fire Prevention

The Fire Prevention Bureau of the Fire Department receives cash, checks, money orders and credit cards for permits, citations and fines. These collections can range from \$600 to \$14,000 on a daily average. The Fire Prevention Bureau received a reported \$1,957,046 in FY13.

Charlotte Department of Transportation-Park It!

Charlotte Department of Transportation – Park It! collects payments for street parking across the city. Park It! is also in charge of collection of fines and penalties related to parking citations. Dunbar Armored Services deposits the meter collections directly to the bank, while the citation fines and penalties are sent to the Central Cashier for deposit. Park It! received a reported \$1,427,930 in FY13.

Charlotte Mecklenburg Police Department-Animal Control

The Animal Control division of CMPD accepts collections for pet adoptions, citations, animal licenses, spay and neuter fees and boarding. There are some online payment options available. Animal Control collections for FY13 were reported at \$1,179,040.

Finance-Risk Management Division

The Finance Risk Management Division is responsible for receiving subrogation payments. The average daily deposit is reported at \$3,500, or a computed annual total of about \$875,000. The division is also responsible for making sure that the appropriate City employees are bonded and that there is a crime policy in place that covers all City employees.

Engineering and Property Management

The Engineering and Property Management Department provides many services to the City but except for cemetery operations only a minimal amount of collections is handled. Cemetery services generate revenues from operating and maintaining six cemeteries around the City. All plots and amenities can be purchased at the Evergreen location. During FY13, the department received a reported \$408,790.

Charlotte Mecklenburg Police Department-Property Room

The Charlotte Mecklenburg Police Department (CMPD) Property and Evidence Bureau collects cash that is related to a criminal incident or found property. The average daily amount ranges from \$500 to \$1,000. Each piece of property and evidence is monitored through the Property and Laboratory Information System (PLIMS) which tracks the location and detailed chain of custody for each item. This system provides the inventory controls surrounding property and evidence. Property and Evidence received a reported \$374,227 and had 942 transactions during FY13.

Charlotte Department of Transportation-General

The Charlotte Department of Transportation offices at Charlotte Mecklenburg Government Center, and outlying offices such as the Street Maintenance Division, receive various types of revenue in a variety of forms. Cash, checks, money orders and credit cards are accepted for municipal agreements, parade permits, outdoor dining, abandonments and encroachments to name a few. The daily average varies due to the diversity of the collections. There were a reported 213 transactions and \$171,843 received during FY13.

Aviation-Operations/Security

The Operations/Security Division receives a small amount of collections averaging \$100 daily from replacement security badges. During FY13 a reported \$20,731 was received.

Solid Waste Services

Solid Waste Services has no regular collections. Occasionally checks are received that should have been sent directly to revenue. A reported total of \$17,530 was received in FY13.

Fire Department-Administration

The Fire Department's General Division receives small collections in the form of cash or money order. No credit cards are accepted. These collections pertain to donations. There are instances where large grant checks are received at this location. There were a reported 80 transactions and \$15,280 received in the general division in FY13.

Neighborhood and Business Services

Neighborhood and Business Services only receives checks. These checks are for refunds, grant receipts and loan payments. The amount varies from day to day. There may be a span of months before any collections are received due to the nature of their business. Neighborhood and Business Services works with grants to provide affordable housing and revitalizing neighborhoods around the City. There were a reported 34 transactions and \$5,450 received in FY13.

Charlotte Mecklenburg Police Department-Records

The Charlotte Mecklenburg Police Department (CMPD) Records Division has very little activity. Most of these collections are in the form of checks from outside companies who need copies of arrest records. During FY13, the Records Division received a reported \$2,063.