



**Audit Report
Cash Collections Follow-Up
August 25, 2015**

**City Auditor's Office
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Purpose and Scope

The purpose of this audit was to follow-up the Audit report dated October 2, 2014 concerning a review of internal controls over the City's cash collection sites. In that report, Internal Audit made several recommendations to strengthen internal controls. This follow-up considered the adequacy of steps taken to implement the recommendations.

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

The City's cash collection policies and procedures are satisfactory and continue to improve. Revenue staff has made progress toward implementing previous audit recommendations. The Finance Office/Revenue Division has a plan to continue implementation of collection control improvements. The City's Cash Collection Policy and Billing, Collection and Deposit Policy provide the Chief Financial Officer the authority to more aggressively enforce collection procedures and necessary controls.

Summary Recommendations and Actions

In the October 2014 report, Internal Audit provided three recommendations to improve internal controls over the City's cash collection activities at decentralized sites. The recommendations presented, and actions taken, follow:

1. Establish a matrix of controls and procedures applicable to the varying activity at collection sites. Consider a reduction or consolidation of low activity level collection sites. Expansion of electronic depositing should also be considered.
 - Data has been gathered City-wide on collection site controls and a detailed matrix was created. Control recommendations have been made and implemented across some collection sites. Revenue continues to work with department

- representatives to select and implement the most important controls consistently across the City.
- Finance is conducting a pilot for electronic depositing. The possible reduction of collection sites continues to be studied.
2. Address late-deposited customer checks in various City departments.
- Revenue has increased its monitoring efforts and worked with auditors to follow-up indicators of non-compliance with several departments.
 - Most checks identified from the increased monitoring were found to be in compliance with State statute and City policy.
3. Maintain a record of Fiscal Control Officers (FCOs) responsible for cash collections in each City department as well as all collection sites; identify a regular (e.g., daily or weekly) reporting method for sites which normally have significant collections.
- Revenue has hired a Revenue Compliance Officer to help ensure City-wide compliance of controls and procedures related to cash handling.
 - Revenue staff plans to send out a memorandum each fiscal year end requesting all departments update their FCO list and site list City-wide.
 - Revenue has in place a daily review process to track expected deposits.

Background

An audit was performed during 2014 examining the City's collection sites, with the results contained in a report issued October 2, 2014. The audit was initiated to respond to both:

- An embezzlement of cash funds related to CATS' fare evasion fine collections at the City's Park It office, and
- A recommendation by the City's external auditors for increased monitoring of cash collection activities to ensure internal controls are properly designed and operating effectively.

During the 2014 audit, 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.

Internal Audit provided recommendations to improve internal controls related to cash collections. Revenue's response to the initial audit report included actions to be taken by calendar year-end (December 31, 2014) as well as fiscal year-end (June 30, 2015).

Audit Findings and Recommendations

1. City-wide cash collection controls; site consolidation; and electronic collections

Original Recommendation: Establish a matrix of controls and procedures applicable to the varying activity at collection sites. Consider a reduction or consolidation of low activity level collection sites. Expansion of electronic depositing should also be considered.

Current Assessment: Two City policies provide important direction related to cash collections and related internal controls. A few excerpts follow:

- **Cash Collection Policy (FIN 1)**
 - Objective: Provide Departments with a cash collection policy to set forth standardized procedures for collection sites to ensure sound internal controls and legal compliance for the City.
 - Responsibilities and References (#2): The Finance/Assistant Revenue Manager shall serve as the reference and source for all collection procedures.
- **Billing, Collection and Deposit Policy (FIN 12)**
 - Revenue Collection (#1): The Finance Revenue Division is the centralized collection point for all City Funds.
 - (#2): Decentralized locations, having business requirements that make it impractical to use the Revenue Division, may collect revenue if authorized by the Chief Financial Officer.
 - (#3): Collections made by decentralized locations should be performed using procedures that have been approved by the Chief Financial Officer.

Progress has been made toward implementing previous audit recommendations. The Revenue Division has a plan to continue implementation of collection control improvements.

Data has been gathered City-wide on collection site controls and a detailed matrix was created. Control recommendations have been made and implemented across some collection sites. Revenue plans to continue working with department representatives to select and implement the most important controls consistently across the City.

To facilitate a City-wide evaluation, Revenue created a controls matrix based on current cash collection sites and activity levels. The matrix was circulated through the Department FCOs and recommendations were made. During the follow-up, Revenue identified one collection site (Fire Prevention) that could be consolidated into the main site (Fire Administration) once all Fire activities were relocated to the new Fire Headquarters (February 2015).

Revenue began some exploratory work into the requirements needed for electronic deposit options at satellite locations around the City, as well as expanding online payment options for some transaction types. Police's Animal Control Division, for example, is in the process of developing a payment portal that will allow online payments and reduce the cash collection activity on site. Allowing for online payments will reduce the risk of violating State Statute and City policy, as payments received electronically would be settled daily.

Actions Taken: During the collection of data and as a result of interaction between Revenue and Department FCOs, some control improvements were implemented during the follow-up audit. For example, the use of locked bags for transport of cash and checks was initiated at five locations (and completed at three of these). Additional recommendations for improved controls have been made by Revenue staff.

Recommendation

The collection site controls matrix completed by Finance staff in January 2015 should be regularly updated and used to evaluate the level of controls appropriate based on collection site activity. While it is Finance/Revenue's responsibility (per City Policy FIN 1) to determine the required controls at each location, Audit notes Aviation Parking as an outlier among City locations for high cash revenues and no security cameras – and therefore, this location is strongly encouraged to be considered for upgraded controls, including cameras. Revenue should continue to research alternatives and consider reducing the number of cash collection sites throughout the City, as well as the electronic depositing options for satellite locations and online payment options City-wide.

Finance Response: The Billing Collection and Deposit policy allows Departments to determine where/how billing, collecting, and depositing is done for a particular service they provide (i.e., in the Department, in Finance, or with an outsourced vendor), in order to allow flexibility to align their practices with the business environment and customer expectations (within existing policy parameters and options). Once the Department has determined the desired approach, it is then communicated to Finance to assist with establishing the appropriate procedures and controls. In summary, the current Citywide Billing Collection and Deposit policy allows for decentralized cash handling locations when procedures and controls are implemented and followed; and business or customer service requirements make it impractical or undesirable to use the Revenue Division.

Revenue will continue using the controls matrix to evaluate compliance with collection policies, procedures and controls. Since the City's internal controls over cash collections is a shared responsibility among Revenue, Department Heads and Internal Audit, the Revenue Compliance Officer will work with the departments and Internal Audit to help ensure citywide compliance. The Revenue Compliance Officer will also educate departments on the City's cash handling policies.

Effective September 2015, Fire cash collections will be consolidated with the Revenue Division. Online credit card processing was implemented for Fire in August 2015. In addition, Revenue will assume cash collection activities for the new invoicing of Solid Waste Small Business Garbage fees in September 2015.

The locked bank bags for transport of cash and checks were initiated and completed at all five locations by June 2015.

The Revenue Compliance Officer will work with Aviation to upgrade controls including cameras as we previously recommended in the controls matrix.

Over the next fiscal year, the Revenue Compliance Officer will collaborate with internal auditors to recommend collection sites that have the potential to be consolidated and determine necessary staffing resources. The Revenue Compliance Officer will visit the most active collection sites and work with Fiscal Control Officers to assess their cash collection needs and business requirements. Revenue's annual memo to Department Directors will request validation of the designated Fiscal Control Officers and Cash Collection Sites; and also ask for assistance to identify sites that can be consolidated, without having a significant impact upon customer service.

Revenue has engaged the City's banking services provider to set up a pilot for electronic deposit, and will continue collaborating with departments to expand payment channels.

2. Most checks are being deposited timely.

Check dating is controlled by the sender and stale dates do not necessarily indicate slow processing by City employees. However, Internal Audit asked Revenue to increase its tracking of older checks deposited, for the purpose of allowing a more thorough review of City department processing.

During the period September 2014 through December 2014, Revenue tracked all deposits of checks dated 15 or more days prior to the deposit. For January 2015 and February 2015, Revenue tracked deposits that were seven days or older than the check date. During the entire five-month follow up period, Revenue identified 503 deposits totaling approximately \$991,000 (less than 1% of total deposits during this time period) classified by the above criteria. Auditors then met with departments to discuss the checks identified for review.

Most of the checks that were considered stale (and potentially deposited late) by the criteria above were due to senders pre-dating a check, and remitting at a later date. Other than the instances discussed below, audit staff determined that the checks were being deposited timely.

- **Charlotte Department of Transportation (CDOT)** - On the September 2014 late check report, CDOT appeared 13 times with checks totaling \$171,624. Audit staff followed-up with CDOT and determined that some of the collection sites were holding checks until they received a substantial amount to deposit. Internal Audit advised that State Statute and City policy require daily deposits for any monies received. CDOT management sent an email to all staff that handles cash or checks within the department explaining the daily deposit requirement. CDOT staff committed to adhering to the deposit requirements, and other than five instances over a five day period in January 2015, there have been no other reported issues with late deposits.
- **Fire (CFD)** - Auditors noted that the Fire Prevention office had numerous checks appear on Revenue's tracking report (prepared to facilitate auditors' review during the period October 2014 to February 2015). After a meeting with Fire Prevention staff in October 2014, auditors determined that checks associated with missing or incomplete documentation (for permits or hydrant tests) were returned to the address listed on the check instead of being deposited into a miscellaneous revenue account until documentation requirements were satisfied. This procedure was the source of 177 of the 178 checks, totaling \$42,272, identified during the follow-up period. (Note: all 178 checks were deposited and therefore, no revenues were lost.) Internal Audit met with Fire Administration in January 2015 to discuss this procedure, and Fire determined that this procedure would be discontinued and all checks received would be deposited instead of being returned. Once proper documentation was received, the money would be moved from a miscellaneous revenue account into the appropriate revenue account.
- **Neighborhood & Business Services (N&BS)** - There were 10 late checks, totaling \$3,419, identified by Revenue during the follow-up period. Auditors followed up in October 2014 with N&BS and determined that all of the late checks were related to real estate closings through the House Charlotte program. Although the checks received in N&BS are dated as of the closing; the checks usually are not received until weeks later. N&BS began using a date received stamp in order to allow Revenue to accurately determine whether checks are deposited timely, eliminating most checks from the follow-up report.

Conclusion: Internal Audit and Revenue staff worked together over several months to perform detailed reviews of potentially late deposits. The majority of checks reviewed for possible noncompliant handling were found to have been received with a stale date. A few individuals were instructed to follow the existing policies more stringently. The Revenue Division is establishing a new position which will allow continuing follow-ups of possible late deposits, and Internal Audit is satisfied with the overall high compliance rates that have been established.

3. **Revenue should continue to monitor cash collection activities.**

In response to the initial audit report, in June 2015 and all subsequent years, Revenue plans to send out a memorandum requesting all departments confirm their FCO and FCO designees, as well as updating their listing of cash collection sites. Maintaining these listings is critical as Revenue communicates with FCOs and monitors collection site activity. Revenue created and began using a daily deposit checklist to assist in tracking recurring deposits. This checklist allows Revenue to follow up with cash collection sites with deposits that haven't been submitted in a timely manner.

Actions Taken: Revenue has hired a Revenue Compliance Officer (RCO) to ensure City-wide compliance of controls and procedures related to cash handling as well as give Revenue Management assurance that cash collection activities are in compliance with State Statute and City policy. The position was filled in July 2015.

Conclusion: The Revenue Division has established an improved process of working with all departmental Fiscal Control Officers. Finance's revenue staff has an adequate plan to address our prior recommendations.