



**Audit Report
Cash Collections FY17
August 18, 2017**

**City Auditor's Office
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Purpose and Scope

The purpose of this audit was to determine whether departments have established effective controls over cash collections and whether City-wide collection activities are adequately monitored. To support the maintenance of strong controls, Internal Audit performed unannounced audits of several cash collections sites throughout the City. This report summarizes the findings from those individual efforts.

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 are strong and departmental compliance is high. The Finance's Revenue Division has monitored cash collections satisfactorily.

Summary of Findings

The following findings are detailed, beginning on page 3:

1. Revenue has effectively monitored cash collection activities.
2. The Charlotte Fire Department identified non-compliance and took appropriate actions to improve controls.
3. Departments should ensure proper recording of check receipt dates.

Background

Cash Collection activities are governed by North Carolina General Statute 159-32 and City policy MFS 1 (revised version effective November 28, 2016). MFS 1 policy is administered by the Finance Department and its Revenue Division. 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. The City's Billing,

Collection and Deposit policy (MFS 12) also reinforces the daily deposit of collected funds. The City has 29 cash collections sites with different activity levels. The sites below represent the FY17 collections of cash and checks ranging from \$1 million to \$145.9 million.

\$145.9 million	Finance – CMGC
\$76.0 million	Aviation
\$30.0 million	Charlotte Water – New Services
\$13.0 million	Engineering and Property Management – Land Development
\$11.0 million	CATS Bus & Light Rail Treasury Room
\$4.0 million	Neighborhood & Business Services
\$3.6 million	Finance – West Service Center
\$2.7 million	Finance – Risk Management Division
\$2.0 million	CATS Charlotte Transit Center
\$1.7 million	Charlotte Department of Transportation – Administration
\$1.5 million	Fire Department – Fire Prevention
\$1.2 million	Finance – Old City Hall
\$1.0 million	Charlotte Mecklenburg Police Department – Property Room

During a 2013 audit of contractor Central Parking System, a contract employee's embezzlement of cash funds related to CATS' fare evasion fine collections was discovered. The City's external auditor recommended increasing the monitoring of cash collection activities throughout the City to ensure internal controls were properly designed and operating effectively. Internal Audit has supported the improved controls implemented by the Revenue Division, and has conducted several unannounced site visits each year since 2015.

Summary of Prior Year Actions Taken

In the prior audit reports (October 2, 2014, August 25, 2015 and August 25, 2016), Internal Audit provided recommendations to improve internal controls over the City's cash collection activities. The Revenue Division made enhancements that implemented key changes to the cash collection processes, including the following.

- Matrix of collection sites created and regularly evaluated
- Addition of Revenue Compliance Officer position
- Verification of Fiscal Control Officers yearly
- Revision of cash collection policies and procedures
- Institution of Cashier variance policy
- Consolidation of collection sites
- Streamlined collection process with desktop depositing
- Implementation of quarterly review of checks with dates older than 15 days
- Installation of cameras at various locations
- Locked bank bags added for security

Audit Findings and Recommendations – 2017

1. Revenue has effectively monitored cash collection activities.

During FY17, audit staff visited nine cash collection sites throughout the City. Each was unannounced and the Department Director was notified of the audit as it was in progress. Following each review, auditors prepared a memo that was sent to the Department Director as well as Management & Financial Services detailing observations and any recommended actions. Auditors concluded that the Revenue staff continues to effectively monitor the City's cash collections.

2. The Charlotte Fire Department identified non-compliance and took appropriate actions to improve controls.

In December 2016, the Charlotte Fire Department (CFD) notified auditors that six checks (ranging from \$1 to \$2,658 and totaling \$4,493) were not deposited according to policy. The checks had been received between August and December 2016. The employee responsible for processing deposits had set aside – and then misplaced – the checks while awaiting additional documentation. The checks were found and deposited in January 2017.

Actions Taken: Charlotte Fire Department deposited the checks and new procedures were implemented to reduce the possibility of non-compliance in the future. Auditors re-visited the site to verify that the new procedures were in place and working appropriately. The new procedures are listed below:

- Mail is opened by an employee in the CFD Finance Division
- Checks are date stamped and logged into a shared database
- Checks are given to an employee in Fire Prevention by 3:00 pm daily
- Checks are deposited daily between 3:00 and 4:00 pm
- The shared database is updated with deposit information

In addition, permits and renewals fees for CFD are now processed by Revenue. On July 1, 2017, Accounts Receivable started processing state-mandated fees for the department, reducing the number of checks received in-house.

3. Departments should ensure proper recording of check receipt dates.

Daily collections of cash, checks, money orders and credit card payments are required to be deposited within 24 hours of receipt per City policy and NC General Statute 159.

Collection sites receive checks that may be dated several days prior to deposit date. Check dating is controlled by the sender and older dates do not necessarily indicate slow processing by City employees. Revenue staff conducts quarterly reviews of

checks deposited and inquire with collection sites when the check date is 15 or more days prior to the deposit date. No issues with check receipt dates were noted during the unannounced audits.

Revenue has advised collections sites to document the date that checks are received, to provide documentation that older checks were not held within the departments. Collection sites can either date stamp checks or keep a log to verify deposits were made within 24 hours of receipt. During FY17, Revenue reviewed 2,535 checks for timely processing and verification of receipt date. Five collection sites had 100 (4%) checks with dates older than 15 days that were not date stamped or logged in. A summary of the collection sites are listed below:

Collection Sites	Number of Checks Reviewed	Non Date-Stamped or Logged Checks
Charlotte Water-New Services	1,376	82
Fire Admin/Prevention	497	8
Cemeteries	151	4
Charlotte Water-Temp Hydrant	84	2
Charlotte Water-Installation & Development Services Fees	81	4
Risk, Animal Control, Charlotte Water-Environmental Services Facility	346	0
Total	2,535	100

Revenue inquired with the Fiscal Control Officers (FCOs) of these departments. The departments acknowledged that they were aware of the requirement to log or date stamp the checks.

Recommendation: Revenue should continue to monitor check receipt dates and reiterate the importance of timely deposits to Department Directors and FCOs.

Management & Financial Services Response: Revenue will send an email to all FCOs and Department Heads advising that date stamping or logging checks when received is recommended as a best practice. Revenue will include Department Heads, Internal Audit and FCOs in notifications of check issues such as timely processing when discovered during routine monitoring of collections.