



**Audit Report
Cash Collections FY18
July 31, 2018**

**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 processes continue to improve. Revenue has established controls to reduce risks and increase efficiencies.

Summary of Findings

The following findings are detailed, beginning on page 2:

1. Revenue has automated the majority of cash collection activities.
2. Compliance with date stamping procedures by decentralized collection sites needs to improve; this best practice recommendation should be a policy requirement.
3. To verify decentralized collection sites' compliance with control procedures, Revenue should document site visits.

Background

Cash Collection activities are governed by North Carolina General Statute 159-32 and City policy MFS 1 (revised version effective November 28, 2016). The MFS policy is administered by the Finance Office 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 NC General Statute and the City policy require that collection of cash, checks, money orders and credit cards be deposited within 24 hours of receipt.

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.

The City has 28 active cash collections sites with different activity levels. Collections are steadily increasing. During FY18, collections of cash and checks totaled \$330 million in comparison to \$300 million in FY17. The 15 sites below represent the FY18 collections of cash and checks greater than \$1 million (and aggregating over \$317 million). The CATS Bus and Light Rail Treasury Room is the only collection site in this group which does not utilize desktop depositing, as it does not process any checks.

Collections	Location
\$136.3 million	Finance – CMGC
\$87.7 million	Aviation
\$42.8 million	Charlotte Water – New Services
\$14.0 million	Engineering and Property Management – Land Development
\$10.5 million	Finance – Risk Management Division
\$10.2 million	CATS Bus and Light Rail Treasury Room
\$5.9 million	Charlotte Water – Environmental Services Facility
\$4.5 million	Charlotte Department of Transportation – Administration
\$4.0 million	Finance – West Service Center
\$2.5 million	Fire Department – Fire Prevention
\$1.8 million	CATS Charlotte Transit Center
\$1.8 million	Charlotte Water – Installation and Development Services
\$1.6 million	Planning Department
\$1.3 million	Charlotte Mecklenburg Police Department – Finance Management
\$1.2 million	Fire Department – Administration

Audit Findings and Recommendations

1. Revenue has automated the majority of cash collection activities.

Revenue led efforts to automate cash collections with the implementation of desktop depositing and the development of online payment solutions. Desktop depositing is now being utilized by 23 of the 28 active collection sites within the City. Revenue is working with the remaining sites to determine feasibility.

During FY18, audit staff visited five cash collection sites. 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 recommended actions. Four of the sites were utilizing desktop depositing.

2. Compliance with date-stamping procedures by decentralized collection sites needs to improve; this best practice recommendation should be a policy requirement.

Since decentralized collection sites receive checks that may be dated several days prior to deposit date, it is important to document when checks are received. As a best practice, Revenue has recommended that collection sites either date stamp checks or keep a log to verify deposits were made within 24 hours of receipt. During the unannounced audits, the following exceptions were noted:

- A tested deposit in the Planning Department had several checks that were not date stamped.
- Checks in CDOT Park It! are handled by a third party vendor, Republic Parking. The vendor has not followed the standard approach of date-stamping checks. It was recommended that Charlotte Department of Transportation (CDOT) instruct Republic to implement this procedure.

Revenue staff conduct many reviews to determine compliance with its recommended date-stamping procedure. Quarterly samples are reviewed to determine whether any checks are dated 15 or more days prior to deposit. During this testing, Revenue notes whether checks have been date-stamped, and follows up with the Fiscal Control Officers (FCSs) and staff of these departments.

During FY18, Revenue reviewed 4,162 of 15,485 (27%) of checks deposited. Eight collection sites had 154 (4%) checks with dates older than 15 days prior to deposit, which had not been date-stamped or logged in. The majority of these exceptions were attributed to one collection site, as detailed following.

Collection Sites	Number of Checks Reviewed	Number of Checks Not Stamped or Logged
Charlotte Water – New Services	961	128
CATS – Transit Center	406	4
Cemeteries	141	3
Charlotte Mecklenburg Police Department – Financial Management	129	1
Charlotte Water – Temp Hydrant	88	1
CDOT– Administration	83	1
Planning	77	14
Housing and Neighborhood Services	52	2
Other Collection Sites (11)	2,225	0
Total	4,162	154

Recommendation: Revenue should continue to monitor check receipt dates and implement a plan of action with Department Directors and FCOs for departments that have not followed best practice recommendations. The recommendation should be required by policy. Charlotte Water should be specifically addressed.

Management & Financial Services Response: Revenue will continue to monitor check dates and notify Department Directors and FCOs for departments depositing older checks without documenting timely processing of receipts. Revenue will offer assistance to Charlotte Water – New Services for process and procedure changes needed to address that checks are date-stamped upon receipt. Revenue will begin monthly instead of quarterly monitoring of Charlotte Water – New Services’ check deposits and notify the Charlotte Water Director, Charlotte Water FCO and Internal Audit of ongoing issues until improvement in documenting timely processing of receipts with date stamping is achieved.

Note: Internal Audit accepts these efforts as an effective response to our observations, and will encourage the adoption of the policy change noted above.

3. To verify decentralized collection sites’ compliance with control procedures, Revenue should document site visits.

Revenue added a Revenue Compliance Officer (RCO) position in FY16. The RCO has established positive relationships with City departments and made improvements to controls since the position was created. Audit staff collaborates with the RCO on new cash collection processes and procedures. Given the number of active cash collection sites and the amounts of revenue received, it is important to ensure that all locations are compliant with State Statutes and City policies. Documenting the site

visits performed by the RCO will verify that controls and processes are in compliance.

Recommendation: Revenue should document the cash collections site visits and continue to coordinate efforts with Internal Audit as a way to improve compliance.

Management & Financial Services Response: The Revenue Compliance Officer (RCO) will continue to conduct site visits and coordinate efforts with Internal Audit. Any changes to controls and procedures noted at these sites will be reflected in the Control Matrix created as a result of the October 2014 Cash Collections Audit Report. The RCO will continue to share work product with Internal Audit upon request, including site visit reports.

The RCO has developed processes allowing for remote monitoring of daily deposits at the cash vault and quarterly evaluation of remote deposit of checks. Monitoring remotely improves efficiency without compromising the integrity of the review.

Note: Internal Audit supports these efforts, and asks that the RCO provide documentation of these visits and process changes throughout the year. This will allow auditors to evaluate controls and improvements as they occur.