



Revenue Collections FY 2019



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Revenue Collections FY 2019 Audit

Executive Summary

Purpose

Determine whether departments have established effective controls over revenue collections and whether citywide collection activities are adequately monitored.

Background

Cash Collection activities are governed by North Carolina General Statute and City policies. The relevant policies are administered by the Revenue Division of the Finance Department (Revenue). Both the NC General Statute and City policies require that collection of monies be deposited within 24 hours of receipt.

The City has 28 active cash collections sites and 31 merchant accounts accepting credit card payments, each with different activity levels. During FY 2019 and FY 2018, collections of cash and checks totaled \$348 million and \$330 million, respectfully.

Conclusion

Revenue has established adequate controls to reduce risks and increase efficiencies. However, departments occasionally hold deposits longer than allowed.

Highlights

1. Revenue's monitoring controls are adequately designed and operating effectively.

- Revenue added the Revenue Compliance Officer (RCO) position in 2016. Since the position was created, the RCO has made improvements to controls and collaborates with Audit staff regarding new processes and procedures.
- The RCO serves as an effective monitoring control for other departments' cash and revenue collection activities.

2. Departments should deposit all monies within the 24-hour statutory timeframe.

- State law (NCGS 159-32) and City policy (MFS 1) both require checks to be deposited within 24 hours of receipt.
- The RCO found an improvement in the timeliness of deposits during FY 2019's quarterly reviews. However, the 4th quarter review identified the following departments as occasionally noncompliant:
 - Charlotte Water, the Charlotte Fire Department, and the Charlotte Department of Transportation.

Recommendation

Departments should ensure all checks are deposited within the 24-hour statutory requirement.

Actions Planned

Finance has added the best practice of recording date of receipt on all checks as a requirement in the Cash Receipts and Accounts Receivable Procedures Guide referenced in the new FIN-12 Cash Receipts and Accounts Receivable Policy.

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Background

Cash Collection activities are governed by North Carolina General Statute 159-32 and the City's Cash Collection Policy (MFS 1). The policy is administered by the Revenue Division of the Finance Department (Revenue). The NC General Statute and the City policy both require that collection of monies be deposited within 24 hours of receipt. The policy further outlines the need for each department's Fiscal Control Officer (FCO), or designee, to submit documents supporting each deposit to the Revenue Division Central Cashier. The City's Billing, Collection, and Deposit policy (MFS 12) also reinforces the daily deposit of collected funds. City policies MFS 1 and MFS 12 have been superseded by FIN 1 and FIN 12; the effective date for each revised policy is July 1, 2019 (after this audit period).

The City has 28 active cash collections sites and 31 merchant accounts accepting credit card payments, each with different activity levels. Collections are steadily increasing. During FY 2019 and FY 2018, collections of cash and checks totaled \$348 million and \$330 million, respectively. Credit card revenue has decreased from \$120 million in FY 2018 to \$79 million in FY 2019 (see footnote for explanation). Per Finance, in FY 2019 there were 6,314 deposits made electronically via remote deposit capture and 7,289 deposits made via armored car. Internal Audit has conducted several unannounced site visits each year since 2015. The various collection locations have been grouped together by department in the following chart.

Department	FY 2019			FY 2018		
	Cash/Check	Credit	Total	Cash/Check	Credit	Total
Finance¹	\$156 M	\$9 M	\$165 M	\$151 M	\$52 M	\$203 M
Aviation	105 M	60 M	165 M	88 M	59 M	146 M
CLTWater	47 M	-	47 M	51 M	1 M	52 M
CATS	11 M	7 M	18 M	12 M	5 M	18 M
E&PM	11 M	<1 M	11 M	14 M	<1 M	15 M
6 departments (each <\$10m)	18 M	2 M	21 M	14 M	2 M	16 M
	\$348 M	\$79 M	\$427 M	\$330 M	\$120 M	\$450 M

¹ The decrease in credit card collections is due to utility payments being migrated to a 3rd party processor (and tracked elsewhere). The \$9M shown is for two months, or \$53M annualized.

Objective

To determine whether departments have established effective controls over revenue collections and whether citywide collection activities are adequately monitored.

Scope, Methodology, and Compliance

Scope

The audit covered cash and credit card collections during FY 2019.

Methodology

Audit staff performed the following procedures to accomplish the audit objectives:

1. Conducted unannounced site visits of seven collection locations throughout the City
 - These visits included interviews, process walkthroughs, and tracing a sample of daily deposits to the General Ledger
2. Reperformed selected Revenue Control Officer duties/controls
3. Obtained third-party credit card control documentation

Compliance

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.

Findings and Recommendations

1. Revenue's monitoring controls are adequately designed and operating effectively.

Revenue added the Revenue Compliance Officer (RCO) position in FY 2016. The RCO maintains relationships with other departments' revenue collection staff. Since the position was created, the RCO has made improvements to controls and collaborates with Audit staff regarding implementing new processes and procedures.

The RCO serves as an effective monitoring control for other departments' cash and revenue collection activities. This position has many monitoring activities performed at various intervals. Some are completed daily, others monthly, and some quarterly and annually. These tasks serve to ensure departments' revenue collection activities adhere to City policies. Audit testing confirmed that these controls are operating effectively.

Additionally, Finance's E-business team works with the Information and Technology Department (I&T) and other departments to ensure the City is compliant with the Payment Card Industry Data Security Standard (PCI DSS).

2. Departments should deposit all monies within the 24-hour statutory timeframe.

State law (NCGS 159-32) and City policy (MFS 1, section 1F) both require checks to be deposited within 24 hours of receipt. One of the RCO's monitoring controls is performing a review of desktop deposits each quarter. This consists of sampling deposits and viewing the check images for each sampled item. The RCO looks for a "date received" stamp or mark and compares that date to the deposit date.

During FY 2019, the RCO reported 14 desktop locations with deposited checks outside of the required 24-hour window. Though multiple locations improved over the course of the year, the RCO's 4th Quarter review of a sample of check images identified multiple checks with no "received on" date stamp, and others stamped with a receipt date greater than 24 hours before the deposit date. This most recent review detailed the following departments with occasional noncompliance: Charlotte Water, the Charlotte Fire Department (Fire), and the Charlotte Department of Transportation (CDOT).

Additionally, Internal Audit conducted a site visit of the Charlotte Water-New Services collection location on May 21, 2019. There were four checks identified which had been received more than 24 hours before the deposit date. Per Charlotte Water, checks are sometimes held for a day or two to research a variety of issues that could result in a payment getting posted to the wrong account (e.g., address issues and extension/encroachment approval).

Recommendation: Departments should ensure all checks are deposited within the 24-hour requirement.

Value Added: Compliance

Charlotte Water Response: Charlotte Water agrees with the FY 2019 Revenue Collections Audit report recommendation that all checks should be deposited within 24 hours. To meet this requirement, Charlotte Water will conduct refresher training with New Services staff about check handling and depositing procedures. In situations where a payment requires research which cannot be satisfactorily completed in the 24-hour period, Charlotte Water will establish the customer account and apply the payment. If the payment needs to be corrected as a result of additional information or research, staff will follow the prevailing procedures associated with the customer account system to correct the payment. Process changes to improve upon the time necessary to validate checks will be explored in the coming weeks.

Fire Response: Fire concurs. The Budget Manager is responsible for ensuring all checks are deposited timely. All employees responsible for depositing checks have been given a copy of the City policy and will be monitored to ensure compliance.

CDOT Response: CDOT agrees. Following a holiday, the check was held an extra day due to staff absence. CDOT will take steps to ensure checks are deposited within 24 hours of receipt.

Finance Response: Finance has added the best practice of recording date of receipt on all checks as a requirement in the Cash Receipts and Accounts Receivable Procedures Guide referenced in the new FIN-12 Cash Receipts and Accounts Receivable Policy. The FIN-12 replaced the previous MFS-1 Cash Collections Policy as of July 1, 2019. FIN-12 states “Departments are responsible for complying with the Cash Receipts and Accounts Receivable Procedures Guide.”

Conclusion

Revenue has established adequate controls to reduce risks and increase efficiencies. However, departments occasionally hold deposits longer than allowed.

Distribution of Report

This report is intended for the use of the City Manager’s Office, City Council, and all City departments. Following issuance, audit reports are sent to City Council via the Council Memo and subsequently posted to the [Internal Audit website](#).