



Revenue Collections FY 2021



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Revenue Collections FY 2021 Audit

Executive Summary

Objective

This audit was conducted to determine whether departments have maintained effective controls over revenue collections and whether Citywide collection activities are adequately monitored.

Background

Revenue 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 26 active revenue sites and 31 merchant accounts accepting credit card payments, each with different activity levels.

Conclusion

Some revenue controls were not working effectively. The vacant Revenue Compliance Officer (RCO) position and challenges in the current work environment have led to inadequate monitoring of collection activities.

Highlights

1. *Monitoring controls were not adequately performed.*

- Missing deposits were not discovered until Finance's monthly bank reconciliation.
- Minor departmental violations of Finance policies were not discovered. The RCO position is vacant and monitoring is not being performed timely.

2. *A contract for the secure transportation of funds should be executed immediately.*

- Departments are conducting business on a contract that expired August 2020.

3. *Revenue should continue to emphasize compliance with State Statutes and City policies.*

- Prior audit reports have found departments that do not comply. Charlotte Water has been the outlier and continues to be non-compliant.

Recommendations

- 1) The Vacant RCO position should be filled. Until the position can be filled, RCO monitoring activities must be performed by a designee to ensure accurate reporting is occurring. This should include daily reviews to ensure timely deposits are properly delivered from Park-It to the bank.
- 2) A contract should be executed immediately.
- 3) Revenue should continue to monitor check receipt dates and reiterate the importance of timely deposits to Department Directors and Fiscal Control Liaisons (FCLs). Charlotte Water should emphasize to employees, the importance of complying with State Statute and City policy requirements that funds are deposited within 24 hours of receipt.

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Background

Revenue Collection activities are governed by North Carolina General Statute 159-32 and the City's Cash Receipts and Accounts Receivable Policy (FIN 12). The policy is administered by the Revenue Division of the Finance Department (Revenue). The NC General Statute and the City policy both require that monies collected be deposited within 24 hours of receipt. The policy further outlines the need for each department's Fiscal Control Liaison (FCL), or designee, to review and submit documents supporting each deposit to the Revenue Division Central Cashier. Additionally, Finance issued the Financial Internal Control Policy (FIN 1). This policy outlines several standards addressing appropriate control measures that need to be in place.

Another monitoring control was implemented in FY 2016 when Revenue added the Revenue Compliance Officer (RCO) position. One of the RCO's responsibilities is to maintain relationships with other departments' revenue collection staff. The RCO position also performs various monitoring activities and collaborates with staff, Citywide, regarding processes and procedures. As of FY 2020, this position remains vacant, and its responsibilities are shared among three staff members.

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

The City has 26 active revenue collection sites and 31 merchant accounts accepting credit card payments, each with different activity levels. Two revenue collection sites had no collections for the fiscal year due to the Covid-19 closures. During FY 2021 and FY 2020, collections of cash and checks totaled \$241 million and \$308 million, respectively. Credit card revenue has decreased from \$57 million in FY 2020 to \$31 million in FY 2021. Parking revenue at Aviation dropped substantially, and CATS temporarily suspended fares. In addition, two departments previously collecting funds, Old City Hall and the West Service Center, were closed during this time. Per Finance, in FY 2020, there were 5,521 deposits made electronically via remote deposit capture and 4,683 deposits made via armored car. These decreased in FY 2021 to 3,223 deposits made electronically and 3,597 deposits via armored car. The decrease in total revenue and deposits were primarily due to the COVID-19 pandemic and its effects on multiple departments.

Internal Audit has conducted several unannounced site visits each year since 2015. The various collection locations have been grouped by department in the following chart.

Department	FY 2021			FY 2020		
	Cash/Check	FY21 Credit	Total	Cash/Check	FY20 Credit	Total
Finance	\$120 M	\$0 M	\$120 M	\$150 M	\$2 M	\$152 M
Aviation	24 M	26 M	50 M	66 M	46 M	112 M
CLTWater	61 M	0 M	61 M	50 M	0 M	50 M
CATS	5 M	2 M	7 M	8 M	5 M	13 M
General Services	15 M	< 1 M	16 M	17 M	1 M	18 M
Six departments (each <\$10m)	15 M	2 M	17 M	17 M	2 M	19 M
	\$241 M	\$31 M	\$271 M	\$308 M	\$57 M	\$365 M

Objective

This audit was conducted to determine whether departments have maintained 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 2021.

Methodology

To achieve the audit objectives, auditors performed the following:

- Conducted unannounced site visits of four collection locations throughout the City
 - These visits included interviews, process walkthroughs, and tracing a judgmental sample of each sites' daily deposits to the General Ledger
- Reperformed selected Revenue Control Officer duties/controls
- Traced a random sample of daily deposits to the General Ledger from the Revenue Collection Officer Log
- Obtained third-party credit card control documentation
- Reviewed the contract with Brinks due to issues noted within two departments

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. *Monitoring controls were not adequately performed.*

The Revenue Compliance Officer (RCO) has historically been responsible for performing key monitoring activities at various intervals – daily, monthly, quarterly, and annually. These tasks, in collaboration with departmental Fiscal Control Liaisons (FCL's) and designees, serve to ensure departments' revenue collection activities adhere to City policies. During FY 2020, the RCO position was vacated and remains open. Several other Revenue staff members have performed the control responsibilities of this position. The following incidents were noted:

Missing deposits were not discovered until Finance's monthly bank reconciliation.

The RCO's daily Cash Vault monitoring procedures state that Park-It is one of three cash collection locations for which receipts are transported to the Wells Fargo Cash Vault by armored car and should be reviewed daily. See the timeline of events in Figure 1.

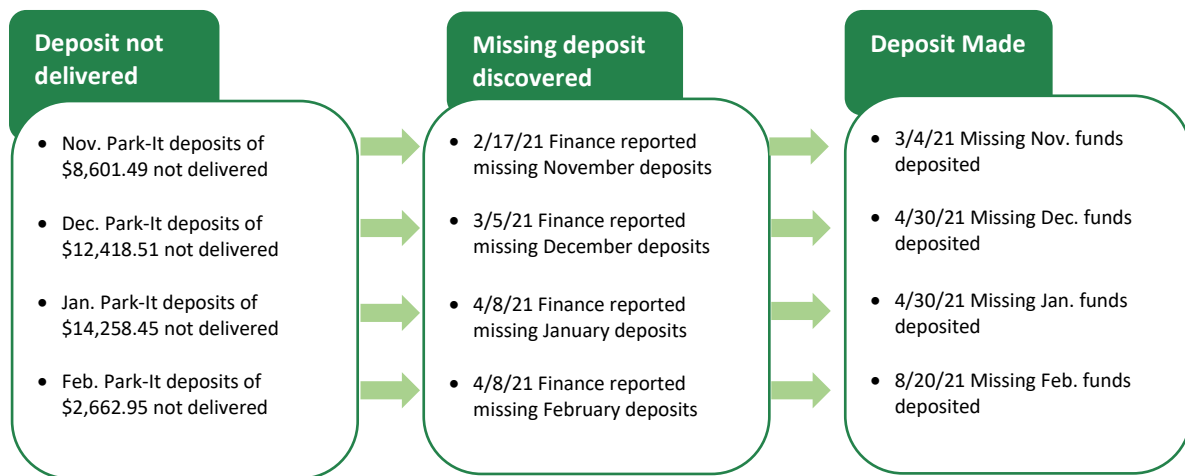


Figure 1: Deposit Delays

After several months of effort among Revenue staff, Brinks, Park-It and Wells Fargo, all missing deposits were located and deposited between March and August 2021. While the bank reconciliation control identified the error, the RCO's monitoring controls could have discovered the error sooner.

Minor departmental violations of Finance policies were not discovered.

Finance has various policies and standard operating procedures designed to monitor accounting transactions adequately and ensure sound internal controls and legal compliance for the City. With the vacant RCO role, these controls do not appear to be operating effectively. Internal Audit noted minor examples of undetected errors that should have been found through routine monitoring:

- The City's Cash Receipts and Accounts Receivable Policy require Finance Revenue to regularly monitor financial transactions across the City. Finance Revenue's internal procedures outline a weekly monitoring process however, this is not performed for all departments. For example, with CATS, Revenue stated their process is to forward discrepancy notices to the CATS finance division, for further research and/or adjustment. Four bank adjustments in CATS indicated less money was delivered to the bank than initially noted by Brinks. One of the four adjustments, totaling \$1000 and dating back to April 2021, has not been cleared. Revenue did not perform adequate follow up procedures to ensure this issue had been resolved.

Recommendation: The Vacant RCO position should be filled. Until the position is filled, RCO designee monitoring activities must be performed at designated times to ensure accurate reporting is occurring. This should include daily reviews to ensure timely deposits are properly delivered from Park-It to the bank.

Value Added: Risk Reduction; Compliance

Finance Response: Agree. As of FY 2022, the vacant RCO position has transferred to the Finance Internal Control Division and is in the process to be filled.

CDOT Park-It has a turnkey solution with Republic Parking and uses their subcontract with Brinks rather than the City contract. This agreement is current. CDOT communicated with Finance indicating that when operations were closed due to the pandemic, there were staff shortages and frequent irregularities with Brinks' pick-up schedule. The structure of the subcontracting agreement combined with the issues with Brinks created additional challenges receiving timely deposits and responses from Republic and Brinks. CDOT worked diligently with Finance and Republic to seek answers and resolve issues.

The Department is implementing a refined process to remediate the timing of deposits and discrepancies:

- Each week Brinks will provide validated receipts to Republic Parking Finance staff showing delivery to the bank.
- These receipts will be saved on the Park-It shared drive for future references as needed.
- Designated staff and back-ups will have read only access to the bank dashboard to validate that all FCL confirmations were received and signed by the appropriate department head or designee and verify deposit amounts.
- CDOT will communicate with Finance regarding any deposit discrepancies. CDOT Finance will include required documentation and make correcting journal entries.

2. A contract for the secure transportation of funds should be executed immediately.

In May 2016, the City contracted with Dunbar Armored Inc. (Dunbar) to securely transport cash revenue, deposits, and change-run services to support the daily operations of the City. The contract was used by Aviation, CATS, and Finance, and expired in August 2020.

In August 2019, Brinks Inc. acquired Dunbar and maintained the initial expiration date of August 2020. In July 2020, a fourth amendment was drawn to keep the original contract and extend additional service to CDOT's Park-It or on-street parking program and Aviation's Pay on foot (POF) equipment for one year. This amendment, expiring in August 2021, was never signed by Brinks nor the appropriate City staff.

Brinks proposed an amendment in February 2021 that the City never signed. Since August 2020, there has been no contract in place for Brinks to pick up deposits from the additional areas. Brinks has been doing so based on the original contract and the verbal request to add service locations.

Recommendation: A contract should be executed immediately. The contract should include stricter guidance of what is expected of a courier service including:

- the responsibility of picking up and delivering deposits timely,
- a process to locate missing funds quickly, and
- adequate contacts for issues that arise.

Value Added: Compliance; Risk Reduction

Finance Response: Agree. Finance has been working with City Procurement to extend, amend and bridge the existing revenue collections contracts with Brinks Inc. Please see Procurement response below for further details.

Procurement Response: Agree. City Procurement is responsible for continuing to manage contract negotiations with Brinks Inc. in collaboration with Finance. Over the past 13 months, City Procurement has made numerous attempts to extend, amend, and bridge the existing revenue collections contracts with Brinks Inc. Additionally, City Procurement has resolicited revenue collections services in an attempt to bring other service providers to the table and ensure access to a viable contract, to no avail. Brinks has repeatedly refused to respond and/or accept the city's contractual requirements, taking exception to our standard terms and conditions in whole, requesting the implementation of a Governmental Agreement in lieu of the city's contract. City Legal has advised against the acceptance of the Brinks Governmental Agreement. City Procurement will increase our direct attempts to bring Brinks to the table for additional negotiations and contract completion. At this time and based on the convoluted negotiations with Brinks, along with their unwillingness to comply with City

requirements, we do not expect that a contract will be immediately approved by all parties. An estimated completion date for an available contract is November 2021. It may be necessary for City Procurement, Finance, and Legal to develop alternative strategies to the current approach of providing revenue collections services. Alternative corrective actions may include considering acceptance of the Governmental Agreement in part or whole, continuing to perform due diligence in seeking other available contracts and service providers, and/or direct negotiation with a viable service provider capable of responding to the city needs and accepting proposed terms and conditions.

3. Revenue should continue to emphasize compliance with State Statutes and City policies.

State law (NC General Statute Chapter 159-32) states local governments must deposit any taxes or money received daily. City policy FIN12 assigns the Chief Financial Officer (CFO) the responsibility of maintaining City accounts in accordance with applicable rules and regulations.

Prior audit reports have found departments that do not comply, with Charlotte Water as the outlier. Water has continued to be noncompliant. In December 2020, Finance Revenue notified Internal Audit that Charlotte Water's New Services Division had 141 customer checks, dating back to September 2020. Per Charlotte Water, the delay was due to a supervisor in the office being on leave and having no one assigned as a backup. Policy states that at least one member of staff (or a backup) should be available to deposit checks for funds to be deposited within 24 hours.

Despite the issues with Charlotte Water, Revenue's continued attention given to this issue has led to City-wide non-compliance rates remaining low. The table below shows the number of checks reviewed by Revenue Collections and checks with errors (stale checks).

	Total # of Checks Deposited	# of Checks Reviewed (by Revenue)	Percent	Sampled Checks w/ Errors	% of Sample
Q1	4,491	2674	59.54%	4	0.15%
Q2*	3,896	2050	52.62%	1	0.05%
Q3	3,836	2071	53.99%	2	0.10%
Q4	4,111	2094	50.94%	4	0.19%
	16,334	8,889	54.42%	11	0.12%

*Revenue Collections did not include the 141 checks noted above in this sample

While the number of sample errors remained low, Revenue needs to continue to emphasize the importance of complying with City policy and State law, giving particular attention to Charlotte Water, and any other department which fails to comply with long-standing policies.

Recommendation: Revenue should continue to monitor check receipt dates and reiterate the importance of timely deposits to Department Directors and FCLs. Charlotte Water should emphasize to employees, the importance of complying with State Statute and City policy requirements that funds are deposited within 24 hours of receipt.

Value Added: Risk Reduction; Compliance

Charlotte Water Response: Charlotte Water is responsible for day-to-day compliance with NC General Statute Chapter 159-32 with the Charlotte Water Business Office conducting periodic reviews to assess compliance. Charlotte Water is using a date stamp, is ensuring an employee is always available for cash depositing and will finalize a formal cash collections training curriculum that will be available in MySuccess. All checks will be deposited within 24 hours or a pickup request will be scheduled with the Revenue CMPD officer. If both options are unavailable, we will contact the Finance Revenue Manager for additional guidance.

Finance Response: Agree. Finance will continue to reiterate the importance of timely deposits and will support Charlotte Water's plan for ensuring compliance. There will be continued emphasis on having back-up staff for cash handling functions. Finance will continue to offer our resources to assist with payment application as requested.

Conclusion

Some revenue controls were not working effectively. The vacant RCO position and challenges in the current work environment, have led to inadequate monitoring of collection activities.

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 and subsequently posted to the [Internal Audit website](#).