



# Revenue Collections FY 2022



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# Revenue Collections FY 2022 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 29 merchant accounts accepting credit card payments, each with different activity levels.

### Conclusion

Controls over revenue collections are effective and adequately monitored, except for recording the date when checks are received.

### Highlights

- Revenue monitors city-wide collections throughout the year and has various controls ensuring revenue collections are handled and deposited appropriately.
- The Finance Internal Control Division (ICD) has implemented new controls to monitor citywide revenue collections.
- State statute and city policy both require checks to be deposited within 24 hours of being received for customer satisfaction and fraud control.
  - Date stamping checks when received (or recording the receipt date in a check register) is a required control to ensure the city is complying with the 24-hour state statute.
  - Revenue's quarterly monitoring showed some departments are not consistently performing this control. Internal Audit site visits confirmed this.
  - Due to checks not being consistently stamped when received, Internal Audit continues to be unable to verify that departments are adhering to this requirement.

### Recommendations

- 1) Finance should enforce departments' compliance with State statutes and city policies.

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## Background

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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 explains 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. Finance also issued the Financial Internal Control Policy (FIN 1) which outlines several standards addressing appropriate control measures that need to be in place.

During the pandemic, there was a State of Emergency declared and the state requirement for daily deposits was modified to allow for weekly depositing of receipts. Effective August 15, 2022, NC Executive Order 267 terminated North Carolina's COVID-19 State of Emergency. Daily depositing of all receipts is once again the state mandate as detailed above.

Two Finance divisions, Revenue and Internal Controls, monitor citywide revenue collections. These monitoring activities occur throughout the year.

In FY 2016, Revenue added a Revenue Compliance Officer (RCO) position. The RCO position performed various monitoring activities and collaborated with staff, citywide, regarding processes and procedures. From FY 2020 to FY 2022, this position was vacant, and its responsibilities were shared among three Revenue staff members. Several monitoring-related incidents were noted as part of the [Revenue Collections FY21 Audit Report](#). In FY 2022, Finance created a new Internal Controls Division (ICD). The still-vacant RCO position was transferred to ICD and filled as a Senior Internal Control Associate.

- *The Revenue Division* monitors deposit activity, researches bank adjustments, performs surprise cash counts at collection locations, and samples department deposits for timeliness of depositing in compliance with city policy and state statutes.
- *The Internal Controls Division* monitors bank adjustments, conducts site visits, and reviews site control activities. During the site visits, division staff create detailed process maps and control narratives.

Additionally, 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 29 merchant accounts accepting credit card payments, each with different activity levels. During FY 2022 and FY 2021, collections of cash and checks totaled \$302 million and \$241 million, respectively. Credit card revenue increased to \$85 million in FY 2022 from \$31 million in FY 2021.

Per Finance, in FY 2022, there were 3,907 deposits made electronically via remote deposit capture and 3,946 deposits made via armored car. These increased from 3,223 deposits made electronically and 3,597 deposits via armored car in FY 2021. The increase in total revenue and deposits was primarily due to COVID-19 pandemic restrictions being lifted.

## Objective

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

## Findings and Recommendations

### ***1. Controls over revenue collections are effective and adequately monitored, except for recording the date when checks are received.***

Revenue monitors city-wide collections throughout the year and has various controls ensuring revenue collections are handled and deposited appropriately. In addition to Revenue's controls, the ICD has implemented new controls to monitor citywide revenue collections. An example is periodic site visits. With each visit, ICD creates a process narrative and map. Both are detailed outlines of each department's process(es). The process map provides a useful visual representation of controls and the flow of each site's collection process. These documents allow for easier testing and/or monitoring of critical controls.

Internal Audit has conducted several unannounced site visits each year since 2015. Auditors performed five site visits during FY 2022. These visits included interviews, process walkthroughs, and tracing a judgmental sample of each site's daily deposits to the General Ledger. The departments visited were Aviation Valet, Charlotte Water New Service, Planning Design and Development, CMPD Finance, and Finance-Revenue (Revenue). After each visit, a summary memo was sent to the department FCL and other revenue-related employees. Two follow-up memos included the recommendation that the department should date stamp checks when received and/or maintain a received check register.

Date stamping checks when received (or recording the receipt date in a check register) is a control that is in place to ensure the city is complying with the 24-hour state statute. Revenue's quarterly monitoring showed some desktop deposit locations<sup>1</sup> were not consistently following this procedure. This was confirmed during Internal Audit site visits.

#### **Desktop deposit locations not consistently date stamping checks**

	<b>Quantity (#)</b>	<b>Percent (%) (out of 21 locations)</b>
<b>Q1</b>	10	48%
<b>Q2</b>	10	48%
<b>Q3</b>	9	43%
<b>Q4</b>	8	38%

Departments must adhere to established policies and procedures to support a proper control environment.

<sup>1</sup> Desktop depositing allows staff to scan checks and deposit them without sending the physical check to the bank. Not all collection locations (21 of 26) use desktop depositing.

Prior audit reports have detailed the 24-hour statutory deposit requirement. Due to checks not being consistently stamped when received, Internal Audit continues to be unable to verify that departments are adhering to this requirement. The requirement is a mitigating control for certain fraud risks (e.g., write-off or lapping schemes).

**Recommendation:** Finance should enforce departments' compliance with State statutes and city policies.

**Value Added:** Risk Reduction; Compliance

**Finance Response:** Finance agrees. Revenue and ICD will continue to communicate expectations according to the Cash Receipts and Accounts Receivable policy and procedure guide to the department FCL and senior management such as the department's deputy director. Finance will reach out to all cash collection sites to determine if they use a date-stamp and reinforce this requirement. Finance will share vendor information for departments to purchase date-stamps.

## Conclusion

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Controls over revenue collections are effective and adequately monitored, except for recording the date when checks are received.

## Distribution of Report

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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](#).

## Scope, Methodology, and Compliance

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### Scope

The audit covered cash and credit card collections during FY 2022.

### Methodology

To achieve the audit objectives, auditors performed the following:

- Conducted unannounced site visits of five 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
  - Provided memos to departments summarizing site visit findings
- Reperformed selected Finance 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

### 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.

Government auditing standards require that we determine which internal controls are material to the audit objective(s) and obtain an understanding of those controls. To evaluate internal controls, the City Auditor's Office follows the Committee of Sponsoring Organizations of the Treadway Commission's Internal Control – Integrated Framework (COSO Framework) as included in Standards for Internal Control in the Federal Government (GAO Green Book).

In planning and performing the audit, auditors obtained an understanding of the revenue collection processes and the associated internal controls, assessed the internal control risks, and determined the following internal control components were significant:

- **Control Activities** – The actions management establishes through policies and procedures to achieve objectives and respond to risks
- **Monitoring** – The activities management uses to assess the quality of performance over time

Internal control deficiencies that are significant within the context of this audit's objective(s) are stated in the Findings and Recommendations section of this report.