



**Mecklenburg County  
Department of Internal Audit**

Office of the Tax Collector  
Cash Collections Audit Report 1370

June 9, 2014

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**Internal Audit's  
Mission**

Through open communication, professionalism, expertise, and trust, Internal Audit assists executive management and the Audit Review Committee in accomplishing the Board's objectives by bringing a systematic and disciplined approach to evaluate the effectiveness of the County's risk management, control, and governance processes in the delivery of services.

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**Staff  
Acknowledgements**

Eric Davis, CIA, CRMA, Auditor-In-Charge

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## MECKLENBURG COUNTY Department of Internal Audit

**To:** Neal Dixon, Tax Collector, Office of the Tax Collector  
Wanda Reeves, Director, Financial Services Department

**From:** Joanne Whitmore, Director, Department of Internal Audit

**Date:** June 9, 2014

**Subject:** Office of the Tax Collector Cash Collections Audit Report 1370

The Department of Internal Audit has completed its audit of the Office of the Tax Collector to determine whether internal controls over cash collections effectively manage key business risks inherent to the activity. Internal Audit interviewed key personnel; evaluated policies and procedures and other documents; and tested various cash collection activities from Jan 1, 2010 through December 31, 2012. Cash collection activities of Business Tax Collections, a business unit of the Tax Collector, were not included in this review.

This audit was conducted in conformance with The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing. These 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.

### **OVERALL EVALUATION**

Overall, key risks inherent to cash collections were managed to an acceptable level; however, opportunities exist to improve the design and operation of some control activities.

During the audit, we noted the Office of the Tax Collector followed Financial Services' policies and procedures to document management's authorization of staff with access to cash drawers and safes.

**RISK OBSERVATION SUMMARY**

The table below summarizes the risk observations identified during the course of the audit, grouped by the associated risk factor and defined in Appendix A. The criticality or significance of each risk factor, as well as Internal Audit’s assessment of the design and operation of key controls to effectively mitigate the risks, are indicated by the color codes described in Appendix B.

RISK OBSERVATION SUMMARY			
Risk Factors and Observations	Criticality	Design	Operation
1. Policies and Procedures Risk	●	●	●
1.1 Formal Documentation			
2. Accountability Risk	●	●	●
2.1 Receipt of Cash/Transfers			
3. Reconciliation Risk	●	●	●
3.1 Tax Payments			
4. Documentation Risk	●	●	●
4.1 Cash Fund Reconciliation			
4.2 Cash Receipt Reconciliation			

The risk observations and management’s risk mitigation strategies are discussed in detail in the attached document. Internal Audit will conduct a follow-up review at a later date to verify management’s action plans have been implemented and are working as expected.

We appreciate the cooperation you and your staff provided during this audit. Please feel free to contact me at 704-336-2575 if you have any questions or concerns.

- c: County Manager
- Deputy County Manager
- Assistant County Managers
- Deputy County Attorney
- Senior County Attorney
- Board of County Commissioners
- Audit Review Committee

## **BACKGROUND**

The Office of the Tax Collector (the “OTC”) is responsible for collecting various property and business taxes and special assessments in accordance with North Carolina General Statute §105, Subchapter II (the “Machinery Act”). The Machinery Act provides the mechanism for “the listing, appraisal, and assessment of property and the levy and collection of taxes on property by counties and municipalities.” The OTC collects taxes for all seven municipalities within Mecklenburg County. The OTC is organized into three primary business units, which are all involved with cash receipt operations: Tax Support Services, Enforced Collections, and Business Tax Collections.

Tax Support Services (TSS) receives and processes tax payments, which can be received in cash or other forms of payment and can be paid in person or through a variety of other methods.

Enforced Collections (EC) collects ad valorem (value-based) taxes on:

- Real estate
- Business and individual personal property taxes
- Registered motor vehicles
- Special assessments
- Other fees

Business Tax Collections (BTC) assesses and collects gross receipt (sales-based) taxes, such as:

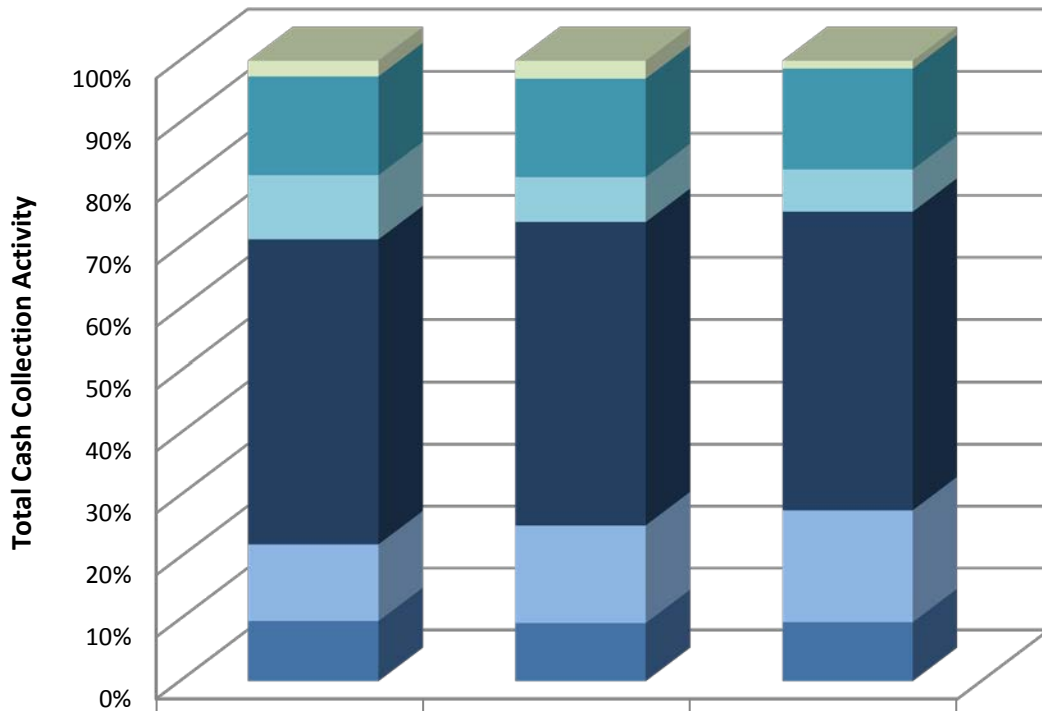
- Room occupancy
- Prepared food and beverage
- Privilege licenses
- Vehicle rental
- “U-drive-it” (an additional vehicle rental tax)
- Heavy equipment
- Other fees

Tax Accounting (TAC) is a business unit of the County’s Financial Services Department that deposits cash and checks received by the OTC for ad valorem and gross receipt taxes; reconciles payments and receipts; coordinates refunds and returned checks; and administers the distribution of collected funds to the County and various municipalities.

### **Payment Methods**

Taxpayers have several options to pay their tax bills, including paying in person, by mail, or electronically via the internet or telephone. The majority of tax payments are checks received by mail via the County’s lockbox provider; however, technological advances have allowed an increasing number of payments to be received and deposited electronically.

## Number of Payments by Method



	FY2010	FY2011	FY2012
Other	26,966	31,268	13,898
Bank/Mortgage	167,707	169,817	172,360
Mail	108,953	77,490	72,086
LockBox	517,188	522,467	509,341
Electronic Payment	130,535	168,913	191,527
In Person	102,249	100,539	100,893

*Source: Office of the Tax Collector, Unaudited*

### North Carolina Property Tax Collections System

The OTC uses the North Carolina Association of County Commissioners (NCACC) collaborative property tax system named North Carolina Property Tax System (NCPTS), a fully integrated tax software system, to support the collection of property taxes and non-property bills, such as special assessments.

## COUNTY MANAGER'S OVERALL RESPONSE

The County Manager concurs with all risk mitigation strategies and timeframes for implementation.

## RISK OBSERVATIONS AND MITIGATION STRATEGIES

Risk Factor	Criticality	Design	Operation
1. Policies and Procedures Risk			

### Risk Observation

- 1.1 Formal Documentation—While the OTC has formal, documented policies and procedures for many aspects of its cash collection operations, some procedures did not reflect current and/or best practices. Yet, policies and procedures are important control activities to help management ensure its directives are carried out while mitigating risks that may prevent the organization from achieving its objectives.

Activities impacted included but were not necessarily limited to:

- Cash drawers and safe access authorization requirements
- Receipt and transfer of checks received by mail, including transfers between the OTC and Tax Accounting staff, and excluding Federal Express (FedEx) or United Parcel Service (UPS)
- Cash drawer change fund requirements
- Segregation of duties for change fund reconciliations

### Recommendation

- 1.1 Internal Audit recommends the OTC management revise its current policies and procedures to include the following items and staff should be trained as necessary:
- Cash handling authorization requirements
  - Accountability and transfer of cash receipts
  - Current change fund amount maintained in cash drawers
  - Segregation of duties for change fund reconciliations

### *Management's Risk Mitigation Strategy*

- 1.1 The OTC has a standard process in place to maintain and update procedure documentation. That process includes the following steps:
- A. The Management Coordinator reviews policies and procedures for compliance with actual work processes.
  - B. Identify policies and procedures to be updated.
  - C. Draft updated documents.
  - D. Review updated documents with staff, supervisor, and deputy director for feedback and corrections.

- E. Upon finalizing documents, submit to the Director for approval.
- F. Once approved, publish updates and communicate to staff.

The policy and procedure documents and the Money Handling Policy reviewed during this audit were in the process of being updated. Currently, the updates are in stage D above. The review process for policies and procedures described in the four bulleted areas recommended is expected to be completed and implemented by September 1, 2014.

Risk Factor	Criticality	Design	Operation
2. Accountability Risk	●	●	●

**Risk Observation**

- 2.1 Receipt of Cash/Transfers— Although cash receipts received via FedEx and UPS were logged upon receipt, the OTC staff did not document the initial receipt or subsequent transfer of other mailed cash receipts. Nor were transfers between the OTC and Tax Accounting staff during the payment and deposit processes documented. In addition, the Cashier Change Fund Log Book was not consistently signed to document the transfer of funds. Thus, there was a lack of accountability in the event funds are lost or stolen.

A previous audit specific to lockbox activities cited this issue and management stated staffing limitations prevented them from documenting lockbox payments upon receipt and felt cameras present in the area would provide visual coverage of the area to help mitigate any potential risk. While cameras act as a deterrent to theft, they may not provide visual evidence of the actual amount of cash received or transferred between individuals.

**Recommendation**

- 2.1 Internal Audit recommends the OTC management re-emphasize the importance of documenting in the Cashier Change Fund Log Book all change fund transfers. In addition, management should ensure the initial receipt of mailed payments and all other transfers are adequately documented. Documentation should evidence, as applicable, the date of receipt or transfer, the remitter, the amount received, and the staff involved in the receipt and/or transfer of funds.

***Management’s Risk Mitigation Strategy***

- 2.1 The OTC has taken the following steps to address this recommendation:

We are working with BSSA-IT<sup>1</sup> to enhance our current imaging system interface to allow for scanning and storage of all checks within TSS. The appropriate document types have been created within the imaging system interface and a scanner has been provided. We are currently in the middle of a PC<sup>2</sup> replacement project which when completed, will allow us to allocate a dedicated PC to this project. The final outcome will provide the ability, upon receipt of mail in the TSS, to

<sup>1</sup> Mecklenburg County’s Business Support Services Agency

<sup>2</sup> Personal computer



scan all checks, coupons and envelopes received into daily batches indexed by the name on the check, date, and operator identification. The images will be retained for 13 months. Full implementation, inclusive of process documentation and/or policy creation, of this component will be completed by September 1, 2014.

Lockbox service was expanded to include imaging of all payments received by the service provider. Previously, checks that were rejected (not processed) by the service provider were not imaged. Only checks that were processed successfully or processed and rejected (exceptions) were imaged. The rejected checks were delivered to TSS via courier. We now have an image record of all checks received by the lockbox service provider if the checks were actually processed by the service provider or not.

As a result of these two changes, the OTC will have images of every check received. This level of documentation can be maintained at current staff levels. TSS resources are not sufficient to implement the recommendation of documenting the transfer of checks between staff. As a result, the OTC must accept the risk of not implementing this recommendation.

Regarding the transfer of receipts from the OTC to Tax Accounting (Central Finance Division of Financial Services Department), the OTC staff will not transfer funds to the Tax Accounting Staff without having them sign to acknowledge acceptance of the receipts. The signed document will be retained with the cash receipt as a record of the transfer of receipts.

In regards to the change fund log, the TSS Supervisor met with staff on March 4, 2014, to review the process and requirements for signing the log and complying with all applicable procedures. The Supervisor is also working individually with staff as needed to ensure compliance. The TSS Supervisor reviews the log daily to ensure it is signed and transactions are properly documented. When the TSS Supervisor is absent, the coverage Supervisor performs the review task and the TSS Supervisor reviews the log again upon his/her return. This process will be documented in the OTC manual by September 1, 2014.

**Internal Audit Counter Response:**

While we understand management’s concern that lack of resources will prevent implementation of our recommendation to document the transfer of checks between staff, we feel this control is critical to assign accountability in the event a check is lost or stolen.

Risk Factor	Criticality	Design	Operation
3. Reconciliation Risk	●	●	●

**Risk Observation**

3.1 Tax Payments—Although the Financial Services Department staff monthly reconciles some tax payment data, the reconciliation did not include all accounts, such as tax and interest for the City of Charlotte, other County municipalities, and County solid waste. Without complete reconciliations, errors or omissions could go undetected. In addition, the current reconciliation does not include key information and documentation, such as:

- Preparation date
- Preparer signature
- Management approval
- Support for reconciling items and the actions taken to clear them

**Recommendation**

3.1 Internal Audit recommends the Financial Services Department include all significant accounts in its monthly reconciliation of NCPTS to Advantage. The reconciliations should evidence the preparer and date of preparation, support for reconciling items and related corrective actions, and management’s review and approval.

**Management’s Risk Mitigation Strategy**

3.1 The OTC deferred to the Financial Services Department to respond to this recommendation. Financial Services responds as follows:

A revenue analyst in the Central Finance Division of Financial Services currently reconciles the County general property tax revenue recorded in NCPTS to the amounts posted to general ledger accounts monthly. The reconciliation will be expanded to include all the revenue accounts for the County and documentation of the review. Central Finance will also prepare a monthly reconciliation of the amounts collected for the other jurisdictions in the County with the collections recorded in NCPTS and remitted to those jurisdictions. Those collections will be reconciled by jurisdiction only, since the County does not record the collections by type in the general ledger. The reconciliations will include documentation of the review. These changes will be implemented by June 30, 2014.

Risk Factor	Criticality	Design	Operation
4. Documentation Risk	●	●	●

**Risk Observations**

- 4.1 Change Fund Reconciliation—Although the year-end change fund reconciliation sent to the Financial Services Department was documented and retained, documentation of monthly and bi-annual surprise change fund reconciliations were not retained as required by Financial Services policies and procedures.
- 4.2 Cash Receipt Reconciliation—Some cashier balancing reports did not have appropriate supporting documentation as required by the OTC’s policies and procedures. Fourteen of 75 or 19% of cashier balancing reports sampled had missing or incomplete supporting documentation, such as batch numbers, cashier initials, or manual receipts for field collection payments.

**Recommendations**

4.1 Internal Audit recommends the OTC management ensure monthly and bi-annual surprise change fund reconciliations are documented and retained.

- 4.2 Internal Audit recommends the OTC management ensure staff maintains adequate supporting documentation for all cashier balancing activities.

***Management's Risk Mitigation Strategy***

- 4.1 Regarding the change fund reconciliation, our monthly reconciliation and documentation process is for the TSS unit to maintain calculator tapes from the reconciliations of the petty cash fund and cashier change fund. The OTC retains the NCPTS (tax system) balancing sheets that are created each time a till is balanced for each cashier. The balancing sheets report the verified till amounts and currency details (number of \$1 bills, \$5 bills, and other denominations of money). This information is included with the cash receipt documentation which is stored on-site as required by our document retention schedule. Although the monthly reconciliations were occurring, document retention will be fully implemented on June 1, 2014. Now the mandatory surprise audits and end of year audit occur once each year as required. The resulting documentation is retained and/or distributed to the Financial Services Department as required by an OTC Deputy Director.
- 4.2 Regarding the cash receipt reconciliation, the TSS Unit Supervisor will ensure that unit staff provides the appropriate information to Tax Accounting Unit staff upon balancing for inclusion with the cash receipt.




As for field collection receipts, the policies and procedures will be updated by September 1, 2014 to reflect the practices that were in place during the audit but not documented in the OTC manual. The policy and procedure updates are in the approval process as described in the response to item 1.1.

## APPENDIX A—Risk Factor Definitions




Risk Factor	Definition
Policies and Procedures Risk	Policies and procedures that are non-existent, ineffective, unclear, or outdated may result in poorly executed processes and increased operating costs.
Accountability Risk	Failure to establish and maintain accountability of cash collected, assigned, or transferred to individuals may result in lost, stolen, or otherwise diverted funds.
Reconciliation Risk	Failure to consistently and completely reconcile accounts, transactions, and other activity may prevent errors or omissions in accounting information from being timely detected and adjusted.
Documentation Risk	Failure to adequately collect, file, and retain documentation may impair the organization's ability to sufficiently support cash receipt activities, financial reporting, and/or disclosure requirements.

## APPENDIX B—Color Code Definitions

The criticality of a risk factor represents the level of potential exposure to the organization and/or to the achievement of process-level objectives before consideration of any controls in place (inherent risk).

Criticality	Significance and Priority of Action
	The inherent risk poses or could pose a <b><i>significant</i></b> level of exposure to the organization and/or to the achievement of process level objectives. Therefore, management should take immediate action to address risk observations related to this risk factor.
	The inherent risk poses or could pose a <b><i>moderate</i></b> level of exposure to the organization and/or to the achievement of process level objectives. Therefore, management should take prompt action to address risk observations related to this risk factor.
	The inherent risk poses or could pose a <b><i>minimal</i></b> level of exposure to the organization and/or to the achievement of process level objectives. Risk observations related to this risk factor, however, may provide opportunities to further reduce the risk to a more desirable level.

The assessment of the design and operation of key controls indicates Internal Audit’s judgment of the adequacy of the process and system design to mitigate risks to an acceptable level.

Assessment	Design of Key Controls	Operation of Key Controls
	The process and system design does not appear to be adequate to manage the risk to an acceptable level.	The operation of the process’ risk management capabilities is not consistently effective to manage the risk to an acceptable level.
	The process and system design appear to be adequate to manage the risk to an acceptable level. Failure to consistently perform key risk management activities may, however, result in some exposure even if other tasks are completed as designed.	The operation of the process’ risk management capabilities is only partially sufficient to manage the risk to an acceptable level.
	The process and system design appear to be adequate to manage the risk to an acceptable level.	The operation of the process’ risk management capabilities appears to be sufficient to manage the risk to an acceptable level.