



**Mecklenburg County  
Department of Internal Audit**

Office of Tax Collector  
Cash Collection Audit  
Report 1562

July 6, 2016

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<b>Internal Audit's Mission</b>	To support key stakeholders to cultivate an environment of accountability, transparency, and good governance.
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<b>Staff Acknowledgements</b>	Crystal Turner, CIA, CDFM, Auditor-In-Charge Rick Kring, CISA, Information Technology Auditor
<b>Obtaining Copies of Internal Audit Reports</b>	This report can be found in electronic format at <a href="http://charmeck.org/mecklenburg/county/audit/reports/pages/default.aspx">http://charmeck.org/mecklenburg/county/audit/reports/pages/default.aspx</a>



MECKLENBURG COUNTY  
Department of Internal Audit

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

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

**Date:** July 6, 2016

**Subject:** Office of the Tax Collector Cash Collection Audit Report 1562

The Department of Internal Audit has completed its audit of the Office of the Tax Collector to determine whether internal controls over cash collections for the Business Tax Collections unit effectively manage key business risks inherent to those activities. Internal Audit staff interviewed key personnel; observed operations; reviewed policies and procedures; performed data analytics; and tested various activities for the period of July 1, 2012 through June 30, 2015.

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 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.

## 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. Reconciliation Risk	●	●	●
2.1 Payments			
3. Compliance Risk	●	●	●
No concerns noted			
4. Accountability Risk	●	●	●
No concerns noted			
5. Receipt Risk	●	●	●
No concerns noted			
6. Deposit Risk	●	●	●
No concerns noted			
7. Physical Security Risk	●	●	●
No concerns noted			
8. Authorization Risk	●	●	●
No concerns noted			
9. Accounting Risk	●	●	●
No concerns noted			
10. Documentation Risk	●	●	●
No concerns noted			
11. Human Resource Risk	●	●	●
No concerns noted			
12. Timeliness Risk	●	●	●
No concerns noted			

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 980-314-2889 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 (OTC) is responsible for determining and collecting business taxes and fees imposed by the City of Charlotte and Mecklenburg County, and used to support and fund local services and programs. The OTC is organized into three primary business units: Enforced Collections, Tax Support Services, and the Business Tax Collections Unit (BTCU). Mecklenburg County also acts as the City of Charlotte's agent for billing and collection of business taxes and fees for all seven municipalities within the County.

The OTC's authority to bill and collect taxes and fees is provided by North Carolina General Statute (NCGS) §160A-211, which empowers cities to tax local businesses and occupations operating within city limits, and NCGS §153A, which empowers counties to tax businesses and occupations operating within the county.

### **Business Tax Collections Unit (BTCU)**

The BTCU is primarily responsible for opening business accounts, processing business tax and fee payments, and enforcing all business tax program collections owed to the City and County. The BTCU uses BizTax, a fully integrated tax software system to support the collection of business taxes and fees. The BTCU also issues garage and attic sale licenses and producer peddler permits; and responds to customer inquiries.

The Tax Accounting Unit within the Financial Services Department partners with the OTC to deposit the tax and fee payments; reconcile payments in Advantage, the County's general ledger system; and coordinate tax refunds and checks returned for insufficient funds. They also distribute the collected tax revenues to the County and various municipalities.

The BTCU deputy tax collectors mail delinquent tax notices to business owners and conduct field visits to collect taxes. When necessary, the collectors establish and enforce payment arrangements as approved by the Board of County Commissioners, the OTC Director, or the BTCU Deputy Director.

The BTCU assesses and collects gross receipt sales tax on:

- Hotel/motel room occupancy
- Prepared food and beverages
- Vehicle and heavy equipment rentals

The BTCU also collects other fees such as taxicab licenses; beer and wine licenses; and garage and attic sale licenses.

### **Payment Activity**

Taxpayers can pay their business tax bills in person, by mail, or via the internet in the form of cash, checks, money orders, credit cards, and electronic checks. The BTCU may also apply a "Partial Correct" which is the reversal and re-posting of a payment previously applied to an account. For example, if a business had two prepared food accounts and paid all gross receipts sales tax under one account, a Partial Correct would be applied to split payments between both accounts.

<b>Transactions by Payment Type</b>			
<b>Payment Type</b>	<b>FY 2015 Transactions Processed</b>	<b>FY 2014 Transactions Processed</b>	<b>FY 2013 Transactions Processed</b>
<b>Cash</b>	5,320	6,418	6,780
<b>Check</b>	66,360	63,905	73,884
<b>Money Order</b>	132	270	376
<b>Credit Card</b>	8,438	8,753	9,270
<b>Partial Corrects</b>	266	430	327
<b>Total</b>	<b>80,516</b>	<b>79,776</b>	<b>90,637</b>

*Source: Business Tax Collections data, unaudited*

<b>Collection Amounts by Payment Type</b>			
<b>Payment Type</b>	<b>FY 2015 Business Taxes Collected</b>	<b>FY 2014 Business Taxes Collected</b>	<b>FY 2013 Business Taxes Collected</b>
<b>Cash</b>	\$257,654	\$312,835	\$350,684
<b>Check</b>	\$110,693,893	\$98,254,222	\$99,646,297
<b>Money Order</b>	\$8,496	\$28,624	\$36,140
<b>Credit Card</b>	\$1,618,104	\$1,338,801	\$1,731,073
<b>Partial Corrects</b>	\$160,506	\$1,061,534	\$187,152
<b>Total</b>	<b>\$112,738,653</b>	<b>\$100,996,017</b>	<b>\$101,951,346</b>

*Source: Business Tax Collections data, unaudited*

## COUNTY MANAGER’S OVERALL RESPONSE

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

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 do 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 include but are not limited to:

- Field collection
- Staff training
- Roles and responsibilities
- Change fund reconciliation process

### Recommendation

1.1 Internal Audit recommends management revise its current policies and procedures to include, at a minimum:

- Current field collection payment reconciliation and documentation process
- Cash handling training requirements
- Change fund roles and responsibilities
- Change fund monthly reconciliation requirements

### *Management’s Risk Mitigation Strategy*

1.1 The Business Tax Collections Unit (BTCU) within the Office of the Tax Collector (OTC) will implement the following actions in reply to the risk observation 1.1 in the Cash Collection Audit Report 1562. The actions that will be taken to address the risks are detailed below.

Internal audit recommended that management revise current policies and procedures for the following:

- Current field collection payment reconciliation and documentation process
- Cash handling training requirements
- Change fund roles and responsibilities
- Change fund monthly reconciliation requirements

The OTC will implement the following to mitigate the observed risk:

Current field collection payment reconciliation and documentation process

- The BTCU manual will be reorganized to consistently identify/name the payment reconciliation and documentation process. This will result in common terms and consistent report names being used throughout the manual. For example, the report documenting the daily activity of the Deputy Tax Collector staff will be called the Account Contact Listing report. This matches the report name in the tax system. Before this change, the manual referred to it using multiple names.

Status: In progress to be completed by June 30, 2016

Cash handling training requirements

- Section 9 of the BTCU manual will be updated to include the annual requirement that each employee attest that he or she has reviewed, understands, and will comply with the Mecklenburg County and OTC cash handling policies by signing the policies. The manual will include hyperlinks to each individual policy.

Status: In progress to be completed by June 30, 2016

Change fund roles and responsibilities

- Section 9 of the BTCU manual will be updated to include a subsection entitled “Change Fund.” The subsection defines change fund as outlined in Mecklenburg County’s Petty Cash and Change Fund Index. The manual will specifically state that the BTCU Supervisor is the change fund custodian who is directly responsible for the administration of the fund. The manual will also state that the Custodian and the employee who receives the change will verify the amount and attest to it being correct by signature. Signatures are provided when the funds are reconciled. The subsection will also include a hyperlink to the policy.

Status: In progress to be completed by June 30, 2016

Change fund monthly reconciliation requirements

- Section 9 of the BTCU manual will be updated to include a subsection entitled “Change Fund.” The subsection defines change fund as outlined in Mecklenburg County’s Petty Cash and Change Fund Index. The monthly reconciliation requirements administered by the Custodian will be defined and detailed in this section including the following:
  - A. The Custodian must reconcile the fund by the last business day of the month.
  - B. The BTCU staff complies with the Petty Cash and Change Fund Index, OTC Cash Handling Policy, and all associated policies and procedures at all times.
  - C. The change fund is not used to cash checks.
  - D. The change fund is always secured in the money room/safe.
  - E. The fund is always in balance.
  - F. The fund is replenished timely so that funds are readily available as needed.
  - G. Any discrepancies in the fund are reported to the Department Director and Deputy Tax Director immediately.

The subsection will also include a hyperlink to the policy.  
 Status: In progress to be completed by June 30, 2016

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

**Risk Observation**

2.1 Tax Payments—The Financial Services Department staff does not reconcile tax payments recorded in BizTax and Advantage as required by County policy to ensure accuracy and to timely detect errors or omissions.

**Recommendation**

2.1 Internal Audit recommends the Financial Services Department monthly reconcile payments recorded in BizTax against those revenues posted to Advantage. The reconciliations should evidence the preparer; date of preparation; support for reconciling items; any related corrective actions taken; and management’s review and approval of the reconciliation.

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

2.1 The Finance Team has reconciled Business Tax Collections in BIZTAX to the Advantage Financial System and FY 2016 reconciliations are up-to-date. Effectively immediately, in addition to the daily reconciliation, each month the Finance Team will reconcile the collection for Business Tax Collections in BIZTAX to the Advantage Financial System. Reconciling items will be noted, researched, and resolved within the next accounting period. The preparer, date, supporting documentation, any action taken or needed, the reviewer signature and management approval is noted on the reconciliation.

## 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.
Reconciliation Risk	Failure to consistently and completely accounts, transactions, and other activities may prevent accounting errors or omissions from being timely detected and adjusted.
Authorization Risk	Failure to clearly articulate and communicate those with the authority to commit the organization may result in internal and external misunderstandings.
Accountability Risk	Failure to establish and maintain accountability of funds collected, assigned, or transferred to individuals may result in lost or stolen, or otherwise diverted funds.
Receipt Risk	Failure to properly receipt cash may compromise accountability and result in untimely or inaccurate compilation and reporting of information needed for financial or internal analysis of operating results.
Deposit Risk	Failure to deposit cash receipts intact may result in a loss of funds or have a material impact on reported financial and operational information.
Accounting Risk	Failure to accurately and timely record transactions may result in untimely or inaccurate compilation of information needed for financial and operational reporting and analysis.
Physical Security Risk	Inadequate physical security may allow unauthorized access to data files, programs, hardware, etc., increasing the risk of loss or impairment.
Timeliness Risk	Failure to comply with State deposit regulations may increase result in fines, penalties, criminal or civil claims, and/or damage to the organization's reputation.
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.
Human Resource Risk	Failure to attract, train, develop, deploy, and/or empower competent personnel may inhibit the organization's ability to execute, manage, and monitor key business activities.
Compliance Risk	Lack of compliance with established policies, procedures, and/or statutory requirements may result in unacceptable performance that impacts financial, operational, or customer objectives.

## 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 <i>significant</i> 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 <i>moderate</i> 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 <i>minimal</i> 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.