



# CITY OF WILMINGTON

## Cash Receipts Internal Audit Review

**October 30, 2018**

### City Auditor's Office

Terence J. Williams  
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### Highlights

#### *Why We Did This Audit*

The Internal Audit Department (IA) performed a scheduled audit of Cash Receipts. The audit was in accordance with the 2018 Internal Audit Plan.

#### *Methodology*

The objectives were met by reviewing prior year audits, discussions with City personnel, detailed testing of records for 63 randomly selected payment transactions, a review of policies & procedures including third party contracts, testing of non-sufficient funds and chargeback transactions; and assessing user attributes for the MUNIS system.

#### *Audit Review Committee:*

Robert C. Johnson, Chair

Ciro Adams  
Marchelle Basnight  
Angelique Dennis  
Bud Freel  
Ronald Pinkett  
Tanya Washington

### *Objective and Scope*

Internal Audit (IA) conducted a Performance Audit of the City's Cash Receipts Process. The audit objectives were to determine if controls over cash receipts processing and bank deposits are in place and functioning appropriately; to determine if cash receipts are deposited on a timely and accurate basis; and to determine if cash receipts are accurately recorded in the general ledger. The scope of the audit includes cash receipts pertaining to the period July 1, 2016 through March 31, 2018. IA believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards ("GAGAS"). 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.

### *Background*

The Revenue Department receives payments for receivables, such as utility bills, citations and red light tickets, real estate taxes, wage taxes, fire department receipts, and false alarms bills. The department accepts and processes funds through in-person payments, mailings, phone calls, and the Paymentus website. Cash and checks are maintained securely in the Revenue area until collection and deposit by an armored car service, generally within 2 business days. Transactions related to receipts are tallied and verified by management. Any discrepancies are investigated and documented by management. Batches related to the payments are processed through MUNIS. Finance performs monthly reconciliations of bank accounts to reconcile deposits.

### *Key Statistics:*

Sigma Level (Z)	Defects per Million Opportunities (DPMO)	Percent Defects (%)	Percent Success (Yield %)	Capability (CP)
1	691,462	69	31	0.33
2	308,538	31	69	0.67
3	66,807	6.7	93.3	1
4	6,210	0.62	99.38	1.33
5	233	0.023	99.977	1.67
6	3.4	0.00034	99.99966	2

*City of Wilmington*

**The City's Sigma Level is at 2.59 for payment transactions and 2.21 for batch work activities. Therefore, approximately 31% of transactions processed by Revenue will have an error or defects. Most noted errors are batches that did not undergo a dual review or transactions where supporting documentation was not able to be located by Revenue staff in a timely manner.**

## What we found

### Key Findings

Following are key issues that resulted in a process/area to be risk rated a three or four. See **Attachment A** for the detail of these and all comments identified during the review.

<b>Risk Ranking:</b>		<b>(See Attachment A for full rating definitions)</b>				
<b>Process / Area</b>	<b>Process / Area Owner</b>	<b>1 Strong Controls</b>	<b>2 Controlled Effectively</b>	<b>3 Controlled - Improvement Required</b>	<b>4 Significant Improvement Required</b>	<b>Prior Year Ranking (Project 16-13)</b>
User Access	Brett Taylor				✓	4
Contract Compliance	Brett Taylor				✓	N/A
Physical Security	Demond May Brett Taylor				✓	N/A
Strategic Operations	Brett Taylor				✓	N/A
Record Retention	Brett Taylor			✓		3 {Lack of Supporting Documentation}
Review and Approval	Brett Taylor			✓		3 {Batch Processing}
Cash Controls	Brett Taylor			✓		N/A
Policies and Procedures	Brett Taylor			✓		N/A
Reconciliation	Roseanne Prado			✓		N/A

### User Access

1. Based on our review of the prior year's Cash Receipts audit (Project 16-13), the following was identified as a repeat finding:

Controls need to be strengthened regarding universal badge access and related procedures. In the current audit, timeliness of physical access termination continues to be an audit concern as well as the lack of a documented, routine review of badge access to the secure revenue area. In addition, segregation of duty issues (SOD) still exists throughout the department. Individuals that handle or post cash receipts also have system access to post journal entries and/or edit customer accounts and invoices.

## **Contract Compliance**

2. No controls exist surrounding vendor contracts within the City's Revenue division. As of the date of this report, the City is operating under the terms of an unexecuted 2004 agreement with AT Systems (Garda), the City's armored car service that delivers its cash and coin deposits to the bank. In 2015, Procurement and Revenue Management were made aware of the lack of contract; however, no action was taken to update contract terms.

In FY 2017 the City paid \$4.7K for its armored car service. In FY 2018 that amount increased to \$6.3K. Both amounts are below the City's \$60K threshold for competitive contract bidding. Details regarding the deficiencies found in the 2004 agreement can be found in **Attachment A**.

## **Physical Security**

3. Security controls in the City's mailroom need strengthening. During a walkthrough of mail room operations, security deficiencies were noted including a non-operable security monitor in the primary mail area where outside access is granted; a lack of a panic button, and no key log for the door that allows entry to the secure mailing area. Physical inventory for the Department of Finance is also insecure. Toxic cleaning chemicals are stored within the same location and inventory materials have been damaged.
4. Security controls in the Revenue area need strengthening. During a walkthrough of the Revenue deficiencies in physical security controls were noted including live checks were being processed by temporary Finance staff outside of the secure revenue area and insufficient controls were in place to ensure that payments were safeguarded; the safe room where deposits are stored for armored car pick-up did not have security cameras for regular access monitoring; the security camera that monitors walk-in payments did not have zoom-in functionality to better identify potential malfeasance or unethical behavior; and a rear exit door that is accessible through the Revenue area does not have an emergency alarm that signals when someone enters/exits the building. Furthermore, assurance is not obtained prior to Revenue area access being granted to third parties not employed by the City.

## **Strategic Operations**

5. Controls do not exist regarding the Revenue Call Center. The following deficiencies were noted:
  - Call and caller statistics are not being tracked to enforce Customer Service standards and policies despite the availability of data produced by Shortel, the current telephone system.
  - The Call center lacks established Key Performance Indicators (KPI's) to measure customer service and call center performance.
  - The call center lacks customer relationship management (CRM) software that can assist with call tracking and provide management with the ability to manage, measure, and improve processes using customer data, customer interaction, and access to critical business information.
  - By management's estimation, Caller wait time can be as high as 45 minutes on any given day. Customer Service Representative II (CSRII) call-readiness/availability are key areas that need to improve to achieve successful call center operations.
  - CSRII's do not have the capability to make bill adjustments in MUNIS. Most customer service calls result in the need for bill and/or penalty and interest adjustments, so it is likely that the lack of this functionality contributes to increased call volume.

- The Division has one acting Customer Consultant on Revenue staff that can make billing and penalty/interest adjustments but once the role becomes permanent, the consultant will be moved into another area in Finance. This is an inefficient and time-consuming method for resolving customer issues.

### **Record Retention**

6. Based on our review of the prior year's Cash Receipts audit (Project 16-13), the following was identified as a repeat finding:

Controls surrounding Revenue's record retention need strengthening due to a lack of supporting documentation for payments and cashier batch work. The City's Retention policy requires the storage of three years' worth of payment information following a successful audit; however, during the audit it was noted that the Division was not able to supply any documentation for the following:

- Eleven out of 63 (17%) payment testing items
- Ten out of 62 (16%) of batch testing items

Based on audit inquiries, it was mentioned by Management that the disorganization of the Revenue storage room prevented timely Audit access to documentation. In the prior year's audit, similar concerns were identified regarding missing supporting documentation for payment transactions.

### **Review and Approval**

7. Based on our review of the prior year's Cash Receipts audit (Project 16-13), the following was identified as a repeat finding:

Controls need strengthening surrounding Management's review and approval of batch work. Management does not consistently dual review and approve payments processed by Customer Service Representatives II (CSR II's) and third-party vendors. Thirty-three of 63 batches tested (52%) did not include a supervisor's signature or indicate a dual review and approval of the payments processed within the batch. In the prior year's audit only 10% of batch cover sheets were not signed by the supervisor.

### **Cash Controls**

8. Weak controls exist surrounding bank deposits and manual entry of third party payments. Testing of 63 payment transactions identified 21 batches that required either a cash deposit or a manual payment entry into MUNIS based on a third-party collection report. Ten of the 21 batches (48%) were identified as having untimely deposits:

- The Division was unable to supply the batch detail for six of 21 payment transactions (29%) where a cash deposit or a manual payment entry was required; therefore, deposit timeliness was unable to be tested.
- Three of 3 (100%) cash deposits had a 6 or 7 calendar day delay in being deposited to the City's bank account despite being picked-up on time by the Armored Car Service. It was unclear where the City's funds were located during the delay.
- A \$1,211 Lockbox wire had a 5-day delay from the date of City notification and the date of payment entry into MUNIS.

9. Weak controls exist surrounding Management's monitoring of the safe and cash drawers in the Revenue Division. Due to a lack of supporting documentation, there was no way to verify whether a daily count of the safe and cash drawer reconciliations was being performed.

### **Policies and Procedures**

10. Department lacks a comprehensive policy and procedure regarding unidentified checks. There is no policy in place that discusses when or how unidentified checks should be returned to constituents. Current Accounting procedures do not identify how to account for payments that have not been identified by the end of the fiscal year. The department does not actively engage and educate constituents on various payment options.
11. Weak controls exist surrounding critical updates to the Revenue Division's policy and procedure manual. The manual has not been updated since 2014. As stated in finding #10, the manual does not include work procedures around the process for unidentified checks nor does it include the information regarding the Paymentus module that was recently added as a web-based payment platform.

### **Reconciliation**

12. Controls surrounding the Chargeback process need strengthening. Based on testing of 23 credit card chargeback occurrences, one or more of the following exceptions were noted: Twenty chargebacks (\$3.7K) did not record whether department supervisors were notified of the chargeback, three chargebacks (\$239) were not recorded in the log book used by Accounting, and three transactions (\$365) were misclassified as "chargebacks" within the system but were payment entry errors that were eventually corrected by Management.

### ***Additional Observations***

1. The Revenue division has many opportunities to introduce robotic process automation into its overall cash receipt function. Streamlining the following processes would greatly reduce the need for the maintenance and monitoring of manual functions and increase process efficiency and transparency:
  - Storage of payment receipt data
  - Generation of management reports such as variance and exception reports
  - Payment entry of third party payment data
  - Customer master file maintenance for customer relationship management

Management should work with the Department of Integrated Technology to implement these automated processes where feasible.

2. The Revenue division should implement a Loss Prevention function to mitigate risks of internal theft and potential fraud.

## *Management Responses to Audit Recommendations*

### Summary of Management Responses

**Recommendation #1** Management must create action plans to mitigate the findings of prior year internal audit reports. Management should update the Division's Desktop Procedures, correct segregation of duty issues, and implement various monitoring processes as necessary.

Agree

**Management response & action plan:** The Department of Finance has reviewed access authorization and scheduled access timeframes for each employee in each Division. The review resulted in limited access times (15 minutes prior to start of work and 15 minutes after close of work; it also limited access for employees to specific work locations). This includes levels of access and timeframes for admittance to workplace sections. Changes to workplace access will be authorized by each Division Manager at the time of new hires or release of employees. These authorizations will also be evaluated and tested on a Department-wide basis in July of each year. A clause will be added to the Department's Standard Operating Procedure to document this process.

**Completion Date:** Completed

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**Recommendation #2** Management should determine if the current Armored Car Service provider is providing satisfactory service and consider an alternative carrier to meet the City's secure deposit needs. An up-to-date agreement should be signed and executed according to established City procurement policies and the National Association of State and Local Government Procurement Officials (NASPO) Contract Administration Best Practices which include regular monitoring for contract compliance.

The National Institute for Public Procurement (NIGP) offers a best practice guide in Supplier Relationship Management. Management should review the guide to minimize risk throughout the entire supplier relationship life cycle regarding its vendor relationships in the Revenue Division and other areas within the Department.

Agree

**Management response & action plan:** The Department will be soliciting bids for armored car services within the next two months, with finalization by the end of January 2019. Audit finding recommendations will be included in the bid specifications. In the meantime, the Divisions will work with Garda on improving current operating practices.

**Completion Date:** December 31, 2018

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**Recommendation #3** The Department of Integrated Technologies should address the security concerns within the mail room in a timely manner.

The Department of Finance should re-locate its physical inventory from the mailroom to a more secure area or implement protective controls such as locked cages to protect controlled items from theft or damage.

Agree

**IT Management response & action plan:** We are obtaining quotes for the following items from Kratos our security vendor: security monitor re-installation/repair; installation of the panic button; and badge access for the secure mail entry door.

IT does not currently possess additional funding to make these changes. After the quotes have been obtained, IT will determine if funding will need to be requested through the Budget process or the Mayor's Office to proceed.

IT will need to work with Finance to determine a space to re-locate the physical items. Currently each department lacks additional storage space.

Agree

**Finance Management response & action plan:** The Department acknowledges the finding and will be working on a plan to secure mailroom activities. In addition, the Department is working on a process to reduce or eliminate physical checks from online banking systems (aggregators), thereby reducing opportunities for lost checks. It will also have the byproduct of eliminating double entry for processing these checks and increasing employees' time to service customers. Completion of this process will occur by Spring 2019.

**Completion Date:** March 31, 2019

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**Recommendation #4** The Division should follow its policy regarding the security of revenue prior to its deposit in the City's bank account. In all areas where an exception to policy is granted by Department Management, the exception should be documented, and controls should be put in place to ensure that adequate security exists over cash/check handling. Management should update its cameras within the Revenue area, so it is a preventative and detective tool that can be used by management to monitor cashier and cash handling activities. The Division should create a loss prevention policy to govern the Revenue area.

Agree

**Management response & action plan:** The Department acknowledges these limitations and will correct in conjunction with security of the mailroom activities. However, this must be done in conjunction with the building maintenance staff (Public Works) and the Information Technology Division.

In addition, the Department is working on a process to reduce or eliminate physical checks from online banking systems (aggregators), thereby reducing opportunities for lost checks. It will also have the byproduct of eliminating double entry for processing these checks and increasing employees' time to service customers. Completion of this process will occur by Spring 2019.

The Department requires all cashiers to reimburse the Department for drawer shortages. Nonetheless, the loss prevention policy will be included in the updates to the Standard Operating Procedures manual. It will include a confidentiality agreement to be signed by staff.

**Completion Date:** March 31, 2019

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**Recommendation #5** The management and monitoring of the Revenue Call Center must improve so that the City can move forward with its goal to provide user-friendly, transparent, and efficient customer service. The Department should increase its efforts to engage constituents in using its online platform to process payments. Monitoring tools will assist Management with reviewing the current flow of operations and identifying the underperforming areas that need improvement. Management should acquire phone system training that includes instruction on reporting tools and call tracking functions. They should also procure CRM software to gain a strategic perspective as it relates to delivering quality customer service.

To minimize call volume and hold time, as well as increase first call resolution, management should create an escalation queue using the current phone system so that bill adjustments calls can resolve promptly. If additional call queues are not operationally feasible, we recommend that the CSRIs on the phone be given the MUNIS capability to perform bill adjustments, including penalty and interest adjustments. A policy and procedure should be developed to provide operational guidance for processing these types of transactions and should include approval thresholds as deemed appropriate.

With the onset of monthly utility billing, it is reasonably expected that call volume and in-person payments will continue to increase. As recommended in a prior internal audit (Audit 14-01), Management should consider separating the duties of the CSRIs at the windows accepting payments and the CSRIs that are on the phone. This will eliminate segregation of duty concerns and allow for the CSRIs to be more available to accept phone calls.

Agree

**Management response & action plan:** The Department has implemented Call Metrics, a call monitoring system, to determine call statistics for each of its Divisions. The data includes call wait times, abandoned call rates, call resolution times, with overall averages and individual employee performance statistics.

In addition, the Department has revised the call menu in its call answering system and divided calls by function (e.g. utilities, wage tax, parking, etc.) to spread the call volume. Lastly, the Department is considering the addition of outside third-party call center services for its parking enforcement program.

As part of its Strategic Planning process, the Department will be establishing key performance indicators for customer responsiveness.

CSRIs responsibilities are to respond to constituent inquiries and not make bill adjustments. The Director of Finance, or his designees (in this case the Division Manager) is able to make bill adjustments. All bill adjustments will be recorded.



Finance is planning on adding City Works to its tools, which will allow the CSR to record the constituent issue, assign it to the appropriate staff members and record resolutions.

**Completion Date:** Completed

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**Recommendation #6** As soon as possible, the Division should begin scanning all receipt documentation into Tyler Content Management (TCM), the City’s online documentation repository. For all transactions processed prior to the selected start date of online scanning, the Division should organize the records within the Revenue storage room and archive items off site as deemed necessary.

Agree

**Management response & action plan:** The Department has undertaken a clean out of the file room and has archived older documents. In addition, the Department has begun scanning documents. Lastly, the Department is working to reduce or eliminate live check processing through electronic receipt of funds from online bank aggregators.

**Completion Date:** August 31, 2019

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**Recommendation #7** Management must follow Division policies and procedures and dual review all payments processed by the Revenue Division. This review should be documented according to established policy. Management should start performing and documenting spot checks of batch processing to ensure that employees are current with Standard Operating Procedures. If the SOPs are not being followed, training should be provided to reinforce the importance of processing the transactions correctly.

Agree

**Management response & action plan:** The Supervisors are now being instructed to sign batch cover sheets after review of the work.

**Completion Date:** Completed

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**Recommendation #8** The Division should review its contract terms with its current Armored Car Service provider and hold the vendor accountable for delayed deposits. The Division should create a Request for Proposal to receive bids from other providers to ensure the City is getting the most efficient, secure, and affordable service available in the market.

As recommended in a prior finding, the Division should take the appropriate steps to clean its storage room so that timely payment research can be conducted. The Division should continue to follow the timeframes as indicated in its Policy and Procedure manual or update the manual to reflect more reasonable timelines for each type of deposit.

Agree

**Management response & action plan:** The Department acknowledges that the cash controls are critical to ensure that deposits are not mishandled or stolen. The Department will ensure that the batch detail is reported and signed off by the Supervisor.

Cash picked up by the armored car service becomes the responsibility of the armored car company and therefore loss while in their possession would be their liability. The funds are guaranteed against loss.

The Department will be soliciting bids for armored car services within the next two months, with contract finalization by the end of January (if not earlier).

**Completion Date:** November 30, 2018

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**Recommendation #9** Management should perform and document a daily, dual count of the safe amount. Cash Drawer reconciliations should be performed daily, and documentation should be filed with daily cash receipt records.

Agree

**Management response & action plan:** Cash drawer reconciliations are being done daily. However, Division Managers will be required to sign off on the reconciliation sheets within 24 hours of the daily count.

**Completion Date:** November 30, 2018

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**Recommendation #10** Management should have a dollar amount threshold for checks that are researched and those that are automatically sent back to the customer. Management should conduct an analysis to determine the root cause(s) of the unidentified payments and implement measures to mitigate occurrence. The Department should be proactive with educating constituent on payment options to increase usage of the online bill payment software (Paymentus) and other payment platforms.

Agree

**Management response & action plan:** Finance manages unapplied payments (e.g. payments that come in with documentation, coupons, etc.) by booking the receivable or refunding the payment which is handled on an ad-hoc basis.

The Department acknowledges the findings and will include in new Standard Operating Procedures being developed for Spring 2019. In the meantime, the Department will review the number of unidentified checks and determine which process areas need revision.

We are currently working on developing a single payment portal for customers in order to reduce the confusion of payment options. This will be in place by Spring 2019.

**Completion Date:** April 30, 2019

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**Recommendation #11** The policy and procedures manual should be used a reference tool to ensure compliance with City policies and as a training tool for new personnel. At least annually, Management should review and update the manual as needed. A quarterly review process should be implemented for each section of the manual to ensure a full review occurs by the end of the year.

Management needs to review the manual to verify the employee names, login websites, fees charged to City residents, and other such issues are still correct and valid, including the process for how a Refund is processed, and any references to a temporary employee at the Delaware Motor Vehicle facility. Management should consider using position titles and omitting names from any reference in their procedures. This alleviates the constant updating caused by personnel changes.

Agree

**Management response & action plan:** The Department acknowledges the finding and will be evaluating, revising and recommending policy changes as part of a comprehensive effort to codify processes and procedures. This effort is expected to be completed by Spring 2019.

**Completion Date:** April 30, 2019

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**Recommendation #12** Management should immediately implement a notification process to ensure that affected City Departments are aware of transactions that were charged back. This will allow the Departments to follow up with constituents as needed. The Chargeback log should be reviewed periodically to ensure all chargebacks are recorded and classified appropriately.

Agree

**Management response & action plan:** The Department acknowledges these findings and will incorporate in the current process. It will also include them in the revisions to the Standard Operating Procedures now underway.

**Completion Date:** November 30, 2018

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**Audit Team**

Allen Egner, Senior Auditor  
Toni Cleaver, Senior Auditor  
Yvette R. Johnson, Senior Auditor  
Tamara Thompson, Audit Manager