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**Citywide Revenue Collection
Process Audit**

November 4, 2016



**City of Fort Worth
Department of Internal Audit**

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Fort Worth, Texas 76102

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The Citywide Revenue Collection Process Audit was conducted as part of the Department of Internal Audit's Fiscal Year 2015 Annual Audit Plan.

Audit Objectives

The objectives of this audit were to determine whether the:

- current revenue collection process is efficient and effective; and,
- City's revenue collection process maximizes revenue collection potential.

Audit Scope

Our audit covered the period from October 1, 2014 through September 30, 2015.

Opportunities for Improvement

Replace the TaxCash/Micro Focus revenue processing system

Provide improved payment options for some types of payments

Enhance recent changes in revenue monitoring

Executive Summary

The Department of Internal Audit has conducted a Citywide Revenue Collection Process Audit. The purpose for the audit was to determine whether current revenue collection processes are efficient and effective, and to determine whether the City's revenue collection processes maximize revenue collection potential.

The Department of Internal Audit concluded that the majority of revenues are recorded accurately and are adequately monitored. However, we identified deficiencies in the TaxCash/Micro Focus software that is used for the collection of over \$62.2 million in revenue per year. System deficiencies include the lack of adequate delinquent account reporting and inadequate system controls that permit duplicate transactions.

The City of Fort Worth (CFW) offers a web pay option for a majority of its revenue sources. However, the CFW does not offer a web pay option for services such as multi-family registration, alcoholic beverage permits, fire inspections, and food establishment registration. A link on the City's main web page provides a path to most City services that are payable via the web. However, not all City services (payable via web) are accessible directly from the City's main payment page link.

Budget-to-actual revenue monitoring is performed to identify significant variances. However, threshold criteria used to determine what is considered a "significant" variance is not well defined. Additionally, managerial follow-up did not always address the cause of variances.

The Department of Internal Audit identified increases in accounts receivable balances that resulted from errors and may indicate the need for improved account receivable monitoring at the department level.

The Department of Internal Audit identified revenues recorded in special revenue funds that might have been more appropriately classified as General Fund revenue. We noted that some departments, with significant revenue collections, do not have department-level revenue collection procedures. We also noted that there is not a citywide policy to govern donations.



Since this was a citywide audit covering all City departments, it was not feasible to thoroughly investigate all identified anomalies. The Department of Internal Audit therefore deemed it necessary to send memos to applicable Department Heads to allow managerial follow up on specific anomalies.

Our audit findings are discussed in further detail, within the Detailed Audit Findings section of this report.



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Background

The City of Fort Worth receives revenue from taxes, charges for services, licenses and permits, user fees, grants, fines and other sources. There are over 350 different operating fund revenue accounts within the City's general ledger. With the exception of ad valorem taxes (which are collected and remitted by Tarrant County) and sales taxes (which are collected and remitted by the State of Texas), City of Fort Worth staff collect money directly from walk-ins, by mail, by telephone and via the web. Total revenue from all sources was \$1.4 billion in FY2014 and \$1.5 billion in FY2015.

Payment Conveniences

The City provides many payment options and accepts multiple tender types (i.e., currency, check, credit/debit card, and electronic check). Payment options vary for different services based, in part, on the software used to process collections. Certain locations have chosen to accept limited forms of payment. For example, the Planning and Development Department only processes credit card payments and the Auto Pound does not accept personal checks. It should be noted that the Treasury Division processes checks and/or cash payments on behalf of the Planning and Development Department. Information provided to customers, explaining payment options, is therefore, an important part of the payment process.

Revenue Processing Systems

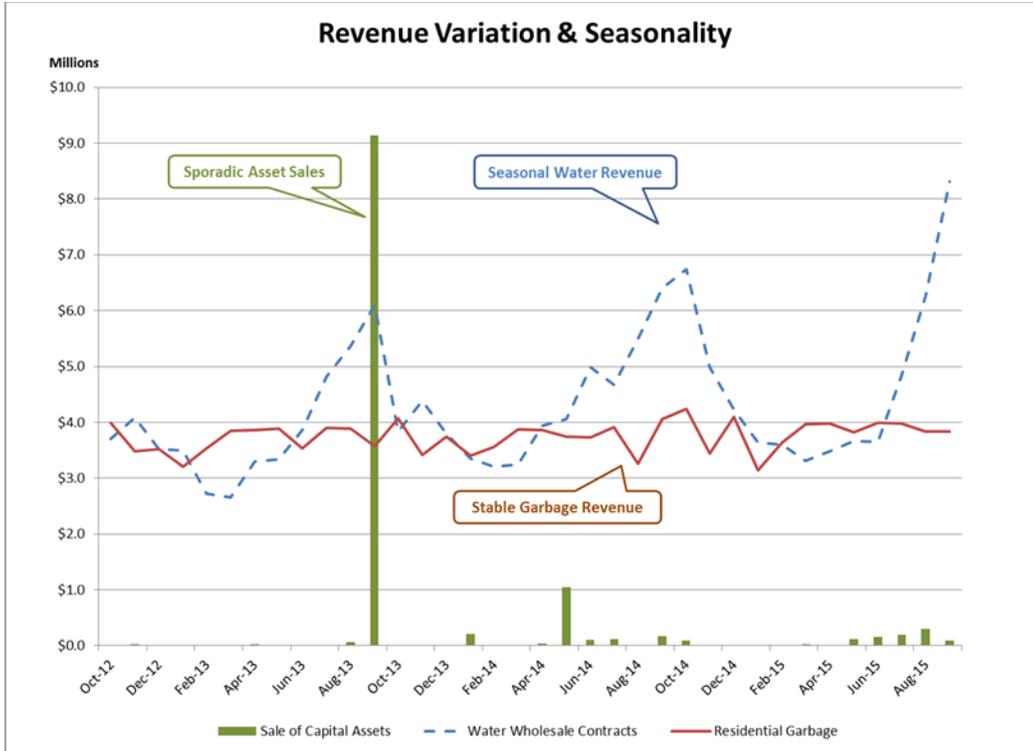
In many cases, departments use specialized application software to process revenue. This specialized application software includes, but is not limited to, the Water Department's billing system, the Municipal Court's case management system, and the Development Department's permitting system. Web payment options, if available, are typically a feature of the software. In other cases, an electronic Receipt Distribution Document (eRDD) is used. In addition to specialized application software, a citywide system, known as TaxCash/Micro Focus, is used to process other sources of revenue for multiple departments.

Tax Cash/Micro Focus Revenue System

TaxCash/Micro Focus is used to process approximately \$62.2 million in revenue, per year, for multiple City departments. The system is a 1970's era, in-house developed program that lacks many features and system controls found in more up to date revenue systems. The Information Technology Solutions Department (ITS) manages TaxCash/Micro Focus. Financial Management Services Department (FMS) personnel in the Revenue Office are the primary system users. However, multiple personnel in other departments use TaxCash/Micro Focus to bill customers for services. Implementation of a system to replace TaxCash/Micro Focus was delayed after being initially scheduled during the City's ERP II system project.

Revenue Monitoring

Departments are responsible for monitoring their revenues on a monthly basis. Budget Division personnel also monitor revenues quarterly, by comparing recorded revenue to budgeted and prior year revenue. As shown in the following chart, City revenue sources may be stable, seasonal, or sporadic over time. For example, some sources such as garbage collection revenue are relatively flat from month-to-month or year-to-year, while water revenue exhibits seasonal and annual rainfall-based variation. Alternatively, asset sales are sporadic.



Source: General Ledger

With over 1,030 operating funding identifier (FID) combinations, revenue monitoring by the Budget Division is, by necessity, limited to the most significant amounts and variances. As part of the City Manager’s 2016 major initiatives, the Budget Division was reassigned from FMS to the Performance Office in June 2016. Employees within the City’s Performance Office and FMS are not involved in departments’ daily operations. Therefore, the primary responsibility for revenue monitoring is at the department level.

Policies & Procedures

Citywide cash handling policies, financial directives, and a revenue manual provide general guidance to employees that collect revenue. In addition, some departments have detailed written procedures that require specific revenue collection processes for their respective departments. The current citywide cash handling policy was under revision at the time of this audit. However, the draft policy included a requirement for all departments to have their own detailed written procedures.

Receivable Accounts

Accounts receivable and revenue entries are made to the general ledger at the time of billing for some City services. For example, utility billing charges, mowing fees, and non-employee parking charges generate a receivable and revenue entry when billed. Alternatively, there are some instances where cash and revenue entries are made upon receipt of payment (i.e., bills for alcoholic beverage permits and multi-family registration fees).

Classification

Revenue should be classified based on the characteristics and source/specified use of revenue. Special revenue funds should, therefore, be used only to account for proceeds from revenue sources that are restricted to or committed for a specific purpose.



Objectives

The objectives of this audit were to determine whether the City's:

- current revenue collection process is efficient and effective; and,
- revenue collection process maximizes revenue collection potential.

Scope

Our audit covered the period from October 1, 2014 through September 30, 2015. The scope focused on controls and process changes that would improve operating fund revenue collections.

Excluded from the audit scope was revenue collected by departments that have had recent or planned internal audits, which included revenue analysis. This audit also excluded a review of collectability, since a Delinquent Accounts Collections Audit is included in the FY2016 Annual Audit Plan and was underway towards the end of this audit.

Methodology

To achieve the audit objectives, the Department of Internal Audit performed the following:

- interviewed key personnel within FMS and other departments to get an understanding of processes;
- analyzed revenue trends and followed up with department personnel to identify the reasons for variances from the trend or expected revenues;
- analyzed receivable account balances and trends to identify collection problems or errors;
- reviewed the City's web pages and contacted personnel at other cities to identify payment methods and to compare available CFW payment options to that of other City governments;
- reviewed policies and procedures, directives, and other documents;
- verified commercial crime and employee dishonesty insurance coverage; and,
- performed a high-level review of computer system processes used to collect revenue.

We conducted this audit in accordance with generally accepted government auditing standards, except for peer review¹. 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.

¹ Government auditing standards require audit organizations to undergo an external peer review every three years. A peer review is planned in 2017 for the three-year period ending December 31, 2016.



Audit Results

A majority of the City's revenue is collected and recorded correctly. However, we concluded that due to system limitations and deficiencies, the City does not maximize revenue collection potential for some types of revenue. We also identified other opportunities by which the City could further enhance its revenue collections.

TaxCash/Micro Focus System

The TaxCash/Micro Focus revenue system does not provide the functionality or controls necessary to maximize revenue. The system has many deficiencies that are detailed in the [related finding](#).

Replacement of the TaxCash/Micro Focus system was included in the scope of the City's ERP II financial system implementation, but was delayed. Plans to replace the system were reportedly in progress at the time this report was drafted.

Payment Options & Information

The City offers payment options that are comparable to those offered by other cities; however, there is no web payment option for several services. For example, the City's main online payment page does not list some services that have online payment options (i.e., hotel occupancy tax, park facility reservations, and donations). City services that do not currently offer an online payment option include alcoholic beverage permits, multi-family registration fees, fire inspection fees and food establishment permits.

Revenue Monitoring

We found that the criteria used to select monitored revenues for follow-up review by the Budget Division are not well defined and that follow-up action by department personnel did not always resolve problems that were identified.

Receivable Accounts

Based on errors identified during the audit, receivable account monitoring is not sufficient to identify transaction or balance errors. We identified a balance of \$187,593 from FY2004 that is unlikely to be collected. However, the balance is fully offset by an allowance for uncollectable accounts. Also, a TaxCash/Micro Focus system adjustment from FY2013, that did not generate an adjusting general ledger transaction, resulted in an overstatement of a receivable balance of \$96,665 that has not been adjusted and has no allowance account offset.

Classification

We identified revenues deposited and recorded in the special revenue funds or as donations that were misclassified. For these revenues, the account descriptions and ultimate use of the funds did not appear to differ significantly from similar revenues deposited in the General Fund. The amounts of these transactions may not be significant; however, the use of the special revenue funds unnecessarily increases the complexity of accounting. Additional accounting entries, monitoring, plus the same work must be performed for two funds instead of one when special revenue funds are used to record the same types of activities that are recorded in the General Fund.

Policies & Procedures

Department level collection procedures have not been established by all City departments. As a result, significant revenue collection activities may not have standard and consistent processes.



The City receives significant monetary and non-monetary donations; however, there is no citywide policy governing donations to ensure compliance with standards and procedures regarding donations along with donor recognition.



Overall Evaluation

High	Medium	Low
<u>Software deficiencies that limit the ability to maximize revenue</u>		
<u>Payment options not maximized for all types of services</u>		
<u>Revenue monitoring processes lacking well-defined criteria and assignment of responsibility</u>		
<u>Accounts receivable anomalies that require follow-up</u>		
<u>Revenue and receivable classifications</u>		
	<u>Lack of a monetary and non-monetary donations policy</u>	
	<u>Lack of departmental cash handling policies and procedures for departments responsible for collecting significant amounts of revenue</u>	



Detailed Audit Findings

1. Software that accounts for a significant portion of revenue collected by the CFW has deficiencies that limit the ability to maximize revenue.

The City's TaxCash/Micro Focus system is used to bill and collect multiple types of revenue. However, TaxCash/Micro Focus has system deficiencies that result in the failure to maximize revenue. System deficiencies include:

- lack of web or Interactive Voice Response (IVR) payment options for most types of revenue;
- system controls that permit account deletions and the recording of duplicate payment transactions;
- the inability to process payments received, unless there is a balance due on an existing account;
- inadequate delinquency or aging reports;
- the inability to process some adjustment types through to the general ledger, resulting in a requirement for manual adjustments; and,
- the use of different account numbers, per revenue category, for the same customer (i.e., different number assigned to a customer that is responsible for paying for an alcoholic beverage permit and hotel occupancy taxes).

We identified 56 multi-family registration accounts with no payments received in FY2015. Based on previous payments or the number of units, we concluded that an estimated \$22,225 was not collected for these accounts in FY2015. While there may be other factors that resulted in reduced revenue, system deficiencies make identifying unpaid accounts difficult. We also identified accounts with gaps between billing or payment dates of annual fees. For example, one multi-family revenue account was paid in 2012, with the next payment not received until 2016. In most instances, the arrears amount was paid in full.

Billing and collection systems should include systematic controls, master accounts, payment options, interfacing to the general ledger, and adequate delinquency reporting. Since TaxCash/Micro Focus does not have many of the features found on newer or more highly developed systems, the City does not receive all of the revenue that could be collected from revenue sources processed via TaxCash/Micro Focus.

The impact of current system deficiencies include:

- the lack of a web payment option results in reduced convenience for customers;
- deleted accounts make researching payment history difficult;
- checks from customers who make payments prior to billing are not deposited promptly, resulting in delayed revenue recording;
- collection and rebilling of delinquent accounts is challenged due to the lack of usable reports for identifying past due accounts;
- duplicate transactions result in failure to bill accounts, because the system shows no balance due;
- adjustment transactions may require a significant amount of time for FMS and other department personnel. Alternatively, adjustment transactions may not be processed, resulting in incorrect balances; and,



- the lack of single master account for each customer could result in a renewal for one permit while another permit for the same customer under a different account number is significantly delinquent.

Plans to replace the system were reportedly in progress at the time the audit fieldwork was completed.

Recommendation 1: *The Chief Technology Officer, in conjunction with the Chief Financial Officer and the City Manager, should prioritize the transition of billing and collection functions from the TaxCash/Micro Focus system to the PeopleSoft financial system.*

Auditee Response: Concur. FMS has begun the effort to transition from the Micro Focus software to the PeopleSoft Accounts Receivable module through a phased-in implementation plan. eVerge has been selected as the vendor to assist the City with this project. We are currently in the planning/discussion stages for the project scope and timeline for completion. Additionally, System Integrators has been identified as the Point-of-Sale ("POS") vendor to assist the City in a POS implementation. Discussions/data gathering for their POS product ("iNovah") is underway along with the development of a scope of work statement and timeline for completion.

Target Date: Completed

Responsibility: Chief Financial Officer

2. Current online payment options do not maximize revenue collection potential, while adding a convenience to the public.

The City of Fort Worth provides citizens the opportunity to pay for services via various payment options. While all payments can be accepted in person, the CFW also offers options such as online and IVR payments, as indicated in the following chart.

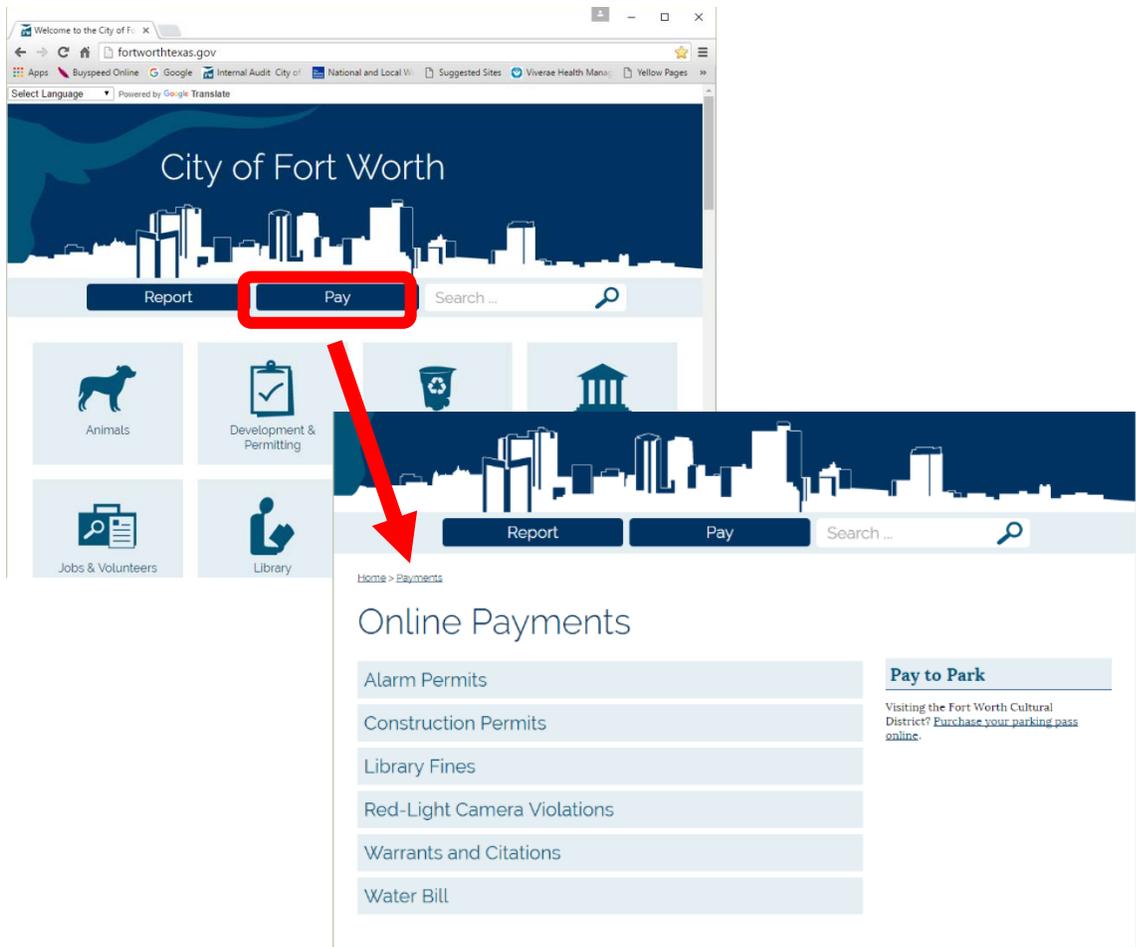


Department or Service	Accessible via CFW Main Webpage	Other Payment Options								
		In-Person	Mail	Telephone	Online - Web	IVR ⁽¹⁾	Drop Box	3 rd party	Pre-authorized Debits	Mobile AP
Water, garbage, & stormwater billings	✓	✓	✓		✓	✓	✓	✓	✓	
Warrants and Citation payments (non red light violations)	✓	✓	✓		✓	✓	✓	✓		
Construction permits & licenses	✓	✓	✓	✓	✓					
Park fields & facilities		✓	✓	✓	✓					
Pay to Park ⁽²⁾	✓	✓			✓					✓
Library fines & fees	✓	✓	✓	✓	✓					
Hotel occupancy taxes		✓	✓		✓					
Red light camera violations	✓	✓	✓		✓	✓				
Food establishment annual permit		✓	✓	✓						
Fire alarm, sprinkler, & other design reviews		✓	✓	✓	✓					
Multi-Family registration fees		✓	✓	✓						
Fire inspection fees		✓	✓	✓						
Alcoholic beverage permit fees		✓	✓	✓						
Security alarm permits	✓	✓	✓		✓					
Pet license fees ⁽³⁾		✓	✓					✓		

Source: www.fortworthtexas.gov/payments and department personnel

- (1) Interactive voice response pay-by-phone system
- (2) Web option for Cultural District parking, phone app for parking meters
- (3) Pet license fees may also be paid to designated veterinarians

While options to pay for at least 10 types of services may be performed online, not all of those services are specifically listed on the City’s main web page payment link. For example, there is no link to the Park & Recreation Department’s online services. As a result, a citizen may unnecessarily visit multiple City webpages to make a desired payment.



Source: www.fortworthtexas.gov

Web payment options are not provided for some revenue sources (i.e., alcoholic beverage permits and multi-family inspections) that are maintained within TaxCash/Micro Focus and other City revenue processing systems, including the restaurant fee SWEEPS system and the Fire Department’s FIREHOUSE system used for inspection billing. As a result, the City may not maximize revenue collection potential. Section XVI of the City’s Financial Management Policy Statements states that the City’s goal is to use available technologies to expedite cash payments and receipts, enhance employee productivity, and provide customer satisfaction.

As mentioned in the Background section of this report, the Planning and Development Department only receives credit card payments for services provided. However, customers are required to remit cash and/or check payments, for those same services provide by the Planning and Development Department, to the Treasury Division. Requiring that customers conduct business within the Planning and Development Department, walk cash and/or check payments to Treasury, and then return to the Planning and Development Department to complete their business transaction seems inefficient and does not promote a positive customer service experience.

Recommendation 2A: *The Director of Communications and Public Engagement, in conjunction with the Chief Financial Officer and Department Heads of revenue-generating departments, should ensure that a web payment option is considered and made available upon replacement of revenue software, and should consider adding other payment options when feasible with current software.*



Auditee Response: Concur. FMS has identified System Integrators as the Point-of-Sale ("POS") vendor to assist the City with a POS implementation. The software product the City has identified for acquisition is called "iNovah." The goal of this POS implementation is to enable the City to accept payments via the following methods: in person, online through a shopping cart style application, through the mail (sent directly to the City or to a lockbox address), through an IVR, and through a SmartPhone application. FMS has begun the development of the scope of work statement and the associated timeline for completion. When payments are ready to be web and SmartPhone enabled, FMS will coordinate this effort with the Director of Communications and Department Heads of revenue-generating departments.

Target Date: Completed

Responsibility: Chief Financial Officer

Recommendation 2B: *The Chief Technology Officer, in conjunction with the Chief Financial Officer, should research whether certain payment conveniences (including IVR) could be shared amongst departments via a cooperative agreement.*

Auditee Response: Concur. FMS will need to evaluate software application options for the possibility of implementing IVR payment options for the entire City. The evaluation will take into account the possibility of using a cooperative purchasing agreement if available.

Target Date: March 31, 2018

Responsibility: Chief Financial Officer

Recommendation 2C: *The Director of Communications and Public Engagement, in conjunction with the Chief Technology Officer, should consider adding a link from the main web page payment link to all currently available online payment options.*

Auditee Response: Concur. The Communications and Public Engagement Office has added links to all currently available online payment options to the main web payment page. As a result of the recommendation, the following links were added: Park fields & facilities (link to CLASS) and Hotel Occupancy Taxes. The Fire Alarm, Sprinkler and other design reviews is already linked through the Construction Permits & Licenses portal to Accela.

Target Date: Completed

Responsibility: Communications and Public Engagement Office

Recommendation 2D: *The Director of Communications and Public Engagement should consider revising the "Alarm Permits" payment link to state "Police Alarm Permits".*

Auditee Response: We agree that the title "Alarm Permits" is not clear. We feel like the recommended change is equally vague. We will change the title of the link to "Monitored Security Alarm Permits" which is a more descriptive and accurate title for this link.

Target Date: Completed

Responsibility: Communications and Public Engagement Office



Recommendation 2E: *The Chief Financial Officer, in conjunction with the Planning and Development Director, should have Planning and Development staff collect all types of payments that are accepted (by the City) for the services rendered, or should require that Planning and Development staff walk cash/check payments to the Treasury Division versus the customer.*

Auditee Response: Concur. A coordinated analysis of both options identified above will need to be performed by FMS and the Planning and Development Departments. This analysis will assist the departments in determining the appropriate recommendation(s) to pursue.

Target Date: March 31, 2018

Responsibility: Chief Financial Officer and Planning and Development Director.

3. Revenue monitoring processes lack well-defined requirements.

Section XV of the City's Financial Management Policy Statement requires a system of internal controls that results in independent checks of performance and accurate recording of transactions. During our audit, we found that although there is some follow-up on revenue variances, there is no defined threshold or criteria for identifying or following up on variances. While most general ledger account variances \$100,000 or more below budget appeared to have been vetted between the revenue-generating department and the Budget Division, we identified accounts with greater variances that had no evidence of being vetted with the revenue-generating department.

Internal Audit selected for review account variances that were at least \$10,000 below budgeted revenue and at least 20% below budgeted revenue or prior year actuals revenue. We also selected for review, accounts with revenue \$1 million less than budgeted revenue or prior year actual revenue. For the 20 accounts selected, we did not find support for adequate review or follow-up of over 50% of the variances, including a FY2015 variance of \$165,000 that was 100% below budget (salvage revenue).

Additionally, substantiated documentation (including activity reports, point of sales system reports, etc.) is not always obtained to verify the accuracy of budgetary variances. Sometimes there is no follow-up on actions identified during quarterly revenue monitoring. However, such follow-up is necessary to ensure that departmental representations made in prior quarters and/or required updates, are completed.

There has been significant turnover in positions responsible for budgetary monitoring. In addition, the division of responsibility between departments and budget personnel is not stipulated in the City's Financial Directives. The lack of defined thresholds, combined with staff turnover, has led to inconsistent or inadequate monitoring due to the failure to identify quantitative and qualitative factors. Ineffective monitoring of budget/actual or budget/prior year variances can result in missed opportunities to identify revenue losses and meet prescribed budgetary goals. Failure to follow-up on explanations for variances could result in the failure to detect significant errors or misappropriations.

Recommendation 3A: *The Chief Performance Officer should require that formally defined criteria be developed for variance analysis that includes quantitative and qualitative factors.*

Auditee Response: Concur with the recommendation.

Target Date: December 30, 2016 - prior to the next forecast process.



Responsibility: The Budget & Analysis Division will develop criteria for variance analysis.

Recommendation 3B: *The Chief Performance Officer should require substantial evidence, beyond a verbal explanation, for variances that fall within the review threshold.*

Auditee Response: Concur with the recommendation.

Target Date: December 30, 2016 - prior to the next forecast process.

Responsibility: The Budget & Analysis Division will develop the process for obtaining and documenting sufficient explanation and evidence for variances.

Recommendation 3C: *The Chief Performance Officer should develop a follow-up process that requires logs that ensure necessary follow-up and/or verification of predicted changes.*

Auditee Response: Concur with the recommendation.

Target Date: December 30, 2016 - prior to the next forecast process.

Responsibility: The Budget & Analysis Division will develop a log that tracks the variances and subsequent monitoring.

Recommendation 3D: *The City Manager should ensure that there is a clear delineation of responsibility for resolution of variances identified by Budget Division personnel.*

Auditee Response: Concur with recommendation.

Target Date: December 30, 2016 - prior to the next forecast process.

Responsibility: The Budget & Analysis Division will develop recommended delineation of responsibility regarding variances along with recommended actions.

4. Accounts receivable anomalies that may require adjustment were identified.

Accounts receivable balances should accurately reflect probable and estimated amounts due. During our audit, we identified receivable balances with amounts that appeared unlikely to be collected.

- A FY2013 receivable transaction should have been reversed in the general ledger when the \$96,665 invoice, that generated the receivable, was cancelled. However, the accounts receivable balance was not reduced by the \$96,665.
- A \$187,593 FY2004 balance existed for amounts due from a vendor who failed to remit funds to the City as required, although this amount is offset by an allowance account.
- Approximately \$90,000 in accounts receivable credit balances were noted. This amount does not represent funds due to the City, nor do two smaller credit account balances.

Revenues that are due to the City, but have gone uncollected, are generally recorded as accounts receivables. The TaxCash/Micro Focus system, used to account for a significant portion of City revenue, does not interface some types of adjustments directly to the general ledger. This lack of interface results in incorrect



balances and a requirement to initiate cumbersome manual entries whenever some types of adjustments are performed. Based on our audit results, the accounts receivable balances may be overstated by approximately \$186,600.

Recommendation 4A: *The Chief Financial Officer should determine whether the receivable balance anomalies identified should be adjusted.*

Auditee Response: Concur. A comprehensive review of receivable balance anomalies identified in the audit will be performed. The comprehensive review will result in determining whether adjustments are required. If adjustments are needed, then FMS will make any necessary entries to account for the identified anomalies.

Target Date: September 30, 2017

Responsibility: Chief Financial Officer

Recommendation 4B: *The Chief Financial Officer should determine whether receivable account credit balances represent amounts that should be refunded to customers or escheated to the State of Texas.*

Auditee Response: Concur. A comprehensive review of receivable account credit balances identified in the audit will be performed. The results of this review will determine if any credit balances should be escheated to the State of Texas.

Target Date: September 30, 2017

Responsibility: Chief Financial Officer

5. Revenues that may be classified incorrectly were identified.

Department personnel occasionally record revenues that appear identical in the General Fund and in the Special Revenue Fund. In these instances, the account name, description and the locations receiving the funds are the same. For example, registration fees at the same location were recorded in the General Fund and the Special Revenue Fund. The amounts collected were later transferred to the General Fund to be spent.

Government accounting standards state that funds restricted or committed for a specified purpose should be recorded in special revenue funds. Standard accounting practice is that only amounts due from customers should be described as receivables. In the instances noted above, the classification of transactions involved judgement, and in some cases, personnel may not have understood classification criteria or there may have been a perceived need to hold funds in reserve for future use. The use of special funds for revenues that could be recorded in the General Fund adds complexity to accounting and monitoring processes. Furthermore, journal entries are typically required to transfer revenue back to the General Fund and the fund balances must be monitored.

Recommendation 5: *The Chief Financial Officer should determine whether funds are appropriately recorded in special revenue funds.*

Auditee Response: Concur. A comprehensive review of revenue recorded in special revenue funds which were identified in the audit will be performed. The results of this comprehensive review will determine if



any financial transaction adjustments will be required. If adjustments are needed, then FMS will make any necessary entries to correctly account for revenue the City has received.

Target Date: September 30, 2017

Responsibility: Chief Financial Officer

6. There are no written policies regarding the receipt of donations.

Although the City formally received a total of \$676,821 in monetary donations in FY2014 and FY2015, the CFW does not have a policy governing donations. Best practices for donations include having policies governing the receipt, recording, and acknowledgement of donations received. Without formal policies for managing donations, the risk of incorrectly recording a donation is increased.

Restricted donations may not be recorded correctly without an adequate classification process. In addition, repayment from the General Fund might be required if monetary donations are not spent in accordance with a donor's specified restrictions. For non-monetary donations of assets, there is a risk that maintenance or other costs could exceed the value of the item received, or the City may not be in a position to pay for maintenance with appropriated funds.

Recommendation 6: *The Chief Financial Officer, in conjunction with the City Manager, should adopt a policy to manage the receipt and accounting for monetary and non-monetary donations.*

Auditee Response: Concur. The Chief Financial Officer and the staff of the FMS Department will create a new City-wide donation policy. This policy will be added to the Financial Management Policy Statements (FMPS).

Target Date: March 31, 2018

Responsibility: Chief Financial Officer

7. Some departments with significant revenues do not have cash handling procedures.

Departments that process significant amounts of revenue do not have written departmental revenue collection procedures. As a result, the requirements and procedures for refunds, voids, returned items, and other processes that may be unique to departments are not documented.

Departmental revenue processing procedures are useful for addressing specific circumstances that may apply to one particular department, including differences related to the use of different revenue-processing software. Departmental procedures also help ensure consistency during transitions resulting from employee turnover.

City departments may not deem it necessary to have departmental procedures that are in addition to the citywide cash handling policy. Furthermore, City departments are not currently required to have departmental cash handling procedures. However, the lack of specific departmental procedures reduces employee accountability for revenue collected and could result in failure to properly record revenue and/or to misappropriate revenue. Without specific procedures, transactions may also not be processed accurately or timely.



A revised citywide cash handling policy is currently in process. That revised policy, while not yet approved, is currently drafted to require departmental cash handling procedures.

Recommendation 7: *The Chief Financial Officer should finalize the citywide policy revision, which would require departments with significant collection activities to develop departmental cash handling procedures, which have been approved by the Chief Financial Officer.*

Auditee Response: Concur. FMS has drafted a revised cash handling policy. A coordinated multidepartmental team will review the drafted policy and provide operational, regulatory, and administrative input. Upon conclusion of the review, the policy will be submitted to Mayor and Council for approval.

Target Date: September 30, 2017

Responsibility: Chief Financial Officer



Acknowledgements

The Department of Internal Audit would like to thank the Performance Office, Financial Management Services, Information Technology Solutions, and other City departments for their cooperation and assistance during this audit.