

Fort Worth



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[†] Audit Committee Chair
^{††} Audit Committee Member

**Treasury Operations
Audit**

June 4, 2021



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

200 Texas Street
Fort Worth, Texas 76102

Audit Staff

Patrice Randle, City Auditor
Brian Burkland, Assistant City Auditor
Vanessa Martinez, Audit Manager
Kanizur Raquib Mazumdar, Senior Auditor
Randee Ibarra, Auditor
Alisa Pfeifer, Auditor





The Treasury Operations Audit was conducted as part of the Department of Internal Audit's Fiscal Year 2020 Annual Audit Plan.

Audit Objective

The objective of this audit was to evaluate the City's process for managing revenue (e.g., escalating non-compliant accounts, NSF check processing, reconciliations between City revenue and City sub-systems, and reconciliations between the City revenue and third-party data).

Audit Scope

Our audit included a review of revenue for the period October 1, 2018 through September 30, 2019. Activity beyond this period was reviewed as deemed necessary.

Opportunities for Improvement

Retention of records to support depository activity

Reporting and collection of monthly HOT payments

Completion of cash handling courses

Executive Summary

As part of the Fiscal Year 2020 Annual Audit Plan, the Department of Internal Audit conducted a Treasury Operations Audit.

Based on our audit results, the Treasury Division effectively communicated non-compliant accounts, including checks returned due to non-sufficient funds (NSF), to user departments. The Treasury Division also sent dunning letters to customers with outstanding balances. However, there were some instances (e.g., hotel occupancy taxes) where we could not confirm that the dunning process was completed.

We were unable to determine whether the Treasury Division received and should have deposited revenue for five business days for which deposit logs were unavailable. With the exception of this instance, we concluded that the Treasury Division effectively served as a central location for the processing of payments for multiple City departments.

Our audit results identified five hotels that did not remit hotel occupancy tax (HOT) revenue to the City, although those hotels remitted HOT payments to the State of Texas during the same reporting periods. Additionally, four of nine Treasury Division employees did not complete the required cash handling class before processing payments within POS system iNovah.

During the Responsible Authority Revenue Audit, Internal Audit identified 16 secondhand dealer pawn shops permits that were not billed in FY2019. The potential revenue loss was insignificant (e.g., less than \$500.00). As a part of this audit, Internal Audit followed up with the FWPD and the Treasury Division to determine why secondhand dealers (e.g., pawn shops) were not billed. Upon further review, an additional six pawn shops were identified from the Police Department records, that were not billed by the Treasury Division in FY2019. However, due to process issues within our review of pawn shop permits, it was determined that the permit process warrants an individual audit within FY2022.

Our audit findings are discussed in further detail within the [Detailed Audit Findings](#) section of this report.

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Background

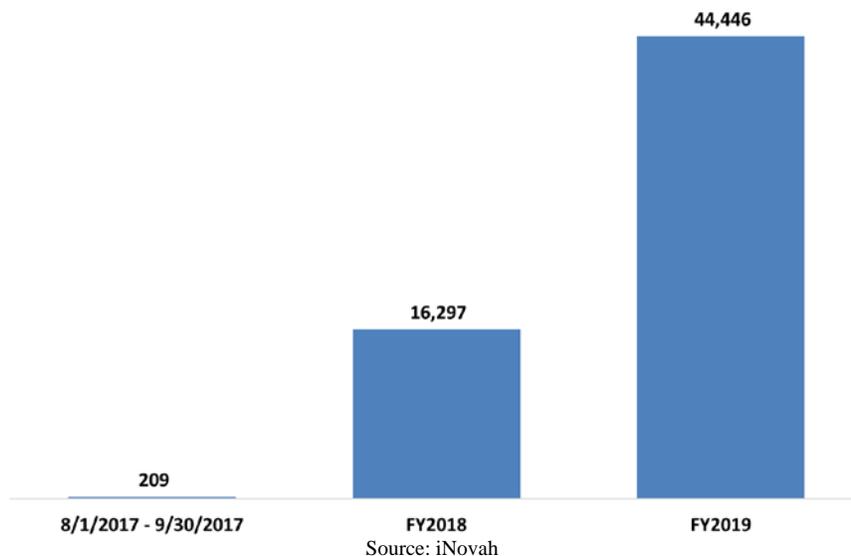
The City of Fort Worth's Treasury Division is a division of the Financial Management Services (FMS) Department that is responsible for managing the city's cash, investment and debt portfolios; executing vendor and payroll disbursements; and billing and collecting a variety of city-wide revenue sources. The Treasury Division performs billing, collection and deposits for various City Departments. However, some billing, collection and deposit functions are retained within the user departments.

The Central Revenue and Collections service area (of the Treasury Division) performs billing and collection services and central cashing for a variety of city departments. For example, the Central Revenue and Collections service area:

- creates customer accounts, in PeopleSoft, as requested by City departments;
- bills and collects on behalf of the FMS Department and/or other City departments; and,
- deposits funds that have been received from other departments and/or collected directly from City of Fort Worth (CFW) customers.

In August 2017, the City began using the iNovah point of sale system, which was purchased to help centralize CFW cashing. As noted in the following chart, iNovah records indicate that a total of 44,446 transactions were processed by the Treasury Division in FY2019. City departments such as the Water Department and the Municipal Court utilize software specialized for their departmental operations, rather than iNovah. It should be noted that the Central Revenue and Collections service discontinued processing payments for automated red-light camera tickets as a result of the June 2, 2019 House Bill 1631 passed by the 86th Legislature prohibiting automated red-light enforcement programs.

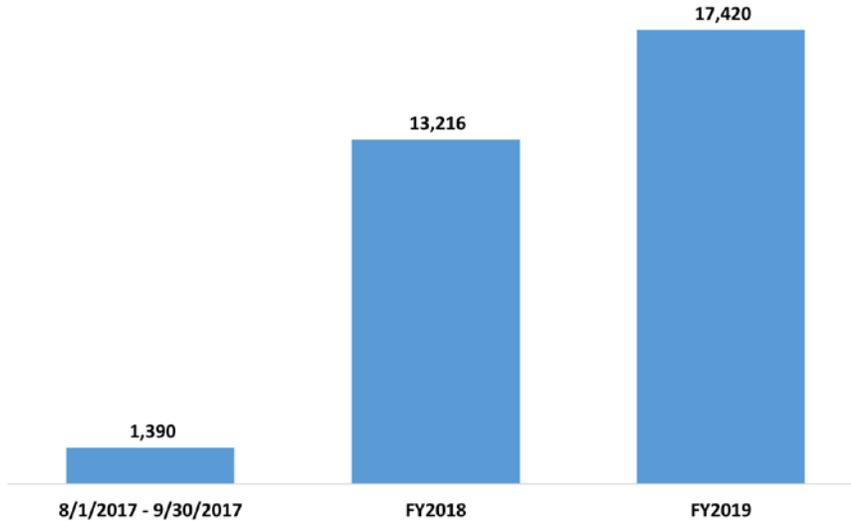
Number of Payments Recorded by Treasury Division in iNovah Since August 2017



The CFW also implemented PeopleSoft Billing and Accounts Receivable (PSAR), a fully-integrated module of the PeopleSoft Financial system, by September 2017 all modules were operational. The PSAR transactions processed by the Treasury Division for FY2019 totaled 17,420.



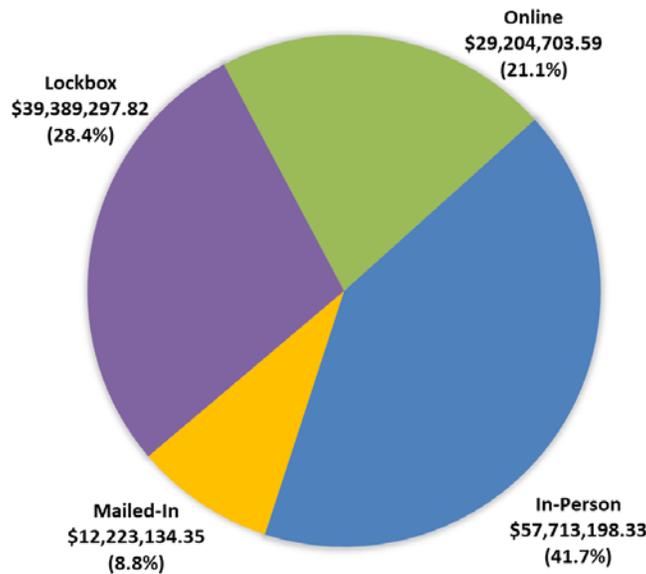
Number of Invoices Processed by Treasury Division in PSAR Since August 2017



Source: Peoplesoft

As noted in the following chart, in FY2019, the Treasury Division collected most payments (70.1%) through lockbox and in person. Examples of collections by the Treasury Division include collecting on-line, mail-in and in-person hotel occupancy tax (HOT) payments; collecting in-person building permit and water/sewer impact fee payments; collecting mail-in payments for mowing and nuisance abatement fees; and collecting lockbox payments for multi-family dwelling fees and airport lease payments.

The Treasury Division Processed Mostly In-Person and Lockbox Payments During FY2019



Source: iNovah



The Treasury Division maintains a deposit log sheet to keep track of monies submitted to them for deposit, by other City departments. The Treasury Division records the deposit amount, date received, bank bag number, and the name, telephone number, and City department of the person who submitted the money that is to be deposited. The Treasury Division also records the initials of the Treasury employee who received and transferred the money from the check-in desk to the vault. Payments received by mail are tracked in a mail log.

The Treasury Division reconciles PeopleSoft Account Receivable/Billing subsystem balances to CFW general ledger balances, on a monthly basis. The Accounting Division of the FMS Department performs bank reconciliations. Although the Treasury Division bills, collects and makes deposits on behalf of other departments, each department is ultimately responsible for revenue management within their departments (i.e., making sure customers are properly billed, following-up on delinquent accounts, etc.).

When customer checks are returned due to non-sufficient funds (NSF), the Treasury Division notifies the user departments, and requests that user departments make collection efforts. If the NSF is in response to a PeopleSoft billing, the Treasury Division reverses the customer's payment, updates the customer's account and bills the customer in the amount of the NSF and the NSF fee charged by the bank. If the NSF is not in response to a PeopleSoft billing, the Treasury Division creates a one-time billing in PeopleSoft.

Each month, the Treasury Division runs a report of outstanding customer balances. The Treasury Division sends the outstanding customer balance report to user departments, and sends system-generated dunning letters (from within PeopleSoft) to customers with outstanding balances. As previously stated, it is the individual departments' responsibility to collect outstanding amounts from their customers.

Treasury Division management indicated that in FY2019, the Central Revenue and Collections service area took over eleven billing types and the associated payment processing from a variety of departments without any additional staffing resources. Treasury Division management also indicated that at the beginning of FY2019, the Central Revenue and Collections service area had to manage with all new staff as a result of complete turnover at all positions, including the supervisor. As a result, the Treasury Division said they experienced a significant loss of institutional knowledge. Treasury Division indicated that during the first quarter of FY2019, there was an additional change in the supervisor position. However, Treasury Division management stated that staffing within the Central Revenue and Collections service area had since stabilized.



Objective

The objective of this audit was to evaluate the City's process for managing revenue (e.g., escalating non-compliant accounts, NSF check processing, reconciliations between City revenue and City sub-systems, and reconciliations between the City revenue and third-party data).

Scope

Our audit included a review of revenue for the period October 1, 2018 through September 30, 2019. Activity beyond this period was reviewed as deemed necessary.

Internal audit testing was limited to operations within the Treasury Division, and did not include cash handling functions within other City departments for which Treasury Division processes bank deposits.

Methodology

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

- interviewed Treasury Division personnel;
- reviewed the FY2019 Revenue Manual and the Fort Worth City Code to help determine the population of services for which the Treasury Division should have billed customers and collected revenue;
- verified a sample of collections of billings processed through PeopleSoft;
- identified billing customers and corresponding service departments;
- reviewed the Treasury Division's deposit log, and reviewed deposit completion, accuracy and timing;
- verified FY2019 Hotel Occupancy Tax payments;
- reviewed cash handling training records for Treasury Division staff; and,
- evaluated internal controls related to treasury operations.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Chapter XXVIII of the Fort Worth City Charter established the City of Fort Worth's Department of Internal Audit independent of management, reporting directly to the Fort Worth City Council. We utilized the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework when evaluating internal controls. The following internal control components and corresponding



principles were considered significant to the audit objective. COSO is dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence.

| Internal Control Component | Principles |
|-----------------------------------|---|
| Control Environment | Managerial oversight, integrity, ethics and responsibility; established organizational structure to achieve objectives; staff recruitment, development, retention, performance and accountability |
| Risk Assessment | Clearly-defined objectives to identify risks, define risk tolerances and respond to significant changes |
| Control Activities | Designed control activities, information systems and policies to achieve objectives and mitigate risks |
| Information and Communication | Communication of necessary quality information |
| Monitoring | Monitoring and evaluating the effectiveness of internal controls |



Audit Results

Based on our audit results, the Treasury Division generally managed revenue to ensure that the City received payments for services provided and billed to and collected from customers. Accounts belonging to customers with outstanding balances and/or NSF's were communicated to user departments.

Internal Audit randomly selected 25 business days, which resulted in a review of 382 deposits. Based on our audit results, 381 of the 382 deposits were made in a timely manner. The one exception deposit (\$72.00), was made in eight days and was considered an isolated incident.

We were unable to determine which deposits were logged for one of the 25 randomly-selected dates (June 26, 2019), since the pages for Monday June 24, 2019 through Friday June 28, 2019 were missing from the deposit log file provided during the audit. Upon Internal Audit inquiry, Treasury Division staff indicated that pages for those dates were inadvertently not scanned, and had since been shredded. The deposit log serves as the population of deposits which should be recognized at the bank. Without the log, it would be difficult (if not impossible) to determine the last known custodian of City deposits, especially if a deposit is missing from the bank statement. The City's records retention policy indicates that banking records should be retained for five years after the creation date.

The Treasury Division collected payments from CFW customers. Based on our testing of 25 randomly-selected customers, which resulted in a review of 130 billings, we concluded that the Treasury Division collected payments for 129 of the 130 billings. The one exception related to a NSF billing, which resulted from an 11/8/2017 permit payment (made by a Development Services Department customer) in the amount of \$332.40. The customer's payment was returned by the bank on 11/13/2017, and reversed in the general ledger on 12/5/2017. However, the customer was not billed for the returned check (\$332.40) and/or the NSF fee (\$25.00) until 12/3/2018, approximately one year later. Treasury Division management indicated that returned checks were handled by the Central Revenue and Collections service area (of the Treasury Division) around the time the NSF check was written, and those Treasury Division employees were no longer employed with the City. NSF checks are now handled by General Treasury Division. Development Services Department staff indicated that it did not appear that they were informed of the returned check, since there were no notes related to that permit. Internal Audit noted that reconciliations between the general ledger and permitting revenue recorded within the permitting system would have identified the returned check/payment. NSF checks totaled \$146,331.17 during FY2019. Based on our review of the general ledger, \$113,256.80 of the \$146,331.17 (77.4%) was either repaid or credited.

From our review of 25 randomly selected customers with past due balances, which resulted in a review of 69 individual invoices, the City sent monthly reminders to all customers, and collected outstanding balances for 68 of the 69 invoices. The one exception related to a customer with an unpaid balance of \$60.00 (i.e., for a wine and beer retailer's permit). Based on our review, the Treasury Division sent dunning letters to the customer, with the most recent letter dated March 2021. Treasury Division staff indicated that they also send notices of delinquent alcoholic beverage customers to the Texas Alcoholic Beverage Commission (TABC). The TABC has the ability to block permit renewal until the customer pays the outstanding balance.

Fort Worth hotels are required to self-report HOT revenue to the City of Fort Worth on a monthly basis. However, based on our audit results, five hotels did not remit HOT to the City of Fort Worth during some months of FY2019, even though they self-reported HOT revenue to the State of Texas during those months.

Four of the nine Treasury employees, who performed transactions within the iNovah POS system during FY2019, performed cash related transactions prior to completing the course. In accordance with the City of Fort Worth's Cash Management Reconciliation & Reporting Financial Directive, which was in effect during



the scope of the audit, all employees who have cash handling positions must successfully complete an eight-hour course on cash handling policies and procedures. It should be noted that the policy did not indicate when the courses had to be completed.

Internal Audit's Responsible Authority Revenue Audit (dated July 2, 2020) identified 16 secondhand dealer pawn shops permits that were not billed in FY2019. The potential revenue loss was determined to be insignificant (e.g., less than \$500.00). However, since non-billings could be indicative that the billing process could be in need of improvements, further analysis was to be conducted as a part of this Treasury Operations Audit.

During this audit, our review of police department records and PeopleSoft records identified an additional six (6) pawn shops that were not billed by Treasury Division in FY2019. Treasury Division staff indicated that some pawn shops were not billed because they never remitted secondhand dealer permit payments to the CFW. FWPD staff indicated that some unbilled pawn shops were never approved to operate within the City, and were, therefore, not in FWPD's database. It should be noted that Treasury Division indicated that a chain of pawn shops has indicated they are exempt from fees by law and Treasury Division is waiting to receive supporting documentation. Per Treasury Division staff, it is possible that this information was previously provided, but it was not saved in the system. Due to process risks identified within our review of pawn shop permits, it was determined that the permit process warrants consideration of an individual audit within the FY2022 Annual Audit Plan.



Overall Risk Evaluation

| High | Medium | Low |
|--|--|-----|
| <u>No records to support some days of depository activity within the Treasury Division</u> | | |
| | <u>Hotel Occupancy Taxes not remitted (to the CFW) by some hotels</u> | |
| | <u>Employees in cash handling positions did not complete the required cash handling course</u> | |



Detailed Audit Findings

1. Bank deposit logs supporting the Treasury Division's depository functions were missing.

Internal Audit was unable to determine whether the Treasury Division made or should have made a bank deposit on June 26, 2019, one of the 25 randomly-selected City business dates. Due to the bank deposit log sheets being unavailable from Monday, June 24, 2019 through Friday, June 28, 2019, which are used to determine whether depository activity occurred. Upon Internal Audit inquiry, Treasury Division staff indicated that said bank deposit log sheets were inadvertently not scanned, and had since been shredded.

Although Internal Audit's random sample would have only included a potential June 26th deposit, Internal Audit would have been unable to verify any depository activity completed by the Treasury Division during this five-business day period. It should be noted, however, that user departments' reconciliations of bank deposits to departmental subledgers should identify any discrepancies between what was deposited by the Treasury Division and revenue recorded by the user department. Missing bank deposit log sheets is a control weakness that could result in a loss and/or theft of funds without detection, especially if departmental reconciliations are not completed.

City Financial Directive (FD06) requires that cash receipt transactions be recorded and reconciled to the bank deposit. The Directive further states that cash and cash equivalents must be deposited within 24 hours of receipt, and that discrepancies between deposited amounts (when compared to written receipts, cash register, or computer system generated receipts) must be recorded along with documentation of the responsible cashier. The City's records retention policy indicates that banking records should be retained for five years after the creation date.

Recommendation 1: *The Chief Financial Officer should ensure that all bank deposit log sheets are scanned, and saved in a shared location before the original copies are destroyed.*

Auditee's Response: Concur. An additional verification procedure has been implemented whereby the Central Revenue and Collections service area Accountant will confirm each week that the daily deposit log sheets for the prior week are scanned and saved to the appropriate folder within the Revenue Office shared drive. All paper log sheets will be maintained until the end of the subsequent fiscal year. The daily deposit log sheets will be double checked to make sure they have been scanned and saved prior to destruction.

Target Implementation Date: Completed

Responsibility: Monica Arranaga, Treasury Supervisor
Kiphani Allen, Assistant Treasurer

Applicable Department Head: Reginald Zeno, Chief Financial Officer

Applicable Deputy City Manager: Jay Chapa

2. The City of Fort Worth did not receive hotel occupancy tax revenue from five hotels.

Five hotels did not remit HOT payments to the CFW for one or more months in FY2019, although



those hotels reported taxable revenue to the State of Texas for those same months (illustrated as a “No” in the following table). Section 32-19 of the Fort Worth City Code states that hotels are to report the amount of the tax collected on occupancies on the first day of the calendar month following each monthly collection/reporting period. The CFW, therefore, relies on each hotel to self-report their monthly, taxable HOT revenue.

While our audit period covered FY2019, a data analysis comparison of CFW to the State of Texas’ HOT revenue database identified non-reporting beyond FY2019. For informational purposes, the additional months (i.e., months beyond our audit period) in which HOT was not reported by these hotels are also included in the following table.

| Month | Holiday Inn | Radisson Hotel South | Comfort Suites Taraf Hospital | Valley View Motel | Hotel Texas |
|-----------------------|-------------|----------------------|-------------------------------|-------------------|-------------|
| October 2018 | No | | | | |
| November 2018 | No | | | | |
| December 2018 | No | | | | |
| January 2019 | | | | | |
| February 2019 | | | No | | |
| March 2019 | | | No | No | |
| April 2019 | | No | No | No | |
| May 2019 | | | No | | |
| June 2019 | | | No | | |
| July 2019 | | | No | | |
| August 2019 | | | No | | |
| September 2019 | | | No | | No |
| October 2019 | | | No | | No |
| November 2019 | | | No | | No |
| December 2019 | | | | | No |
| January 2020 | | | | | No |
| February 2020 | | | | | No |
| March 2020 | | | | | No |
| April 2020 | | | | | |
| May 2020 | | | | | No |
| Avg Monthly Payment * | \$11,203.11 | \$4,553.18 | \$5,874.30 | \$996.27 | \$199.70 |

* - an average of the last three months revenue reported to the CFW, as of November 2020

Source: Texas State Comptroller’s Website and CFW HOT records

Treasury Division staff stated that on the 10th of each month, they cross-reference a missed payment report to the Texas State Comptroller’s website to determine whether Fort Worth hotels filed a hotel occupancy tax report with the state. Treasury Division staff further indicated that they then send letters to non-compliant hotels, informing the hotels of the non-filings/non-payments. Internal Audit was informed that follow-up letters are not sent. However, Treasury Division staff indicated that courtesy calls are made if and when staff is available. In reference to the five hotels noted within this finding, Treasury Division staff was unable to confirm whether a letter was sent to each hotel because the related files were reportedly retained on a former employee’s computer. The Treasury Division indicated that such information is now being stored on their departmental shared drive.



Recommendation 2: *The Chief Financial Officer should consult with the City Attorney's Office regarding the most appropriate method that should be used to follow up with the five hotels that filed HOT reports with the State of Texas, but not with the City of Fort Worth.*

Auditee's Response: Concur. Collection efforts are underway to collect on the missing filings from the five hotels as identified by Internal Audit. The Central Revenue and Collections service area Supervisor will work with City legal and the City's third-party delinquent account collection firm as deemed necessary to assist with collection efforts.

In addition, a new monthly collection procedure will be implemented to identify missing filings by reviewing the State filings for all City of Fort Worth hotels. The Central Revenue and Collections service area Supervisor will work with City legal and the City's third-party delinquent account collection firm, as deemed necessary, to assist with collection efforts.

Target Implementation Date: September 30, 2021

Responsibility: Monica Arranaga, Treasury Supervisor
Kiphani Allen, Assistant Treasurer

Applicable Department Head: Reginald Zeno, Chief Financial Officer

Applicable Deputy City Manager: Jay Chapa

3. Employees in cash handling positions did not complete the required cash handling training course.

Four of nine Treasury Division employees did not complete the City's cash handling training course before they began processing cash-related transactions within the iNovah POS system. Three of the four employees completed cash-related transactions before a cash handling course was offered.

- One employee took a cash handling course approximately 15 months after their first iNovah transaction. However, based on information received from the Human Resources Department, a CFW cash handling course was offered two weeks after the employee's first iNovah transaction. This employee processed approximately \$79,000.00 in checks and credit cards, and approximately \$42.5M in lockbox, wholesale and EFT payments (over a nine-month period in FY2019) before taking the City's cash handling course.
- One employee took a cash handling course approximately 18 months after their first iNovah transaction. However, a cash handling course was available one month after their first iNovah transaction. This employee processed approximately \$30.3M in cash, checks, and credit cards, and approximately \$16,500.00 in EFT payments over a 10-month period in FY2019.
- One employee took a cash handling course one month after the first available course was offered, and approximately two months after their first iNovah transaction. This employee processed approximately \$13.2M in cash, checks, and credit cards over an approximate two-month period in FY2019.
- One employee took a cash handling course approximately 20 months after their first iNovah



transaction, although a CFW cash handling course was offered approximately one month before and again two months after their first transaction. This employee processed approximately \$461,000.00 in cash, checks, and credit cards, and approximately \$3.2M in lockbox and EFT payments in FY2019.

In accordance with the City of Fort Worth's Cash Management Reconciliation & Reporting Financial Directive, which was in effect during the scope of this audit, all employees who have cash handling positions must successfully complete an eight-hour course on cash handling policies and procedures. The policy is silent as to whether the course must be completed prior to starting in the position or if the course must be re-taken as a refresher course.

It should be noted that a new policy, Revenue Receipting Policy, effective October 1, 2019, is more specific about an annual course refresher, as well as when and who is expected to take the course. For example, the new policy states that new employees, who have payment receipting responsibilities must successfully complete (70% passing grade) the course within 30 days of employment, and that existing employees must successfully complete the course upon obtaining the cash receipting responsibility.

Recommendation 3: *The Chief Financial Officer, should ensure that employees complete the Cash Handling course as required by City policy.*

Auditee's Response: Concur. Going into Fiscal Year 2019, the Central Revenue & Collections had to manage with all new staff as a result of complete turnover at all positions, including the Supervisor. During the first quarter of Fiscal Year 2019, there was another change at the Supervisor position. The Central Revenue and Collections service area has since stabilized from a staffing standpoint.

All Central Revenue and Collections service area have now completed the required Cash Handling training course. The Central Revenue and Collections service area Supervisor has implemented an annual reminder to confirm all Central Revenue and Collections service area staff complete the training annually as required by policy.

Target Implementation Date: Completed

Responsibility: Monica Arranaga, Treasury Supervisor
Kiphani Allen, Assistant Treasurer

Applicable Department Head: Reginald Zeno, Chief Financial Officer

Applicable Deputy City Manager: Jay Chapa



Acknowledgements

The Department of Internal Audit would like to thank all City departments for their cooperation and assistance during this audit.