



CITY OF WILMINGTON

Accounts Receivables

Internal Audit Review

April 11, 2023

City Auditor's Office

Terence J. Williams
City Auditor
(302) 576-2165

Highlights

Why We Did This Audit

The Internal Audit Department (IA) performed a scheduled audit of Accounts Receivables (AR). The audit was conducted in accordance with the city's FY23 Internal Audit Plan.

Methodology

The objectives were met through interviewing management and staff, reviewing policies and procedures, gaining an understanding of the processes and controls in place, analyzing Accounts Receivable data, and reviewing MUNIS AR user permissions.

Audit Review Committee:

Ronald Pinkett, Chair

Angelique Dennis
Chris Johnson
James Spadola - Designee
Tanya Washington

Non-voting Member
Marchelle Basnight

Objective and Scope

As part of our audit plan, Internal Audit (IA) conducted a Performance Audit of the City's (AR) (Real Estate Tax, Wage Tax, Parking Citations, and Red-Light Citations). The audit objectives were to assess the current accounts receivable processes and controls in place, including: the preparation and processing of cash receipts and invoices; the controls relating to the security of MUNIS data; the procedures for monitoring accounts receivable balances and for writing off bad debts; and the processes for calculating interest on overdue accounts.

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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The City of Wilmington (CoW) has many types of receivables: utilities, taxes, service fees as well as other miscellaneous invoices. For IA's review, focus was on Real Estate Taxes, Wage Taxes, and Parking and Red-Light Citations.

Real Estate Tax receivables are billed annually in the first month of the fiscal year, usually by July 15 and they are due by August 31. Per City Code Section 44-34, penalties and interest are billed systematically based on the dates and parameters set through the billing process. Real Estate Tax exemptions are provided to citizens over 65 years of age and/or disabled and to non-profit organizations. Both exemptions require the filing of an application to verify eligibility. There is also a property tax incentive exemption program application process for property tax abatements to exempt all or part of an improvement for a set number of years. This incentive is meant to encourage new construction or rehabilitation of a property and to help revitalize communities and retain residents.

For Wage Taxes, manual W-2s are due by 1/31 of each calendar year and electronic W-2s are due by 2/28 of each calendar year. Any employer can submit electronically, but a company with 50 or more taxable employees are required to file electronically. A process is run for each employer to reconcile payments submitted during the year to the annual filing submitted. Deficiencies determined for an employer are billed by the City in May of each year. Overpayments are left on the account until a return is submitted or a refund is requested. The CoW Wage Tax is calculated at 1.25% of gross wages and applies to anyone who lives in and/or works in the city limits. Wage Taxes are the largest source of revenue for the CoW.

Parking and Red-Light Citations are managed on a third-party software called eTIMS®. This software captures all the details of the citations including images that may have been captured during the citation issuance. Parking fines can vary depending on the type of violation; however, the most common fine is \$40 for overtime violations as well as street cleaning violations. A \$10 discount is given if paid within 48 hours online or in person. Penalties are incurred at \$20 if not paid after 21 days, 45 days, and 90 days. Red-Light fines are \$110 and incur an additional \$10 penalty if not paid after 21 days, 45 days, and 90 days.

The CoW utilizes many payment options for its receivables, which is considered a best practice. Cash, check, or card are accepted in person or by mail at the Revenue Department. The city also accepts payment by phone or online via the city’s website. Additionally, there is a lockbox set-up with a bank to process payments received by mail and another lockbox for processing payments made via online bill pay by constituents through their personal bank; although the constituent sets up online bill pay through their bank, a check is still made out to the city because the city is not setup to accept bank online bill pay.

Key Statistics

Primary Government Receivables

Receivables as of June 30, 2021, for the Government’s major and non-major funds (including all applicable allowances for uncollectible accounts) are as follows:

	General	Capital Projects	Non-Major Funds	Total Governmental Funds	Water & Sewer Fund
Receivables:					
Property Taxes	\$ 6,306,910	\$ -	\$ -	\$ 6,306,910	\$ -
Wage Taxes	15,472,415	-	-	15,472,415	-
Parking & Red Light Citations	13,524,334	-	-	13,524,334	-
Business Licenses	2,255,012	-	-	2,255,012	-
Signs and Licenses	7,834,574	-	-	7,834,574	-
Other	1,299,230	-	2,314,636	3,613,866	-
Utility Bills	-	-	-	-	42,246,734
Gross Receivables	46,692,475	-	2,314,636	49,007,111	42,246,734
Less: Allowance for Uncollectibles	(22,709,986)	-	(135,005)	(22,844,991)	(12,702,697)
Net Total Receivables	\$ 23,982,489	\$ -	\$ 2,179,631	\$ 26,162,120	\$ 29,544,037

Source: City of Wilmington Annual Financial Report for Fiscal Year ending June 30, 2021

What we found

Key Findings

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

Risk Ranking:		(See Attachment B for full rating definitions)			
Process / Area	Process / Area Owner	1 Strong Controls	2 Controlled Effectively	3 Controlled - Improvement Required	4 Significant Improvement Required
Data Security				✓	
Policies and Procedures				✓	
Reconciliations				✓	

Data Security

1. Munis user role permissions stay enabled although employee is no longer employed, or a position change has occurred that no longer requires the role permission.

An analysis of current users within MUNIS for Wage Tax and Property Tax functions revealed the following:

Wage Tax:

- Twenty-six (10 FTE and 16 Temps) with at least one enabled Wage Tax role are inactive.
- Thirty-seven users with at least one enabled Wage Tax Role were identified by Wage Tax management to not be EIT (Earned Income Tax) employees.

Property Tax:

- Ten (two FTE, one Youth Worker, and seven Temps) with at least one enabled Property Tax role are inactive.
- Thirty-seven users with at least one enabled Wage Tax Role were identified by Wage Tax management to not be EIT (Earned Income Tax) employees.

An analysis of current active users within electronic Ticketing Information Solution (eTIMS®) the solution used to manage the end-to-end parking and red-light ticket lifecycle revealed the following:

eTIMS®:

- Five users have duplicate eTIMS® IDs.
- Thirteen FTEs no longer employed have an active ID.
- Seven inactive temps have an active ID.
- Old Tow Contract contact remains active.

Policies and Procedures

2. No formal documented procedure for adjustments made to parking and red-light citations.

Testing and analysis of adjustments to accounts receivables for property tax and wage tax reflected sufficient documented procedure for adjustments; however, for parking and red-light citations, there was no documented procedure for adjustments made to citations. Currently, adjustments to citations can be requested by the mayor's office, Office of Civil Appeals, or the Customer Service Manager (CSM). The CSM initiates an adjustment by sending an email to a parking division administrative employee to complete the requested adjustment.

3. Based on an inquiry with Management, consultation with the city's external auditors and review of the accounting policy and procedures manual surrounding AR, no current documented accounting guidance could be located detailing the allowance for doubtful accounts calculation methodology.

Undocumented policy and procedures regarding the allowance for doubtful accounts and outdated calculation methods can lead to overstated or understated balances for receivable and allowance balances.

Reconciliations

4. Control weaknesses were identified, due to AR sub-ledgers only being reconciled to the general ledger (GL) at year end and is considered untimely.

Based on inquiries with the city's Accounting Manager regarding reconciliations of the AR Sub-Ledgers and the GL; the Accounting Manager confirmed that the reconciliations are done at year-end by a Senior Accountant.

Additional Observations

Real Estate Tax Division

The division has good procedural documentation in place; however, some of the procedures noted dates older than two years and screenshots reflected older versions of software (i.e., MUNIS). Consider updating images from Property Tax Procedure documents to reflect screenshots of the current MUNIS version being used (images are from version 11.3), the city is currently utilizing version 2019.1. Best practices would be to review and update as needed at least every two years. It is important to review these procedures regularly to ensure they reflect the most up to date data.

Additionally, a Property Tax FAQ was provided when requesting division documents; the document provides good information and should be added to the city's website as it could provide valuable and useful information for the city's constituents. Before having the document posted to the city website, it is recommended that the Property Tax FAQ be reviewed and updated to ensure all data is current.

Wage Tax Division

The division began to utilize two companies (Avenu Insights & Analytics, LLC and Metropolitan Revenue Associates, LLC) to help with the collection of accounts. Although the start of the use of these companies was out of the scope of our review; it was noted that the agreements with each company lasted one year. Management should ensure that the yearly agreements are reviewed, updated and agreed-to by both parties on a yearly basis.

Management Responses to Audit Recommendations

Summary of Management Responses

Recommendation #1: Management should ensure compliance by following up on MUNIS access Permission Request forms that are to be submitted to Human Resources (HR) and Information Technology (IT) departments upon termination of a user.

Regarding eTIMS® access, management should consider implementing and documenting a formal procedure for removing access from employees who no longer require access. Per Conduent, owner of eTIMS®, the current process is for someone from the city to contact Conduent with the name and ID of the user to be deactivated, which is usually done via email or phone call; however, if Conduent is not notified, the user will remain active.

Management response & action plan: The Department of Finance acknowledges this finding. We will review the role permissions list and determine which employees / former employees will have their access terminated. We will work with HR and IT to close access.

Completion Date: Complete

Recommendation #2: Management should develop, document, and implement a formal process for requesting and approving adjustments to parking and red-light citations. The process should include documenting the reason for the adjustment and approval by a supervisor or manager. Additionally, the reason for the adjustment should be noted within eTIMS®, the software used to manage parking and red-light citations.

Management response & action plan: The Department of Finance acknowledges this finding. The Administrative Board has approved the redirection of ticket and parking appeals to the Justice of the Peace court system (please see attachment). Adjustments to citations will be minimized. However, the Parking Enforcement Unit will be hiring an administrator who will be processing these requests for adjustments and appeals. Once on board the administrator will formalize the internal processes.

Completion Date: Complete

Recommendation #3: Management should, according to GFOA best practices, establish an allowance for doubtful accounts and a write-off policy. It should be documented within the accounting policy and procedures. The policy should be evaluated by the department annually and updated periodically according to a predetermined schedule. Reference GFOA Best Practices on Receivables and Handling Receipts in the Treasury Office for further guidance. In addition, the current monitoring practice of monitoring DAD Summary Reports bi-weekly should be able to assist in guiding the allowance calculation since current information is being monitored consistently.

Management response & action plan: The Department of Finance acknowledges this finding. We will collaborate with the outside auditor on a methodology to determine and normalize the allowance for doubtful accounts on both a monthly basis and during a year-end reconciliation and bring them to the Administrative Board for approval.

Completion Date: September 30, 2023

Recommendation #4: Management should ensure that the Accounting Division implement more consistent and regular reconciliations of the AR Sub-Ledger to the GL. GFOA best practices recommend that governments establish a revenue control and management policy and review it on an annual basis. The policy should be customized for the size and resources of the government. A revenue control and management policy establish proper controls over all receipts and receivables and helps ensure sound financial management practices. A formal manual that documents the city's revenue control and management procedures can facilitate policy implementation, as well as serve as an effective internal control in and of itself.

Many of the factors that should be considered in developing a general revenue control and management policy have been addressed by the Finance Department Division procedures; however, timely reconciliations to applicable ledgers need to be addressed. The current process of completing reconciliations of the AR sub-ledgers to the general ledger only once at year-end is not sufficient. At minimum, a quarterly reconciliation process of receivables to applicable ledgers should be implemented. This will assist in keeping sound financial records by identifying adjustments needed sooner rather than later.

Management response & action plan: The Department of Finance acknowledges this finding. The Department will be instituting new close-out procedures and will be hiring two consultants / accountants to document and monitor the reconciliation of the ledgers during the May and June timeframe. We will put these procedures in place and document them as such.

Completion Date: September 30, 2023

Audit Team

Michael J. Maldonado, Senior Auditor
Tamara Thompson, Audit Manager