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# The City of Winnipeg Audit Department

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## Review of The Local Improvements And Miscellaneous Revenue Branch

April 1998

## **Introduction and executive summary:**

In March 1998 the City of Winnipeg Audit Department was asked by the Corporate Finance Department to review the area of License in Lieu of Business Tax. This request came as a result of the discovery by Corporate Finance of numerous documents that had not been processed during the year. It is estimated that a total of 339 Licenses were not mailed out to the appropriate businesses, resulting in a potential loss of revenue in the amount of \$306,237. Subsequent recovery efforts were initiated and \$17,000 has been collected by the Branch.

The documents discovered included business licenses received from Assessment, but not mailed out to the businesses, and cheques received for payment of accounts that were never cashed. Our review indicated that a “manual” accounting system was used previously to control business licenses issued and receipts received on account. Since this system was not maintained, and was subsequently replaced by another process, it cannot be established whether or not any of the revenue was ever received. The options discussed with management included the issue of a second notice to these businesses.

In relation to the above, the Audit department was made aware of the fact that the former Supervisor was on sick leave since May 1997. A lack of consistency in supervision continued as a result of this and the situation worsened as the employee responsible for this area was not performing his duties on a timely basis. This employee also left the Branch on sick leave in October 1997.

The Audit department reviewed the processes and made preliminary recommendations on the same. These recommendations were highlighted in a “Preliminary findings for discussion” document and discussed with Department management and appropriate staff. Several suggestions were implemented immediately. Subsequent to that meeting, a further review was performed on the remaining revenue areas within the Local Improvements and Miscellaneous Revenue Branch (LIMR).

The findings of the review are summarized as follows:

- *Cash receipt collection controls are critical to ensure the integrity of the process from receipt (mail opening) to deposit. A review was performed of the key controls that are relevant to this process and recommendations were made to enhance the level of control within the Branch.*
- *Cash receipts received within the Branch are not restrictively endorsed immediately upon opening of the mail. This control does not get performed until cheques are forwarded to the City Cashier.*
- *A lack of Branch supervision has resulted in several important review functions not being performed. This includes the reconciliation of the License in Lieu subledger (Paradox system) which had not been reconciled during the year.*

- *Processing backlogs requiring further review and consideration still exist in regard to Letters of Adjustment received from the Assessment department. These adjustments to the original business tax assessment require significant processing effort. A backlog of several months processing currently exists.*
- *Amusement tax levied on those events held where an entrance fee of \$5.00 or greater is charged has not been monitored on a consistent basis. A review of the local newspapers to identify those events that should be remitting tax has not been performed since December 1997.*
- *Staff shortages within the LIMR branch have created responsibilities and daily workloads that do not foster an effective and efficient workflow. The assignment of duties relative to each revenue type has created workload discrepancies that may contribute to further processing backlogs.*

The remainder of this report details the findings highlighted above and provides recommendations for consideration by management. *Management responses to the findings and recommendations have also been included in the body of the report.*

## **Control of Cash Receipts**

The nature of the LIMR branch is such that all cash receipts for each revenue type are received within the Branch. One individual has been given the responsibility of opening the mail and initiating the processing of the cheques received. Our initial review recommended certain control procedures that would enhance the overall control of this process. A Batch Header document is now being produced to control the cash receipts for each revenue type. This document has increased the control over the cheques distributed throughout the Branch (to employees responsible for the processing of these receipts) as well as creating an important control document for reference in regard to possible queries or claims from the public. A central database of all cash receipts logged by revenue type is now available.

Cash receipt collection controls are critical to ensure the integrity of the process from receipt (mail opening) to deposit. The following presents a summary of key controls that are relevant to this process:

- All receipts should be restrictively endorsed immediately upon receipt.
- Receipts should be logged/recorded onto the appropriate system upon receipt.
- Cheques forwarded to appropriate area should be accompanied by a batch header.
- Receipts should be held in a secure manner until forwarded for deposit.
- Deposits (transfer to cashier) must be made on a timely (daily) basis.
- Deposit summary tape (from Cashier) must balance to total of cheques forwarded for deposit (as per total of batch header forms). Discrepancies to be followed up on immediately.

Our subsequent review of the cash receipt process indicated that with the implementation of the batch header, all of the above controls are effectively being performed with the exception of the first one. We would therefore recommend that consideration be given to transferring the “restrictive endorsement stamp” to the point of opening the mail within the Branch.

### **MANAGEMENT RESPONSE**

The Branch has purchased a restrictive endorsement stamp as indicated above. The stamp specifically reads "Deposit to the Credit of the City of Winnipeg Corporate Finance Department Local Improvements & Misc. Revenue Pay to the Order of any Bank or Banker The Bank of Montreal 0003-1193-589". Each cheque when opened in the branch is now stamped immediately.

## **Department Supervision**

As discussed in the introduction to this report, a lack of consistent supervision over the functions and processes performed, have contributed to the original problems that have arisen within the Branch. This had resulted in a significant backlog in the License in Lieu area which is currently being addressed.

Our review indicated that no review had been performed of the reconciliation of the License in Lieu subledger (Paradox system), nor had this reconciliation been prepared for over a year. A full time Supervisor has been transferred to the Branch, which will ensure proper supervision and direction throughout the miscellaneous revenue areas. Two critical responsibilities that represent key controls within the Branch are:

- Review and approval of all standard monthly and year end journal entries;
- Timely performance and review of reconciliations of subledgers to the G/L.

The above reviews are important to ensure that branch processing is being performed accurately and on a timely basis to prevent any further backlog problems. As such these functions become an important part of the responsibilities of the Supervisor.

## **MANAGEMENT RESPONSE**

This Audit finding and discussion is noted and accepted for information purposes. As indicated above, a full time Supervisor has been transferred to the Branch. All key controls are being performed.

## **Processing Backlogs**

During the review, two areas were noted that warrant further review and consideration with respect to processing backlogs. These are presented as follows:

### ***Letters of Adjustment (License in Lieu):***

Letters of adjustment are received from the Assessment department, which require processing to adjust the original assessment to businesses. Although the intent is to make the adjustments and process the corresponding credit or refunds, each "letter" of request requires significant processing effort. Currently, there is a backlog of several months in the processing of these letters. It becomes increasingly important to fill the current vacancy that exists to maintain a current status in all areas of the Branch.

## **MANAGEMENT RESPONSE**

All letters of adjustment have been processed prior to the new Revenue Clerk "C" starting on June 1, 1998. Significant overtime was required to process each adjustment letter, but it was deemed necessary. The introduction of a new computer system in January 1999 will simplify this process.

### ***Amusement Tax:***

Amusement tax is levied on those events held where an entrance fee of \$5.00 or greater is charged. Although this revenue source is small, rules and guidelines do exist to ensure that event coordinators are in compliance with collection requirements. A number of “core” accounts are required to remit on a monthly basis because that is the nature of the business that they are in. This would include theatres, ticket agencies, production and management companies. The much smaller independent event organizers are sourced through a review of the city daily newspapers. Branch personnel will then attempt to contact the organizers of the event and instruct them to remit the appropriate amount of tax. This newspaper “review” has not been performed since December 1997.

As a result of the backlog in the License in Lieu area, the Amusement Tax area has been somewhat neglected. Understanding the small dollar value of the amounts in question, there still exist rules that should be consistently applied in order to be fair in this process. A further issue arises with respect to the amount of resources required to trace, track, contact, and monitor the numerous small events that take place in the city throughout the year. Added to this, is the “exemption process” that charities and the like can go through to exempt their event from having to remit the Amusement tax, and it becomes a costly process to recover a small source of revenue.

We recommend that the guidelines and rules pertaining to this area be consistently applied to avoid confusion and/or unfair treatment of the numerous event coordinators. We would further recommend that consideration be given to establishing more narrow guidelines as to who is eligible to pay Amusement tax. By levying this tax only on those businesses that are in the full time business of staging and coordinating events of a greater magnitude, the City could greatly reduce the time and effort required to source and monitor potential events of the small variety, as well as restrict the exemption process. The businesses that fall within tax guidelines would be registered and tracked on a monthly basis, with regular reporting and remitting requirements being their responsibility.

### **MANAGEMENT RESPONSE**

The newspaper review mentioned above, is now being performed by the Clerk B in the Branch to help alleviate the workload of the Senior Clerk responsible for Amusement Tax. With the help of the Clerk B and the recruitment of the new Clerk C, the guidelines and rules pertaining to Amusement Tax will once again be consistently applied, as they were prior to December, 1997.

The City undertook a study of arts and culture in Winnipeg which resulted in a report titled "Into the 21st Century, Arts and Culture in Winnipeg" dated April 19, 1997. On April 29, 1998, the Executive Policy Committee, through a "motion of which notice has been given" concurred to abolish the amusement tax. The Standing Committee on Fiscal Issues has been instructed to develop an implementation plan to completely eliminate the tax within the next three years, with the Standing Committee on Protection and Community Services to review and make recommendations contained in the report.

## **Workload Assignment Responsibility**

Throughout the course of the review of the LIMR branch, it became evident that staff shortages had created responsibilities and daily workloads that did not foster an effective and efficient workflow. That is, the assignment of duties relative to each revenue type create workload discrepancies that may contribute to further processing backlogs.

As certain types of revenue (i.e. mobile home tax, billboard tax, grants and electricity & gas tax) require significantly less processing time and effort, it may be appropriate to pool resources within the branch in an effort to maximize the efficiency of the workflow. Although this has been done to a certain extent, further cross-training of departmental staff should be considered to create an effective processing environment. As well, some areas of the Branch are more critical in the sense of the knowledge and experience factor required to perform the function. Inadequate cross-training could result in processing disruption in the event a sudden vacancy arises. Benefits of this are:

- Coverage to those areas that experience the higher volumes of paperwork flow and procedural functions to ensure timely and current processing.
- Cross-training coverage for times of absenteeism and/or departmental transfer.
- Job enrichment to the extent that some variety has been introduced to each staff member's daily duties and responsibilities.

It is our understanding that one of the existing vacancies in the Branch has been posted and will be filled in the near future. This compliment of staff will be sufficient to handle the current volumes of licenses in lieu of business tax. However, other revenue types are not consistent in workload processing requirements and as such, individual employees may view this inequity as a staffing problem. The effect of the backlogs currently experienced are discussed in greater detail later.

It is our recommendation that a review of the Branch structure be undertaken with the vision of maximizing productivity, maintaining current processing efficiency and effectively utilizing existing resources. This would include an analysis of all existing positions and the vacancies that exist currently. Consideration should also be given to the branch "fit" within the organization and whether these small, but relevant revenue areas could be blended into other larger branches.

## **MANAGEMENT RESPONSE**

Cross training and workload responsibilities within the Branch is a concern that is being addressed. The following describes our efforts to combat this problem:

- The Local Improvement and Miscellaneous Revenue Branch has successfully recruited a Revenue Clerk C that will be responsible for the processing of licenses in lieu of business tax. This person starts on June 1, 1998. Since November 1997, the Senior Revenue Clerk responsible for Amusement Tax and the Clerk B in the Branch have been trying to deal with the increasing volume of licenses in lieu of business tax.

With the addition of the new Clerk C we will have sufficient human resources to adequately manage the license in lieu of business tax revenue.

- We are currently in the process of establishing an Accounting Trainee III position to assist with the general accounting within the branch as well as work with the local improvement revenue team and be responsible for all local improvement accounting. Currently the Branch has one Senior Clerk that manages the entire local improvement life cycle with no coverage for absenteeism from the workplace. The addition of this position will provide coverage and cross training in the local improvement area as well as provide assistance to the general accounting for the Branch.
- The LI&MR Branch will be amalgamating with the Tax Branch in the next couple of months. A complete review of each position within the section will be undertaken with the goal of maximizing productivity, effectively utilizing our resources, coverage, cross training, and job enrichment for all staff.
- The elimination of “vacancy management” allows Management to respond more quickly to vacancies which are critical or have special problems associated with them.