



**Philip J. LaTessa
City Auditor**

**CASH & INVESTMENTS AUDIT
JANUARY 1, 2010 – MARCH 31, 2010**

Introduction:

As required under Article V, Section 5-503, of the Charter of the City of Syracuse, the annual audit of the City of Syracuse's cash and cash equivalents activity for the period January 1, 2010, through March 31, 2010, was conducted. The purpose of this audit is to review cash and investment activity as set forth in the City of Syracuse Investment Policy and the City of Syracuse Charter, as adopted by the Common Council. The examination was administered in accordance with the *Generally Accepted Government Auditing Standards*, issued by the Comptroller General of the United States and *Standards for the Professional Practice of Internal Auditing*, as circulated by the Institute of Internal Auditors.

These standards require that we plan and perform the examination to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under examination. It was not our objective to, and we do not, express an opinion on the financial statements of the City of Syracuse, New York, or provide assurance as to either the City's internal control structure or the extent of its compliance with statutory and regulatory requirements and guidance of the Office of the State Comptroller.

The management of the City of Syracuse, New York, is responsible for the City's financial affairs and for safeguarding its resources. This responsibility includes establishing and maintaining an internal control structure to provide reasonable, but not absolute, assurance that resources are safeguarded against loss from unauthorized use or disposition; that transactions are executed in accordance with management's authorization and are properly recorded; that appropriate financial records are prepared; that applicable laws, rules and regulations are observed; and that appropriate corrective action is taken in response to audit findings.

This report is intended solely for the information of the Mayor and Common Council of the City of Syracuse, New York, yet it is understood to be a matter of public record and its distribution is not limited. Further information regarding this audit is available at the City of Syracuse's Office of the City Auditor upon request. The Office of the City Auditor would like to thank the personnel who assisted and cooperated with us during the audit.

Scope:

The scope of the examination entailed reviewing the bank statements, collateralized deposit data, general ledger and related records for the period January 1, 2010 through March 31, 2010.

Objectives:

The original objectives of the cash and investment audit were as follows:

1. Determine whether the cash balances represent all cash and cash items on hand, in transit to or in financial institutions and are properly recorded.
2. Determine whether funds are properly collateralized.
3. Assess the cash balances in non-interest bearing accounts.

Methodology:

To reach the assurance that the cash balances represented all cash items on hand, in transit to or in appropriate financial institutions and properly recorded, and that all investments and cash funds are properly collateralized, the Office of the City Auditor tested the City's cash and cash equivalents activity for each month in the audit period. For the liquid asset (cash) accounts belonging to the City departments, the Office of the City Auditor tested the information found on the Bank Reconciliations and Schedules of Collateral to the corresponding bank and collateral statements via the financial institutions. Once the proper figures were determined, they were traced to the general ledger detail to ensure all cash items were properly represented and recorded. The collateralized funds were recalculated to ensure accuracy.

For the City's cash equivalent (investment) accounts, the figures found in the City's general ledger were checked to the appropriate supporting documentation from the financial institution to ensure proper representation and recording.

The Office of the City Auditor interviewed Finance Department staff, including the Systems Accounting Manager, with the purpose of getting a fuller understanding of the influences affecting the timeliness of the reconciliations done as a part of cash management

Conclusion:

In the Cash and Investment Audit for the period January 1, 2010 through March 31, 2010, the Office of the City Auditor expressed concerns about the reconciliation process for e-Check and credit card payments as an area that needed continued attention.

Secondly, starting in December, 2009, the Chase Lock Box used for parking violations payments became problematic for the Office of the City Auditor to verify accuracy, as limited information was being made available. After December, 2009, the situation worsened, with the Systems Accounting Manager and the accounting staff unable to provide the monthly reconciliations needed by the Office of the City Auditor to verify that the receipts being credited to the Chase Bank parking violation lock box Account 405 are accurate and correct. The Office of the City Auditor noted this development in the Cash and Investments audit for the quarter for October through December, 2009.

While the Office of the City Auditor would prefer to receive all of the bank reconciliation documents from a single source (previously bank reconciliations and schedules of collateral were provided by the Bureau of Accounts exclusively, and more recently have come from a combination of the Bureau of Accounts and the Parking Violations Bureau), it has become evident that complexities related to the need for more timely posting of payments has altered the potential for obtaining all the documents from a single source.

Background:

In the fall of 2005, the City of Syracuse administration, through the efforts of the Commissioner of Finance, began working with the Common Council in order to obtain legislative approval to introduce options for paying property taxes by means of credit card or e-Check via the internet. The Finance Commissioner took the lead role for the City in heading up a consortium of City and Onondaga County personnel in researching the requirements of New York State General Municipal Law, Section 5(b) and in the interviewing of prospective service providers as required by regulations adhered to by the City of Syracuse. The service provider selected, Municipal-Payments.com, an internet site owned and operated by Systems East, Inc. was determined to have the most user-friendly website and was capable of handling the complicated four-payment cycle of the City and County (for City residents) tax bills.

On December 19, 2005, the Common Council approved two ordinances that authorized the electronic payment option. The first ordinance, #601-2005, authorized the Commissioner of Finance to accept payment of property tax bills, including all applicable fees, interest and penalties by Credit Card or e-Check via the internet in accordance with General Municipal Law (GML) Section 5(b). The proposed payment option was seen as a convenient method of payment should taxpayers chose to use the internet and as an enhancement that could reduce the administrative time for processing the over-the-counter and mail-in payments.

The second ordinance, #602-2005, provided for the waiving of the competitive bidding process for the selection of vendor to be contracted with to be the internet site for the acceptance of real property tax payments by credit card or e-Check for the City of Syracuse. A waiver of the competitive process was requested due to the fact that this undertaking was a collaborative project with Onondaga County and Systems East, Inc. had been able to meet the requirements of the joint property tax collection system. The term of the agreement was established to be for one year, with two one year renewal options exercisable by the City. Ordinance #602 further specifies that any charges associated with the individual transaction are to be paid by the internet user, not the City.

On May 8, 2006, the Common Council took action to extend internet payment capability to include payments for billing originating with the City of Syracuse Water Fund. Ordinances #195 and #196 of 2006 amended the two ordinances previously approved in 2005 to authorize internet payments specifically for water billing with incidental fees being charged back to the water fund.

Finally, on October 9, 2007, the Common Council took further action to expand the utilization of internet payment options to cover parking tickets and related charges. Ordinance #561 and Ordinance #562 of 2007 opened up the possibility for individuals wishing to use credit cards or e-Check payment options for parking ticket charges and the City is in the process of instituting this new level of service as this audit is being issued. Future extensions of the internet payment option are possible as the City continues to examine the benefits of making such payment options available.

The addition of internet receipts accounts meant that new reconciliations, with the same requirements as all other bank accounts, would need to become part of the monthly bank reconciliation process. Anticipating that the new payment options would create the need for additional levels of coordination, the City's Finance Department put together for internal use a preliminary document that was intended to outline the differences in the operation of these accounts, in contrast to other accounts, and initial solutions to problems that might be, in the early

stages of the implementation of electronic payment processes, potential problems that could arise with the expansion of electronic transmissions as a desirable payment option.

Detailed in the preliminary “Internet Account Reconciliation” outline is the following information:

The structure of the 412 account was set up so that it would collect data on taxpayer-initiated payments made through the Municipal-Payments.com website. This website is operated by the firm awarded the City contract and allows each department that is folded into the internet payment option (Treasury, Water, Parking Tickets, etc.) to run a daily report from the website, prepare a cash report and apply payments to taxpayer accounts. Each department may prepare two separate cash reports: one for credit card and another for e-Check payments. Deposits made to the bank will start at two per day-one for all credit card payments and another for all e-Checks. Note that Systems East does not receive or disburse cash; it only provides the interface through its Municipal-Payments.com website. This website collects payment data and passes the information to the City and to the companies processing credit card and e-Check transactions.

Based upon the selection of payment method, the transactions are relayed to the bank by Global Payments (for credit cards) or ACH Direct (for e-Check). Each of these entities makes available an audit trail report which ties to the deposit into the 412 account. The websites are Authorize.net for credit cards and PaymentsGateway.net for e-Checks. Generally, the four cash reports will tie into the two deposits in the bank. The reconciliation should assure that all deposits reported by Systems East/Municipal-Payments.com have indeed been credited to the City’s bank account.

The Office of the City Auditor’s initial review of bank reconciliations in the April-June, 2006 quarter, which was the first audited period where internet activity appeared, indicated some discrepancies existed between bank statements and what was appearing in the General Ledger for the 412 account. Subsequent interviews with Finance Department staff suggested some timing issues had been associated with the implementation of the new payment options. It was anticipated by Finance Department staff that later bank reconciliations would become smoother and easier to complete with further attention having been devoted to reconciliation development for internet activity.

Discussions that occurred over a period of time between the Office of the City Auditor and the Finance Department and Finance’s position is that the 412 account is being adequately reconciled. Based on multiple conversations with Finance Department staff about the particulars of the account, we concur that this is the case; however, the complicated nature of the account has made a third party reconciliation difficult and time consuming. While the review of the information received by the Office of the City Auditor made it possible to determine that the cash and cash equivalent balances were in fact free from “material misstatements”, an exact reconciliation remains problematic.

The Office of the City Auditor is continuing to communicate with the Finance Department in attempting to develop a process for a third party review/audit focusing exclusively on the 412 account activity.

Findings:

Findings #1: Schedule of Collateral

As of July 27, 2010 the Schedule of Collateral is missing, Received Schedule of Collateral August 12, 2010. All is collateralized.

Findings #2: Account 99.01.403 Chase Water Lock Box

There is not enough information to reconcile this account. Withdrawals balance out with CCW in general ledger.

Findings #3: Account 99.01.405 Chase Internet Parking Violation

EC-P & CC-P portion of the account could not be balanced. PayLock & Lock Box balance.

Findings #4: Account 99.01.408.01 Chase CSD Funding

Account shows balanced between the Bank Balance and General Ledger, however it does not balance. Bank Statement shows a credit which does not correspond to the General Ledger. The General Ledger shows a credit which does not correspond to the Bank Statement.

Findings #5: Account 99.01.412 Chase Internet Payments

Not enough information of EC-T deposits to balance, more data is required.

Findings #6: 99.01.746 Citizen Bank Parking Meter Credit Card

New account starting December 2009 as a trial; balance \$2.32. February General Ledger shows a \$4,004.95 balance, however February is missing from packet. March 2010 General Ledger shows a balance of \$24,994.93 but is missing from the Proof of Cash Reconciliation.

As of September 3, 2010 the account is in the packet. A transaction for a Deposit in transit (deposited 4/1/2010) should reflect a less adjustment in the ledger not a plus adjustment in the bank balance. Transactions showing as one at the end of the month makes it difficult to balance transactions with the bank account. Bank balance showing one total and the ledger shows a difference balance which shows conflicting balances.

Management Response:

Auditor's Response:

Auditor's Note:

The Office of the City Auditor noted in the review of cash and investments for the quarter of July through September, 2009 that the collateral provided by M & T Bank for the August, 2009 deposits was a surety bond equal to 100% of the deposits. This method of collateralizing investments is permitted under the City of Syracuse Investment Policy, which specifies several alternative ways to provide adequate and risk-adverse pledges of collateral. In describing the option to utilize a surety bond as collateral, the City's policy provides for "an eligible surety bond

payable to the government for an amount at least equal to 100% of the aggregate amount of deposits and the agreed upon interest, if any, executed by an insurance company authorized to do business in New York State.”

Based on the various options available for collateralizing deposits, the Department of Finance has continued to use a surety bond to meet the City’s requirements. In January - March, 2009, the Finance Department again approved the use of a surety bond, issued by Berkshire Hathaway, to collateralize M & T Bank deposits exceeding the FDIC coverage.

The City Auditor has reviewed the actions taken by the Department of Finance and concurs that the Department of Finance has acted in accordance with the City’s Investment Policy and has given adequate thought to the method employed for the insuring of the deposits held by M & T Bank.

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City of Syracuse