



Philip J. LaTessa
City Auditor

License Function Review

July 1, 2010 through September 30, 2010

Introduction:

As authorized by Article 5, Section 5-508 of the City of Syracuse Charter, an examination of the Department of Finance's receipts and disbursements relating to licenses for the period July 1, 2010 through September 30, 2010 was conducted. The Charter necessitates the review be conducted monthly, while the Office of the City Auditor has elected to report the results of the monthly reviews on a quarterly basis. The examination was administered in accordance with the *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 the audit is planned and performed to attain a reasonable foundation for the judgments and conclusions regarding the function under examination. This review also included evaluations of applicable internal controls and compliance with requirements of law and regulations when necessary to satisfy audit objectives.

The management of the City of Syracuse, New York, is responsible for establishing, maintaining and complying with the internal control structure and for compliance with applicable laws, regulations and contracts.

This report is intended solely for the information of the Mayor, the Common Council and the Department of Finance 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 in the Office of the City Auditor upon request. At this time, the Office of the City Auditor would like to thank the Department of Finance personnel who assisted and cooperated with us during this audit.

Scope:

The scope of the audit entailed reviewing all license related receipts and disbursements for the Bureau of Treasury, Department of Finance, for the period of July 1, 2010 through September 30, 2010.

Objective:

The objectives of the audit were to determine with reasonable assurance that the financial data was accurate and properly recorded and that adequate operational and control procedures existed for the license function at the Bureau of Treasury, Department of Finance.

Methodology:

To reach this assurance, the Office of the City Auditor selected a predetermined number of days to test the Cash Reports for mathematical accuracy. The types of licenses granted on the cash reports and the fees collected were also verified to appropriate rules and regulations. The receipts were then traced to the corresponding general ledger accounts to ensure proper recording. All related vouchers during the audit period were reviewed for appropriateness and accuracy. All Monthly Activity Reports, which itemize the receipts by date and category, and the Daily Cash Reports were traced to the Monthly Balancing Sheets and General Ledger activity.

Auditor's Final Recommendation:

Please note that this recommendation has been placed in the unconventional location at the beginning of the audit due to the strong feeling of the Office of the City Auditor regarding the following recommendations.

The Office of the City Auditor strongly recommends that the administration and Corporation Council work together to review and update current licensing categories, fees, requirements, and verbiage. Recommended updates should be brought to the Common Council to seek all necessary legislative approvals.

In addition, as stated in previous licensing audits, the Office of the City Auditor strongly recommends that the administration consider consolidating all licensing and permit functions, such as special event and side walk permits; into one location for better transparency, tracking, cross referencing and compliance enforcement.

Lastly, it should be noted that better oversight of licensing is in order as previous audit reports have commented on an apparent lack of ownership over this function, as various recommendations have not been responded to. The Office of the City Auditor hopes that going forward the administration will work closer with the Office of the City Auditor and communicate its thoughts and suggestions on how it plans to address audit recommendations.

Conclusion:

The Office of the City Auditor uncovered errors that were repetitive in nature with previous audits of this department. Some of repetitive errors included the types of general licenses issued and corresponding fees collected, see Findings 1-5 below, as well as deficiencies in internal controls, completeness of general licensing functions and enforcement, as addressed in the Findings 6 and 7 below. However, the Office of the City Auditor was able to determine, with reasonable assurance, that the Bingo, Games of Chance, Certificate of Use and General License activities, for the audited period, were free of material misstatements.

As noted in this and prior audit reports, missing applications and incorrect licensing fees have been charged as a result of the wrong licenses being issued. Some applicants have been overcharged while others undercharged. Although the monetary amount of these errors may appear immaterial, the fact that inaccurate licensing fees are treated as being acceptable reflects a management style that is unacceptable and a disservice to the public.

FINDINGS:

Finding 1: Application and Fee Errors

(See Attachment)

As stated in the previous licensing audit, issued on April 4, 2011, when comparing authorized licenses per the City Charter, to the actual licenses posted by the Bureau of Treasury, the following inadequacies were discovered. Out of forty-six license applications offered, two did not have an application available on the City web site, resulting in 4% of all license applications that are considered missing and still in need of being recreated and posted to the City's web site.

In the previous audit, issued on April 4, 2011, when comparing the regulated license fees to the actual license fees listed on the individual license applications, the following inadequacies were discovered: three applications (*or 7%*) did not indicate any licensing fee amounts and three applications (*or 7%*) stated incorrect licensing fee amounts that will need to be corrected. As a result of the most recent application updates, the licensing department now averages a 13% error ratio regarding the accuracy of posted license application fees.

For the current period under audit, the City Auditor felt there was not a material risk of finding new application and/or fee errors compared to the last audit; issued on April 4, 2011. As a result the City Auditor decided no additional application testing was necessary at this time, but will be performed again within the next fiscal year.

Recommendation 1:

The Office of the City Auditor would like to commend the Licensing Bureau on its error ratio improvement, regarding licensing fees. However since this issue has been a reoccurring finding for so many years, the office of the City Auditor would like to see an error ratio of 5% or less in order to remove this finding.

Attached is an up to date list of available licenses, and corresponding fees, that are under the responsibility of the Department of Finance. The accuracy of the list was previously confirmed by the Law Department, for the City of Syracuse.

Finding 2: Proper Journal Entry Supporting Documentation

As stated in the previous audit, issued on April 4, 2011, it was discovered that some original correcting journal entry supporting documentation had been altered suggesting that the original journal entries were just mis-keyed during processing, instead of it being posted to the wrong General Ledger account.

Instead, the original journal entry should have been referenced as it was originally entered with a notation that a correction was needed, without misrepresentation of the original entry. Although these alterations were relatively harmless and immaterial in amount, basic accounting principals dictate that supporting documentation should stand

on its own and tell a story from beginning to end, showing the need for the adjustment; by supplying documentation of how the erroneous transaction was original processed.

Management responded to this finding by stating that “*going forward, original transaction documentation will be included in journal entries*”.

However because the previous audit was issued in April 2011, any licensing journal entries processed between July 2010 through April 2011 will not reflect the new requirement, as it was not implemented until April 2011.

As a result, the City Auditor decided to hold off on journal entry supporting documentation testing, at this time. Instead the City Auditor focused on the process and tools used to document and follow up on licensing correcting journal entries. However, for the period under audit, no journal entry logs were found to be in place.

Recommendation 2:

The City Auditor strongly recommends that a journal entry log be maintained so each journal entry can be correctly documented, followed up on and referenced on the coordinating monthly activity report, acknowledging that an error existed and has since been corrected.

Finding 3: Exhibition License Errors

In previous audits, it has been reported that some exhibition type events taking place in Onondaga County Facilities, located within the city limits, appear to be receiving licenses while other events are not. Because the County is considered a higher level of Government, some individuals mistakenly believed that the County is exempt from the City’s licensing requirements. However, the Law Department confirmed that all events taking place within the city limits are required to be licensed regardless if they are taking place in a County facility or not. As a result, events in County Facilities have been handled very inconsistently over the years.

Management responded to this finding by stating that “*the licensing division will work with the Department of Law and Ordinance Enforcement regarding this item.*”

In the previous licensing audit, issued on April 4, 2011, the Office of the City Auditor, recommended reestablishing the process of charging a licensing’s fee for events taking place in Onondaga County facilities. However, while performing the current audit, the City Auditor’s Office learned that a new procedure has been implemented; where the Police Department now informs the Licensing Division of each request they receive to supply emergency service personnel for an event, to ensure the event has been properly licensed.

Recommendation 3:

The Office of the City Auditor is very pleased to see that new procedures have been put into place to help identify those events operating without a proper Entertainment &/or Exhibition License. At this time, however the City Auditor recommends that these new procedures be documented so that each department has a very clear understanding of their responsibilities regarding this process.

Finding 4: Non-existent and/or Unauthorized fees

In previous Audits, it was discovered that a \$10.00 administrative fee was charged to replace a Taxi License; when in fact the City charter makes no reference to such a fee. When the licensing staff was asked to provide ordinance documentation authorizing this fee, no supporting documentation could be provided, resulting in this fee being classified as non-existent and/or unauthorized.

Management responded to this finding by stating that *“the licensing division will work with the Department of Law to update the application fees”*.

Recommendation 4:

Although the above administrative fee is considered immaterial in amount, it is still categorized as an unauthorized fee not established by the Common Council. The Office of the City Auditor strongly recommends that the administration and Common Council embark on a cost analysis of the licensing process, in an effort to update the licensing fees currently being charged, as fees have not been updated in approximately 10 years or more and are in serious need of updating. Ideally licensing fees should cover both labor and material costs associated with issuing a particular license, including the labor costs associated with Codes Enforcement and Fire Department inspections; as well as Police Department background checks.

Finding 5: Food Vendor/Peddler License Errors

After reviewing the Food Vendor/Peddler License applications from this and previous audits, it was discovered that there is no valid One Day Food Vendor License for \$20.00 on the books, even though a one day special event category is listed on the Food Vendor license application. As a result, the City Auditor felt the most applicable license to be issued would have been for a one week Food Vendor license at a cost of \$100; per Section 14-44(d) of the Revised General Ordinances, thus undercharging the licensees.

Management responded to this finding by referencing General Ordinance Section 14-49, Paragraphs 1-4, indicating that food vendors are already licensed for the year and how both Food vendor & Special event licensing can be suspended by the Commissioners of Licensing and the Parks Department during special events. In addition, it describes how the vendor can be charged a fee of equal expense incurred for the cost due to the City.

Lastly, Management referenced chapter 9, article 7, sec 9-83 of the Syracuse City Charter, which discusses a \$20.00 per day Peddlers license.

In response the City Auditor referenced General Ordinance section 9-78, which states that “no peddler or similar vendor of goods, wares, merchandise and other nonfood items... shall do business with the city without a license obtained as provided in this article.” (Chapter 9, article 7, of the Syracuse City Charter; titled, “Peddlers”.)

One of the issues surrounding this finding is the fact that last year the Parks Department had a Fireworks Celebration ordinance # 237-2010 approved, establishing a one day food vendor fee of \$50.00 and a one day non-food vendor fee of \$25.00, both of which are greater than what was charged in the past, establishing new fee parameters. However last years ordinance was worded in such a fashion that these fees were good for **July 2, 2010, only**, which means that a new ordinance will need to be prepared and approved every year in order to change the date of the event.

Because management and the City Auditor have differing interpretations of which City Charter ordinance to follow in this situation, the matter has been referred to the Law Department for clarification and a final determination as to how to proceed going forward.

Recommendation 5:

The Office of the City Auditor is not arguing the process of charging a “One Day Food Vendor / Special Event licensing fee”, what is being questioned is the authorized fee amount to be charged. The City of Syracuse charter indicates that a fee may be assessed, as determined by the Commissioner of Parks, but it doesn’t establish a set dollar amount to charge.

As a result, the Office of the City Auditor has recommended that the Parks Department draft a new ordinance, titled “One Day Special Events”, in order to officially establish, approve, and document a set rate to be charged. The ordinance could list out each Parks Department Special Event that the rates would be applied to, without specifying individual dates. In doing so, the need to resubmit a separate ordinance request every year for each event would be eliminated. In addition, it would establish an official “One Day Special Event Fee”, reduce the annual work load of both Parks and the City Clerks offices; by reducing the number of ordinance requests being processed, as well as eliminate the annual audit finding in the “Annual Licensing Audit”.

In the mean time, the Office of the City Auditor recommends removing the One Day Special Event licensing fee from the Food Vendor License application, until this license can be properly clarified. Once clarified it can be documented and approved by the Common Council as a separate license allowing the City to accurately track how many food vendors participate at each event and to calculate the shared expense for the cost the City incurs for each event, as stated in the City Charter.

Finding 6: Deficient Internal Controls

While tracing transactions from the Monthly Activity Report to the Monthly Balancing Sheet and finally to the Monthly General Ledger activity, the following recording errors and information deficiencies were discovered. On multiple occasions receipt dates, disbursements and/or Journal Entries were not indicated or recorded on the Monthly Activity Reports.

Recommendation 6:

The City Auditor recommends that the Licensing Clerk expand the Monthly Activity Report to include the issuance date and assigned license number, so that a monthly, quarterly or annual reconciliation of license numbers can be performed and a turnover ratio can be determined. This control method ensures that each issued license can easily be matched up with its corresponding approved application, as well as accurately tracking both the processing time and the total number of each license is being issued per year.

Although the combination of the above errors did not result in material inaccuracies in the General Ledger, it is strongly suggested that internal controls be tightened to increase the accuracy of reporting, and to include separation of duty regarding the following responsibilities:

Monthly Activity Reports: It should be noted that the Monthly Balancing Sheet's purpose is to reconcile the receipt and disbursement activity to ensure recording accuracy. Thus, the Monthly Activity Report should be reconciled to the General Ledger and the Monthly Balancing Sheets, at month end, by an individual whose duties are segregated from the Licensing Clerk responsible for creating the Monthly Activity Reports. Any discrepancies found, such as NSF checks, duplicate payments, and/or correcting journal entries should be noted, clearly explained and properly documented on the Monthly Activity Report. Once the reconciliation has been completed, it should be forwarded, reviewed and approved by the 1st Deputy Commissioner of Finance, to provide stronger internal checks and balances.

Finding #6, Management Response:

Per communication the Commissioner of Finance; the department will update the Monthly Activity Report to include the additional information.

Finding 7: Completeness of Licensing Functions

As stated in previous audit reports, the Office of the City Auditor has discovered that the Licensing Division currently is not in compliance with Article 1; Section 5-1(d) of the Syracuse City Charter, regarding licensing activity reporting requirements. The Charter requirement states that, "The Commissioner of Finance shall provide a quarterly report, thirty (30) days after the preceding quarter, stating the number, location and type of new entertainment licenses granted by the City during the preceding quarter. In addition, the Commissioner of Finance shall file an annual report with the City Clerk summarizing the

year's activity concerning entertainment licenses.” To date, these reports are not being generated or turned into the City Clerk's office.

In addition, while reviewing the Monthly Activity Reports for completeness, the Office of the City Auditor discovered multiple licensing categories that had no activity; however, the Office of the City Auditor identified multiple activities that appear to be occurring that specifically require a license. As a result, the Office of the City Auditor made various inquires regarding verification procedures that are being performed, within the Licensing Division, to identify potential licensees that are not complying with city licensing requirements.

Recommendation 7:

A master licensing database should continue to be maintained, by the Licensing Clerk, on a routine basis, and used to reconcile monthly issued licensing numbers, create the charter required summary activity reports, and assist the Police Ordinance Enforcement Division in identifying potential licensees that are not in compliance with City licensing requirements.

In addition, the Office of the City Auditor recommends verification procedures be developed, and put into place that would improve co-ordination efforts between the two divisions, resulting in an increase in licensing revenue and compliance with various licensing requirements. Such verification procedures can be as simple as listening to the radio or looking through the entertainment section of various newspapers to identify events that qualify for licensing, such as circuses, concerts, ice shows, or professional sporting events like the Syracuse Crunch hockey games.

Lastly, the Licensing Division should also consider performing an internet phone book search, by business type and location, to help identify additional potential licensees such as snow removal contractors, tow truck companies, and commercial waste haulers.

Finding #7, Management Response:

Per communication the Commissioner of Finance; the Licensing Division generates a monthly report that it distributes to the Department of Audit and the First Deputy Commissioner of Finance. A copy will be provided to the City Clerk.

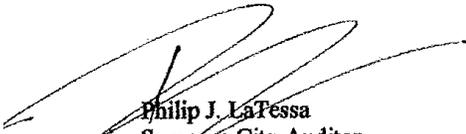
Conclusion:

The Office of the City Auditor uncovered multiple errors regarding the types of general licenses issued and corresponding fees collected, as addressed in the Findings 1-5 above, as well as deficiencies in internal controls, completeness of general licensing functions and enforcement, as discussed in Findings 6 and 7 above. However, the Office of the City Auditor was able to determine, with reasonable assurance, that the Bingo, Games of Chance, Certificate of Use and General License activities, for the audited period, were free of material misstatements.

Auditor Note:

The administration, using either the Licensing Office or the Corporation Counsel's Office, should immediately work toward implementing legislative action to rescind General Ordinances that are seen as unnecessary or obsolete . However, since specific licenses have already been created for a number of events that have continued to occur in the City; such as circuses, concerts, professional hockey and stage productions, these licenses should be used correctly until they are deemed to be unnecessary.

The fact that incorrect licensing fees have been treated as being acceptable reflects a poor management style and is a disservice to the public. An excellent example of how a lax attitude has significance, relates to various events held in Onondaga County facilities, as discussed in Finding #3 above.



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