
Introduction:

As authorized by Section 5-503 of the City of Syracuse Charter, an examination by the City Auditor in matters of moneys in possession of the city shall be substantially continuous. An unannounced cash audit of the Clinton Square and Sunnycrest ice skating rinks was conducted on March 7, 2005. 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 necessitate 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 Parks, Recreation and Youth Programs 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 Audit Department upon request. The Audit Department would like to thank the personnel who assisted and cooperated with us during our audit.

Background Information:

The financial operations for the Sunnycrest and Clinton Square ice skating rinks are currently handled by personnel in the City's Parks Department and, where applicable, the Finance Department.

Prior to the 2004/2005 winter season, the handling of the Clinton Square location was contracted out to the Rink Management Corporation. Many of Rink Management's policies were carried over by the Parks Department when they assumed control. For example, \$2,500 is kept on hand at this location because that was the policy of Rink Management. When not in use, the cash on hand is safeguarded in a vault found in the manager's office and only the manager and assistant manager have access to it. This fund is separated into a \$1,900 change fund and \$600 as starting cash for the four registers. At the end of each shift, a Daily Closeout Worksheet is prepared by each cashier using the corresponding register tapes. Deposits are usually done the following day and copies of the deposit slips as well as the daily reports are faxed over to the Administrative Officer at the Parks Department. The Administrative Officer reconciles the figures per the deposit slip and daily report to those found in the city's general ledger.

For the Sunnycrest location, \$50 is kept on hand and is safeguarded in a locked locker in the facilities when not in use. Only the manager and assistant manager have access to the locker. At the end of each shift, a Daily Rink Fee & Vending Report is prepared by each cashier using the register tapes and is kept on site. The revenue and register tapes are then placed in a depository safe found on site. The Ice Rink Supervisor is the only one with access to the deposit vault. Per the ice rink staff, the Ice Rink Supervisor collects the revenue on an ad hoc basis and brings it to the Parks Department. Personnel from Parks then deposits the monies with the city's Treasury Bureau. Referring back to the Daily Rink Fee and Vending Report, these daily reports are used to

prepare a month end summary for the Administrative Officer. The Administrative Officer reconciles the figures per the Daily Rink Fee and Vending Report month end summary to those found in the city's general ledger.

Objectives:

The objective of the audit was to confirm that the cash on hand and prior day's receipts were adequately safeguarded and accounted for. The Audit Department also determined that the prior day's receipts were properly and timely deposited. Finally, a fraud risk assessment was performed to determine if there are sufficient protections against theft of monies and services.

Scope:

The scope of the examination entailed reviewing the cash on hand at the start of the business day as of March 7, 2005 as well as the receipts for March 5, 2005 and March 6, 2005 for the Sunnycrest and Clinton Square Ice Skating Rinks. The processes related to the handling of cash were analyzed based on the audit objectives.

Methodology:

The Department of Audit made an unannounced visit to the city's ice skating rinks at the Clinton Square and Sunnycrest locations on Monday, March 7, 2005. Staff at each location as well as the Administrative Officer from the Parks Department were interviewed to achieve a general understanding of their financial operations.

A reconciliation of the cash on hand balances was completed in the presence of custodians to record all start up cash and/or change funds on Cash Count Detail Sheets. The monies were then recounted by the custodians to verify the return of the funds intact. Each location's cash on hand, meaning the starting cash for each register and any change fund, was then reconciled to the office's policy and to the records found in the city's general ledger.

The Department of Audit also counted and recorded the prior days' receipts as found at the locations on Cash Count Detail Sheets. The return of these funds was also verified by the custodians. The revenue figures were then reconciled to the corresponding register tapes, revenue reports, deposit slips and general ledger detail. All documentation was checked for mathematical accuracy and appropriateness.

Auditor's Note:

As the receipts for the Sunnycrest location were already collected from the location's depository, the Audit Department did not physically count the prior days' receipts for said location. Due to the low volume of sales, the Audit Department decided this was immaterial and reconciling the figures per the daily register tapes to the monthly reports, general ledger and deposit slip would suffice.

Conclusion:

The Audit Department uncovered several accounting errors during the examination into the cash on hand on March 7, 2005 and the revenue received on March 5, 2005 and March 6, 2005 for the Sunnycrest and Clinton Square ice skating rinks. The Audit Department discovered that the cash on hand balance for each location was not properly accounted for in the City's records. Also, the accounting and depositing of the receipts from Clinton Square was found to be inconsistent with the procedures followed by the City for similar transactions. It was also discovered that the cash balance at the Clinton Square location was improperly used as a petty cash fund. Furthermore, it was uncovered that the sales tax owed from the revenue collected by the Parks Department for the Sunnycrest, Clinton Square, Meachem, and Burnett Park locations was incorrectly calculated and paid for the period March 1, 2004 through February 28, 2005.

The delay of this audit report is due to unforeseen conditions regarding involved city personnel along with additional research conducted as a result of errors uncovered.

Findings and Recommendations:

Finding 1: Cash On Hand Not Reported in City Records (Sunnycrest & Clinton Square)

The Department of Audit traced the cash on hand for each location to the city's general ledger. It was discovered during this examination that the City has no record of these cash balances for the locations audited. Clinton Square had \$2,500 and Sunnycrest had \$50 for their cash on hand during the audit period.

Recommendation 1: Currently, account #99.01.995 is used to account for the cash balances held in the various city departments. The Finance Department should complete the necessary journal entries to account for the cash on hand found at these locations.

As the Clinton Square location has closed for the season, it is recommended that the Parks and Finance Departments work together to account for the re-deposit of the \$2,500 cash balance. Also, it is suggested that Parks and Finance re-assess the need for a cash balance amounting to \$2,500 for the Clinton Square location going forward.

Management Response¹:

Management noted that the operation of the Clinton Square Ice Skating Rink was directly managed by the Parks Department for the first time during the 2004-2005 season and that some of the procedures in place prior to 2004-2005 were carried over from Rink Management Systems. The Parks Department will work with the Commissioner of Finance to develop better systems to ensure proper financial reporting and will take the necessary steps to communicate to the Finance Department the amount of cash on hand currently held by Parks at its various sites so the requisite journal entries can be completed.

¹ These responses are paraphrased from the formal response received from the Commissioner of Parks, Recreation and Youth Programs (Attachment 1).

Finding 2: Revenue Overages Kept As Petty Cash (Clinton Square)

For the Clinton Square location, it was found that any overages in revenue were kept in the safe and a log was manually kept by the manager. The purpose given for this procedure was so funds were readily available for any emergency supplies needed. Keeping the cash overages in the vault creates a high risk of fraud and abuse of the city's resources.

Recommendation 2: It is improper to keep these monies on hand and this practice should be immediately stopped. All overages should be properly accounted for and deposited into the bank account.

Management Response¹:

Management noted that the operation of the Clinton Square Ice Skating Rink was directly managed by the Parks Department for the first time during the 2004-2005 season and that some of the procedures in place prior to 2004-2005 were carried over from Rink Management Systems: the method employed for handling cash overages was one such practice. Parks management will seek input from the Commissioner of Finance to develop a better system to account for overages when the ice skating season begins in the fall of 2005.

Finding 3: Cash on Hand Used as Petty Cash (Clinton Square)

During this audit, it was also discovered that the Clinton Square location was using its cash on hand balance as a petty cash.

To begin with, it was the policy at Clinton Square to reimburse customers who lost money in the vending machines or lockers directly from the city's registers. Hand written notes tracking the refunds were prepared by the staff and kept in the safe. When the company representative came to collect the revenue from the vending machines and lockers, the change fund was then reimbursed via check or cash. Secondly, it was found that the supervisor was taking money from the change fund for "emergency supplies" and leaving IOUs in its place. These procedures represent improper uses of the cash on hand at Clinton Square and create a high risk of fraud, waste and abuse of the City's cash resources.

Recommendation 3: These policies should be stopped immediately. The vending machines and lockers are not the responsibility of the City and the customers should be directed to the company in charge of the vending machines and lockers for any refund. If the machines continue to cause problems for customers, the City may want to consider soliciting the service from other entities in favor of better customer service.

Under no circumstances is the cash on hand in a city department to be used as petty cash. Allowing the manager to exchange money out of the change fund for IOUs does not conform to appropriate accounting procedures.

Management Response¹:

Management noted that the operation of the Clinton Square Ice Skating Rink was directly managed by the Parks Department for the first time during the 2004-2005 season and that

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some of the procedures in place prior to 2004-2005 were carried over from Rink Management Systems. Management has responded by noting that it will take steps necessary to implement the auditor's recommendations to ensure a more detailed financial operation as it relates to the city's ice skating rinks.

Finding 4: Overpayment of Sales Taxes to New York State (Meachem/Burnet Park/Clinton Square/Sunnycrest)

Upon reviewing the daily reports for the Sunnycrest location, it was discovered that the sales tax owed was miscalculated due to an incorrect formula. When the sales tax figure was recalculated, it was found that the gross revenue was incorrectly multiplied by the tax rate to reach the tax figure owed. Using this formula, the City did not charge the customer for the taxes and actually absorbed the cost itself. To correctly calculate the tax figure, one would "back out" the tax from the total fees charged to the customer. The correct calculation would be to divide the gross revenue by 1.0825 to reach the net revenue and the difference between the two would be the taxes collected.

Upon this discovery, further research was conducted into the taxes paid regarding the four ice rinks and two golf courses handled by the Parks Department. It was found that for the period March 1, 2004 through February 28, 2005, the Parks Department incorrectly calculated the sales tax owed to New York State causing a \$465.24 overpayment.

Recommendation 4: The Parks Department should immediately correct the formula used to calculate the sales tax. Although the amount is immaterial, it is suggested the Parks Department apply for the refund with New York State.

Management Response¹:

Management will work with the Commissioner of Finance to correct the overpayment of Sales Tax previously made by the city and will correct the formula so accurate payments are made to the New York State Department of Taxation in the future.

Finding 5: Accounting Inconsistencies (Clinton Square)

The Audit Department found that the receipts for the Clinton Square location were handled differently from transactions of a similar nature. In general, the revenue from locations controlled by the Parks Department is recorded in two accounts; one for the net revenue and one for the taxes owed. For the Clinton Square location, it was found that all the monies were reported in one account. There was a sales tax payment at the end of the season that was taken directly out of this revenue account. This procedure is inconsistent with how other tax payables are handled by the City.

It was also discovered that the Clinton Square staff deposited the receipts into the bank. In general, departmental revenue is deposited into the City's Treasury Bureau and it is Treasury's personnel who deposit it into the proper banking institution.

Recommendation 5: The revenue for the Clinton Square ice skating rink should be recorded in two separate general ledger accounts; the revenue one, 01.0.2002, and the liability one,

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01.17.637.08. This liability account is already used by the Parks Department for the sales tax collected from its other activities.

It is also suggested that the Clinton Square receipts be deposited with the Treasury Bureau to conform to the City's procedures.

Management Response¹:

Management will work with the Commissioner of Finance to change the handling of revenues received from the Clinton Square ice skating rink so that the receipts are deposited to the proper accounts.

Finding 6: Lacking Security for Handling of Cash (Clinton Square)

As noted in Finding 2 and 3, several deficiencies were uncovered with regards to the handling of cash for the Clinton Square location. A lax control environment at the location, as seen in the case where the manager put an IOU in the vault for "emergency supplies," fosters a high risk atmosphere for fraud.

Recommendation 6: It is the duty of the city management to implement and enforce policies to safeguard its resources. The City Auditor recommends that the Parks Department adequately enforce the City's policies and procedures at the Clinton Square location in the future.

Also, installing security cameras in the areas where cash is handled would act as an additional control against any fraud, waste and abuse of the City's cash resources at the Clinton Square location. The number of areas and personnel that handle cash receipts should also be minimized to decrease the risk of fraud, yet the duties of collecting the cash receipts and accounting for those receipts should continue to be segregated.

Management Response¹:

The Commissioner of Parks, Recreation and Youth Programs noted that the installation of security may act as an additional control against fraud, waste and abuse of City resources. Management responded to audit finding #6 stating that, before moving forward with any additional security devices, it will work with Syracuse Police Department personnel to determine what measure is best suited for the operation at Clinton Square.

Philip J. LaTessa
Syracuse City Auditor
City of Syracuse
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