

City of Syracuse

Office of Audit
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To: The Honorable Ben Walsh, Mayor
The Honorable Helen Hudson, President
The Honorable Members of the Common Council

From: Nader P. Maroun

Re: Cash & Investments Audit July 2019-September 2019

Date: June 29, 2020

The management of the City of Syracuse, New York is responsible for the City's ongoing compliance with and enforcement of the General Ordinances of the City of Syracuse. This essential duty includes establishing and maintaining an internal control structure to provide reasonable, but not absolute, assurance that the applicable rules and regulations are observed; and that appropriate corrective action is taken in response to audit findings.

Cash & Investments Audit

July 2019 – September 2019



Submitted to:

Mayor Ben Walsh

And

Hon. Members of the Syracuse Common Council

June 29, 2020

Nader P. Maroun

City of Syracuse Auditor

Cash & Investments Audit
July 1, 2019 to September 30, 2019

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Introduction:

As required under Article V, Section 5-503, of the Charter of the City of Syracuse, the quarterly audit of the City of Syracuse's cash and cash equivalents activity for the period of July 1, 2019 through September 30, 2019, 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. Going forward, this audit will be conducted on a quarterly basis.

Certain 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 July 1, 2019 through September 30, 2019.

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 accurately 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.

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 because 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 Express Pay 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 Express Pay 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 Express Pay 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. 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 will continue 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 & Recommendations:

The results of our audit can be summarized as follows:

Finding 1: Discrepancy between Bank Balance and General Ledger Balance for the Chase Bank Parking Meter Cash Receipts Account

We have identified an ongoing monthly discrepancy between the Ending Balance per the Chase Bank Monthly Statement and the adjusted Bank Balance booked to the General Ledger (GL) for **GL Account 304140 (Chase Parking Meter Cash Receipts)**. As of month-end September 30, 2019, the Chase Bank Statement has an Ending Ledger Balance of \$116,597; however, the Adjusted Bank Balance booked to the GL is \$524,339. Of the additional \$407,742 booked, \$1,400 is a Deposit in Transit (DIT) that is recognized in the Bank Reconciliation for September 2019.

Our concern is an ongoing monthly GL adjustment starting in February 2019 and continuing through September 2019, labeled in the Bank Reconciliation as *Deposits not in Bank*. The monthly average additional amount booked to the GL for this timeframe is \$50,794. **The total additional amount booked to the GL as *Deposits not in Bank* as of September 2019 is \$406,342.**

Finding 1: Recommendations:

A process between the Office of the City Auditor and the Finance Department needs to be initiated that will allow our Office to efficiently identify and understand the underlying cause of all items such as this going forward. A specific concern in this case is the crossover of the monthly GL adjustments between Fiscal Year 2019 and Fiscal Year 2020.

Finding 1: Administration Response:

This account is used for collection of parking meter coin and currency deposits. In February 2019, the vendor who processes our coin collections was sold to another company. It was the new company's practice to hold coins until a deposit was requested. The City was not notified of this policy until it inquired into the missing coins in September. At that time, the coins were deposited into our bank account.

The City will continue to monitor the parking coin activity and ensure all money is deposited timely.

Finding 2: Deposits in Transit

In previous audits, there were concerns with whether or not the amount of available information would be sufficient enough during account reconciliations; it was found to be caused by DIT (Deposits in Transit). These issues are ongoing and unavoidable.

Finding 2: Recommendations:

The Finance Department has done an excellent job in identifying and incorporating Deposits in Transit during account reconciliations for the period of July-September 2019. We have no recommendation other than a continued attention to detail in recognizing the effect of Deposits in Transit on account reconciliations.

Finding 3: Collateralization of Funds

Per our review of the City of Syracuse Schedule of Collateral for the period of July-September 2019, we have found the following items where the collateral provided by Bank of America did not reach the required 102% level:

- July 2019 – The 210 account, Bank of America Money Market, was under funded by \$271,198.
- August 2019 – The 210 account, Bank of America Money Market, was under funded by \$260,320.
- September 2019 – The 210 account, Bank of America Money Market, was under funded by \$292,255.

Finding 3: Recommendations:

The Finance Department should continue closer reviews of the monthly collateral summaries, ensuring that all banks are in compliance with the collateralization requirements of the City of Syracuse as mandated by local ordinance.

Finding 3: Administration Response:

The Finance Department will review the cash collateral requirements with Bank of America and ensure they are meeting the minimums requested by the City. In addition, we will implement a second review of the cash collateral schedule each month.

We thank the Department of Finance personnel who greatly assisted and cooperated with us during our examination. We look forward to continued assistance and cooperation, especially in regards to enhancing our working knowledge of the City's cash and cash equivalents activity on a quarterly basis.