

City of Syracuse

Cash & Investments Audit

February 1st, 2015 through May 31st, 2015



Submitted to:

Syracuse Common Council

Mayor Stephanie A. Miner

August 22nd, 2015

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City of Syracuse Auditor

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 February 1, 2015, through May 31, 2015, 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 the 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 necessitates multiple interviews and the reviewing of daily cash summaries, general ledgers and related records between the periods February 1, 2015 through May 31, 2015.

Objectives:

The 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. Identify the potential impact of the PeopleSoft information system on the City's cash management practices.

Methodology:

The Office of the City Auditor interviewed the Bureau of Accounts accounting staff. There were three meetings with the ‘Systems Accounting Manager’ Len Erkila and ‘Accountant II’ Larry Young.

In assuring that all cash balances represent cash items on hand, and in appropriate financial institutions and properly recorded, the Office of the City Auditor reviewed the City’s daily cash summaries for miscalculations and errors.

For the liquid asset (cash) accounts belonging to the City Departments, the Office of the City Auditor ascertained the City’s budget information via ACS Direct Connection. These account lines are paid with the City’s designated cash account lines, the cash account lines were ascertained via Excel documents. Once the proper figures were determined, they were traced to the corresponding financial institutions in detail to ensure all cash items are properly represented and recorded.

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 institutions to ensure proper representation and recording. All investments and cash funds are properly collateralized.

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 arise in the early stages of implementation of the electronic payment process.

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 confirm 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 currently 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:

During the annual "Cash & Investments" audit for the period of February 1st, 2015 through May 31st, 2015, the office of the City Auditor expresses that the City's cash management records seem correct and safeguards are adequate. The bulk of the City's cash is from three sources, State Aid, Sales Tax and property tax. All liquid account activity is tracked and recorded on Excel software as of the audit date.

In previous audits there was a concern involving the reconciliation of these cash accounts, that there wasn't enough information to reconcile certain accounts, followed by delays in the recording and processing caused by DIT (Deposit in Transit). These issues are looking to be solved with the implementation of PeopleSoft effective July 1, 2015. There has been minimal training as expressed by the accounts manager, this is likely to change once PeopleSoft is implemented and unforeseen problems occur.

The City of Syracuse currently does business with six banks:
(Dollar figures available upon request from the auditor's office)

Chase – Money Market

First Niagara – Money Market

Bank of America – Checking

M&T – Money Market

Key Bank – Public Checking

Citizens Bank – Commercial Checking

These financial institutions maintain custody of the City's cash assets where the City of Syracuse's available cash-on-hand is located. In 2014, the City of Syracuse's interest bearing accounts returned **\$161,234.14**. This interest was compounded from the following funds: General Fund, Water Fund, Sewer Fund and Capital Projects Fund. Syracuse also has Bond revenues from interest earned on the debt reserve; in 2014 it was **\$307,412.35**. The interest that is collected is obligated to various expenses and debts. All information and documents were provided by the Bureau of Accounts "Systems Accounting Manager" located on the first floor Syracuse City Hall.

Conclusion:

During the cash and investments audit we discovered that the Department is getting ready to transfer from its current system (Excel and ACS) to the newly implemented PeopleSoft application. There has been minimal training according to the Systems Accounting Manager, this is due to IT's limited resources. Tax revenues and Department revenues come in regularly and are deposited daily. Other than the slight increase in spending and the deferment of transactions which is looking to be solved undergoing the PeopleSoft application, operations are normal and the City's cash is accounted for on a daily basis.

Auditor's Note:

The Office of the City Auditor notes that due to the lack of training in the new application PeopleSoft, this is going to cause a flux in the timeliness of regularly displayed documents and recordings. The City Auditor advises the Administration the need to closely monitor the transition between ACS to PeopleSoft so that the City is accurately aware of its financial position on a daily basis. With this in mind, if any individuals in the department come across this problem, they should still have the option to use previous methods to remain as accurate and punctual as possible. Finally, the Bureau of Accounts is functioning sustainably throughout the current "PeopleSoft" program transition.