
Introduction:

As authorized under Article V, Section 5-501, of the Charter of the City of Syracuse, an examination into the expenditure components of the annual budget for the City of Syracuse, New York, for the fiscal year ending June 30, 2008, was conducted. 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 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, Common Council and involved departments 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. The Office of the City Auditor would like to thank the personnel who assisted and cooperated with us during the audit.

Auditor's Note:

The Annual Examination of Expenditures is performed, by the Office of the City Auditor, to fulfill the various requirements mandated by the City of Syracuse Charter, Article V, Section 5-501, which state that the Office of the City Auditor "conduct, at least annually, an audit of every officer, department and board of the City". Prior to the City contracting external auditing services, the City Auditor previously performed the annual financial statement audit to fulfill this requirement. However, once external auditing services were secured, the City Auditor created the Comprehensive Audit - Examination of Expenditures to satisfy the above charter requirement and to avoid a duplication of auditing efforts.

In accordance with the newly designed audit program, the Office of the City Auditor issued standard audit questionnaires to every City of Syracuse department, with the purpose of documenting a general understanding of each department's operations and to establish a baseline for their internal control structure. Additionally, these questionnaires were designed as a risk assessment tool to help identify areas of greater risk for planning, reviewing and performing future departmental audits.

Scope:

The scope of the examination entailed reviewing all Aviation, General Fund, Sewer and Water Fund account expenditures for each department, office, bureau, and division; excluding capital, debt service,

grant programs, inter-fund transfers, and special objects of expense for the City of Syracuse for fiscal year ending June 30, 2008. After reviewing the account expenditures for each city department, a sample of claim vouchers were selected, pulled and reviewed.

As a result, the City Auditor would like to remind all city departments that failure to cooperate and return requested information or documentation creates an impairment which restricts the Office of the City Auditor's ability to conduct and issue a comprehensive audit report.

Thus, in compliance with Government Auditing Standards, as issued by the Comptroller General of the United States and the US General Accounting Office, the City Auditor is mandated to note, in the both the scope and finding sections of the audit, any impairments, per Chapter 3, Section 10d of the GAO-07-162G, as follows.

While performing the annual review of each city department, as required by the City of Syracuse Charter, the failure of various departments to respond in a timely fashion to numerous requests to complete and return Audit Questionnaires, budget variance justifications, supporting inventory records, internal control documentation, and other various requests for additional departmental information, resulted in an external impairment to the independence of the Office of the City Auditor.

Objectives:

The first objective of the examination was to confirm that the Aviation, General, Sewer and Water Fund expenditures were used in a manner consistent with their original authorized budgeted amounts. This objective was accomplished by comparing the original authorized budgeted amounts, as listed in the 2007-2008 budget book, to the finalized expenditure totals presented in the Audited Financial Statements, issued by Testone, Marshal and Discenza, for fiscal year end June 30, 2008.

The second objective of the examination was to determine if claim vouchers were properly prepared and processed by individual departments. This objective was accomplished by reviewing 178 claim vouchers, prepared by those departments selected for testing, for proper payment processing, vendor information, supporting documentation, departmental authorization, payment discrepancies, and fiscal year posting.

The third objective of the examination was to determine the accuracy of the information being presented in the authorized budget book. This objective was accomplished by comparing the original authorized budgeted expenditure figures presented in the 2007-2008 authorized budget book, to the final expenditure figures for fiscal year 2007-2008 presented in the 2009-2010 authorized budget book as the actual expenditures for fiscal year 2007-2008, and then comparing both of the above to the finalized expenditure figures recorded in the City's ACS general ledger accounting system for fiscal year 2007-2008.

The fourth objective of the examination was to identify which city departments were not properly reporting transactions back to the City of Syracuse's Department of Finance and Department of Management and Budget. The use of separate accounting software keeps transactions from being properly recorded and monitored in the City of Syracuse's ACS general ledger accounting system and from being accurately reflected in the city's printed budget book.

Methodology:

The methodology followed in the audit was to examine the expenditures in the Aviation, General, Sewer and Water Fund accounts for each department, office, bureau, and division excluding capital, debt service, grant programs, inter-fund transfers, and special objects of expense for the City of Syracuse for the fiscal year ending June 30, 2008.

A budget to actual variance on each department and individual line item included in the scope of the audit was prepared and analyzed. Year end financial data for the General, Sewer and Water Funds were retrieved from the City's ACS accounting system, and the year end financial data for the Aviation Department was retrieved directly from that departments' off line Solomon accounting system. The 2007-2008 authorized budget figures were reviewed and compared to the actual 2007-2008 expenditure figures, as listed in the 2009-2010 authorized budget book, and the finalized expenditure figures contained in the City of Syracuse's ACS accounting system.

Testing Results:

Variance Analysis:

For the variance analysis, the City Auditor chose to focus on the original authorized budget figures as opposed to the revised budget figures, since the original budget better reflects and measures management's initial planning efforts when aligned with the year-end actual expenditures.

Traditionally, the modified revised budget which includes the midyear transfer has been used as the reference for comparison with the actual expenditures for the fiscal year. As the midyear numbers are reflective of projections made more than half-way through the fiscal year, it was felt that the original budget approved by the administration and the Common Council provides the best baseline to be used for the analysis. The focus of this objective was on management's effort to formulate its best and most realistic budgetary estimate and its ability to remain within a reasonable variance of those estimates through the end of the fiscal year.

Please refer to the attached Expenditure Variance Summary (pg 16-18), Aviation Department Actual Expenditure Reconciliation (pg 19-23), General Fund Line Item Variance Report (pg 24-30), and finally the Sewer and Water Fund Line Item Variance Report (pg 30-32); for the budget to actual expenditure analysis for fiscal year ending June 30, 2008.

The original authorized budget amounts for the departments under audit for Fiscal Year 2007-2008 provided for expenditures totaling:

\$14,352,393 for the City's Aviation Fund, while actual expenditures, extracted from the City's ACS accounting system totaled \$8,934,064. However, after adjusting the City's ACS accounting system balances to reflect the Aviation Department's reimbursement to the City's General Fund, actual expenditures totaled \$14,434,784 resulting in a budget surplus of \$1,179,116 or 8%.

\$116,859,652 for the City's General Fund, while actual expenditures, extracted from the City's ACS accounting system totaled \$117,069,857. This resulted in the City's General Fund experiencing a budget shortfall of \$210,205 or (1%). Again, the Office of the City

Auditor would like to stress that the Comprehensive Audit specifically omits Special Objects of Expense. This exclusion is explicitly commented on further in the audit report under Finding VI, on page 14.

\$2,398,040 for the City's Sewer Fund, while actual expenditures, extracted from the City's ACS accounting system totaled \$2,680,223, resulting in a budget shortfall of \$282,183 or 12%.

\$9,556,262 for the City's Water Fund, while actual expenditures, extracted from the City's ACS accounting system totaled \$8,941,835, resulting in a budget surplus of \$614,427 or (6%).

The Office of the City Auditor identified that the Sewer Fund and 18 different General Fund departments and/or divisions exceeded their original budgetary allocation by a gross total of \$282,183 for the Sewer Fund and \$2,863,402 for the General Fund. The Police Department's Uniform Bureau had the largest expense of \$1,015,922 over their original budget for Fiscal Year 2007-2008.

The Office of the City Auditor identified that the Water Fund and 27 different General Fund departments and/or divisions underspent their original budgetary allocation by a gross total of \$614,427 for the Water Fund and \$2,653,198 for the General Fund. The Fire Department - Uniform Bureau produced the largest savings totaling \$382,515 for Fiscal Year 2007-2008.

Therefore, the City's overall General Fund nets out to a total deficit of \$210,200 or (.2%), as 40% of the General fund departments analyzed, resulted in deficit balances and 60% resulted in surplus balances against the original stated budget, adopted by the Mayor and Common Council.

Voucher Testing:

In determining whether claim vouchers were properly prepared and processed by individual departments, the City Auditor randomly selected and reviewed approximately 1% of claim vouchers paid out of those departments that met the budget to actual ratio qualifications, identified in the audit plan. This resulted in the City Auditor's office pulling and reviewing 178 claim vouchers for proper payment processing, vendor information, departmental authorization, supporting documentation, payment discrepancies, and proper fiscal year posting.

- A. When reviewing claim vouchers for proper payment processing, the Office of the City Auditor looked at purchase orders, annual purchase orders, straight claims and journal entries to determine if the proper payment processing format was used.

Per the city's purchasing policies and procedures manual, any item that exceeds the Limited Purchase Order (LPO) amount of \$50.00, for which a competitive bid is not required, is made through the electronic requisition system in order to generate either a Purchase Order (PO) or an Annual Purchase Order (APO). Straight claims are hand written requests to process one time only payments, but when multiple or reoccurring payments are anticipated on either an annual, quarterly, or monthly basis Annual Purchase Orders (APO's) are recommended. As a result, any differences between the payment formats used compared to those recommended by the purchasing policy and procedures manual was counted as an error, resulting in an overall 25% error ratio.

Out of the 178 claim vouchers reviewed, 45 were identified as not being processed in the proper payment processing format. When this 25% error ratio is projected out against the entire estimated population of 19,000 claim vouchers, the average number of payments issued without being processed in the proper format is estimated to be about 4,803.

However of the 54 total straight claims reviewed, 38 of them should have been processed using either a Purchase Order or on an Annual Purchase Order, resulting in an over all 70% error ratio regarding straight claim payment processing. Because straight claims effectively bypass the purchasing departments internal control procedures, it is recommended that the use of straight claims be limited and tightly controlled.

- B. When reviewing claim vouchers for proper fiscal year posting, the Office of the City Auditor looked at the following dates: purchase order, goods received, services rendered, invoicing, and general ledger posting to determine if the proper general ledger transaction date was used. Per the annual "Accounting Guidelines" memo distributed by the Office of Management and Budget and the Commissioner of Finance, "expenditures are incurred when... goods are received and/or services are rendered". Thus the goods and services received date is the most important factor in determining what fiscal year the expense will be charged. As a result, any discrepancies noted between the shipping, received, service, and the general ledger transaction date was counted as an error, resulting in an overall 4% error ratio.

Out of the 178 claim vouchers reviewed, eight were identified as not being posted to the proper fiscal year. When this 4% error ratio is projected out against the entire estimated population of 19,000 claim vouchers, the average number of claim vouchers issued without proper vendor information is estimated to be about 854.

- C. When reviewing claim vouchers for proper vendor information, the City Auditor compared vendor contact and payment information such as name, address, city, state, and zip code against city purchase orders and vendor invoices for consistency. Any discrepancies noted between the purchase order and vendor invoice was counted as an error, resulting in an overall 3% error ratio.

Out of the 178 claim vouchers reviewed, five were identified as not containing proper vendor information. When this 3% error ratio is projected out against the entire estimated population of 19,000 claim vouchers, the average number of claim vouchers issued without proper vendor information is estimated to be about 534.

- D. When reviewing claim vouchers for proper departmental authorization, the Office of the City Auditor compared the payment authorization name, signature, job title, and authorized payment dates on each claim voucher against the official "Authorized Signor Book" located within the Department of Finance - Bureau of Accounts. Any discrepancies noted between the claim voucher and the "Authorized Signor Book", missing authorized signor titles and payment dates were counted as errors, resulting in an overall 20% error ratio.

Out of the 178 claim vouchers reviewed, 36 were identified as not being properly authorized; however, when the 20% error ratio is projected out against the entire estimated population of 19,000 claim vouchers, the average number of claim vouchers processed without proper authorization is estimated to be about 3,843.

E. When reviewing claim vouchers for payment discrepancies, the Office of the City Auditor compared original purchase order estimates against vendor invoices and actual payment amounts posted to the General Ledger. Claim vouchers were reviewed for: accurate payment amounts, 10% price variations, taxes, freight, change orders, refunds and credits. Any discrepancies noted between the purchase order and vendor invoice was counted as an error, resulting in an overall 8% error ratio.

Although only 14 of the 178 claim vouchers reviewed were identified as having payment discrepancies; when the 8% error ratio is projected out against the entire estimated population of 19,000 claim vouchers, the average number of claim vouchers issued with improper payment amounts is estimated to be about 1,494.

F. When reviewing claim vouchers for proper supporting documentation, the Office of the City Auditor examined each test selection and its attached supporting documentation for: correct preauthorized purchase order (PO) numbers, original, complete and accurate vendor invoices, consecutive PO numbers for change orders greater 10%, authorizing ordinances, and general supporting documentation for journal entries and inventory. Any discrepancies noted between the purchase order and the vendor invoice &/or supporting documentation was counted as an error, resulting in an overall 12% error ratio.

Of the 178 claim vouchers reviewed, 21 were identified as not containing proper supporting documentation. When this 12% error ratio is projected out against the entire estimated population of 19,000 claim vouchers, the average number of claim vouchers issued without proper supporting documentation is estimated to be about 2,242.

In summary, of the 178 claim vouchers under review; 128 claims (or 72%) were found to contain some type of an error ranging from improper payment processing format, fiscal year posting, vendor information, departmental authorization, payment discrepancies, or supporting documentation, as indicated in the test result chart below:

<u>Explanation</u>	<u>Errors Found</u>	<u>Error Percentages</u>	<u>Projected Errors</u>
Payment Format	46	26%	4,910
Fiscal Year Posting	8	4%	854
Vendor Information	5	3%	534
Payment Authorization	36	20%	3,843
Payment Discrepancies	14	8%	1,494
Supporting Documentation	21	12%	2,242
Inventory Documentation	0	0%	0
Total Errors	109	61%	11,635

Budget Book Reporting:

When the City Auditor performed a comparison of the finalized year end figures for fiscal year 2007/2008 using the City of Syracuse ACS Accounting System, compared to the actual 2007/2008

expenditure figures published in the 2009/2010 authorized budget book; it was discovered that all City departments successfully reconciled back to the issued authorized budget book, which is considered an improvement over last year's audit report finding.

However, just as last year, five cases were discovered where accounts are being shown as one single account in the Budget Book and then divided into two separate accounts in the general ledger. This is inconsistent as to how the other accounts are handled. The departments where these discrepancies were found are: The Common Council, Police Department Uniform Bureau, Police Department General Services Bureau, Fire Department Main/Uniform Bureau and the Fire Prevention Bureau.

Finally, last year, several expenditures were found to be improperly reported in a closed General Ledger Account; but no errors of this type were found during the current Comprehensive Audit testing, which is, considered an improvement over last year's audit report finding.

Centralized Transaction Reporting:

During the reconciliation of financial transactions the City Auditor noted that certain departments do not report on the centralized City ACS accounting software system. The Office of the City Auditor found that the general ledgers from the various accounting software systems did not, in many cases, reconcile to the main City of Syracuse accounting system. This required the Office of the City Auditor to request additional information from those departments.

The main concern with this objective was that efforts to compare the actual expenditure figures per the Aviation Department's Solomon accounting system, to the finalized expenditure figures for Fiscal Year 2007/2008, in the City of Syracuse's ACS accounting system, is unintentionally complicated. The fact that there are multiple accounting systems being utilized throughout the city creates a challenging environment for efficient city management.

Findings & Recommendations:

Finding I (a-b): Failure of City Department to respond to the City Auditor

While performing the annual examination of expenditures of each city department, as required by the City of Syracuse Charter, the failure of various departments to respond, or at least respond in a timely fashion, to numerous requests to complete and return the comprehensive audit questionnaires, budget variance questions, and various internal control procedures, resulted in an external impairment to the independence of the Office of the City Auditor.

In the Government Auditing Standards, per the Comptroller General of the United States, generally accepted auditing standards for field work is as follows: "A sufficient understanding of the organization under audit and its internal controls is to be obtained to plan the audit and to determine the nature, timing and extent of tests to be performed". When departments fail to respond to the City Auditor's inquiries there is a drastic impact on the amount, type and level of testing to be performed, which directly affects the over all production of both city departments.

In compliance with US Government Auditing Standard, Chapter 3, Section 10d of the GAO-07-162G, per the Comptroller General of the United States, issued by the US General Accounting Office, the

City of Syracuse Auditor is required to report any impairments that arose during the course of an audit, as follows:

Finding I (a): The failure of various departments to respond in a timely fashion to the comprehensive audit questionnaires sent out to establish a baseline and general understanding of departmental policies, procedures and internal controls, resulted in an external impairment to the independence of the Office of the City Auditor. To date, both the Law and Research Departments still has not completed and returned the City Auditor's comprehensive audit questionnaire.

Finding I (b): The failure of various Departments to respond in a timely fashion to budget variance questions sent out by the City Auditor in order to gain a general understanding of what was originally budgeted compared to what was actually spent, resulted in an external impairment to the independence of the Office of the City Auditor, as the Budget, Law, and Research Departments did not responded to the City Auditor's request in a timely manner.

Finding II (a-f): Voucher Testing

While performing the claim voucher testing above the City Auditor discovered the following:

Finding II (a): Of the items found to have payment processing format issues, 17% consisted of multiple and/or reoccurring purchases that were processed on a regular purchase order while 83% were processed on straight claims. Despite the fact that the City is on an accrual based accounting system, the City failed to accrue, or encumber, for various annual expenses.

However as previously discussed, when multiple or reoccurring payments are anticipated on either an annual, quarterly, or monthly basis Annual Purchase Orders (APO's) are recommended in order is to properly encumber the anticipated expense at the beginning of the fiscal year for budgeting purposes. In addition APO's are also preferred over straight claims as they require less work to create and process on a reoccurring basis.

Recommendation II (a): Each department should take a closer look at annual and reoccurring expense and consider establishing more annual purchase orders for these items in order to properly encumber the expense and to reduce work load and processing time.

Finding II (b): Of the items found to have fiscal year posting issues, 50% had services rendered in the prior fiscal year, 06/07, but were processed and paid using an effective date in the following fiscal year; resulting in 06/07 expenditures being recorded as 07/08 fiscal year expenditures.

In addition, 50% of the claims found to have fiscal year posting issues were posted to the general ledger using the prior fiscal year end effective date of 06/30/07, while the date the claims were actually processed and filed fell into the next fiscal year

beginning 07/01/07. As a result, the City Auditor discovered that the Finance Department has been filing claims by the transaction processing date, of 07/01/07 and beyond, instead of the fiscal year end effective date, of 06/30/07. Consequently, year end claims were very difficult to locate as they were not being filed with the correct fiscal year.

Recommendation II (b): Each department needs to pay closer attention to fiscal year end cut off procedures, in order to ensure expenditures are being posted to the correct fiscal period. In addition, the Finance Department may want to consider keeping open encumbrances available well into September; instead of shutting them down at the end of August, as the city can not control when vendors mail out invoices. In addition, the finance department should reconsider it's year end filing procedures, to ensure that payment requests are actually filed with the proper fiscal year, and it's corresponding documentation.

Finding II (c): Of the items found to have vendor information issues, 40% appeared to have either incorrect vendor names, addresses, and/or miscellaneous contact information on file. However, further research revealed that those who prepare payment vouchers do not have the ability to view all of the detailed vendor information screens being maintained. As a result, it is very difficult to verify and maintain current and accurate information on a vendor's corporate address, remittent address, phone, fax and other miscellaneous contact information. In addition, 60% of the items consisted of minor errors where no remittance address was indicated on the straight claim because payments were either flagged for departmental pick up or payable to other government entities such as SIDA and Urban Renewal.

Recommendation II (c): At this time, the City Auditor would like to recommend that full vendor review screens be made available to everyone who prepares payments, in order to verify mailing, remittance, and other vendor contact information prior to submitting and processing payment requests. In addition, it is also recommended that standard vendor information update forms be prepared and submitted to the Finance Department, so vendor update requests can be documented, processed, and filed.

Finding II (d): Of the items found to have authorization issues, 5% were approved for payment by an unrecognizable signature, 5% consisted of journal entries prepared and processed by the Department of Finance without notification, review, or authorization from the impacted departments, 82% did not contain the title of the signor making it difficult to verify if they were authorized or not, and the remaining 8% consisted of minor inconsistencies such as no payment authorization date being indicated on the claim voucher.

Recommendation II (d): To promote better fiscal management over payments, the City Auditor recommends that the signor name, title and approved payment date be clearly indicated on each claim voucher, straight claim, and journal entry, in order to verify that the signor is actually authorized to approve payments.

Finding II (e): Of the items found to have payment discrepancies, none of which were considered material, 33% resulted from undocumented change orders of 10% or more. However, the remaining 67% of discrepancies found did not reconcile back to the vendor invoice, but back to the department's own accounting without showing some kind of reconciliation between the two. The problem with paying off of City records instead of vendor invoices is the risk of misapplied payments, as vendors don't know which invoices to apply payment against.

Recommendation II (e): In situations where a department is paying off of city records, rather than vendor invoices, the City Auditor recommends preparing a payment reconciliation detailing the differences between vendor invoices and city records. Then this payment reconciliation should be attached to the claim voucher and forwarded on to the vendor along with the City's payment to ensure that the payment is properly applied.

Finding II (f): Of the items found to have supporting documentation issues; the City Auditor was concerned with processing original, complete and accurate invoices and supporting documentation. Several instances were discovered where journal entries and various payments were processed without any supporting documentation, copies of authorizing ordinances or notes indicating where the supporting documentation can be found.

As a result, 52% did not have the proper, accurate or complete supporting documentation, in order to verify the requested payment amount. In addition, 48% did not have authorizing ordinances attached or referenced on the payment request, in order to verify the approval of various contracts and "do not exceed limits".

Recommendation II (f): At this time the City Auditor recommends attaching original invoices, authorizing ordinances, completed inventory forms, accurate cost basis calculations, and finally written notes on the claim voucher identifying annual purchase orders, inventorial items, prepayments requests, and where to find supporting documentation if it was not attached.

As for those payment requests that don't have accurate or complete invoices, the City Auditor recommends the requesting department prepare and attach a payment reconciliation identifying how the payments should be applied.

Finally, standard accounting practices dictate that original invoices be used as supporting payment documentation in order to reduce the risk of duplicate payments, as well as to validate the authenticity of the amount owed. Although the City does follow a similar policy of requiring original documentation, there are exceptions where a faxed or photocopied invoice is considered acceptable. As a result, the City Auditor recommends that the Finance Department document the types of situations where a fax, photocopy, or e-mail is considered acceptable, and then hold regular city wide accounts payable meetings to clarify and discuss various documentation and payment issues facing the Finance Department.

Recommendation II (f-2): The Office of the City Auditor strongly recommends that proper detailed supporting documentation, specifically be attached to all journal entries when submitted for processing. This would include various labor reports, reconciling back to employee time sheets, and copies of paid purchase orders and straight claims vouchers for the acquisition of any and all material costs.

In addition it is also felt that it is ultimately the Finance Department Bureau of Accounts responsibility to review and reconcile each and every journal entry for accuracy, which can not be done without the proper supporting documentation. It should also be noted that those preparing departmental journal entries are not necessarily degreed experienced accountants, in which case standard separation of duty and review procedures should be applied to ensure accuracy.

Finding III (a-b): Authorized Signor Forms

In order for the various departments of local government to function effectively, various department and sub-departments require, by necessity, individuals to be empowered to authorize purchases, payments, journal entries, etal. The authority to execute these duties lies with the Executive branch, thus, only the Mayor, as the CEO, has the power to delegate signature authority to Department heads. Then through the use of the city's internal "Departmental Authorization Signature Form", said Department heads can delegate their signature authority to include Deputy Commissioners, Supervisors and/or their equivalent.

Finding III (a): In reviewing the Authorized Signature forms, the Office of the City Auditor found that the verbiage on the forms do not indicate that the Mayor has granted a department head managerial and signature authority over their respective department(s). Nor does the form automatically name a department head as an authorized signor.

Recommendation III (a): Update the Authorized Signor forms sworn statement section, with the following: "By signing below, I acknowledge that I have been assigned managerial authority over the above named City department(s) by the Mayor of the City of Syracuse. In an effort to seamlessly continue operations, I _____, the Mayor of the City of Syracuse am assigning the following individual(s) signature authority to approve departmental purchases, payments, and journal entries."

Finding III (b): Currently Finance Department procedure to remove an authorized signor has consisted of a verbal notification to draw a manual line through the name of the individual on the form who is being removed. Unfortunately, this procedure does not document the effective date of the change nor the individual who has requested and authorized the signor to be removed.

Recommendation III (b): The Finance Department should document and distribute official authorized signor procedures to clearly indicate how to add, change & remove an authorized signor(s). The most important is to require all change requests to be documented in writing, by submitting an updated "Departmental Authorization Signor Form" clearly indicating the effective date of the change, signed by the current Department Head, who recertifies that they have been grant managerial authority, by the Mayor, over the Department and its authorized signors.

Finding IV (a-b): Inconsistency from Budget Book to General Ledger

When the City Auditor performed a comparison of the year end figures for Fiscal Year 2007/2008 using the City of Syracuse ACS Accounting System compared to the actual 2007/2008 expenditure figures, as published in the 2009/2010 authorized budget book the following was found:

Finding IV (a): While performing the budget to actual comparison, it was discovered that only one (1) department did not reconcile back to the issued authorized budget book.

Recommendation IV (a): Consistency in reporting is needed. The Budget Department should reconcile the budget back to the ACS accounting system. As the Aviation Department's budget to actual variance was just over five and a half million dollars as a result of not properly recording the Aviation Department's re-imbursements back to the general fund and other various departments.

Management Comment IV:

The City of Syracuse Budget Department stated that the Department of Aviation discrepancies arise due to the separate accounting systems used by Aviation versus the City of Syracuse. In addition, the Bureau of Accounts records receipt of funds from the Department of Aviation and not the Airport's expense side of the transaction. Therefore, the ACS system only reflects the deposit of money and "less-lines." The Department of Budget stated they have met with the Finance Department to determine if the accounting could be revised to avoid this issue.

Finding IV (b): When performing the budget to actual comprising, five cases were discovered where accounts are shown as a single account in the Budget Book and then divided into two separate accounts in the general ledger. This is inconsistent as to how the other accounts are handled. The departments where these discrepancies were found are: The Common Council, Police Department Uniform Bureau and General Services Bureau, Fire Department Main Fire Bureau and Fire Prevention Bureau.

Recommendation IV (b): It is further recommended that the accounts in question should be completely combined or completely separated in the budget book and general ledger. This will reduce any errors in entering the budget figures, improve conformity and represent the data in the budget book in a more accurate manner for its users.

Finding V: Offline Accounting Systems

As previously reported, in the 2004/2005, 2005/2006 and 2006/2007 audit reports, the City of Syracuse has three large departments operating outside of the core accounting system used by the City. The City Auditor is concerned that any department, or financially dependent subsection, could act independently of the entire city, especially when working as a team and combining resources gives the city the best chance of success with the least cost.

Those departments consist of Aviation, Community Development and the Syracuse City School District. In addition, as confirmed by the Director of Information Systems, many city departments

heavily rely on various fragmented sub-systems consisting of manual logs, excel spreadsheets, and independent software packages to track various City related information.

As a result the administration can not effectively access or monitor all fiscal developments within various City departments. This could create an increased risk to the City of Syracuse, which is ultimately responsible for those departments; especially in situations of bonding and reporting finances to external sources.

Recommendation V: The City should combine all finances under one centralized accounting system that is accessible to the Administration; specifically the Department of Management and Budget and the Department of Finance.

The Office of the City Auditor is aware of the challenges cited by the Department of Aviation and the Syracuse City School District (SCSD) in combining their accounting systems with the City. Reasons cited by these departments for having separate accounting systems include Federal and State mandated reporting requirements which make the City's ACS accounting system prohibitive. However, this challenge can be overcome with the new accounting systems that are currently available on the market, which would allow the City to operate under one system.

The City Auditor would like to note that the SCSD went ahead, independently of the rest of the City, and purchased a new accounting system at the end of Fiscal Year 2006/2007. This new accounting system carries an estimated purchase and installation price of four million dollars (\$4,000,000.00).

Subsequent Event V - In Fiscal Year 2006/2007 the SCSD purchased a new accounting software system, called "Oracle's Peoplesoft". The installation and conversion of the software was to take three years. The beginning of the estimated three year installation process was scheduled to begin during Fiscal Year 2007/2008.

However, it took the SCSD almost a year to get the RFP issued. Due to the delay in the RFP process, the installation and three year conversion process was estimated to begin in Fiscal Year 2008/2009.

Most recently however, due to the SCSD's fiscal stresses compounded by the economic outlook, the first phase of implementation is now scheduled for April 2010.

The City is now working with Onondaga County's new CIO, as the County is also researching the "Oracle's Peoplesoft" system. At this time the County has received a better discount than the SCSD and the County is working toward securing a "Shared Service" grant from NY state that would give \$200,000 to each of the counties' cities, towns and villages that participate in this proposed software conversion. The grant money is currently estimated to be about \$4 million, leaving an additional \$1.5 million that will need to be raised in order to implement this proposed City and County wide software conversion.

Due to the SCSD fiscal stresses compounded by the economic outlook, the SCSD should always look into joining fiscal forces with any and all municipal entities to

lesson expenses; just as the City and County have done in relation to this specific matter. Unfortunately, due to the fiscal constraints with Onondaga County, their plans for the “Oracle’s Peoplesoft” system have been postponed.

Finding VI: Special Objects of Expense and Closed CIP Account Transfers

In preparation for the Annual Comprehensive Audit, the Office of the City Auditor performed a Budget to Actual comparison on the Special Objects of Expense accounts. Although the Special Objects of Expense accounts were specifically excluded from the Comprehensive Audit, the Office of the City Auditor had to review these accounts in order to reconcile all the general fund expenditures.

While performing this comparison, the Office of the City Auditor attempted to trace both the midyear and year end budget transfers; which ultimately result in the movement of excess funds from the Special Objects of Expense accounts into the various operating departments who are experiencing a budget deficit. By reallocating Special Objects of Expense dollars in this manner, the City was able to cover the expenditures in the General Fund that are for the purpose of this audit referred to as a General Fund “shortfall”.

As the City Auditor noted, when the distribution of the Special Objects of Expense accounts are lumped together within the General Fund Midyear Transfer; it becomes extraordinarily difficult to determine where all the Special Objects of Expense funds were reallocated to.

Recommendation VI: The City Auditor suggests it would seem appropriate for a separate Special Object of Expense budget transfer to be prepared and individually processed, as it is felt a fuller more readily understandable accounting sequence would benefit the Administration and the Common Council by creating more transparency for better tracking of actual costs.

Best Practice Recommendation:

The City Auditor investigated the back up systems providing security to the Airport and Community Development offline accounting systems. Best practice recommendations suggest careful planning to provide ongoing operation under emergency conditions including having backup capability and accessibility to allow for uninterrupted continuation of all services.

The City Auditor recommends that the City of Syracuse develop a comprehensive city-wide disaster recovery plan. This plan should address any issues related to the offline accounting systems being backed up adequately and should anticipate emergency conditions that could disrupt City services and functions.

The City Auditor strongly feels that the Common Council’s October 2008 rejection of a proposal by the Administration to purchase a generator for City Hall was short sighted. City Hall should have a back up system as many operations during emergency situations are ultimately run out of City Hall. In addition, the main computer hub that serves as the computer linkage between the various city servers (Aviation, DPW, Fire, Parks, & Police) is located in City Hall and is dependant on City Halls power being continually maintained. Lastly, common sense dictates that

the computer system housed in City Hall should be kept operational in an emergency environment regardless of where the actual command post is located.

Lastly, the Mayor and Common Council should re-evaluate the need of addressing the issue of purchasing and installing a generator in City Hall, as a power outage would disrupt all computer server connections, internet service, e-mail communications, purchasing and accounting functions, and all server saved documents would be inaccessible.

Auditors Note:

In the course of performing the Comprehensive Audit for FY 2007/2008, it came to the attention of the City Auditor that a number of departments are lacking supervisory level accounting staff with the prerequisite accounting experience, educational credentials, knowledge and familiarity with generally accepted accounting principals (GAAP).

After further research, the City Auditor found that these individuals usually were promoted into a supervisory level position as a reward for many years of service. As a result, these individuals usually do not have a formal educational background or relevant experience in accounting, and many times do not even qualify to sit for the appropriate supervisory level Civil Service exam. Instead, these individuals are assigned a bevy of non-accounting titles such as Administrative Officer, Administrative Assistant, Program Analyst, Project Manager and even Fire or Police Sergeant.

As a result, it is the recommendation of the City Auditor that management undertakes a comprehensive review of its accounting titles and staff, to create more consistent job descriptions, assignments, and titles throughout all City Departments and to ensure that critical accounting tasks are executed with minimal errors.

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Office of the City Auditor

January 22, 2010