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City Auditor**

License Function Review

**Interim Report:
January 1, 2006 through March 31, 2006**

Introduction:

As authorized by Article 5, Section 5-508 of the City of Syracuse Charter, an examination of the Department of Finance's receipts and disbursements relating to licenses for the period January 1, 2006 through March 31, 2006 was conducted. The Charter necessitates the review be conducted monthly and the Audit Department has elected to issue the reports on a quarterly basis. The examination was administered in accordance with the *Government Auditing Standards*, issued by the Comptroller General of the United States and *Standards for the Professional Practice of Internal Auditing*, as circulated by the Institute of Internal Auditors.

These standards require that the audit is planned and performed to attain a reasonable foundation for the judgments and conclusions regarding the function under examination. This review also included evaluations of applicable internal controls and compliance with requirements of law and regulations when necessary to satisfy audit objectives.

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

This report is intended solely for the information of the Mayor, the Common Council and the Department of Finance of the City of Syracuse, New York, yet it is understood to be a matter of public record and its distribution is not limited. Further information regarding this audit is available at the City of Syracuse's Audit Department upon request. The Audit Department would like to thank the Department of Finance personnel who assisted and cooperated with us during our audit.

Scope:

The scope of the audit entailed reviewing all license related receipts and disbursements for the Bureau of Treasury, Department of Finance, for the period January 1, 2006 through March 31, 2006.

Objective:

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

Methodology:

To reach this assurance, the Audit Department selected five days per month to test the Cash Reports for mathematical accuracy. The types of license granted on the cash reports and the fees collected were also verified to appropriate rules and regulations. The receipts were then traced to the corresponding general ledger accounts and bank accounts to ensure proper recording. All related vouchers during the audit period were reviewed for appropriateness and accuracy. The Monthly Activity Report, which itemizes the receipts by date and category, and the Daily Cash Reports were traced to the Monthly Balancing Sheets and General Ledger activity.

Subsequent Events:

Effective April 6, 2007, Deputy Commissioner of Finance, Jim Mahaney, will serve out his last day of employment with the City of Syracuse. Currently, the administration has not officially announced what its plans are for heading up the Licensing Division, but it is hoped that the restructuring of the License Division will produce marked improvements over processing, tracking, and reporting of licensing activity, as continually recommended by the Department of Audit over the last several years.

FINDINGS:

Finding 1: Application Errors

As previously stated in the second quarter audit report: “When comparing the regulated licenses per the City Charter, to the actual licenses posted by the Bureau of Treasury, an alarming amount of inadequacies were discovered. Out of forty-five licenses offered, eleven (*or 24%*) did not have applications available, three applications (*or 7%*) were only available in person at the Department of Treasury, one application (*or 2%*) was only available on the New York State Racing & Wagering website, and finally *the four non-existent license applications, that were previously noted in prior year audits as being listed on the City of Syracuse’s web site, have subsequently been removed from the web site as of 09/14/06.*”

Per follow up conversation with Deputy Commissioner, Jim Mahaney, on September 26, 2006, the Licensing Division will contact the city web site coordinator to establish a direct internet link to the New York State Racing & Wagering website, as well as begin working on updating the City web site to include all license applications. However, these changes will not be effective until after October 2006.

Subsequent follow up work, performed by the Department of Audit, has revealed that the City’s licensing website has been updated to include a direct internet link to the New York State Racing & Wagering website, as discussed above, three applications that were previously not available on the City’s Web site have now been added, and one additional license was removed from the active licensing list as the activity is now being regulated by New York State. Thus, out of forty-five licenses offered, only forty-four are still considered valid, ten (*or 22%*) do not have applications available, one application (*or 2%*) is available in person (*only*) at the Department of Treasury, and finally all invalid license applications have successfully been removed from circulation.

Recommendation 1:

It should be noted that the above flaws are considered reoccurring, as they have repeatedly been identified over the past several years. As a result, the above noted flaws appear to be the cause of further mistakes in the license process resulting in incorrect licenses being issued and incorrect fee amounts being collected. The City Auditor advises

the Bureau of Treasury to immediately update the license applications available online, along with their corresponding fee amounts. In addition, the fee amounts publicly posted within the Bureau of Treasury should also be reviewed and updated where applicable. Attached is an up to date list of the licenses along with the fees that are under the responsibility of the Department of Finance (Attachment 2). The accuracy of the list was confirmed by the Law Department, City of Syracuse.

Finding 2: Incorrect License Fees

As previously stated in the second quarter audit report: “When comparing the regulated license fees to the actual license fees listed on the individual license applications, a stunning amount of inadequacies were discovered: Five applications (*or 11%*) did not indicate any licensing fee amount and fifteen applications (*or 33%*) stated incorrect licensing fee amounts, resulting in an over whelming 44% error ratio regarding the accuracy of posted license application fees. It should be noted that the above inadequacies are considered to be reoccurring, as they have also been identified as findings in prior year audits, and currently do not appear to be addressed.”

In a follow up attempt to verify which license applications have been updated to include the correct licensing fees, as discussed above, the Audit Department discovered that the City’s licensing website was currently out of commission. Per conversation with the City’s internet web coordinator, the Audit Department was notified that the City’s web site had experienced a security breach which resulted in hundreds of links being corrupted. The web coordinator then went on to say that the corrupted links are currently being addressed. As a result, the Audit Department incurred a scope limitation preventing the City Auditor from verifying what, if any, license applications had been updated with the correct licensing fees.

While reviewing all of the general licenses issued, to verify the accuracy of licensing fees being calculated and collected, the following errors were found concerning: Dancing in a Restaurant or Hotel Dining Room, Entertainment or Floor Show in a Restaurant or Hotel Dining Room, Exhibition, Concert, Musical Show, Theater &/or Stage Production, Second Hand Dealer, and Food Vendor / Peddler licenses.

Dancing and Entertainment Licenses After reviewing all of the dancing and entertainment license applications, it was discovered that one, or 8%, of the licensee’s did not indicate the nature of the activity that they were requesting to have licensed, in which case no license should have been issued until further clarification was received, resulting in a potential \$200.00 refund; four cases, or 46%, of the licensee’s were improperly charged for an entertainment only license when a dance area license was also requested in the description section of the application, resulting in under charging the licensee. By error, the application requests these two separate licenses using one application, but does not reflect the two separate licensing fees on the application itself, resulting in \$525.00 of lost licensing revenue, this quarter alone.

Per follow up conversation with Deputy Commissioner, Jim Mahaney, on September 26, 2006, there appears to be conflicting opinions received from the Law Department regarding the licensing fees noted on the bottom of the Dancing and Entertainment license application. The issue in question is if the licensing fees, noted on the application, are all inclusive covering both Dance and Entertainment Licenses? Due to the conflicting information, the Audit Department agreed to work with the Licensing Division to request and receive clarification from the Law Department on this issue.

Per subsequent review of the City Charter by the Department of Audit, the City Charter clearly indicates two separate and distinct fees schedules for Dance Area Licenses and Entertainment Licenses. Thus it is felt that the two licenses were originally intended to be separate and distinct from each other, and should be treated as two separate individual licenses, each with their own fees.

In addition to the above, in this third quarter, it was also noted that seven, or 54% of the applications reviewed did not indicate the seating capacity of the establishment, as determined by the Syracuse Fire Department. As a result, the licensing fees could not accurately be recalculated, as the seating capacity is the key component used to correctly calculate the licensing fee amount.

Per follow up conversation with Deputy Commissioner, Jim Mahaney, on September 26, 2006, most applicants bring in their official seating capacity certificate, issued by the Syracuse Fire Department, as supporting documentation to their application. Thus the correct fees are being calculated based on the certificate, but that information may not always be indicated on the application. As a result, the Audit Department then recommended that each application clearly indicate the seating capacity or start attaching a copy of the seating capacity certificate to the application, as this information is vital to correctly calculating the licensing fee amount.

Per subsequent review by the Department of Audit, the seating capacity condition continues to be an issue. Again, this could easily be resolved by either circling the correct seating capacity on the application or by attaching a copy of the official seating capacity certificate, as issued by the Syracuse Fire Department.

Exhibition License: While reviewing the monthly activity reports, to scan the types of license that had been issued, it was determined that Exhibition/Entertainment licenses needed to be researched further, to determine which of the two licenses were actually issued, as no such combined license appeared to exist. To gain a better understanding of the use of the Exhibition License, the Audit Department reviewed the City Charter, the prior year audit file, and interviewed the current and previous licensing clerks. During this additional research it was discovered that Exhibition licenses, incorrectly titled "Exhibition/Entertainment", have previously been issued for all "one day", entertainment type events. However, because the Charter describes the Exhibition

License as, “not otherwise provided for”, the Licensing Dept. should have issued concert, motion picture, musical show, theater and/or stage production licenses where appropriate, as these licenses are “otherwise provided for” in the charter at a much lower rate.

In addition, it was found that the Exhibition Licenses are being issued for such events as school dances, graduation ceremonies, private parties, and weddings, all of which are specifically exempt from licensing fees.

Lastly, there seems to be some confusion regarding events taking place in county facilities, as some events appear to be receiving licenses, while other events are not. The Audit department has submitted a request to the Law Department for additional information on this topic, but has yet to receive any clarification. However, regardless of the ruling from the Law Department, Licensing has been handling county facilities inconsistently at best.

After reviewing all of the Exhibition License applications, it was discovered that seventeen, or 94%, of the applications were either inappropriately categorized or over charged. At least five applications should have been issued as a “Theater/Stage Production License”, two applications should have been issued as a “One Day Concert License”, all with a fee of fifteen dollars, but were mistakenly classified as an Exhibition License with a fee of fifty five dollars, resulting in over charging the licensees by \$40.00 each, equaling a projected refund amount of \$280.00.

In addition, there were ten applications that were classified and charged for an Exhibition License at a fee of \$55.00 per day, but further research revealed that school dances, graduation ceremonies, private parties and wedding are actually considered private events which are exempt from general licensing requirements, resulting in a total projected refund amount of \$770.00.

Second Hand Dealer License: After reviewing all of the Second Hand Dealer License applications, it was discovered that ten, or 48%, of the applications were inappropriately categorized as “Second Hand Auto, Used Car Dealer and Used Car Parts Dealer” licenses, which are non-existent.

After additional review, it was determined that the Licensing Division was not issuing separate non-existent “Second Hand Auto” and “Second Hand Auto-Parts” licenses, but was in fact just using incorrectly titled license applications, in an attempt to internally track various information. Fortunately, the use of incorrectly titled applications did not have a financial impact on the department, as the correct licensing fee of \$75.00 was appropriately charged for each licensee. Unfortunately, this practice has resulted in a confusing filing system and the appearance that non-existent license applications are being issued.

Per follow up conversation with Deputy Commissioner, Jim Mahaney, on September 26, 2006, going forward the Licensing Department will update the Second Hand Dealer License application, to show an internal use section identifying the various subcategories that these applications are currently being

sorted into. However, this change will not be reflected on applications received prior to October 2006.

Food Vendor/Peddler License: While reviewing the monthly activity reports and various applications, it was determined that Vendor/Peddler Licenses needed to be researched further to determine when a “One Day” Food Vendor or Vendor/Peddler License should be issued. After researching Food Vendor and Vendor/Peddler Licenses in the City Charter, it was discovered that a Vendor/Peddler can sell just about anything other than food, as food sales are regulated and inspected by the County Health Dept. After researching the City Charter, it was discovered that there is no valid One Day Food Vendor License on the books, even though a one day special event category is listed on the Food Vendor License application. For these cases, the most applicable license to be issued would have been for a one week Food Vendor License at a cost of \$100, per Section 14-44(d) of the Revised General Ordinances. In addition, it was discovered, in the City Charter, that both DPW and the Parks Departments are also authorized to issue Vendor/Peddler Licenses in addition to the Licensing Department. Unfortunately however, after reviewing all of the applications selected for testing it was revealed that several applications generated by DPW, should have been for a Food Vendor Licenses and not Vendor/Peddler Licenses. As a result, incorrect license applications were submitted and subsequently the wrong licenses were issued resulting in incorrect fees being collected.

After reviewing all of the Food Vendor/Peddler License applications, it was discovered that Four, or 44%, of the applications were inappropriately categorized as a one day “Vendor Peddler License” when a one week “Food Vendor License” should have been issued, resulting in a total projected loss of \$240.00. In addition, it was also discovered that the annual \$500.00 Hot Dog Lottery deposits are not properly being documented and tracked. At least one case was discovered where a \$500.00 Hot Dog Lottery deposit was received in a prior quarter, and no notes, documentation, or follow up system appeared to be in place to indicate that a deposit was on file and needed to be credited against the applicant’s final licensing fee. All deposit information really should be posted to a clearing account in the General Ledger and followed up with a disbursement journal entry, which would then properly document and track the receipt and disbursements of each deposit received.

The net effect of the above general licensing errors, including immaterial rounding differences, uncovered during the January 1, 2006 through March 31, 2006 audit period, were \$1,345.00 of uncollected Licensing Revenue and \$1,050.02 of over collected Licensing Revenue, resulting in understating revenue by a net total of \$294.98, which represents less than one percent of the general license fees collected for said period. Since these errors stemmed from incorrect statements on the applications and the lack of knowledge of persons involved, immediate action is needed to ensure the proper licenses and corresponding fees are charged in the future.

Recommendation 2:

Since the above errors stemmed from incorrect statements on the applications and the lack of knowledge of persons involved; immediate action is needed to ensure the proper licenses and corresponding fees are charged in the future.

Along with correcting the license applications posted, the Bureau of Treasury should also make certain the staff responsible for processing, supervising and enforcing the licenses should always be well informed on the regulations governing the function.

Finding 3: Deficient Internal Controls

While tracing transactions from the Monthly Activity Report to the Monthly Balancing Sheet and finally to the Monthly General Ledger activity, the following recording errors and information deficiencies were discovered. On multiple occasions; receipt dates, disbursements and/or J/E's were not accurately reflected on the Monthly Activity Reports.

While attempting to reconcile issued license numbers with their corresponding license applications, the Audit Department discovered that issued license numbers are not currently being recorded or cross referenced back to the Monthly Activity Report. As a result, the Ordinance/Code Enforcement Department can not easily query an up to date data base to identify those licensees who are/or are not currently in compliance with the appropriate licensing requirements.

Per follow up conversation with Deputy Commissioner, Jim Mahaney, on September 26, 2006, the Audit Department discussed various ways of how fraud could occur under the current procedures. In response, Deputy Mahaney disclosed that in the past, potential licensees would tell Ordinance/Code Enforcement Officers that they had a license application on file, in order to avoid being ticketed for operating without a license. In an effort to supply the Ordinance/Code Enforcement Officers with more current and up to date information, the two divisions started sharing copies of the Monthly Activity Report. However, without the issued license numbers being cross referenced, the report does very little to identify those licensees that have been denied a license or those that may produce or been issued, a false or duplicate license number. As a result, the Audit Department then explained that if license numbers were being cross referenced on the Monthly Activity Reports, then the two departments would be taking preventive steps to avoid fraud, as well as, instituting procedures that would help detect fraud as well. The Licensing Division then stated that it would research instituting this procedures going forward.

Per follow up review by the Department of Audit, it was also discovered that the official licensing documents, such as: licensing badges, certificates, pins, and pre-numbered license plates, are being left out in the open and do not appear to be properly secured, exposing the department to potential fraud.

Recommendation 3:

The City Auditor advises the Bureau of Treasury to secure each licensing badge, certificate, pin, and pre-numbered license plate, as a control method to reconcile the number of licenses issued and total licensing fees collected to ensure all monies received are properly safeguarded. In addition, it is also recommended that the Licensing Clerk write the issued licensing number on each corresponding license application and expand the Monthly Activity Report to also include the issued license number so that a monthly, quarterly or annual reconciliation of license numbers can be performed. This control method would ensure that each issued license can easily be matched up with its corresponding approved application, as well as accurately tracking the total number of each license type issued each year.

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

Monthly Activity Reports: It should be noted that the Monthly Balancing Sheet's purpose is to reconcile the receipt and disbursement activity to ensure recording accuracy. Thus, the Monthly Activity Report should also be reconciled to the G/L and the Monthly Balancing Sheets, at month end, by an individual whose duties are segregated from the Licensing Clerk responsible for creating the Monthly Activity Reports. Any discrepancies found, such as NSF checks, duplicate payments, and/or posting errors should be noted, clearly explained and properly documented. Once the reconciliation has been completed, it should be forwarded, reviewed and approved by the 2nd Deputy Commissioner of Finance, to provide stronger internal checks and balances.

Master Licensing Database: As noted above, the Licensing Division is maintaining and providing a master licensing database, which should continue to be maintained and updated on a routine bases by the Licensing Clerk. However, the current database, known as the Monthly Activity Report, can easily be expanded to track and record all license applicants by name, organization, location, activity date, application date, license type, license purpose, fees collected, application status and corresponding issued license number. Once established, this data base can then easily be sorted and used to: Reconcile monthly issued licensing numbers, create the Charter required summary activity reports, and assist those responsible for enforcing the City's licensing requirements.

Finding 4: Completeness of Licensing Functions

As stated in the previously audit report, the Audit Department has discovered that the Licensing Division currently is not in compliance with Article 1; Section 5-1(d) of the Syracuse City Charter, regarding licensing activity reporting requirements. The Charter requirement states that, "The Commissioner of Finance shall provide to a quarterly

report, thirty (30) days after the preceding quarter, stating the number, location and type of new entertainment licenses granted by the City during the preceding quarter. In addition, the Commissioner of Finance shall file an annual report with the City Clerk summarizing the year's activity concerning entertainment licenses." To date, these reports are not being generated or turned into the City Clerk's office as required by the Syracuse City Charter.

Per follow up conversation with Deputy Commissioner, Jim Mahaney, on September 26, 2006, the Licensing Division openly admitted that they were not aware that such a reporting requirement existed, as they have never been asked to supply this information in the past. However, going forward, Deputy Mahaney indicated, that there should not be a problem supplying both the quarterly and annual reports as required, by City Charter.

While reviewing the Monthly activity reports for completeness, the Audit Department discovered multiple licensing categories that had no activity. In particular, the Audit Department identified: Bowling Alleys, Buses, Concerts, Circuses, Dance Schools, Ice Shows, Musical Shows, Open Air Cultural Events, and Professional Basketball or Hockey Licenses as being inactive. However, the Audit Department identified multiple activities in these categories that appear to be occurring, which require a license for such activity or operation. As a result, the Audit Department made various inquires regarding verification procedures that are being performed, within the Licensing Division, to identify potential licensees that are not complying with city licensing requirements.

Per follow up conversation with Deputy Commissioner, Jim Mahaney, on September 26, 2006, many of the licenses currently listing in the City Charter are inactive because they are old, outdated, and no longer applicable. In recognition of such, Deputy Mahaney indicated that he would work with the Law Department to receive clarification on various licensing requirements and preparing legislation to the Common Council to review, update and remove any outdated licensing requirements. In addition, Deputy Mahaney also indicated that the Licensing Division currently does not perform any routine verification procedures to ensure that all potential licensees are being identified and/or contacted for compliance with City licensing requirements. Deputy Mahaney went on to explain that the Licensing Division is not staffed to perform compliance/enforcement functions, as this responsibility falls under the Police Ordinance Enforcement Division of Code Enforcement.

Although the Audit Department did not research verification procedures being performed by the Police Ordinance Enforcement Division, the Audit Department did question the Licensing Divisions knowledge of general compliance and/or enforcement procedures being performed by the Police Ordinance Enforcement Division. Unfortunately, the Licensing Division did not appear to have much, if any, basic knowledge of the general compliance and/or enforcement procedures being performed. As a result, the Audit Department has concluded that there are insufficient co-ordination efforts between the two divisions to uniformly enforce compliance with City licensing requirements.

Recommendation 4:

A master licensing database should continue to be maintained, by the Licensing Clerk, on a routine basis, and used to: reconcile monthly issued licensing numbers, create the charter required summary activity reports, and assist the Police Ordinance Enforcement Division in identifying potential licensees that are not in compliance with City licensing requirements. In addition, the Audit Department recommends verification procedures be developed, and put into place that would improve co-ordination efforts between the two divisions, resulting in an increase in licensing revenue and compliance with various licensing requirements. Such verification procedures can be as simple as: listening to the radio or looking through the entertainment section of various newspapers to identify events that qualify for licensing, such as: ice show, concerts, or professional sporting events like Syracuse Crunch Hockey games. In addition, the licensing division should also consider performing an internet phone book search, by business type and location, to help identify additional potential licensees.

Conclusion:

The Department of Audit uncovered multiple errors regarding the types of general licenses issued, corresponding fees collected, deficiencies in internal controls, as well as completeness of general licensing function and enforcement for the period of January 1, 2006 through March 31, 2006.

In addition, the Department of Audit has also determined, with reasonable assurance, that the Bingo, Certificate of Use, and Games of Chance License activities, for the audited period, were free of material misstatements. Attached is an Activity to Date Report (Attachment 3) for your reference and utilization.

Auditor's Notes:

Due to the errors in types of licenses granted and fees collected, noted in Audit Findings 1 and 2 above, the Audit Department analyzed the general license activity for fiscal years ending June 30, 2003, 2004, and 2005 for evidence of similar recurring errors. Unfortunately, the errors noted in Audit Findings 1 and 2 above, were also found in the 2003, 2004, and 2005 fiscal years and corresponding audit reports.

Although the monetary amount of the above errors may appear immaterial, equaling less than five percent of total general licensing fees, the fact that 44% of licensing applications do not state accurate licensing fees is cause for serious concern. It should also be noted that the risks caused from having incorrect license applications, results in further errors in the licensing process and needs to be corrected immediately.

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