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City Auditor**

License Function Review

**1st Quarter Interim Report:
July 1, 2006 through September 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 July 1, 2006 through September 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 July 1, 2006 through September 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, Jim Mahaney, Deputy Commissioner of Finance, in charge of licensing for the period under audit, served out his last day of employment with the City of Syracuse. Effective April 15, 2007, the administration officially announced that Debbie Somers, the current Utilities Billing Supervisor for the Water Finance Division, will inherit the responsibility of over seeing all Licensing functions and responsibilities.

FINDINGS:

Finding 1: Application Errors

When comparing the regulated licenses per the City Charter, to the actual licenses posted by the Bureau of Treasury, for the period under audit, the following inadequacies were discovered. Out of forty-five license applications offered, twelve (*or 27%*) did not have applications available on the City web site, two applications (*or 4%*) were available in person only at the Department of Treasury, resulting in a total of ten (*or 22%*) license applications that are completely missing and need to be recreated and posted to the City's web site.

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 for the City of Syracuse.

Finding 2: Incorrect License Fees

When comparing the regulated license fees to the actual license fees listed on the individual license applications, the following inadequacies were discovered: eighteen applications (*or 40%*) did not indicate any licensing fee amounts, as six applications (*or 13%*) stated incorrect licensing fee amounts that will need to be corrected, and as previously stated above, twelve license applications (*or 27%*) were completely missing from the Licensing Department web site and will need to be recreated and posted to the internet. As a result of these application fee errors, the Licensing Department averaged an over whelming 40% 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.”

Per conversation with Deputy Commissioner Somers on May 10, 2007, additional adjustments are still necessary in order to get all of the applications online and up to date. However, it should be noted that the Deputy Commissioner in charge of Licensing does not have direct authority or control over the individuals responsible for updating and maintaining the City’s official website. As a result, the only thing the Deputy can do is routinely request changes, monitor the web site, and remain in regular contact with the Media Department to ensure that the proper license application forms and fees are posted on the City’s web site as requested.

In addition, after recently resubmitting original PDF license applications forms, to the Media Department, Deputy Commissioner Somers discovered that the Licensing Department no longer had access to the “Adobe Writer” software program which allowed the Licensing Department to update the license application forms. As a result, Deputy Commissioner Somers has been in contact with the IS Department with a request to purchase and install “Adobe Writer” software so that the Licensing staff can update the PDF application files whenever necessary. At this time, the software is being researched and corrections are intended to be processed and estimated to be completed by June 2007.

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, Food Vendor, and Vendor Peddler licenses.

Dancing and Entertainment License: After reviewing all of the “Dancing” and “Entertainment” license applications, it was discovered that three, or 100%, of the licensee’s did indicate the nature of the activity that they were requesting to have licensed, and were properly charged for an entertainment only license.

Unfortunately, by error, this particular application requests two separate licenses, “Dancing” and “Entertainment”, using one application request which does not properly reflect the two separate licensing fees on the application itself.

However, per the Audit Department’s meeting with Deputy Commissioner Somers, on May 10, 2007, it was agreed upon that the Dance Area and Entertainment License applications are in deed two separate and distinct licenses, with two individual fee schedules. In addition, Deputy Commissioner Somers stated that the two applications were previously combined in order to more easily track the maximum annual Dance & Entertainment licensing fee amount of \$300.00. As a result, Deputy Commissioner Somers stated that she would be updating the Dance & Entertainment license application forms to reflect both the individual Dance and Entertainment licensing fees, as soon as

the “Adobe Writer” software program, is purchased and received. At this time, the software is being researched and corrections are intended to be processed and estimated to be completed by June 2007.

Lastly, the Audit Department also noted that all, or 100% of the applications reviewed did indicate the seating capacity of the establishment, as determined by the Syracuse Fire Department. As a result, the City Auditor now feels that the Licensing Department is currently doing a fine job of clearly indicating the seating capacity of each Dance and Entertainment license application received.

Exhibition License: After reviewing all of the Exhibition license applications, it was discovered that eight, or 89%, of the applications were either inappropriately categorized or over charged. At least one application should have been issued as a “One Day Dance License at a cost of \$20.00 per day, two applications should have been issued as a “Theater/Stage Production License” at a cost of \$15.00 per day, and three applications should have been issued as a “One Day Concert License” also with a fee of \$15.00 per day, but all were mistakenly classified as an Exhibition License with a fee of fifty five dollars, resulting in over charging the licensees by \$35.00-\$40.00 each, equaling a total projected refund amount of \$240.00.

In addition, there were two applications that were classified and charged for an Exhibition License at a fee of \$55.00 per day, but further research revealed that such events as school dances, graduation ceremonies, private parties and weddings are actually considered private events which are exempt from general licensing requirements, resulting in a total projected refund amount of \$110.00.

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.

Per the Audit Department’s meeting with Deputy Commissioner Somers, on May 10, 2007, Deputy Commissioner Somers stated that the Licensing Division has been working hard to issue the correct license applications as indicated above by compiling and reviewing all City licensing ordinances to create an up to date licensing policy and procedures handbook for the current and future licensing staff to reference, detailing the various city licensing options, ordinances, rules, regulations, and clarification memos provided by the City of Syracuse Law Department regarding the license application process. In addition, the licensing staff is working closely with the Law Department to draft new legislation that will clarify and update the Licensing sections of the City Charter.

Second Hand Dealer License: After reviewing all of the Second Hand Dealer License applications, it was discovered that four, or 50%, of the applications were appropriately categorized as “Second Hand Auto” Licenses, in an attempt to start categorizing the various types of second hand goods that are being sold.

Per conversation with Deputy Commissioner Somers, on May 10th, 2007, and as previously indicated above, the non-existent "Second Hand Auto" and "Second Hand Auto-Parts" licenses, are not actually being issued, just incorrectly titled, in an attempt to internally track the various types of second hand goods being sold. To elevate the confusion and appearance of non-existent licenses being issued, Deputy Commissioner Somers stated that she would be updating the Second Hand Dealer license application form to include a subsection that will reflect the various types of second hand goods being sold, as soon as the "Adobe Writer" software program, referenced above, is received. At this time, the software is being researched and corrections are intended to be processed and estimated to be completed by June 2007.

Food Vendor/Peddler License: After reviewing all of the Food Vendor/Peddler License applications, it was discovered that one, or 50%, of the applications were inappropriately categorized, as a "Vendor Peddler License", by the DPW Dept., when the area the applicant was requesting to peddle in, such as the NYS Regional Market area, was out side of the City of Syracuse licensing boundaries. As a result, a full refund was properly issued, within 45 days of receipt of the application.

Per the Audit Department's meeting with Deputy Commissioner Somers, on May 10, 2007, the Deputy Commissioner in charge of Licensing does not have direct authority or control over the individuals located in other departments, such as Parks and DPW, who are authorized to process and issue Vendor Peddler &/ or other miscellaneous licenses. At this time, the Audit Department recommends that the Commissioners of Parks and DPW each work with the Deputy Commissioner in charge of Licensing to update and train their staff concerning the numerous changes being implemented regarding any new licensing applications, fees functions, rules, regulations, and/or tracking systems.

In addition, it was also discovered that one, or 50%, of the Food Vendor/Peddler License applications were properly documented and tracked, as the annual \$500.00 Hot Dog Lottery deposit was received in a prior quarter along with notes indicating that the deposit was on file and was being credited against the applicant's final licensing fee, received six months later. It should be noted that 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 more clearly document and track the receipts and disbursements of each deposit received.

Per the Audit Department's meeting with Deputy Commissioner Somers, on May 10, 2007, in order to set up a new "Hot Dog/Food Vendor Lottery Deposit Account" in the general ledger, the Commissioner of Finance would need to be contacted for approval. However, at this time, Deputy Commissioner Somers feels that this issue can be resolved through the correct use of Excel spreadsheets detailing the applicants name, deposit date, deposit amount, license number issued, and the amount and date the deposit was applied against the application fee, zeroing out the deposit account balance. In addition, the

original “Hot Dog/Food Vendor” license application will also clearly indicate the original deposit date and amount that is being applied against the application fee, reducing the total licensing fees to be collected.

The net effect of the above general licensing errors, including immaterial rounding differences, uncovered during the July 1, 2006 through September 31, 2006 audit period, were \$384.34 of over collected Licensing Revenue, which represents less than one percent of the general license fees collected for said period.

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.

Out of the one hundred thirteen transactions selected for testing, four were discovered to consist of multiple licensing requests per application, resulting in nine actual licenses being requested and issued. As a result, 8% of the actual transactions tested were not properly documented and recorded on the monthly activity reports. Per conversation with Commissioner of Finance, Brian Roulin, it was agreed that the Audit Department’s suggestion that each individual check received should be processed as a separate transaction for deposit purposes, and that each “daily cash report” must include a detailed break down of every license requested, not just applications received, for reconciliation and tracking purposes.

Per the Audit Department’s meeting with the Deputy Commissioner Somers, on May 10, 2007, Deputy Somers stated that she has sat with, explained, and instructed the Licensing Clerk to document all licensing activities, disbursements and J/E’s on the Monthly Activity Reports going forward, for reconciliation purposes.

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.

In addition, 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 within the Department of Treasury and do not appear to be properly secured, exposing the department to possible theft and fraud.

Per the Audit Department's meeting with Deputy Commissioner Somers, on May 10, 2007, Deputy Commissioner Somers stated she was under the impression that the entire Treasury Department was considered a secured location by the external auditors and that no additional security precautions were necessary. However, it was pointed out that the main security camera that previously pointed directly on the walk in safe, located within the Treasury Department, had been removed several months ago and still has not been replaced.

In addition, after further discussion of various ways fraud could occur, Deputy Commissioner Somers indicated that she would consider the possibility of establishing some additional procedures to reconcile issued licensing numbers, as previously recommended by the Department of Audit, after some of the more pressing issues stated in this report have been addressed.

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 previous audit reports, 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 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 the Audit Department’s meeting with the new Deputy Commissioner, Deborah Somers, on May 10, 2007, Deputy Commissioner Somers stated she also was not aware that quarterly and annual reporting requirements existed. After supplying a copy of the reporting requirement, Deputy Commissioner Somers indicated that she will make sure that both the quarterly and annual reports are prepared and submitted 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 the Audit Department’s meeting with Deputy Commissioner Somers, on May 10, 2007, it was explained that the current Licensing Clerk was never comprehensively trained on all of the various licensing options listed in the charter. As a result of missing license applications and a lack of knowledge regarding the subject matter, the Licensing

Clerk was left to rely on the previous Deputy Commissioner in charge of licensing, Jim Mahaney, for guidance and direction.

Currently, however, the new Deputy Commissioner, Deborah Somers, is working to create a up to date licensing policy and procedures manual for the current and future licensing staff to reference detailing the various city licensing options, ordinances, rules, regulations, and clarification memos provided by the City of Syracuse Law Department regarding the license application process. In addition, the licensing staff is working closely with the Law Department to draft new legislation that will clarify and update the Licensing sections of the City Charter, by removing any outdated licensing requirements and updating various licensing fees.

As far as compliance and enforcement is concerned, Deputy Commissioner Somers agrees that the Licensing Division plays a very important role, and should be assisting the Police Ordinance Enforcement Division identify various individuals and businesses that may be operating without a proper or valid license. Going forward, Deputy Commissioner Somers intends to have the Licensing Clerk start researching, cross referencing, and verifying potential license applicants, once some of the more pressing issues, previously sited in this audit report, have been addressed.

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.

Per the Audit Department's meeting with the new Deputy Commissioner, Deborah Somers, on May 10, 2007, Deputy Commissioner Somers stated that she has already been in contact with various Code, Fire and Police Ordinance Enforcement Department Commissioners, to better coordinate compliance and enforcement efforts, throughout the City.

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 July 1, 2006 through September 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.

Lastly, per the Audit Department's meeting with the new Deputy Commissioner, Deborah Somers, on May 10, 2007, the City Auditor feels that the restructuring of management responsibilities over 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.

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, 2005, and 2006 for evidence of similar recurring errors. Unfortunately, the errors noted in Audit Findings 1 and 2 above, were also found in the 2003, 2004, 2005, and 2006 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 40% 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.

Philip J. LaTessa
City Auditor
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