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## **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 October 1, 2004 through December 31, 2004 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 October 1, 2004 through December 31, 2004.

## **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 detailed databases, which itemize the receipts by date and category, and the vouchers were also traced to the Monthly Balancing Sheets and general ledger.

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## **Findings and Recommendations<sup>1</sup>:**

### **Finding 1: License Application Inaccuracies**

When comparing the regulated licenses and fees to the actual licenses and fees posted by the Bureau of Treasury, an alarming amount of inadequacies was discovered. Out of forty six licenses offered, twelve did not have applications available and fifteen had misstatements. Also, the Bureau of Treasury posted four applications for licenses that did not currently exist. Please refer to Attachment 1 for a schedule of this investigation. As noted below, these flaws were the cause of further mistakes in the license process.

### **Recommendation 1:**

The City Auditor advises the Bureau of Treasury to immediately correct the license applications and fees posted by the bureau. 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.

Management Response: “Applications are available for licenses. The source for this finding is in question and needs to be clarified. 12 findings noted.

Four (4) applications for licenses that do not currently exist. Antiques Dealer – This license does exist and has been confirmed by the Law Department. Used Car Dealer – This license does exist and has been confirmed by the Law Department. Used Car Parts Dealer – This license does exist and has been confirmed by the Law Department. Body Rub Parlor – License Does Not exist and will be removed from listing.

**Applications are not legally required to state fees on the application. 7 findings noted.** Bingo and Games of Chance applications were noted for fees not on application. These license applications are printed and provided by New York State.”

Auditor’s Response: Per an email sent to the Audit Department by the License Clerk dated 3/15/05, license applications are available online on the city’s website, at the city’s Treasury Bureau, or, if requested, by mail or fax from the License Clerk. During the audit’s fieldwork, the Audit Department printed out all applications available online and was given copies of those available at the Treasury Bureau by the License Clerk. Per this examination, it was found that twelve licenses did not have applications available. The lack of applications caused further errors in the license function process.

Per a memo sent to the Audit Department by Corporation Counsel dated 4/11/05, no such licenses known as antiques dealer, used car dealer, used car parts dealer and body rub parlor exist. The Audit Department performed its own investigation into the city’s ordinances and confirmed the Law Department’s memo.

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<sup>1</sup> On April 12, 2005, the Audit Department issued the license function audit report for the period July 1, 2005 through September 30, 2005. Since the errors found were reported at that time, the findings and recommendations for this audit are consistent to those previously found. It is understood that these errors will continue until approximately the April 2005 period.

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Upon receiving the management response on 7/5/05, the Audit Department requested the documentation that the License Division had from the Law Department which claimed that used car parts, used car dealer and antiques dealer are indeed regulated licenses. The Audit Department did not receive any proof of this assertion back from the License Division. As stated previously, the Audit Department is in possession of documentation from Corporation Counsel dated 4/11/05 showing the exact opposite. An investigation by the Audit Department confirmed that the 4/11/05 memorandum from Corporation Counsel was in fact correct: The licenses known as used car parts, used car dealer and antiques dealer are not regulated licenses.

As noted above in the finding, it was found that fifteen applications *actually* misstated the fees on them. Due to these misstatements, further errors occurred in the licensing process.

### **Finding 2: Incorrect License Granted/Fees Improperly Charged**

Several errors were uncovered in the random sample of cash reports chosen to test for accuracy and appropriateness.

In the sample selected, four errors were uncovered regarding the entertaining and dancing licenses granted. It appears that the Bureau of Treasury combined two licenses that were established under Section 5-6(b) of the City of Syracuse General Revised Ordinances as entertainment/floor show in a restaurant or hotel dining room and dancing in a restaurant or hotel dining room into one application yet the fees charged only reflected the entertainment/floor show license. In the cases noted, the licensee was actually applying for both of these licenses yet the city failed to charge and collect the fees for the dancing license.

Two errors were uncovered where the licensee was charged for an “entertainment/exhibition” license at a cost of \$55 each. No such license exists under the ordinances, yet exhibition, stage/theatre production, concert, and musical show licenses do. The two licenses in question fell under the stage production and concert licenses which have a fee of \$15 a day; not the exhibition license which charges \$55 a day.

Additionally, one error was uncovered where a licensee was charged for a “used car dealer” license and a “used car parts” license at a charge of \$75 each. No such licenses exist yet a secondhand dealer license for a fee of \$75 does. Therefore, the licensees in question were charged double for the secondhand dealer license.

Also, one case was discovered where a first time applicant for a taxicab/airport bus driver’s license was not charged the \$75 first time fee.

Due to the amount of errors uncovered in the test sample, further research was conducted into the general licenses for the entire audit period. Numerous errors were uncovered relating to dancing in a restaurant or hotel dining room, entertainment or floor show in a restaurant or hotel dining room, concert, musical show, stage production, exhibition, dance (one night) and second hand dealer licenses. Altogether the net effect of these errors is an additional \$1,170.00 owed to the City for the period. This figure represents 4% of the total

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general license fees collected for the period. The Department of Finance has been provided a detail of said errors.

**Recommendation 2:**

Since these mistakes stemmed from incorrect applications and the lack of knowledge of persons involved, immediate action is needed to ensure the proper licenses and corresponding fees are charged henceforth.

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.

Management Response: “Improper fees charged – The auditor assumes that an entertainment license application and dance license application is one in the same. It is assumed by the auditor that each entertainment application is also applying for a dance license. It is not a requirement to have an entertainment license AND a dance license. Assumptions are the basis for this claim by the auditor resulting in a fee discrepancy in revenue collection.

The auditor states that we have issued licenses for events that do not qualify for such licenses. (I.e. concerts, musical show, stage/theatre production, exhibition) It is the responsibility of the License Department to PROCESS license applications; many of the noted requests were submitted by mail or dropped off for processing. The License Department is responsible for forwarding such requests to the appropriate departments for approvals. Upon approvals the Licensing Department issues a license.”

Auditor’s Response: As noted above in the finding, the Audit Department determined that the licenses for dancing in restaurant/hotel dining rooms and entertainment in restaurant/hotel dining rooms *were* actually two different licenses. The Audit Department reviewed each application in question for the entertainment/dance floor/floor show licenses approved. Those noted as incorrect in the finding were cases where the licensee clearly intended to receive *both* the entertainment and dance floor licenses.

In section 5-805 of the City of Syracuse Charter it states that the Department of Finance shall “Administer and enforce, except as may otherwise be provided by this Charter, statute or local law, all laws relating to the licenses issued by the city.” This section also states that the Department of Finance shall “issue all licenses and make all inspections, tests or examinations prerequisite to the issuance of such licenses.” It is the opinion of the Audit Department that the license function at the Department of Finance is responsible for processing the license applications which would entail administering *accurate licenses* and *accurate license fees*. For example, one does not simply process a marriage license without first reviewing the supporting documentation and application for validity. Using the Deputy Commissioner’s assumption, one could write anything on the application and the license function would blindly take it.

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### **Finding 3: Lacking Internal Controls for Daily Receipts**

The Audit Department was unable to ensure the list of Cash Reports was complete due to the lack of controls. The absence of pre-numbered sequential cash reports creates a risk for fraud in the revenue cycle.

### **Recommendation 3:**

It is the duty of the Department of Finance to ensure all monies received are controlled properly. The City Auditor advises the department to pre-number the Cash Reports to improve the controls for the revenue cycle. If the City's printing service is unable to pre-number such reports, there are stamps available at office supply stores for this purpose.

A reconciliation of utilized Cash Reports at month end should be a duty segregated from the Clerk responsible for completing the Cash Report at the time of transaction to provide stronger checks and balances.

Management Response: "ALL Cash Reports are processed through the Cashier system within the Bureau of Treasury, giving each transaction a traceable source to the revenue cycle."

Auditor's Response: It is the duty of the management of the City of Syracuse to ensure that all cash receipts are properly safeguarded. Due to this responsibility, one is required to put reasonable controls in place to ensure all revenues received are being processed. Numbering the cash reports and reconciling them at month end would create a safeguard to reassure that *all* revenue collected by the cashiers is *actually* placed into the city's revenue cycle. As stated above, the lack of this safeguard creates a risk of fraudulent activity in the division under audit.

### **Conclusion:**

The Department of Audit uncovered several errors regarding the types of general licenses granted and corresponding fees collected for the period October 1, 2004 through December 31, 2004. With reasonable assurance, the Department of Audit determined that the bingo and games of chance license activity for the audited period was free from material misstatement. The Department of Audit also noted a lack in the internal controls for the period audited. Attached is an Activity to Date report (Attachment 3) for your reference.

### **Auditor's Notes:**

1) The City Auditor is disappointed by the refusal of the Deputy Commissioner of Finance to acknowledge the errors revealed during the audit in spite of overwhelming factual evidence. His refusal strongly suggests that corrective actions will not be implemented and that the inaccuracies noted will continue to be repetitive audit findings in the future. More troubling is the likelihood that the public will not be well-served in the future in a situation where improvements in issuing accurate licenses are well within the department's reach.

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2) In February 2005, Bureau of Accounts created account 01.0.2548 to report the certificate of use permit receipts. Previously, these receipts were accounted for in account 01.0.2545. A journal entry was made to transfer all the receipts collected up to date for the certificate of use permits into this account. In relation to the audit period, \$1,700 was transferred from the general license account, 01.0.2545, to the certificate of use account, 01.0.2548. This is reflected in the activity report.

Philip J. LaTessa  
City Auditor

July 8, 2005