



**CITY OF SYRACUSE
REPORT OF THE
ELECTED CITY AUDITOR**

**AUDIT
OF THE CITY OF SYRACUSE
CODE ENFORCEMENT
DIVISION OF
COMMUNITY DEVELOPMENT**

**PHILIP J. LATESSA
SYRACUSE CITY AUDITOR**

**Report of the Elected City Auditor
Philip J LaTessa**

Matthew J. Driscoll, Mayor
City of Syracuse, New York

Members of the Common Council
City of Syracuse, New York

Fernando Ortiz
Community Development Director
Community Development
City of Syracuse, New York

Jim Blakeman
Director of Code Enforcement
Code Enforcement

This report presents the results of our audit of the Department of Community Development, Division of Code Enforcement.

We conducted our examination in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States and *Standards for the Professional Practice of Internal Auditing*, as promulgated by the Institute of Internal Auditors. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under examination. An audit also includes assessments of applicable internal control 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 Community Development of the City of Syracuse, New York. However, this report is a matter of public record and its distribution is not limited.

We would like to thank all the Code Enforcement personnel who assisted and cooperated with us during our examination. If you have any questions, please contact the Department of Audit

Philip J. LaTessa
City Auditor
February 8, 2006

**City of Syracuse
Department of Audit
February 8, 2006**

**Audit of the Department of
Community Development
Division of
Code Enforcement**

INTRODUCTION:

As authorized by Section 5-503 of the City of Syracuse Charter, an examination by the Auditor in matters of moneys in possession of the city shall be substantially continuous. An unannounced audit of the Division of Code Enforcement was conducted on January 25, 2006. 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 necessitate 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 Department of Code Enforcement/Department of Community Development 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 Code Enforcement personnel who assisted and cooperated with us during our audit.

BACKGROUND INFORMATION:

The Division of Code Enforcement is sub-division of the Department of Community Development. It is located in City Hall Commons.

The Division of Code Enforcement ("the Division") is responsible for the enforcement of local, state and federal laws, ordinances, codes, rules and regulations. In addition, the

Division is responsible to enforce state fire codes, building codes, electric codes, elevator and escalator codes and all zoning rules and regulations.

The Division also issues numerous permits for purpose such as building demolition, sprinkler, elevator, etc. Additionally, Certificates of Compliance are issued for three-family units, mixed use buildings and when a building is being sold. The Department of Audit focused on the cash collection related to sprinklers, heating, electrical, building and elevator permits among others.

The Division does not accept cash or credit cards. It only accepts checks. For the purposes of this audit and in keeping with Government Auditing Standards, the Department of Audit does not distinguish between cash, checks or credit card charges. All are treated as 'cash'.

The Division has accepted over one million four hundred thousand dollars in permit fees as of February 2, 2006. The Division anticipates a total of two million eight hundred thousand dollars in total permit fees by the end of the fiscal year ending June 30, 2006.

OBJECTIVES:

1. Determine if Cash is adequately safeguarded and accounted for
2. Gain a general understanding of the operation to support future risk analysis

SCOPE & METHODOLOGY

Our examination was intended to be a detailed physical count on January 25, 2006 of the checks in the cashier drawer and reconciliation of checks on hand to the checks collected over the counter, per cash register tapes and/or daily recap sheets maintained in the department. However, we were not able to reach satisfactory judgments and conclusions based on the lack of internal control materials available during our audit, i.e. there was no cash register tapes or daily tally sheets available for the checks we examined on January 25th. We interviewed Code Enforcement personnel responsible for daily cash drawer management with regard to the cash receipt procedures. We were informed that there were no written procedures; we documented procedures as they were verbally disclosed during our interview sessions. Our examination included testing of cash on hand (checks only) and did not encompass cash in banks. In addition, our examination did not entail the examination of cash in any other department of the City of Syracuse other than the cash in the Code Enforcement Division

CONCLUSION:

The Department of Audit had no reasonable assurance to determine that the cash on hand and prior days' receipts are adequately accounted for at the Division of Code Enforcement. The Department of Audit could not determine if the receipts were properly and timely deposited in appropriate depository institutions. The Department of Audit could not determine if there were more Permits issued than checks received.

A dishonest clerk could very easily locate an unused permit number, take a blank unnumbered permit, issue that permit out to a client, scan it into the computer system and begin the permit process without ever collecting any money or recording any receipt in the log books. There is no check and balance system nor segregation of duties that would serve as an adequate deterrent. There is not any system in place that would stop this from occurring.

The Division of Codes has a counter where individuals go to request and pay for permits. The Department of Audit observed no less than five (5) individuals working at the counter, meeting with individuals, processing permit requests, accepting checks and issuing out permits.

The Division maintains log books for each type of permit issued. For example, there is a log book for sprinkler permits, one for electrical permits, etc. These record log books are in bound format. Personnel update the log book via penned entry. The bound logs are titled appropriately to the permit issued. However, the Division does not maintain a log for a special \$25.00 fee charged for a Certificate of Compliance. These charges and corresponding receipts are not recorded anywhere

There are no titles on the lined registers located within the bound logs to indicate what the numbers and notations relate to.

A log is maintained to track the amount of construction activity for each of the specific categories: electrical, heating, etc. The actual charges billed to customers are gathered, but are used only for statistical purposes. That amount is totaled monthly and forwarded to the Deputy Director of Community Development.

Each permit carries a \$25.00 base fee in addition to the charges of the Filing Fee Schedule. The fees are not recorded in any of the log books. The fee is indicated on the check along with the permit number. The total number of permits are counted for the day and simply multiplied by \$25.00 to balance. The resulting number should then

correspond to the number of permits recorded for the day. This amount is not entered into any log and does not correspond to any other totals kept anywhere other than the city cash report deposit slip. The lack of any master log prevents the Division from regularly reconciling payment received for the base fee.

Permit numbers are hand written. There is no control of permit numbers regardless of whether they are issued for electrical, sprinkler, et al. The only log that shows any count whatsoever is a simple sheet of paper showing a five digit number which is the permit number. The permit numbers do not flow sequentially. There is no indication as to what the permit was issued against or for what job. The number is used only to indicate the last permit number issued and thus advises the clerk what number may be available for the next customer. For example, if a contractor came in and requested three (3) different permits, the clerk will simply look at the log and would then know what number was last used for the previously issued permit.

According to the Department of Audit Comprehensive Questionnaire responses from the Division (Page #5, Question #5) indicated that they have pre-numbered receipts completed and signed by the issuer when the money is received. The permits are not pre-numbered and there is not a signature line for the issuer to use, contrary to the information reported by the Division.

Permits are scanned into the computer using an OnBase System. This is the beginning of the technical enforcement of the process and allows the city to follow the permit from issuance to job completion. As this phase did not relate to cash and was outside the scope of the audit, it was not audited. The OnBase System does not, according to Codes, track the financial aspect of the permits.

Two clerks assume duties of the front desk and do not segregate duties. Both open mail, make deposits, record checks and issue permit numbers. Between the Code Enforcement Inspectors and Community Deposit Clerks there are approximately five (5) individuals in the department that can take money and issue permits.

The cash drawer has a locking device but it has been broken for a number of years, according to one clerk. Some of the checks in the drawer were observed to be in loose format and others were in segregated envelopes. The checks are collected throughout the day and remain in the drawer with the broken lock. Our observation was that the drawer was accessible by the five (5) individuals on January 25, 2006. The checks are not tallied nor deposited until the next day.

The Division responded to the Department of Audit's Questionnaire (Question #6), that receipts are compared by persons other than those receiving payments. While post review work may be conducted, there is no segregation of duties and there is no other person reviewing work in progress, and there is no check and balance to the system.

According to the Department of Audit Comprehensive Audit Questionnaire, the Division indicated that they have a safe or lockable receptacle for cash collections. There was no

evidence of any such safeguard in the area where cash is received except for the broken drawer.

The Department of Audit noticed that some entries in the log books were entered in red ink as opposed to blue ink. When questioned, it came to the Audit Department's attention that this was for permits issued to Time Warner Cable. Cable television and alarm fees are collected by the Department of Finance. The Division of Codes marks down in red ink each time a permit is issued to Time Warner staff and sends a running total to the Department of Finance monthly. The Department of Finance tracks the credits and debits on the Time Warner Cable account.

Time Warner sent to the City of Syracuse's Department of Finance a check for \$20,000.00 on March 1, 2005, \$12,000.00 on September 30, 2005, and \$10,000.00 on January 6, 2006 for permits to be pulled at later dates. The Syracuse Police Department Ordinance Division, which is also located in City Hall Commons, also debits this account involving Time Warner alarm systems.

Both the Police Department and the Codes Division send to the Finance Department a tally figured monthly as to the debits to be applied against this account. The balance is not controlled by any one department and the system used in Codes to monitor the permits and fees issued is fundamentally weak. In fact, the Division of Codes was not aware of the \$10,000.00 deposit.

The only way to determine if the account is funded is to pull up Account #10.24.909.0035 on the city system. The only way to determine the debits is to rely on the reports from the other departments. Code monitors this fund by simply issuing out permits and entering in red ink those permits issued to Time Warner that were duly recorded. At the month end, Codes then tallies up all entries made in red ink and forward that to the Department of Finance.

On the next business day, checks collected from the previous day are sent via inter-office mail delivery to Finance for deposit. Codes does not make a copy of the checks prior to sending them to City Hall. Checks are totaled and a cash deposit is created and sent to Finance.

There are yearly renewal fees that are sent to Code Enforcement which also are kept in the unlocked cash drawer. These checks also go to Finance. There was no log of the receipt of those checks maintained in a manner similar to the one detailed above. The department also receives checks on behalf of the Board of Appeals and parking garage fees that are also included in a cash deposits to Finance on a monthly basis. There is no tracking or recording keeping of these fees.

In summary, the Department of Audit maintains the position that immediate corrective action is needed by the Code Enforcement Division in the reporting and accounting of checks for permits and licenses issued.

FINDINGS AND RECOMMENDATIONS:

Finding 1: No Cash Register Tapes or Equivalent Generated for Cash Operations

Finding: The audit of the Code Enforcement Division revealed that there was no cash register tape or equivalent summary tool generated by the register and/or staff involved in reporting/accounting for the checks received by the Division. This gap in the check handling process, in addition to creating a potential environment for theft, lessens the department's ability to readily account for receipts, as well as virtually eliminating any potential for cash to be properly audited.

Recommendation:

The Code Enforcement Division must implement systems to track the receipt of checks received immediately for adequate accounting purposes while it determines any long-term systems it wishes to implement.

Finding 2: Lack of control of permit numbers

Finding: There is a lack of control of permit numbers issued to various contractors.

Recommendation:

The Department needs a main register with all permit numbers sequentially numbered. This could be accomplished using an Excel spread sheet, with titles for all columns.

Finding 3: Columns are not titled, totaled or show any indication that the permits are properly recorded.

Bound registers for permits do not have titles for the various columns.

Recommendation:

The bound registers for each type of permit could remain the same, but it would be beneficial if each column had a title and the dollar amount balanced at the end of each day. Initialing the work at the end of a daily transaction would also be an asset in tracing a problem

Finding 4: Lack of control for charging permit fees

There is no control for charging the permit fee of \$25.00 for each permit issued. The permit fee is not logged into any record, just tallied at the end of the day.

Recommendation:

There must be a better control of the \$25.00 permit fee for each permit issued by the department. It needs to be incorporated with the rest of the permit information in the registers that the department maintains.

Finding 5: the Department lacks Policy & Procedure Manual

A detailed manual would address problems in the department that include separation of the duties among the code enforcement clerks and a schedule of fees to ensure better enforcement of permits and fees.

Recommendation:

Separating the duties of the clerks is a necessary step to keeping a better control of the permit system. There needs to be a system to segregate the duties of the department to avoid possibility of missing checks or permits issued without paying the necessary fees. Without separate tallies, there is no way of knowing if there are missing funds.

Per the Comprehensive Audit Project #0516, Questionnaire for Community Development, Page 5 Question #6 relates to receipts compared to supporting documentation by persons other than those receiving payments. This was answered in the affirmative. The audit showed that basically one person handled the permits from start to finish.

Finding 6: Cash Deposit Reports not done on a timely basis

The Cash Report is not done on the actual day the money was received.

Recommendation:

The Cash Report Deposit should be done on a daily basis, on the actual day that the checks are received. The statement was made that they accept checks for permits up to the close of the day at 4:30. The department could set up a time for the close of the business day for the department. That would give the clerks time to tally up all the checks and make out the various deposit slips and hand deliver to the Finance Department that is open until 5:00 PM. Any checks that come in after the determined time should go into the locked safe overnight and be part of the next day's tally.

Finding 7: Checks are not adequately safeguarded

Per the Comprehensive audit Project #0516 Questionnaire for Community Development, Item #3 on Page 4 Question #B2, the department states that they have a safe or lockable receptacle for collections. Checks for Code Enforcement are not kept in a safe or lockable receptacle.

Recommendation:

The department needs a lockable device for checks that are in the department overnight. The department would determine whether this lockable device is in a working locked drawer or is placed in the department's safe until the deposit can be made.

Finding 8: Lack of control for receiving fees

No one seem to be in control of receiving the fees.

Recommendation:

If anyone other than the clerks are issuing the permits, only the clerks should be handling and receiving the fees.

Finding 9: Copies of checks are not retained in the department

Copies of the checks are retained in the department to balance with the executed Cash Report Deposit.

Recommendation:

The Cash Reports Deposit slip receipt from the Finance Department should be attached to the copies of the checks that were processed and balanced; then retained by the department. This would also be the procedure for the other permits and licensing that the codes area does for other CD department. It would be very beneficial that all the Cash Report Deposits are filed with back up copies of the processed checks.

Finding 10: Permits could be issued without collecting all the fees

Permits could be issued without collecting fees.

Recommendation:

Need to address system to avoid issuing permit without collecting money. With the system that is in place, the permits could be issued without collecting the fees, but the permit could be entered into the system and the permits would be valid.

Finding 11: No record keeping for licenses and certificates

There is not control when other division of Community Development charge fees, yearly renewal licenses, Board of Appeals fees and Parking Garage fees. The code enforcement clerks receive checks from other Community Development divisions only to fill out a Cash Report Deposit. The receipted copy of this deposit is retained in the Code Enforcement area without any back up copies of the checks nor logged in for any record keeping.

Recommendation:

The code enforcement clerk fills out the Cash Report Deposit for other divisions. If the records are to be retained with the Code Enforcement Bureau, then a log should be maintained similar to the log maintained for other permits being logged or the Cash Report Deposit should be retained in the bureau where it was initiated.

Finding 12: No control of accounting for the Time Warner Cable Account

Time Warner Cable issues checks to the Code Enforcement Bureau for work they will do in the future. This work could include permits for Time Warner and work done on alarm systems in the City that the Ordinance Department of the Police Department is in charge of. Account #10.24.09.0035 is recorded by the Systems Accounting Manager, Finance Department. Neither the Code Enforcement, the Ordinance Department of the Police Department nor the Finance Department has total control of this account.

Recommendation:

This procedure should be discontinued. Without stricter controls, Time Warner could claim that the accounting is inaccurate.

Management's Response:

On February 8, 2006, the Director of Code Enforcement informed the Department of Audit that he was taking immediate action to address several of the audit findings, as detailed below:

Audit Finding #6: Management has determined that the close of each business day is now 3:30 P.M. and that the checks will be delivered to the Finance Department each day by 4:30 P.M.

Audit Finding # 7: Management has submitted a work order to the Maintenance Division to repair the lock located in the Permit Department and until such repairs are completed, the checks will be kept in the fire safe located in the Permit Department.

Audit Finding # 12: Management has indicated that as of February 16, 2006 the Division will no longer be continuing the procedure, as recommended by the Auditor. The Division will be refunding any unused funds still held at that time.

The Director has also contacted the Commissioner of Finance to obtain the financial expertise of the Department of Finance in addressing the findings brought to the attention of management as part of the cash audit of the Division of Code Enforcement. He will also seek the advice of the Chief Financial Officer for the Department of Community Development.

Auditor's Comments:

The City Auditor would like to express his appreciation for the cooperative responses and willingness to make timely corrections that resulted from the Audit of the Division of Code Enforcement. The Auditor looks forward to working with the Administrative staff of the Code Enforcement Division again in the future.

Philip J. LaTessa
City Auditor
February 8, 2006