



Philip J. LaTessa
City Auditor

CASH & INVESTMENTS AUDIT
JULY 1, 2007 – SEPTEMBER 30, 2007

Introduction:

As required under Article V, Section 5-503, of the Charter of the City of Syracuse, the annual audit of the City of Syracuse's cash and cash equivalents activity for the period July 1, 2007 through September 30, 2007 was conducted. The purpose of this audit is to review cash and investment activity as set forth in the City of Syracuse Investment Policy and the City of Syracuse Charter, as adopted by the Common Council. The examination was administered in accordance with the *Generally Accepted Government Auditing Standards*, issued by the Comptroller General of the United States and *Standards for the Professional Practice of Internal Auditing*, as circulated by the Institute of Internal Auditors.

These standards require that we plan and perform the examination to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under examination. It was not our objective to, and we do not, express an opinion on the financial statements of the City of Syracuse, New York, or provide assurance as to either the City's internal control structure or the extent of its compliance with statutory and regulatory requirements and guidance of the Office of the State Comptroller.

The management of the City of Syracuse, New York, is responsible for the City's financial affairs and for safeguarding its resources. This responsibility includes establishing and maintaining an internal control structure to provide reasonable, but not absolute, assurance that resources are safeguarded against loss from unauthorized use or disposition; that transactions are executed in accordance with management's authorization and are properly recorded; that appropriate financial records are prepared; that applicable laws, rules and regulations are observed; and that appropriate corrective action is taken in response to audit findings.

This report is intended solely for the information of the Mayor and Common Council 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 personnel who assisted and cooperated with us during the audit.

Scope:

The scope of the examination entailed reviewing the bank statements, collateralized deposit data, general ledger and related records for the period July 1, 2007 through September 30, 2007.

Objectives:

The original objectives of the cash and investment audit were as follows:

1. Determine whether the cash balances represent all cash and cash items on hand, in transit to or in financial institutions and are properly recorded.
2. Determine whether funds are properly collateralized.
3. Assess the cash balances in non-interest bearing accounts.

Methodology:

To reach the assurance that the cash balances represented all cash items on hand, in transit to or in appropriate financial institutions and properly recorded, and that all investments and cash funds are properly collateralized, the Department of Audit tested the City's cash and cash equivalents activity for each month in the audit period. For the liquid asset (cash) accounts belonging to the City departments, the Department of Audit tested the information found on the Bank Reconciliations and Schedules of Collateral to the corresponding bank and collateral statements via the financial institutions. Once the proper figures were determined, they were traced to the general ledger detail to ensure all cash items were properly represented and recorded. The collateralized funds were recalculated to ensure accuracy.

For the City's cash equivalent (investment) accounts, the figures found in the City's general ledger were checked to the appropriate supporting documentation from the financial institution to ensure proper representation and recording.

The Department of Audit interviewed Finance Department staff, including the Systems Accounting Manager, with the purpose of getting a fuller understanding of the influences affecting the timeliness of the reconciliations done as a part of cash management.

Conclusion:

The Department of Finance was unable to supply schedules of collateral for any of the three months included in the first quarter FY 2007-2008 Cash and Investments Audit, creating impairment to the audit. The Office of the City Auditor was informed that the Finance Department started to fall behind in preparing the schedules of collateral in the spring of 2007 when the department experienced substantial staff turnover.

The fact that no documentation could be provided for any of the three months reviewed in this audit is inconsistent with statutory obligations and assertions made by the Finance Department: First, that City staff was diligent in communicating with banks used by the City for depositing and investing its funds, and coordinating adequate collateralization of investments, even though they were unable to make the time available to document said efforts; secondly, that the banks, by necessity, would be conscientious in meeting the New York State mandated threshold for collateralizing municipal funds in order to stay within New York State's Finance Law requirements (also, by being diligent in meeting state requirements, banks would be insuring that the City's moneys would be protected at the 100% level dictated by New York State Law, thereby providing sufficient coverage); and lastly, that the Finance Department has functioned in compliance with the stated objectives of the City's Investment Policy which speaks of cash management as a tool "to minimize risk; to insure that investments mature when the cash is required to finance operations; to insure a maximum rate of return; and to insure that every available dollar is earning money for the City".

While the review for the period July 1, 2007 through September 30, 2007 did bring the Office of the City Auditor to the conclusion that with reasonable assurance the City's cash and cash equivalent balances were free from material misstatements, the reconciliation

process for e-Check and credit card payments remains a concern and an area that needs continued attention.

Auditor's Note:

Starting in the spring of 2007, when the Finance Department first faced reduced staffing concerns, communications with the Office of the City Auditor stressed the intentions of the Finance Department to continue to coordinate the City's investment activity in the various financial institutions until staff was replaced. Prior audit findings and conversations emphasized the need to oversee the City's investments consistent with both local and State mandates, and the Office of the City Auditor was assured that the City had every intention of being diligent in monitoring comprehensive cash management as specified in the City's Investment Policy. Unfortunately, the validity of this claim can not be reasonably determined from supporting documents, and while there is nothing to suggest that staff is doing anything but their best during this period of under-staffing, and working conscientiously to keep the City in compliance and secure with its investments, proof of alleged compliance is virtually non-existent. This leads the Office of the City Auditor to the conclusion that in the absence of actual proof of compliance with both the New York State and City of Syracuse investment requirements, there is nothing to verify staff's good intentions, a situation that can not be defended or continued.

A further concern rests in the notion that the City can depend on the financial institutions it uses to perform in a manner that protects the City's investments. While the local banks used by the City may in fact be supervised by the New York State Banking Department, the nation-wide mortgage/lending meltdown, which has been covered daily by the national press, teaches us that financial institutions are not infallible, nor are they always making decisions that are in the best interest of their customers.

Background:

In the fall of 2005, the City of Syracuse administration, through the efforts of the Commissioner of Finance, began working with the Common Council in order to obtain legislative approval to introduce options for paying property taxes by means of credit card or e-Check via the internet. The Finance Commissioner took the lead role for the City in heading up a consortium of City and Onondaga County personnel in researching the requirements of New York State General Municipal Law, Section 5(b) and in the interviewing of prospective service providers as required by regulations adhered to by the City of Syracuse. The service provider selected, Municipal-Payments.com, an internet site owned and operated by Systems East, Inc. was determined to have the most user-friendly website and was capable of handling the complicated four-payment cycle of the City and County (for City residents) tax bills.

On December 19, 2005, the Common Council approved two ordinances that authorized the electronic payment option. The first ordinance, #601-2005, authorized the Commissioner of Finance to accept payment of property tax bills, including all applicable fees, interest and penalties by Credit Card or e-Check via the internet in accordance with General Municipal Law (GML) Section 5(b). The proposed payment option was seen as a convenient method of payment should taxpayers chose to use the internet and as an enhancement that could reduce the administrative time for processing the over-the-counter and mail-in payments.

The second ordinance, #602-2005, provided for the waiving of the competitive bidding process for the selection of vendor to be contracted with to be the internet site for the acceptance of real property tax payments by credit card or e-Check for the City of Syracuse. A waiver of the competitive process was requested due to the fact that this undertaking was a collaborative project with Onondaga County and Systems East, Inc. had been able to meet the requirements of the joint property tax collection system. The term of the agreement was established to be for one year, with two one year renewal options exercisable by the City. Ordinance #602 further specifies that any charges associated with the individual transaction are to be paid by the internet user, not the City.

On May 8, 2006, the Common Council took action to extend internet payment capability to include payments for billing originating with the City of Syracuse Water Fund. Ordinances #195 and #196 of 2006 amended the two ordinances previously approved in 2005 to authorize internet payments specifically for water billing with incidental fees being charged back to the water fund.

Finally, on October 9, 2007, the Common Council took further action to expand the utilization of internet payment options to cover parking tickets and related charges. Ordinances #561 and #562 of 2007 opened up the possibility for individuals wishing to use credit cards or e-Check payment options for parking ticket charges and the city is in the process of instituting this new level of service as this audit is being issued. Future extensions of the internet payment option are possible as the city continues to examine the benefits of making such payment options available.

The addition of internet receipts accounts meant that new reconciliations, with the same requirements as all other bank accounts, would need to become part of the monthly bank reconciliation process. Anticipating that the new payment options would create the need for additional levels of coordination, the City's Finance Department put together for internal use a preliminary document that was intended to outline the differences in the operation of these accounts, in contrast to other accounts, and initial solutions to problems that might be, in the early stages of the implementation of electronic payment processes, potential problems that could arise with the expansion of electronic transmissions as a desirable payment option.

Detailed in the preliminary "Internet Account Reconciliation" outline is the following information:

The structure of the 412 account was set up so that it would collect data on taxpayer-initiated payments made through the Municipal-Payments.com website. This website is operated by the firm awarded the City contract and allows each department that is folded into the internet payment option (Treasury, Water, Parking Tickets, etc.) to run a daily report from the website, prepare a cash report and apply payments to taxpayer accounts. Each department may prepare two separate cash reports: one for credit card and another for e-Check payments. Deposits made to the bank will start at two per day-one for all credit card payments and another for all e-Checks. Note that Systems East does not receive or disburse cash; it only provides the interface through its Municipal-Payments.com website. This website collects payment data and passes the information to the City and to the companies processing credit card and e-Check transactions.

Based upon the selection of payment method, the transactions are relayed to the bank by Global Payments (for credit cards) or ACH Direct (for e-Check). Each of these entities makes available an audit trail report which ties to the deposit into the 412 account. The websites are Authorize.net for credit cards and PaymentsGateway.net for e-Checks. Generally, the four cash

reports will tie into the two deposits in the bank. The reconciliation should assure that all deposits reported by Systems East/Municipal-Payments.com have indeed been credited to the City's bank account.

The Audit Department's initial review of bank reconciliations in the April-June, 2006 quarter, which was the first audited period where internet activity appeared, indicated some discrepancies existed between bank statements and what was appearing in the General Ledger for the 412 account. Subsequent interviews with Finance Department staff suggested some timing issues had been associated with the implementation of the new payment options. It was anticipated by Finance Department staff that later bank reconciliations would become smoother and easier to complete with further attention having been devoted to reconciliation development for internet activity.

Discussions that occurred between the Finance Department and the Office of the City Auditor have included the assertion by Finance that the 412 account is being adequately reconciled. Based on our conversations with Finance Department staff about the particulars of the account, we believe that this is the case; however, the complicated nature of the account has made a third party reconciliation difficult and time consuming. While the review of the information received by the Office of the City Auditor made it possible to determine that the cash and cash equivalent balances were in fact free from "material misstatements", an exact reconciliation was not possible.

The Office of the City Auditor is continuing to communicate with the Finance Department in attempting to develop a process for a third party review/audit focusing exclusively on the 412 account activity.

Findings:

Finding 1: Lack of Schedules of Collateral For July, August and September, 2007 Prevent Confirmation that Accounts are Adequately Collateralized

It was found that the collateral schedules for July, August and September, 2007 were not available to confirm adherence to the City's Investment Policy as mandated by local ordinance.

Recommendation: During the period covered by this quarterly audit, the Finance Department experienced a staff shortage due to turnover; this resulted in some activities being assigned lower prioritization in the monitoring and documenting of some of the functions housed within the Bureau of Accounts. While the Finance Department staff continued to review the collateralization levels implemented by the banks used by the City for the purpose of confirming compliance with New York State Finance Law, it fell behind in quantifying the accounts' monthly coverage. The Finance Department should immediately resume documenting that adequate collateralization is in place on a monthly basis to confirm due diligence is occurring in a basic and vital responsibility of the Finance Department.

Management Response:

Effective with the October, 2007 collateral report, the Department of Finance is currently preparing collateral reports to ensure adequate collateralization.

Finding 2: City's Reconciliation Of Internet Account Needs Additional Development And Improvement

The preliminary reconciliation document previously quoted quite accurately reflects the complex nature of the internet bank account. Accordingly, the review undertaken of the initial bank reconciliations for the first several months having internet activity to hit the General Ledger and the City's bank account, indicated that there was significant additional work required on the part of the Finance Department to produce an adequate reconciliation report based on the inconsistent timing element combined with the rolling of multiple payments into single deposits, as associated with bank deposit reporting. The Finance Department staff recognized the lack of clarity and has attempted to move forward with plans to stream payments received for taxes, water billing, and parking tickets into three separate accounts. This improvement is currently being worked on. However, more current monitoring of the Finance Department's reconciliations of internet account activity has indicated that, as new payment sources have been added, the department has experienced increased difficulties in the monthly verification processes, and subsequently, the Office of the City Auditor has modified what was previously included as a recommendation regarding internet reconciliations into a finding.

Recommendation: It has been the suggestion of the Office of the City Auditor that the Finance Department of the City of Syracuse conclude the establishing of separate accounts for the different payments flowing through the 412 account as soon as possible, and implement new procedures as necessary for handling the expanding internet activity, thus reducing the difficulty experienced by that department in verifying e-Check and credit card payments.

Management Response:

A separate bank account was established to deposit parking ticket revenue effective January 1, 2008. Water payments will be deposited in a separate account effective July 1, 2008.

Philip J. LaTessa
Syracuse City Auditor
City of Syracuse
June 26, 2008