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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 July 1, 2004 through September 30, 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 July 1, 2004 through September 30, 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

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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.

**Findings and Recommendations:**

**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: The Commissioner of Finance has instructed the Deputy Commissioner responsible for the license function to immediately correct the application errors.

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

In the sample tested, one case was found where the licensee was granted an “entertainment/floor show/dancing” license. 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 case 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.

Through further research into all the general licenses granted during the audited period, numerous errors were uncovered relating to the dancing in a restaurant or hotel dining room, entertainment/floor show in a restaurant or hotel dining room, concert, musical show, stage/theatre production, exhibition and second hand dealer licenses. The net effect of these errors is a \$675 refund owed to applicants by the City. The Department of Finance has been provided a detail of said errors.

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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: The Commissioner of Finance has instructed the Deputy Commissioner responsible for the license function to review the monies owed with the Law Department for any needed further action. As noted above, steps are being taken to correct the available license applications to avoid these errors in the future.

**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.

**Conclusion:**

The Department of Audit uncovered several errors regarding the types of general licenses granted and corresponding fees collected for the period July 1, 2004 through September 30, 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 knowledge.

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**Auditor's Notes:**

1) Due to the errors in types of licenses granted and fees collected noted in Finding 1, the Audit Department analyzed the general license activity for the fiscal years ending June 30, 2003 and June 30, 2004 for any evidence of these errors. The errors noted in Finding 1 were also found during these years with both having an estimated monetary effect less than five percent of the general license fees collected for each year. This is immaterial yet the risk caused by having incorrect applications needs to be immediately remedied.

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, \$2,500 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.

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City Auditor

4/12/2005