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City Auditor

License Function Review

July 1, 2008 through June 30, 2009

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, 2008 through June 30, 2009** was conducted. The Charter necessitates the review be conducted monthly, while the Office of the City Auditor has elected to report the results of the monthly reviews in a combined audit report covering the entire fiscal year. 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 in the Office of the City Auditor upon request. At this time, the Office of the City Auditor 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 of **July 1, 2008 through June 30, 2009**.

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 Office of the City Auditor selected **a predetermined number** of days to test the Cash Reports for mathematical accuracy. The types of licenses granted on the cash reports and the fees collected were also verified for compliances to appropriate rules and regulations. The receipts were then traced to the corresponding general ledger accounts to ensure proper recording. All related vouchers during the audit period were reviewed for appropriateness and accuracy. **All** Monthly Activity Reports, which itemizes the receipts by date and category, and the Daily Cash Reports were traced to the Monthly Balancing Sheets and General Ledger activity.

As a result of the entire staffing change that took place in the licensing division during fiscal year 2006-2007, the City Auditor recognized that there would likely be an increased amount of errors discovered with those applications processed during the following twelve month transitional period. As a result of the these staffing changes, no material mathematical errors being discovered over the last five years, combined with the repetitive errors in types of licenses granted and fees collected were reported; as noted in the following audit findings and prior Audit Reports for fiscal years 2008, 2007, 2006, 2005, 2004 and 2003, the City Auditor decided to concentrate its efforts on the current status of prior audit findings focusing on the existence, availability, and accuracy of the license applications.

Auditor's Final Recommendation:

Please note that this recommendation has been placed in the unconventional location at the beginning of the audit due to the strong feeling of the Office of the City Auditor regarding the following recommendations.

The City Auditor has now seen three Deputy Commissioners and approximately three clerks rotate in and out of the Licensing Division in the past six years. As a result, it has been next to impossible for any one person to correct all of the licensing issues that have carried forward from year to year.

Effective January 1, 2010, the Deputy Commissioner in charge of licensing, during the time frame under audit, was reassigned to a different department within in the City. While this individual has done a great deal of work to address prior audit findings and to update license applications, these efforts have been restricted as authorization and implement of changes are contingent upon the assistance of those in other departments. As a result, it is of great concern that the issues identified in this audit will continue going forward as new individuals attempt to discern the complicated and archaic license requirements which are in serious need of modernization.

Therefore, the Office of the City Auditor strongly recommends that the Administration and Corporation Counsel work together to review and update current licensing categories, fees, requirements, and verbiage; as well as work with the Common Council to seek all necessary legislative approvals.

In addition, as stated in previous licensing audits, the Office of the City Auditor strongly recommends that the administration consider consolidating the licensing division under one department, such as the City Clerk's Office, which previously carried out this function and currently issues various licenses on behalf of New York State; or transfer it to the new permit desk currently being created by the new administration, in an effort to streamline and coordinate critically linked operational review and approval processes in an effort to better serve the public and promote reasonable neighborhood and business development timelines.

Lastly, it should be noted that better oversight of licensing is in order as previous audit reports have commented on an apparent lack of ownership over this function, as various

recommendations have not been responded to. As a result, the Office of the City Auditor requests that the Administration communicate, in a timely manner, its thoughts and suggestions on how its plans to address the above audit recommendations, as it is envisioned that the change in leadership from the out-going administration to the new administration, that came into office in January 2010, will offer a fresh opportunity for improvement.

Conclusion:

The Office of the City Auditor uncovered multiple errors regarding the types of general licenses issued and corresponding fees collected, see Findings 1-5 below, as well as deficiencies in internal controls, completeness of general licensing functions and enforcement, as addressed in the Findings 6 and 7 below. However, the Office of the City Auditor was able to determine, with reasonable assurance, that the Bingo, Games of Chance, Certificate of Use and General License activities for the audited period were free of material misstatements.

Over the past several years, the Office of the City Auditor has repeatedly questioned the use of the Entertainment / Exhibit license as a seemingly catch-all category, when they relate to specific activities that are covered by licenses that have already been created under various ordinances as indicated in the city charter for such events as: circuses, concerts, ice shows, musical shows, open air cultural events, professional basketball / hockey, and theater and stage productions. Unfortunately, these individual licenses were not being issued during the time frame under audit, but were mistakenly categorized under the Entertainment/Exhibit license at a fee of \$55.00 per day compared to the proper fees which range from \$10.00-\$25.00 per day.

As noted in this and prior audit reports, missing applications and incorrect licensing fees have been charged as a result of the wrong licenses being issued. Some applicants have been overcharged while others undercharged. Although the monetary amount of these errors may appear immaterial, the fact that inaccurate licensing fees are treated as being acceptable reflects a management style that is unacceptable and a disservice to the public.

Subsequent to the period under audit, the Deputy Commissioner in charge of licensing has recreated those applications that were previously missing, corrected inaccurate &/or missing fee disclosures, and updated those license applications that request bonding information, essentially addressing Findings 1-4 listed below.

Although, the Deputy Commissioner in charge of licensing has done a great deal of work to address prior audit findings, to update license applications, and to amend licensing legislation these efforts have been restricted as authorization for changes to be implemented are contingent upon the assistance of those in other departments, such as the Media Unit and Law Department.

FINDINGS:

Finding 1: Application and Fee Errors

(See Attachment #1)

When comparing the authorized 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-six license applications offered, **one** did not have an application available on the City web site, resulting in **2%** of all license applications that are considered missing and need to be recreated and posted to the City's web site.

When comparing the regulated license fees to the actual license fees listed on the individual license applications, the following inadequacies were discovered: **three** applications (*or 7%*) did not indicate any licensing fee amounts and **three** applications (*or 7%*) stated incorrect licensing fee amounts that will need to be corrected. As a result of the most recent application updates processed by the previous Deputy Commissioner the licensing department now averages a **13% error ratio** regarding the accuracy of posted license application fees. However, it should be noted that this is a remarkable improvement of **43%** over the prior year audit test results.

Recommendation 1:

The Office of the City Auditor would like to commend the Licensing Bureau on its impressive **43%** error ratio improvement regarding licensing fees. However since this issue has been a reoccurring finding for so many years, the office of the City Auditor would like to see an error ratio of **5%** or less, in order to remove the this as a finding going forward.

Attached is an up to date list of available licenses and corresponding 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 in **November 2009**.

Finding 2: Dancing and Entertainment License Errors

After reviewing the "Dancing" and "Entertainment" license applications, from our previous audits, it was discovered that the licensees did not always indicate the nature of the activity that they were requesting to have licensed, in which case no license should have been issued until further clarification was received.

In addition, many licensees were improperly charged for an entertainment only license when a dance area license was also requested in the description section of the application, resulting in under charging the licensee. By error, the application requests these two separate licenses using one application, but does not reflect the two separate licensing fees on the application itself.

Recommendation 2:

As a result of the application updates noted above in Finding 1, the Dance and Entertainment License application has successfully been updated to correctly reflect the two separate licensing fees. However because properly issued license testing was not performed during this audit, the City Auditor will continue to carry this finding until a 5% or less dance and entertainment issued license error ratio is achieved.

Finding 3: Exhibition License Errors

In reviewing the Exhibition License applications from our previous audits, it was discovered that a rather large percentage of the applications were either inappropriately categorized and/or over charged. As various applications should have been issued as Concert, Ice Show, Motion Picture, Musical Show, Theater and Stage Production Licenses at a cost of \$15.00-\$25.00 per day, but were all mistakenly classified as Exhibition Licenses with a fee of \$55.00 resulting in over charging the licensees by up to \$40.00 per day. Apparently these miscellaneous licenses were mistakenly categorized as an Exhibition License not already being provided for, as there were no license applications available for these miscellaneous licenses.

There seems to be some confusion regarding events taking place in Onondaga County Facilities as some events appear to be receiving licenses while other events are not. When the Office of the City Auditor submitted a request to the Law Department for clarification on this topic, the Law Department agreed that all events taking place within the city limits are required to be licensed regardless if they are taking place at a County facility or not. However, the Law Department also indicated that because the County is considered a higher level of Government, many mistakenly believe that the County is exempt from the City's licensing requirements. As a result, the determination is usually left up to the administration to decide which has been handled inconsistently at best.

Recommendation 3:

Since the last licensing audit was issued in December 2009, the above missing license applications have been successfully created and updated, to reflect the proper licensing fees. However because properly issued license testing was not performed during this audit, the City Auditor will continue to carry this finding until a 5% or less issued license error ratio is achieved on exhibition licenses.

The Office of the City Auditor, with the support of the Law Department, strongly recommends that the administration reestablish the process of charging a licensing's fee for events taking place in Onondaga County facilities, especially in light of the New York State fiscal crisis. It is also important to note that it is not the facility owner, such as Onondaga County, who pays the licensing fees; it is the event organizers who do. One needs to keep in mind that one of the purposes of entertainment type licenses is to notify and document to the Police and Fire Departments of a scheduled event so emergency services can properly be coordinated.

Finding 4: Second Hand Dealer License Errors

In previous audits, it was discovered that for internal tracking purposes, the City's Licensing Division decided to separate and file Second Hand Dealer licenses into the following categories: antique/second hand dealer, second hand auto, second hand auto-parts licenses. Unfortunately, this internal tracking method had resulted in three separate license applications being created, when in fact only one "Second Hand Dealer License" is actually authorized.

Recommendation 4:

As a result of the application updates noted above in Finding 1, the Second Hand Dealer license applications have successfully been consolidated back into one Second Hand Dealer license application. However because properly issued license testing was not performed during this audit, the City Auditor will continue to carry this finding until a **5%** or less Second Hand Dealer issued license error ratio is achieved.

When the Office of the City Auditor researched other larger city government web sites within New York State, it was discovered that the majority contained a brief narrative of additional information other than just the application regarding each license. This narrative section allowed those cities to clearly define the who, what, where, when and how much questions regarding each license, making it quick and easily for the general public to research local licensing requirements.

To avoid the appearance that non-existent or unauthorized applications and licenses are being issued, the City Auditor recommends that the Licensing and Law Departments continue to work closely together to clearly define, outline and update the purpose, use, and cost of each license. Once clearly defined and posted to the City website with updated license applications and instructions, this additional information should be helpful in determining the appropriate city license application that should be used.

Finding 5: Food Vendor/Peddler License Errors

After reviewing the Food Vendor/Peddler License applications from this and previous audits, it was discovered that there is no valid One Day Food Vendor License on the books, even though a one day special event category is listed on the Food Vendor License application. For these cases, the most applicable license to be issued would have been a one week Food Vendor License at a cost of \$100, per Section 14-44(d) of the Revised General Ordinances, thus **undercharging the licensees**.

Finding 5: Subsequent Event

Because the Office of the City Auditor could not find any specific information in the City Charter addressing a One Day Food Vendor / Special Events License, the previous

Deputy Commissioner in charge of licensing was asked to supply an ordinance and/or other supporting documentation that outlines and authorizes such a one day license.

As a result, the Office of the City Auditor was directed to General Ordinance Section 14-49, Paragraphs 1-4, addressing the temporary suspension of permits by the Commissioner of Licensing and/or the Commissioner of Parks, regarding annual community events.

Although this Ordinance Section refers to suspending a vendor license due to a special event, it does not indicate the authorization or existence of a one day special event license. It does however specify that a “recognized licensed vendor who has a designated site shall have first right to bid on a special event. Said vendor shall pay an equal share of the expenses for the cost the City would incur for this event to occur, providing said vendor agrees to comply with the specifications of the Commissioner of Parks, Recreation and Youth Programs to vend at said site or location”.

As a result, the Office of the City Auditor requested additional documentation to be provided by the Commissioner of Parks and Recreation or the Common Council supporting the creation, validation and approved fee calculation &/or schedule for a One Day Special Event License. However, to date no supporting documentation has been forwarded to the Office of the City Auditor, strengthening the City Auditor’s opinion that there is no valid One Days Special Event License on the books.

Recommendation 5:

At this time, the Office of the City Auditor recommends removing the **One Days Special** Event licensing fee from the Food Vendor License application, until this license can be properly clarified, documented and approved by the Common Council as a separate license; so the City can accurately track how many food vendors participate at each event and to accurately calculate the shared expense for the cost the City would incur for this event to occur, as stated in the City Charter.

Finding 6: Deficient Internal Controls

While tracing transactions from the Monthly Activity Report to the Monthly Balancing Sheet to the Monthly General Ledger activity, the following recording errors and information deficiencies were discovered. On multiple occasions receipt dates, disbursements and/or Journal Entries were not accurately reflected on the Monthly Activity Reports.

Out of the transactions selected for testing, from this and previous audits, it was discovered that multiple licensing requests have been received per application, resulting in license transactions not properly being identified and recorded on the monthly activity reports.

In addition, while attempting to reconcile issued license numbers with their corresponding license applications, the Office of the City Auditor **found that separate Excel spreadsheets are being used to track issued license numbers, successfully**

addressing and removing this portion of the finding. However, the format in which this information is being tracked does not appear to be advantageous to performing an accurate reconciliation, as it is currently not being performed.

Recommendation 6:

The City Auditor recommends reconciling the unissued licensing numbers and total licensing fees collected to ensure everything is properly accounted for and safeguarded. In addition, it is also recommended that the Licensing Clerk write the issued licensing number and date on each corresponding license application and expand the Monthly Activity Report to also include the issued license number and date, so that a monthly, quarterly or annual reconciliation of license numbers can be performed and a turnover ratio can be determined. This control method ensures that each issued license can easily be matched up with its corresponding approved application, as well as accurately tracking both the processing time and the total number of each license being issued per 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 be reconciled to the General Ledger 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 correcting journal entries should be noted, clearly explained and properly documented on the Monthly Activity Report. Once the reconciliation has been completed, it should be forwarded, reviewed and approved by the Deputy Commissioner of Finance to provide stronger internal checks and balances.

Master Licensing Database: As noted above, the Licensing Division is maintaining an issued licensing database, which should continue to be maintained and updated on a routine bases by the Licensing Clerk. However, the current database should be combined with the Monthly Activity Report 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 date and number. Once combined, this data base can then easily be sorted and used to reconcile monthly issued licensing numbers, track processing time, create the Charter required summary activity reports, as discussed in **Finding 7** below, and assist those responsible for issuing and enforcing the City's licensing requirements.

Finding 7: Completeness of Licensing Functions

As stated in previous audit reports, the Office of the City Auditor 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 the Deputy Commissioner in charge of the Licensing division was not aware that quarterly and annual reporting requirements existed in the City Charter.

In addition, while reviewing the Monthly Activity Reports for completeness, the Office of the Office of the City Auditor discovered multiple licensing categories that had no activity; however, the Office of the City Auditor identified multiple activities that appear to be occurring that specifically require a license. As a result, the Office of the City Auditor 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.

Finding 7: Management Response (cont.)

Per conversation with the Deputy Commissioner in charge of licensing, the Licensing Clerk who processes almost all of the license applications was never comprehensively trained on all of the various licensing options listed in the charter. However, the Deputy Commissioner has since created 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.

As far as compliance and enforcement is concerned, the Deputy Commissioner 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, the Deputy Commissioner intends to have the Licensing Clerk start researching, cross referencing, and verifying potential license applicants.

Although the Office of the City Auditor did not research verification procedures being performed by the Police Ordinance Enforcement Division, the Office of the City Auditor 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 Office of the City Auditor has concluded that there are insufficient co-ordination efforts between the two divisions to uniformly enforce compliance with City licensing requirements.

Finding 7: Management Response (cont.)

Per the Office of the City Auditor meeting with the Deputy Commissioner in charge of licensing, contact with the various Code, Fire and Police Ordinance Enforcement Department Commissioners has been made in an effort to better coordinate licensing compliance and enforcement efforts throughout the City.

In addition, the Police Ordinance Enforcement Division has seen a change in staff, for a more unified working relationship by improving interdepartmental communication, cooperation and coordination.

Lastly, the interaction between the Licensing Division and other departments involved in licensing, such as DPW, Parks, Police, Fire, and Code Enforcement have improved over the last several years allowing everyone to work closer together and function more like a team.

Recommendation 7:

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 Office of the City Auditor 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 circuses, concerts, ice shows, or professional sporting events like the Syracuse Crunch hockey games.

Lastly, the Licensing Division should also consider performing an internet phone book search by business type and location to help identify additional potential licensees such as snow removal contractors, tow truck companies, and commercial waste haulers.

Conclusion:

The Office of the City Auditor uncovered multiple errors regarding the types of general licenses issued and corresponding fees collected, as addressed in the Findings 1-5 above, as well as deficiencies in internal controls, completeness of general licensing functions and enforcement, as discussed in Findings 6 and 7 above. However, the Office of the City Auditor was able to determine, with reasonable assurance, that the Bingo, Games of Chance, Certificate of Use and General License activities for the audited period were free of material misstatements.

Auditor Note:

The Administration, using either the Licensing Office or the Corporation Counsel's Office, should immediately work toward implementing legislative action to rescind General Ordinances that are evidently seen as unnecessary. However, since specific licenses have already been created for a number of events that have not become questionable or obsolete – circuses, concerts, professional hockey and stage productions – these license should be used until they are removed and they should be used correctly.

The fact that inaccurate licenses and licensing fees have been treated as being acceptable reflects a management style that is unacceptable and a disservice to the public. An excellent example of how a lax attitude has significance relates to the events held in Onondaga County facilities, as discussed in Finding 3 above.

Philip J. LaTessa
City Auditor

March 12, 2010