
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, 2004 through December 31, 2004 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, 2004 through December 31, 2004.

Objectives:

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.

Methodology:

To reach this assurance, 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 Account 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:

With reasonable assurance, it was determined that the City's cash and cash equivalent balances were free from material misstatements for the period July 1, 2004 through December 31, 2004. Excluding the errors noted below, the Audit Department was also reasonably assured that all city accounts were properly collateralized.

Auditor's Note:

On March 7, 2005, the Audit Department issued the cash and investments audit report for the fiscal year ended June 30, 2004. Since errors uncovered were reported at that time, the findings and recommendations for this audit, July 1, 2004 through December 31, 2005, are consistent to those previously found. It is understood that these errors will continue until approximately the March 2005 period.

Findings and Recommendations:

Finding 1: Key Bank Accounts Under Collateralized

It was found that the City's collateral agreement with Key Bank states a 100% collateralization rate; this satisfies State law yet does not meet City policies, which demand a collateralization rate of 102%.

Recommendation: The City of must renegotiate its collateral agreement with Key Bank to comply with its own policy.

Management Response: The Systems Accounting Manager brought this issue to the attention of the Commissioner of Finance for further action. A revised depository collateral agreement was executed on August 19, 2005 between the City of Syracuse and Key Bank which satisfies the city's adopted investment policy.

Finding 2: Inconsistency of Adjusting Entries

It was found that the Finance Department applied adjusting entries to the matching period in some cases and to the actual entry date in others.

Recommendation: The Finance Department should have a uniform policy on how to apply adjusting entries.

Management Response: The Finance Department has instituted the policy of applying all adjustments to the date of entry.

Finding 3: Preparation of Bank Reconciliations and Adjustments Not Done on Timely Basis

It was found that the bank reconciliations and corresponding adjustments were not done on a timely manner.

Recommendation: It is the duty of the Finance Department to ensure all accounting functions are done in a timely manner. Reconciling bank accounts as well as entering the resulting adjusting entries is an essential element for sound cash management.

Management Response: The Finance Department will have a policy to have the bank reconciliations and corresponding entries completed by the end of the following month.

Finding 4: Bank of New York Accounts Reported as Under Collateralized

It was found that the Finance Department is continuing to improperly report two accounts with Bank of New York as under collateralized on its Schedule of Collateral. These accounts have collateral agreements. It appears that the Bureau of Accounts staff has not been receiving the proper monthly statements from the bank.

Recommendation: The Finance Department must contact the financial institution and request the monthly collateral statements to ensure proper reporting on the Schedule of Collateral.

Management Response: The Bureau of Accounts staff is investigating this issue with the financial institution.

Finding 5: HSBC Bank Account Reported as Under Collateralized

It was found that the Finance Department and HSBC Bank had failed to add a Certificate of Deposit to the schedule for collateralization, leaving the investment uncollateralized. By the time this account was determined to be lacking a proper collateralization agreement, it had matured.

Recommendation: The Finance Department must coordinate efforts with the financial institutions it deals with for Certificates of Deposit and make sure that proper collateralization occurs for all such investments as each investment is initiated.

Management Response: The Bureau of Accounts staff will make sure that extra precautions are taken with reference to HSBC Bank to ensure that future Certificates of Deposit are fully and properly collateralized.

Philip J. LaTessa
Syracuse City Auditor
City of Syracuse
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