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City Auditor

License Function Review

Interim Report:
October 1, 2005 through December 31, 2005

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 October 1, 2005 through December 31, 2005 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 October 1, 2005 through December 31, 2005.

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 to ensure proper recording. All related vouchers during the audit period were reviewed for appropriateness and accuracy. The Monthly Activity Report, which itemizes the

receipts by date and category, and the Daily Cash Reports were traced to the Monthly Balancing Sheets and General Ledger activity.

Recommendation: *Transfer Licensing to City Clerk*

The City Auditor met directly with the Administration, and feels that the Administration needs to re-examine the organizational chart for the Finance Department to see if the Licensing Division has outlived its useful function as a sub-department. That being the conclusion, the administration may want to consider moving these functions to the City Clerk's office.

The City Auditor is of the opinion that to date the City Clerk has run an efficient licensing operation and would be able to absorb the additional licensing work load with no increase in staff. In addition, the Department of Finance should retain the individuals currently assigned to the Licensing Division and perhaps reassign them to other critical tasks within the Finance Department. This recommendation will result in a zero net change in personnel and will serve to consolidate licensing, under one department, thus reducing the amount of confusion on the part of tax payers, as it makes sense to have all licenses issued from a single office: The City Clerk's Office.

Subsequent Events:

After the issuance of the 1st quarter report on 09/13/06, the Audit Department met with the entire Licensing Division on 09/26/06 to discuss and clarify the findings identified in both the 1st and 2nd quarter reports, as indicated below. As a result of this meeting the Licensing Division, with the assistance of the Audit Department, has determined the following plans of action, as described in each finding below.

FINDINGS:

Finding 1: Application Errors

When comparing the regulated licenses per the City Charter, to the actual licenses posted by the Bureau of Treasury, an alarming amount of inadequacies were discovered. Out of forty-five licenses offered, eleven (*or 24%*) did not have applications available, three applications (*or 7%*) were only available in person at the Department of Treasury, one application (*or 2%*) was only available on the New York State Racing & Wagering website, and finally *the four non-existent license applications, that were previously noted in prior year audits as being listed on the City of Syracuse's web site, have subsequently been removed from the web site as of 09/14/06.* Please refer to Attachment 1 for a schedule of this investigation.

Per follow up conversation with Deputy Commissioner, Jim Mahaney, on September 26, 2006, the Licensing Division will contact the city web site coordinator to establish a direct internet link to the New York State Racing & Wagering website, as well as begin

working on updating the City web site to include all license applications. However, these changes will not be effective until after October 2006.

Recommendation 1:

It should be noted that the above flaws are considered reoccurring, as they have repeatedly been identified over the past several years. As a result, the above noted flaws appear to be the cause of further mistakes in the license process resulting in incorrect licenses being issued and incorrect fee amounts being collected. The City Auditor advises the Bureau of Treasury to immediately update the license applications available online, along with their corresponding fee amounts. In addition, the fee amounts publicly posted within the Bureau of Treasury should also be reviewed and updated where applicable. 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 10/06: The Licensing Division is currently taking steps to research

Auditor's Response 10/06:

Finding 2: Incorrect License Fees

When comparing the regulated license fees to the actual license fees listed on the individual license applications, a stunning amount of inadequacies were discovered: Five applications (*or 11%*) did not indicate any licensing fee amount and fifteen applications (*or 33%*) stated incorrect licensing fee amounts, resulting in an over whelming 44% error ratio regarding the accuracy of posted license application fees. It should be noted that the above inadequacies are considered to be reoccurring, as they have also been identified as findings in prior year audits, and currently do not appear to be addressed.

While reviewing all of the general licenses issued, to verify the accuracy of licensing fees being calculated and collected, the following errors were found concerning: Dancing in a Restaurant or Hotel Dining Room, Entertainment or Floor Show in a Restaurant or Hotel Dining Room, Exhibition, Concert, Musical Show, Theater &/or Stage Production, and Second Hand Dealer Licenses.

Dancing and Entertainment license: After reviewing all of the dancing and entertainment license applications, it was discovered that, one, or 6%, of the licensee's did not 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, resulting in a potential \$200.00 refund; one case, or 6%, of the licensee's were improperly charged for an entertainment license when just a dance area license was requested, resulting in over charging the licensee by \$100.00; and finally seven cases, or 39% of the licensee's were not properly charged for the dancing portion of their license. By error, the application requests these two separate licenses on one application, but does not

reflect the two separate licensing fees, resulting in \$650.00 of lost licensing revenue, this quarter alone.

Per follow up conversation with Deputy Commissioner, Jim Mahaney, on September 26, 2006, there appears to be conflicting opinions received from the Law Department regarding the licensing fees noted on the bottom of the Dancing and Entertainment license application. The issue in question is if the licensing fees, noted on the application, are all inclusive covering both Dance and Entertainment licenses? Due to the conflicting information, the Audit Department agreed to work with the Licensing Division to request and receive clarification from the Law Department on this issue.

In addition to the above, it was also noted that 67% of the applications reviewed did not indicate the seating capacity of the establishment, as determined by the Syracuse Fire Department. As a result, the licensing fees could not accurately be recalculated, as the seating capacity is the key component used to correctly calculate the licensing fee amount.

Per follow up conversation with Deputy Commissioner, Jim Mahaney, on September 26, 2006, most applicants bring in their official seating capacity certificate, issued by the Syracuse Fire Department, as supporting documentation to their application. Thus the correct fees are being calculated based on the certificate, but that information may not always be indicated on the application. As a result, the Audit Department then recommended that each application clearly indicate the seating capacity or start attaching a copy of the seating capacity certificate to the application, as this information is vital to correctly calculating the licensing fee amount.

Exhibition License: After reviewing all of the Exhibition license applications, it was discovered that seven, or 100%, of the applications were either inappropriately categorized or over charged. At least one application should have been issued as a “Theater/Stage production license”, four applications should have been issued as a “One Day Concert license”, with a fee of fifteen dollars each, but were mistakenly classified as an Exhibition license with a fee of fifty five dollars, resulting in over charging the licensees by \$40.00 each, equaling a projected refund amount of \$200.00.

In addition, there were two applications that were classified and charged for an Exhibition License at a fee of \$55.00, but further research with the Law Department revealed that a wedding and a school dance are actually considered private events, which are exempt from general licensing requirements, resulting in a projected refund amount of \$55.00 each, equaling a total proposed refund amount of \$110.00.

Second Hand Dealer License: After reviewing all of the Second Hand Dealer license applications, it was discovered that Seventeen, or 52%, of the

applications were inappropriately categorized as “Second hand auto, Used car dealer and Used car parts dealer” licenses, which are non-existent.

After additional review, it was determined that the Licensing Division was not issuing separate non-existent “Second hand auto” and “Second hand auto-parts” licenses, but was in fact just using incorrectly titled license applications. Fortunately, the use of incorrectly titled applications did not have a financial impact on the department, as the correct licensing fee of \$75.00 was appropriately charged for each licensee.

Per follow up conversation with Deputy Commissioner, Jim Mahaney, on September 26, 2006, going forward the Licensing Department will update the Second Hand Dealer License application, to show an internal use section identifying the various subcategories that these applications are currently being sorted into. However, this change will not be reflected on applications received prior to October 2006.

The net effect of the above general licensing errors, including immaterial rounding differences, uncovered during the October 1, 2005 through December 31, 2005 audit period, were \$350.00 of uncollected Licensing Revenue and \$310.00 of over collected Licensing Revenue, resulting in understating revenue by a net total of \$39.60, which represents less than one percent of the general license fees collected for said period.

Recommendation 2:

Since the above errors stemmed from incorrect statements on the applications and the lack of knowledge of persons involved; immediate action is needed to ensure the proper licenses and corresponding fees are charged in the future.

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 10/06:

Auditor’s Response 10/06:

Finding 3: Deficient Internal Controls

While reconciling Cash Reports to the General Ledger to ensure all cash received was recorded, the Audit Department was unable to ensure the list of Cash Reports was complete due to the absence of pre-numbered sequential cash reports.

Per follow up conversation with Deputy Commissioner, Jim Mahaney, on September 26, 2006, External Auditor, Dave Moynihan, indicated to Jim Mahaney that this procedure was not considered necessary as each deposit is traceable through the General Ledger. In addition, Deputy Mahaney indicated that pre-numbering of the cash reports is not

feasible as other clerks in the Treasury Department also process deposits for licensing. As a result of conflicting opinions, the Audit Department is holding back on recommending that Cash Reports be pre-numbered, until after contacting the external auditors to discuss this recommendation further.

While tracing transactions from the Monthly Activity Report to the Monthly Balancing Sheet and finally to the Monthly General Ledger activity, the following recording errors and information deficiencies were discovered. On at least one occasion; receipt dates, disbursements and/or J/E's were not accurately reflected on the Monthly Activity Reports.

While attempting to reconcile issued license numbers with their corresponding license applications, the Audit Department discovered that issued license numbers are not currently being recorded or cross referenced back to the Monthly Activity Report. As a result, the Ordinance/Code Enforcement Department can not easily query an up to date data base to identify those licensees who are/or are not currently in compliance with the appropriate licensing requirements.

Per follow up conversation with Deputy Commissioner, Jim Mahaney, on September 26, 2006, the Audit Department discussed various ways of how fraud could occur under the current procedures. In response, Deputy Mahaney disclosed that in the past, potential licensees would tell Ordinance/Code Enforcement Officers that they had a license application on file, in order to avoid being ticketed for operating without a license. In an effort to supply the Ordinance/Code Enforcement Officers with more current and up to date information, the two divisions started sharing copies of the Monthly Activity Report. However, without the issued license numbers being cross referenced, the report does very little to identify those licensees that have been denied a license or those that may produce, or been issued, a false or duplicate license number. As a result, the Audit Department then explained that if license numbers were being cross referenced on the Monthly Activity Reports, then the two departments would be taking preventive steps to avoid fraud, as well as, instituting procedures that would help detect fraud as well. The Licensing Division then stated that it would research instituting this procedures going forward.

Recommendation 3:

Although the combination of these 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 also be reconciled to the G/L 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 posting errors should be noted, clearly explained and properly documented. Once the reconciliation has been completed, it should be forwarded, reviewed and approved by the 2nd Deputy Commissioner of Finance, to provide stronger internal checks and balances.

Master Licensing Database: As noted above, the Licensing Division is maintaining and providing a master licensing database, which should continue to be maintained and updated on a routine bases by the licensing clerk. However, the current database, known as the Monthly Activity Report, can easily be expanded to track and record all license applicants by name, organization, activity date, application date, license type, license purpose, fees collected, application status and corresponding issued license number. Once established, this data base can then easily be sorted and used to: Reconcile monthly issued licensing numbers, create the Charter required summary activity reports, and assist those responsible for enforcing the City’s licensing requirements.

Management Response 10/06:

Auditor’s Response 10/06:

Finding 4: Completeness of Licensing Functions

As stated in the previously audit report, the Audit Department 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 to 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 required by the Syracuse City Charter.

Per follow up conversation with Deputy Commissioner, Jim Mahaney, on September 26, 2006, the Licensing Division openly admitted that they were not aware that such a reporting requirement existed, as they have never been asked to supply this information in the past. However, going forward, Deputy Mahaney indicated, that there should not be a problem supplying both the quarterly and annual reports as required, by City Charter.

While reviewing the Monthly activity reports for completeness, the Audit Department discovered multiple licensing categories that had no activity. In particular, the Audit Department identified: Bowling Alleys, Buses, Concerts, Circuses, Dance Schools, Ice Shows, Musical Shows, Open Air Cultural Events, and Professional Basketball or Hockey Licenses as being inactive. However, the Audit Department identified multiple activities in these categories that appear to be occurring, which require a license for such

activity or operation. As a result, the Audit Department made various inquiries regarding verification procedures that are being performed, within the Licensing Division, to identify potential licensees that are not complying with city licensing requirements.

Per follow up conversation with Deputy Commissioner, Jim Mahaney, on September 26, 2006, many of the licenses currently listing in the City Charter are inactive because they are old, outdated, and no longer applicable. In recognition of such, Deputy Mahaney indicated that he would work with the Law Department to receive clarification on various licensing requirements and preparing legislation to the Common Council to review, update and remove any outdated licensing requirements. In addition, Deputy Mahaney also indicated that the Licensing Division currently does not perform any routine verification procedures to ensure that all potential licensees are being identified and/or contacted for compliance with City licensing requirements. Deputy Mahaney went on to explain that the Licensing Division is not staffed to perform compliance/enforcement functions, as this responsibility falls under the Police Ordinance Enforcement Division of Code Enforcement.

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

Recommendation 4:

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 Audit Department 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: ice show, concerts, or professional sporting events like Syracuse Crunch Hockey games. In addition, the licensing division should also consider performing an internet phone book search, by business type and location, to help identify additional potential licensees.

Management Response 10/06:

Auditor's Response 10/06:

Conclusion:

The Department of Audit uncovered multiple errors regarding the types of general licenses issued, corresponding fees collected, deficiencies in internal controls, as well as completeness of general licensing function and enforcement for the period of October 1, 2005 through December 31, 2005.

In addition, the Department of Audit has also determined, with reasonable assurance, that the Bingo, Certificate of Use, and Games of Chance License activities, for the audited period, were free of material misstatements. Attached is an Activity to Date Report (Attachment 3) for your reference and utilization.

Auditor's Notes:

Due to the errors in types of licenses granted and fees collected, noted in Audit Findings 1 and 2 above, the Audit Department analyzed the general license activity for fiscal years ending June 30, 2003, 2004, and 2005 for evidence of similar recurring errors. Unfortunately, the errors noted in Audit Findings 1 and 2 above, were also found in the 2003, 2004, and 2005 fiscal years and corresponding audit reports.

Although the monetary amount of the above errors may appear immaterial, equaling less than five percent of total general licensing fees, the fact that 44% of licensing applications do not state accurate licensing fees is cause for serious concern. It should also be noted that the risks caused from having incorrect license applications, results in further errors in the licensing process and needs to be corrected immediately.

Philip J. LaTessa
City Auditor

10/03/2006