



THE ANNUAL COMPREHENSIVE AUDIT

EXAMINATION OF EXPENDITURES

FOR THE CITY OF SYRACUSE

FISCAL YEAR ENDING JUNE 30, 2006

Introduction:

As authorized under Article V, Section 5-501, of the Charter of the City of Syracuse, an examination into the expenditure components of the annual budget for the City of Syracuse, New York, for the fiscal year ending June 30, 2006, was conducted. 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 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, Common Council and involved departments 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. The Office of the City Auditor would like to thank the personnel who assisted and cooperated with us during the audit.

Auditor's Note:

The Annual Examination of Expenditures is performed, by the Office of the City Auditor, to fulfill the various requirements mandated by the City of Syracuse Charter, Article V, Section 5-501, which state that the Office of the City Auditor "conduct, at least annually, an audit of every officer, department and board of the City". Prior to the City contracting external auditing services, the City Auditor previously performed the annual financial statement audit to fulfill this requirement. However, once external auditing services were secured, the City Auditor created the Comprehensive Audit - Examination of Expenditures to satisfy the above charter requirement and to avoid a duplication of auditing efforts.

In accordance with the newly designed audit program, the Office of the City Auditor issued standard audit questionnaires to every City of Syracuse department, with the purpose of documenting a general understanding of each department's operations and to establish a baseline for their internal control structure. Additionally, these questionnaires were designed as a risk assessment tool to help identify areas of greater risk for planning, reviewing and performing future departmental audits.

NOTE: To date, there are several city departments that still have yet to respond to the numerous requests to complete and return the Audit Questionnaires, budget variance explanations, and supporting inventory records. This failure to respond is noted below under Findings.

Per Government Auditing Standard Chapter 3, Section 10d of the GAO-07-162G, as issued by the Comptroller General of the United States, the City Auditor would like to remind all city departments that failure to cooperate and return requested information or documentation creates an impairment which restricts the Office of the City Auditor's ability to conduct and issue a comprehensive audit report. In addition, generally accepted auditing standards require auditors to report any impairment which have occurred during the course of the audit under the Scope section of the audit report.

Scope:

The scope of the examination entailed reviewing all Aviation, General Fund, Sewer and Water Fund account expenditures for each department, office, bureau, and division; excluding capital, debt service, grant programs, inter-fund transfers, and special objects of expense for the City of Syracuse for fiscal year ending June 30, 2006. After reviewing the account expenditures for each city department, a sample of claim vouchers was selected, pulled and reviewed, along with their corresponding inventory records for both voucher and inventory testing.

In compliance with Government Auditing Standards, as issued by the Comptroller General of the United States and the US General Accounting Office, the City Auditor is mandated to note impairments in the audit report, per Chapter 3, Section 10d of the GAO-07-162G, as follows:

While performing the annual review of each city department, as required by the City of Syracuse Charter, the failure of various departments to respond in a timely fashion to numerous requests to complete and return Audit Questionnaires, budget variance explanations, and supporting inventory records, resulted in an external impairment to the independence of the Office of the City Auditor.

Objectives:

The first objective of the examination was to confirm that the Aviation, General, Sewer and Water Fund expenditures were used in a manner consistent with their original authorized budgeted amounts. This objective was accomplished by comparing the original authorized budgeted amounts, as listed in the 2005-2006 budget book, to the finalized expenditure totals presented in the Audited Financial Statements, issued by Testone, Marshal and Discenza, for fiscal year end June 30, 2006.

The second objective of the examination was to determine if claim vouchers were properly prepared and processed by individual departments. This objective was accomplished by reviewing 96 claim vouchers, prepared by those departments selected for testing, for proper vendor information, supporting documentation, departmental authorization, payment discrepancies, and fiscal year posting.

The third objective of the examination was to determine if proper inventory procedures were being followed to record City wide inventory. This objective was accomplished by requesting and reviewing all departmental inventory records that should have resulted from the original 96 claim vouchers previously selected for voucher testing above.

The fourth objective of the examination was to determine the accuracy of the information being presented in the authorized budget book. This objective was accomplished by comparing the original authorized budgeted expenditure figures presented in the 2005-2006 authorized budget book, to the final expenditure figures for fiscal year 2005-2006 presented in the 2007-2008 authorized budget book

as the actual expenditures for fiscal year 2005-2006, and then comparing both of the above to the finalized expenditure figures recorded in the City's ACS general ledger accounting system for fiscal year 2005-2006.

The fifth objective of the examination was to identify which city departments were not properly reporting transactions back to the City of Syracuse's Department of Finance and Department of Management and Budget. The use of separate accounting software keeps transactions from being properly recorded and monitored in the City of Syracuse's ACS general ledger accounting system and from being accurately reflected in the city's printed budget book.

Methodology:

The methodology followed in the audit was to examine the expenditures in the Aviation, General, Sewer and Water Fund accounts for each department, office, bureau, and division excluding capital, debt service, grant programs, inter-fund transfers, and special objects of expense for the City of Syracuse for the fiscal year ending June 30, 2006.

A budget to actual variance on each department and individual line item included in the scope of the audit was prepared and analyzed. Year end financial data for the General, Sewer and Water Funds were retrieved from the City's ACS accounting system, and the year end financial data for the Aviation Department was retrieved directly from that departments' off line Solomon accounting system. The 2005-2006 authorized budget figures were reviewed and compared to the actual 2005-2006 expenditure figures, as listed in the 2007-2008 authorized budget book, and the finalized expenditure figures contained in the City of Syracuse's ACS accounting system.

Testing Results:

Variance Analysis

For the variance analysis, the City Auditor chose to focus on the original authorized budget figures as opposed to the revised budget figures, since the original budget better reflects and measures management's initial planning efforts when aligned with the year-end actual expenditures.

Traditionally, the modified revised budget which includes the midyear transfer has been used as the reference for comparison with the actual expenditures for the fiscal year. As the midyear numbers are reflective of projections made more than half-way through the fiscal year, it was felt that the original budget approved by the administration and the Common Council provides the best baseline to be used for the analysis. The focus of this objective was on management's effort to formulate its best and most realistic budgetary estimate and its ability to remain within a reasonable variance of those estimates through the end of the fiscal year.

Please refer to the attached Expenditure Variance Summary, Aviation Department Actual Expenditure Reconciliation, General Fund Line Item Variance Report, and finally the Sewer and Water Fund Line Item Variance Report; for the budget to actual expenditure analysis for fiscal year ending June 30, 2006.

The original authorized budget amounts for the departments under audit for fiscal year 2005-2006 provided for expenditures totaling:

\$14,400,573 for the City's Aviation Fund, while actual expenditures, extracted from the City's ACS accounting system totaled \$8,150,248. However, after adjusting the City's ACS accounting system balances to reflect the Aviation Department's reimbursement to the City's General Fund, actual expenditures totaled \$13,543,808 resulting in a budget surplus of \$856,765 or 6%.

\$107,886,239 for the City's General Fund, while actual expenditures, extracted from the City's ACS accounting system totaled \$108,786,383. This resulted in the City's General Fund experiencing a budget shortfall of \$900,144 or (1%). Again, the Office of the City Auditor would like to stress that the Comprehensive Audit specifically omits Special Objects of Expense. This exclusion is explicitly commented on further in the audit report under Best Practice Recommendation II, starting on page 14.

\$2,473,054 for the City's Sewer Fund, while actual expenditures, extracted from the City's ACS accounting system totaled \$2,361,128, resulting in a budget surplus of \$111,927 or 5%.

\$8,667,332 for the City's Water Fund, while actual expenditures, extracted from the City's ACS accounting system totaled \$9,099,082, resulting in a budget shortfall of \$431,750 or (5%).

The Office of the City Auditor identified that the Sewer Department and 12 different General Fund departments and/or divisions which exceeded their original budgetary allocation by a gross total of \$431,750 for the Sewer Fund and \$5,021,025 for the General Fund. The Police Department's Uniform Bureau had the largest expense of \$3,673,001 over their original budget for fiscal year 2005-2006.

The Office of the City Auditor identified 37 different departments and/or divisions that under spent their original budgetary allocation by a gross total of \$4,120,885. The Fire Department's Uniform Bureau produced the largest savings totaling \$1,286,369 for fiscal year 2005-2006.

Therefore, the City's overall General Fund nets out to a total deficit of \$900,144 or (1%), as 76% of the General fund departments analyzed, resulted in surplus balances and 24% resulted in deficit balances against the original stated budget, adopted by the Mayor and Common Council.

Voucher Testing

In determining whether claim vouchers were properly prepared and processed by individual departments, the City Auditor randomly selected and reviewed approximately 1% of claim vouchers paid out of those departments that met the budget to actual ratio qualifications, identified in the audit plan. This resulted in the City Auditor's office pulling and reviewing 96 claim vouchers for proper vendor information, supporting documentation, departmental authorization, payment discrepancies, and proper fiscal year posting.

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1. When reviewing claim vouchers for proper vendor information, the City Auditor compared vendor contact and payment information such as name, address, city, state, and zip code against city purchase orders and vendor invoices for consistency. Any discrepancies noted between the purchase order and vendor invoice was counted as an error, resulting in an overall 32% error ratio.

Out of the 96 claim vouchers reviewed, 31 were identified as not containing proper vendor information. When this 32% error ratio is projected out against the entire estimated population of 11,035 claim vouchers, the average number of claim vouchers issued without proper vendor information is estimated to be about 3,563.

2. When reviewing claim vouchers for proper supporting documentation, the Office of the City Auditor examined each claim voucher selected for testing against its attached supporting documentation for: correct preauthorized purchase order (PO) numbers, original, complete and accurate vendor invoices, consecutive PO numbers for change orders greater 10%, authorizing ordinances, and general supporting documentation for prepayments and confidential cash advance requests. Any discrepancies noted between the purchase order and vendor invoice was counted as an error, resulting in an overall 28% error ratio.

Of the 96 claim vouchers reviewed, 27 were identified as not containing proper supporting documentation. When this 28% error ratio is projected out against the entire estimated population of 11,035 claim vouchers, the average number of claim vouchers issued without proper supporting documentation is estimated to be about 3,104.

3. When reviewing claim vouchers for proper departmental authorization, the Office of the City Auditor compared the payment authorization name, signature, and job title on each claim voucher against the official "Authorized Signor Book" located within the Department of Finance - Bureau of Accounts. Any discrepancies noted between the claim voucher and the "Authorized Signor Book" was counted as an error, resulting in an overall 10% error ratio.

Only 10 of the 96 claim vouchers reviewed were identified as not being properly authorized; however, when the 10% error ratio is projected out against the entire estimated population of 11,035 claim vouchers, the average number of claim vouchers processed without proper authorization is estimated to be about 1,149.

4. When reviewing claim vouchers for payment discrepancies, the Office of the City Auditor compared original purchase order estimates against vendor invoices and actual payment amounts posted to the General Ledger. Claim vouchers were reviewed for: accurate payment amounts, 10% price variations, taxes, freight, change orders, refunds and credits. Any discrepancies noted between the purchase order and vendor invoice was counted as an error, resulting in an overall 9% error ratio.

Although only 9 of the 96 claim vouchers reviewed were identified as having payment discrepancies; when the 9% error ratio is projected out against the entire estimated population of 11,035 claim vouchers, the average number of claim vouchers issued with improper payment amounts is estimated to be about 1,035.

5. When reviewing claim vouchers for proper fiscal year posting, the Office of the City Auditor looked at the following dates: purchase order, goods received, services rendered, invoicing, and general ledger posting to determine if the proper general ledger transaction date was used. Per the annual “Accounting Guidelines” memo distributed by the Office of Management and Budget and the Commissioner of Finance, “expenditures are incurred when... goods are received and/or services are rendered”. Thus the goods and services received date is the most important factor in determining what fiscal year the expense will be charged. As a result, any discrepancies noted between the shipping, received, service, and the general ledger transaction date was counted as an error, resulting in an overall 5% error ratio.

Out of the 96 claim vouchers reviewed, 5 were identified as not being posted to the proper fiscal year. When this 5% error ratio is projected out against the entire estimated population of 11,035 claim vouchers, the average number of claim vouchers issued without proper vendor information is estimated to be about 575.

In summary, of the 96 claim vouchers under review; 82 claims (or 85%) were found to contain some type of an error ranging from proper vendor information, supporting documentation, departmental authorization, payment discrepancies, or proper fiscal year posting, as indicted in the test result chart below:

<u>Explanation</u>	<u>Errors Found</u>	<u>Error Percentages</u>	<u>Projected Errors</u>
Vendor Information	31	32%	3,563
Supporting Documentation	27	28%	3,104
Departmental Authorization	10	10%	1,149
Payment Amount	9	9%	1,035
Fiscal Year Posting	5	5%	575
No Errors Found	14	15%	1,609
Total	96	100%	11,035

Inventory Reporting

While performing the voucher testing above, the City Auditor requested copies of departmental inventory sheets as supporting documentation that proper inventory records were being prepared and maintained by individual city departments within a timely fashion.

Those items selected for inventory testing were acknowledged as meeting the City of Syracuse’s Purchasing Procedure Manual criteria. As quoted directly from the City of Syracuse Purchasing Procedure Manual:

“All new acquisitions and changes to current property must be reported to the Purchasing Department for update to the city-wide Fixed Asset Inventory System. All equipment of significant values (over \$100) which are of a long-term character and which are intended for continued use must be inventoried.”

Of the 96 claim vouchers selected for the voucher testing above; 22 (or 23%) qualified for inventory testing, resulting in 91 individual inventory records requested to be submitted to and reviewed by the Audit Department. The departments &/or divisions selected for inventory testing include the Department of Public Works (DPW), DPW Division of Motor Equipment and Maintenance (MEM), Finance, Fire, Parks, and Police Departments.

Of the 91 inventory records under review; 81 records (or 89%) were received while 10 records were not; resulting in 11% of the inventory records under review, as missing and considered not properly being prepared and maintained by the individual departments, as indicated below:

<u>Inv Records</u>	<u>DPW</u>	<u>MEM</u>	<u>Finance</u>	<u>Fire</u>	<u>Park's</u>	<u>Police</u>	<u>Combined Totals</u>
Requested	15	6	3	3	3	61	91
Received	14	1	3	3	2	58	81
Missing	1	5	0	0	1	3	10
% Received	93%	17%	100%	100%	67%	95%	89%
% Missing	7%	83%	0%	0%	33%	5%	11%

After reviewing the 81 inventory records received, the Office of the City Auditor looked up each inventory number in the city-wide Fixed Asset Inventory System, in an effort to determine if inventory records were being prepared and submitted to, as well as recorded by, the Purchasing Department in a timely fashion. Unfortunately, only one record was found in the city-wide Fixed Asset Inventory System; resulting in 99% of the inventory records reviewed as not being recorded in a timely fashion.

Budget Book Reporting

When the City Auditor performed a comparison of the year end figures for fiscal year 2005-2006 using the City of Syracuse ACS Accounting System compared to the actual 2005-2006 expenditure figures, as published in the 2007/2008 authorized budget book; it was discovered that there was only one department that did not reconcile back to the issued authorized budget book.

In addition, five cases were discovered where accounts are being shown as one single account in the Budget Book and then divided into two separate accounts in the general ledger. This is inconsistent as to how the other accounts are handled. The departments where these discrepancies were found are: The Common Council, Police Department Uniform Bureau and General Services Bureau, Fire Department Main Fire Bureau and Fire Prevention Bureau.

Finally, several expenditures were found to be improperly reported in the closed General Ledger Account number 01.51820 DPW Division of Street Lighting. Although these errors are immaterial, they should be noted for internal policies, procedures and controls.

The fact that the above account was considered closed, suggests a lack of communication regarding account status, between the Budget Department and the operating departments which needs to be addressed. Periodically the Finance Department and the Office of Management and Budget should provide all operating departments with a list of proposed accounts being considered for deletion from the accounting system. This would give each department an opportunity to voice any issues, questions, or concerns they may have regarding any of the proposed accounts, to ensure future expenditures are properly posted to the correct account, going forward.

Transaction Reporting

During the reconciliation of financial transactions the City Auditor noted that certain departments do not report on the centralized City ACS accounting software system. The Office of the City Auditor found that the general ledgers from the various accounting software systems did not, in many cases, reconcile to the main City of Syracuse accounting system. This required the Office of the City Auditor to request additional information from those departments.

The main concern with this objective was that efforts to compare the actual expenditure figures per the Aviation Department's Solomon accounting system, to the finalized expenditure figures for fiscal year 2005-2006, in the City of Syracuse's ACS accounting system, is unintentionally complicated. The fact that there are multiple accounting systems being utilized throughout the city creates a challenging environment for efficient city management.

Findings & Recommendations:

Finding I: Failure of City Departments to respond to the City Auditor's inquiries

While performing the annual examination of expenditures of each city department, as required by the City of Syracuse Charter, the failure of various departments to respond in a timely fashion to numerous requests to complete and return the comprehensive audit questionnaires, budget variance questions, and supporting inventory records, resulted in an external impairment to the independence of the Office of the City Auditor.

In the Government Auditing Standards, per the Comptroller General of the United States, generally accepted auditing standards for field work is as follows: "A sufficient understanding of the organization under audit and its internal controls is to be obtained to plan the audit and to determine the nature, timing and extent of tests to be performed". When departments fail to respond to the City Auditor's inquiries there is a drastic impact on the amount, type and level of testing to be performed, which directly affects the over all production of both city departments.

In compliance with US Government Auditing Standard, Chapter 3, Section 10d of the GAO-07-162G, per the Comptroller General of the United States, issued by the US General Accounting Office, the City of Syracuse Auditor is required to report any impairments that arose during the course of an audit, as follows:

The failure of various Departments to respond in a timely fashion to the comprehensive audit questionnaires sent out to establish a baseline and general understanding of departmental policies, procedures and internal controls, resulted in an external impairment to the independence of the Office of the City Auditor. To date, both the Assessment and Water Department's, with the exception of Water Finance, still have not responded to the City Auditor's comprehensive audit questionnaires.

The failure of various Departments to respond in a timely fashion to budget variance questions sent out by the City Auditor in order to gain a general understanding of what

was originally budgeted compared to what was actually spent, resulted in an external impairment to the independence of the Office of the City Auditor. To date the Community Development, Treasury Finance, Fire, Police, and Park's and Recreation Departments have not responded to the City Auditor's budget variance questions.

The failure of various Departments to respond in a timely fashion to the City Auditor's request for supporting inventory documentation resulted in an external impairment to the independence of the Office of the City Auditor. To date the Department of Public Works, Division of Motor Vehicle Equipment Maintenance, has not responded to the City Auditor's request for supporting inventory documentation.

Finding II: Voucher Testing

While performing the claim voucher testing above the City Auditor discovered the following:

1. Of the items found to have vendor information issues, 62% appeared to have incorrect vendor names, addresses, and/or miscellaneous contact information on file. However, further research revealed that those who prepare payment vouchers do not have the ability to view all of the detailed vendor information being maintained. As a result, it is very difficult to verify and maintain current and accurate information on a vendor's corporate address, remittent address, phone, fax and other miscellaneous contact information. In addition, 19% of the items consisted of minor errors where no remittance address was indicated on the straight claim because payments were flagged for departmental pick up; lastly the final 19% were unable to be verified as vendor invoices did not indicate any corporate or remittance mailing address.

Recommendation

At this time, the City Auditor would like to recommend that full vendor review screens be made available to everyone who prepares payments, in order to verify mailing, remittance, and other vendor contact information prior to submitting and processing payment requests. In addition, it is also recommended that standard vendor information update forms be prepared and submitted to the Finance Department, so vendor update requests can be documented, processed, and filed.

2. Of the items found to have supporting documentation issues, the City Auditor was most concerned with processing original, complete and accurate invoices. Unfortunately, several instances were discovered where prepaid postage and prepaid mileage were both processed without any supporting documentation or notes indicating a prepayment, while other claim vouchers did not have accurate or complete invoices attached in order to verify the requested payment amount.

In addition, the City Auditor also discovered an increasing amount of faxed and photocopied invoices, being submitted with claim vouchers as supporting documentation. Unfortunately this practice is resulting in an increased amount of duplicate payments being processed, which unnecessarily increases the work load of every department and individual involved in the payment process.

Recommendation

At this time the City Auditor recommends identifying prepayments requests; as such, in order to document that no invoice or supporting documentation was available to attach to the payment request. As for those payment requests that don't have accurate or complete invoices, the City Auditor recommends the requesting department prepare and attach a payment reconciliation identifying how the payment should be applied.

Finally, standard accounting practices dictate that original invoices be used as supporting payment documentation in order to reduce the risk of duplicate payments, as well as to validate the authenticity of the amount owed. Although the City does follow a similar policy of requiring original documentation, there are exceptions where a faxed or photocopied invoice is considered acceptable. As a result, the City Auditor recommends that the Finance Department document the types of situations where a fax or photocopy is considered acceptable, and then hold regular city wide accounts payable meetings to clarify and discuss various documentation and payment issues facing the Finance Department.

3. Of the items found to have authorization issues, 20% had no signature on the claim voucher authorizing payment, 20% were signed and authorized by another departments authorized signor, 20% consisted of journal entries prepared and processed by the Department of Finance without notification, review, or authorization from the impacted departments, and the remaining 40% consisted of minor inconsistencies such as no authorized signor title or payment authorization date being indicated on the claim voucher.

Recommendation

To promote better fiscal management on a departmental level, the City Auditor recommends that copies of all claim vouchers, straight claims, and journal entries prepared by one department but impacting the budget of another; be photo copied and forwarded, by the individual preparing the payment request, to the department whose budget is being impacted. From there forwarding information such as: department, contact name and date forwarded; should be written on the payment request to notify the Finance Department that payment copies have properly been forwarded to the impacted departments.

4. Of the items found to have payment discrepancies, none of which were considered material, 33% were mistakenly under paid, 11% were over paid, 22% resulted from undocumented change orders, 11% had misapplied credit memos, and 11% resulted from unexpected shipping charges.

However, the remaining 11% of discrepancies resulted from vendor billing issues, which resulted in payment amounts that did not reconcile back to the vendor invoice, but back to the department's own accounting records. The problem with paying off of City records instead of vendor invoices is the risk of misapplied payments, as vendors don't know which invoices to apply payments against.

Recommendation

In situations where a department is paying off of city records, rather than vendor invoices, the City Auditor recommends preparing a payment reconciliation detailing the differences between vendor invoices and city records. Then this payment reconciliation should be attached to the claim voucher and forwarded on to the vendor along with the City's payment, to ensure that the City's payment is properly applied.

5. Of the items found to have fiscal year posting issues, 60% had services rendered in the prior fiscal year, but were processed and paid using an effective date in the following fiscal year; resulting in 04/05 expenditures being recorded as 05/06 fiscal year expenditures.

In addition, 40% of the claims found to have fiscal year posting issues were posted to the general ledger using the prior fiscal year end effective date of 06/30/05, while the date the claims were actually processed and filed fell into the next fiscal year beginning 07/01/05. As a result, the City Auditor discovered that the Finance Department has been filing claims by the transaction processing date, of 07/01/05 and beyond, instead of the fiscal year end effective date, of 06/30/05. Consequently, year end claims were very difficult to locate as they were not being filed with the correct fiscal year.

Recommendation

Each department needs to pay closer attention to fiscal year end cut off procedures, in order to ensure expenditures are being posted to the correct fiscal period. In addition, the Finance Department may want to consider keeping open encumbrances available well into September; instead of shutting them down at the end of August, as the city can not control when vendors mail out invoices. In addition, the finance department should reconsider it's year end filing procedures, to ensure that payment requests are actually filed with the proper fiscal year, and it's corresponding documentation.

Finding III: Inventory Reporting

After further researching why so many records were missing from the city-wide Fixed Asset Inventory System, it was discovered that:

1. Of the 91 inventory records under review; 56 (or 62%) of the inventory records, prepared by DPW, Finance, and the Parks Department, did not appear to be prepared and submitted to the Purchase Department in a timely fashion; as indicated by the use of updated inventory forms that were amended by the Purchase Department well after the period under audit; by comparing the original purchasing dates against the signor's employment inception date; and finally per conversation with various Purchase Department staff.
2. The Department of Public Works maintains their own off line inventory sub-system and does not submit inventory records to the Purchasing Department as required in the City's "Purchasing Procedures Manual".

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3. The Parks Department has not routinely submitted inventory records to the Purchasing Department in several years; of which the City's external auditor's confirmed that inventory record keeping has been a continued issue for Park's as well as various other departments.
 4. The Purchasing Department has had continued difficulty keeping the City-wide Fixed Asset Inventory System up to date as the department, admittedly, has been short staffed for several years now. The City Auditor notes that the Administration may wish to review staffing levels within the Purchase Department to avert any possible long term consequences from being understaffed.

Finding IV: Inconsistency from Budget Book to General Ledger

When the City Auditor performed a comparison of the year end figures for fiscal year 2005-2006 using the City of Syracuse ACS Accounting System compared to the actual 2005-2006 expenditure figures, as published in the 2007/2008 authorized budget book. It was discovered that only one department did not reconcile back to the issued authorized budget book.

In addition, five cases were discovered where accounts are shown as a single account in the Budget Book and then divided into two separate accounts in the general ledger. This is inconsistent as to how the other accounts are handled. The departments where these discrepancies were found are: The Common Council, Police Department Uniform Bureau and General Services Bureau, Fire Department Main Fire Bureau and Fire Prevention Bureau.

Recommendation:

Consistency in reporting is needed. The Budget Department should reconcile the budget back to the ACS accounting system. The Aviation Department's budget to actual variance was almost 5 million dollars as a result of not properly recording the Aviation Department's re-imbursments back to the general fund and other various departments.

It is further recommended that the accounts in question should be completely combined or completely separated in the Budget Book and general ledger. This will reduce any errors in entering the budget figures, improve conformity and represent the data in the Budget Book in a more accurate manner for its users.

Management Comments:

When questioned, management stated that the items were left out because they were either immaterial or that there were typographical errors in the Budget Book.

The City of Syracuse Budget Department stated that the Department of Aviation discrepancies arise due to the separate accounting systems used by Aviation versus the City of Syracuse. In addition, the Bureau of Accounts records receipt of funds from the Department of Aviation and not the Airport's expense side of the transaction. Therefore, the ACS system only reflects the deposit of money and "less-lines." The Department of Budget stated they have met with the Finance Department to determine if the accounting could be revised to avoid this issue.

Finding V: Incorrect Reporting in Deleted Account

When the City Auditor performed a comparison of the year end figures for fiscal year 2005-2006, several expenditures were found to be improperly recorded in General Ledger Account Number 01.51820, DPW Division of Street Lighting. Although these errors were considered immaterial in amount, internal control procedures should be designed and implemented to prevent expenditures from being posted against a closed general ledger account.

Recommendation:

Due diligence should be used upon the deletion of a general ledger account. Periodically the Finance Department and the Office of Management and Budget should provide all operating departments with a list of proposed accounts being considered for deletion from the accounting system. This would give each department an opportunity to voice any issues, questions, or concerns they may have regarding any of the proposed accounts, to ensure future expenditures are properly posted to the correct account, going forward.

Management Comments:

Street Lighting has been absorbed into the Transportation Bureau and there should not be any charges to this account. The costs charged to Street Lighting Division should be added to Transportation.

Finding VI: Offline Accounting Systems

As previously reported, in the 2004/2005 audit report, the City of Syracuse has three (3) large departments operating outside of the core accounting system used by the City. Those departments consist of Aviation, Community Development and the Syracuse City School District. In addition, as confirmed by the Director of Information Systems, many city departments heavily rely on various fragmented sub-systems consisting of manual logs, excel spreadsheets, and independent software packages to track various City related information.

As a result the administration can not effectively access or monitor all fiscal developments within various City departments. This could create an increased risk to the City of Syracuse, which is ultimately responsible for those departments; especially in situations of bonding and reporting finances to external sources.

Recommendation:

The City should combine all finances under one centralized accounting system that is accessible to the Administration; specifically the Department of Management and Budget and the Department of Finance.

The Office of the City Auditor is aware of the challenges cited by the Department of Aviation and the Syracuse City School District (SCSD) in combining their accounting systems with the City. Reasons cited by these departments for having separate accounting systems include Federal and State mandated reporting requirements which make the City's ACS accounting system prohibitive. However, this challenge can be overcome with the new accounting systems that are currently available on the market, which would allow the City to operate under one system. At this time, the City Auditor would like to note that the SCSD

went ahead, independently of the rest of the City, and purchased a new accounting system at the end of fiscal year 2006/2007. This new accounting system carries an estimated purchase and installation price of four million dollars. The City Auditor is concerned when any department, or financially dependent subsection, acts independently of the entire city especially when working together and combining resources give the city the best chance of success with the least cost.

Subsequent events – In fiscal year 2006/2007 the SCSD purchased a new accounting software system, called “Oracle’s Peoplesoft”, with the intention of beginning the estimated three year installation process during fiscal year 2007/2008. *However, per conversation with the Director of the City’s Information Systems Department, this new accounting system will not be compatible with the City’s current ACS accounting system, as the new system is an internet based system compared to the city’s current Telnet “green screen” system.* As a result, the City’s Information Systems Department has researched and made a recommendation to the Administration to purchase the same “Oracle’s Peoplesoft” accounting software, in order to eventually merge the two accounting systems together. Unfortunately, the estimated cost for the City to purchase and install this new accounting system ranges from \$690,000 to just over one million dollars, with an estimated return period of 10 years.

To date, the City is in the process of scheduling a free vendor performed “Insight study”, beginning January 2008, which is expected to compare City processing procedures to various industry standards and best practices.

The City also needs an independent consultant feasibility study, with an estimated cost of \$15,000 to \$30,000, to identify the various intangible benefits of changing accounting systems; prior to deciding if the City will move forward with such a major project.

Best Practice Recommendation I:

The City Auditor investigated the back up systems providing security to the airport and community development offline accounting systems. Best practice recommendations suggest careful planning to provide ongoing operation under emergency conditions including having backup capability and accessibility to allow for uninterrupted continuation of all services.

The City Auditor recommends that the City of Syracuse develop a comprehensive city-wide disaster recovery plan. This plan should address any issues related to the offline accounting systems being backed up adequately and should anticipate emergency conditions that could disrupt city services and functions.

The large number of system failures that have been so prevalent in both local and national news, such as the problems experienced by the City of New Orleans during the Katrina disaster, should encourage management to take a serious look at local efforts and planning.

Best Practice Recommendation II:

In preparation for the Annual Comprehensive Audit, the Office of the City Auditor performed a Budget to Actual comparison on the Special Objects of Expense accounts. Although the Special Objects of Expense accounts were specifically excluded from the Comprehensive Audit, the Office of the City Auditor had to review these accounts in order to reconcile all the general fund

expenditures. While performing this comparison, the Office of the City Auditor attempted to trace the credit side of the Clinton Square budget transfer, to verify where the funds had been reallocated to, in order to determine if the funds were dispensed appropriately.

However, it was discovered that the distribution of the Special Objects of Expense account for Clinton Square was lumped together within the General Fund Midyear Transfer. As a result, the Office of the City Auditor was unable to trace where the Special Objects of Expense funds for Clinton Square were reallocated to.

Since the Clinton Square appropriation appears to be a specified anticipated expense related only to Clinton Square, it would seem appropriate that a separate budget transfer be prepared and individually processed instead of blending this transfer in with the Net Midyear Transfer.

There is no easily identifiable audit trail of monies budgeted in the Special Objects of Expense account for Clinton Square and transferred out by means of mid-year budget transfers, as approved by Common Council. Since the appropriation was designated for particular anticipated expenses, a fuller more readily understood accounting sequence would benefit the Administration and the Common Council with better tracking of actual costs.

Another alternative that the administration may want to consider is to eliminate this particular Clinton Square account and instead include the anticipated Clinton Square expenses into the operating budgets of those departments that support Clinton Square activities. Then those departments would carry the responsibility of tracking Clinton Square related expenditures as they are incurred.

Both the midyear and year end budget transfers ultimately result in the movement of excess funds from the Special Objects of Expense accounts into the various operating departments who are experiencing a budget deficit. By reallocating Special Objects of Expense dollars in this manner, the City was able to cover the expenditures in the General Fund that are for the purpose of this audit referred to as a General Fund "shortfall". However, the audited financial statements for fiscal year 2005/2006, prepared by the external auditors, show an overall excess of revenues over expenditures totaling \$953,053, when all of the components of the General Fund are merged back together.

Philip J. LaTessa, City Auditor
Office of the City Auditor

February 25, 2008