

City of Syracuse

Cash & Investments Audit

July 1st 2015 through June 30th 2016



Submitted to:

Syracuse Common Council

Mayor Stephanie A. Miner

August 25th, 2017

Martin D. Masterpole

City of Syracuse Auditor

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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 activities for the period of July, 2015 through June, 2016 was conducted. The purpose of this audit is to review cash and investment activities 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 the 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 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.

Scope:

The scope of this examination involves multiple interviews with Accounting Bureau Personnel and reviewing daily cash summaries, general ledgers and related records through the period July, 2015 to June, 2016.

Objectives:

The objectives of the cash and investment audit are as follows:

1. Determine all cash balances represent cash items on hand, daily cash deposits are tracked and recorded properly, evaluate and monitor major revenue funding sources.
2. Identify the potential impact of the PeopleSoft information system on the City's cash management practices.

Methodology:

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The Office of the City Auditor interviewed the Bureau of Accounts accounting staff. There were meetings held with the Accountant II.

We assured that all cash balances represented “cash items on hand,” and were allocated to the appropriate financial institutions and were properly recorded. The Office of the City Auditor reviewed the City’s daily cash summaries for miscalculations and errors.

For the liquid asset (cash) accounts maintained by the City Department, the Office of the City Auditor learned that all the Cities daily cash deposits were properly documented and filed. The cash account lines were documented via excel worksheets in 2014-2015. Now that PeopleSoft is functioning and operational for fiscal year 2016-2017, all cash account lines were provided via PeopleSoft official documents. All cash figures were traced to the corresponding financial institutions in detail to ensure all cash items are properly represented and recorded.

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 institutions to ensure proper representation and recording.

Background:

This section recaps the City’s history of accepting internet payments for property taxes and other charges.

In the fall of 2005, the City of Syracuse administration, through the efforts of the Commissioner of Finance, began working with the Common Council in order to obtain legislative approval to introduce options for paying property taxes by means of credit card or e-Check via the internet. The Finance Commissioner took the lead role for the City in heading up a consortium of City and Onondaga County personnel in researching the requirements of New York State General Municipal Law, Section 5(b) and in the interviewing of prospective service providers as required by regulations adhered to by the City of Syracuse. The service provider selected, Municipal-Payments.com, an internet site owned and operated by Systems East, Inc. was determined to have the most user-friendly website and was capable of handling the complicated four-payment cycle of the City and County (for City residents) tax bills.

On December 19, 2005, the Common Council approved two ordinances that authorized the electronic payment option. The first ordinance, #601-2005, authorized the Commissioner of Finance to accept payment of property tax bills, including all applicable fees, interest and penalties by Credit Card or e-Check via the internet in accordance with General Municipal Law (GML) Section 5(b). The proposed payment option was seen as a convenient method of payment should taxpayers chose to use the internet and as an enhancement that could reduce the administrative time for processing the over-the-counter and mail-in payments.

The second ordinance, #602-2005, provided for the waiving of the competitive bidding process for the selection of vendor to be contracted with to be the internet site for the acceptance of real property tax payments by credit card or e-Check for the City of Syracuse. A waiver of the competitive process was requested due to the fact that this undertaking was a collaborative project with Onondaga County and Systems East, Inc. had been able to meet the requirements of the joint property tax collection system.

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The term of the agreement was established to be for one year, with two one year renewal options exercisable by the City. Ordinance #602 further specifies that any charges associated with the individual transaction are to be paid by the internet user, not the City.

On May 8, 2006, the Common Council took action to extend internet payment capability to include payments for billing originating with the City of Syracuse Water Fund. Ordinances #195 and #196 of 2006 amended the two ordinances previously approved in 2005 to authorize internet payments specifically for water billing with incidental fees being charged back to the water fund.

Finally, on October 9, 2007, the Common Council took further action to expand the utilization of internet payment options to cover parking tickets and related charges. Ordinance #561 and Ordinance #562 of 2007 opened up the possibility for individuals wishing to use credit cards or e-Check payment options for parking ticket charges and the City is in the process of instituting this new level of service as this audit is being issued. Future extensions of the internet payment option are possible as the City continues to examine the benefits of making such payment options available.

The addition of internet receipts accounts meant that new reconciliations, with the same requirements as all other bank accounts, would need to become part of the monthly bank reconciliation process. Anticipating that the new payment options would create the need for additional levels of coordination, the City's Finance Department put together for internal use a preliminary document that was intended to outline the differences in the operation of these accounts, in contrast to other accounts, and initial solutions to problems that might be, in the early stages of the implementation of electronic payment processes, potential problems that could arise with the expansion of electronic transmissions as a desirable payment option.

Detailed in the preliminary "Internet Account Reconciliation" outline is the following information:

The structure of the 412 account was set up so that it would collect data on taxpayer-initiated payments made through the Municipal-Payments.com website. This website is operated by the firm awarded the City contract and allows each department that is folded into the internet payment option (Treasury, Water, Parking Tickets, etc.) to run a daily report from the website, prepare a cash report and apply payments to taxpayer accounts. Each department may prepare two separate cash reports: one for credit card and another for e-Check payments. Deposits made to the bank will start at two per day-one for all credit card payments and another for all e-Checks. Note that Systems East does not receive or disburse cash; it only provides the interface through its Municipal-Payments.com website. This website collects payment data and passes the information to the City and to the companies processing credit card and e-Check transactions.

Based upon the selection of payment method, the transactions are relayed to the bank by Global Payments (for credit cards) or ACH Direct (for e-Check). Each of these entities makes available an audit trail report which ties to the deposit into the 412 account. The websites are Authorize.net for credit cards and PaymentsGateway.net for e-Checks. Generally, the four cash reports will tie into the two deposits in the bank. The reconciliation should assure that all deposits reported by Systems East/Municipal-Payments.com have indeed been credited to the City's bank account.

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The Office of the City Auditor's initial review of bank reconciliations in the April-June, 2006 quarter, which was the first audited period where internet activity appeared, indicated some discrepancies existed between bank statements and what was appearing in the General Ledger for the 412 account. Subsequent interviews with Finance Department staff suggested some timing issues had been associated with the implementation of the new payment options. It was anticipated by Finance Department staff that later bank reconciliations would become smoother and easier to complete with further attention having been devoted to reconciliation development for internet activity.

Discussions have occurred between the Office of the City Auditor and the Finance Department and Finance's position confirm that the 412 account is being adequately reconciled. Based on multiple conversations with Finance Department staff about the particulars of the account, we concur that this is the case; however, the complicated nature of the account has made a third party reconciliation difficult and time consuming. While the review of the information received by the Office of the City Auditor made it possible to determine that the cash and cash equivalent balances were in fact free from "material misstatements", an exact reconciliation remains problematic.

The Office of the City Auditor is continuing to communicate with the Finance Department in attempting to develop a process for a third party review/audit focusing exclusively on the 412 account activity.

Findings:

During the "Cash & Investments" audit for the period of July, 2015 through June, 2016, the office of the City Auditor expresses that the City's cash management records appear correct and safeguards are adequate. The bulk of the City's "cash inflow" is from three sources:

<u>2015-16</u>	<u>2016-17</u>
City State Aid - \$76,563,000.00*	City State Aid - \$71,758,584.00*
Sales Tax - \$81,969,000.00*	Sales Tax - \$81,329,539.00*
Real-Estate Taxes - \$41,329,000.00*	Real-Estate Taxes - \$39,599,225.00*

* (these figures reflect the liquid cash-revenue between fiscal year 2015-2017, these are not account balances)

- There has been a decline in City State Aid, Sales Tax and Real-Estate Tax collections. All other revenue activities include: Departmental Revenues, Grants, and Gross Receipts Taxes, are all sources deemed immaterial. All monetary items have been accounted for, tracked and recorded on PeopleSoft software systems. In previous audits there were still issues concerning the amount of information available during reconciliation, if was found to be caused by DIT (Deposits in Transit). These issues are unavoidable even with the new system in place.
- The implementation of PeopleSoft went into effective July 1, 2015. Currently accounting information is still being transferred into the PeopleSoft software. Finally, PeopleSoft controls have been reported to be working and flowing smoothly; training is still available and has been regulated.

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- The City of Syracuse does business with these six banks:

(Specific dollar figures and accounts are available upon request from the Auditor's Office)

J.P. Morgan Chase – Money Market
Citizens Bank – Commercial Checking
First Niagara – Money Market
Key Bank – Public Checking
M&T – Money Market
Bank of America – Regular Checking

These financial institutions maintain custody of the City's cash assets where the City of Syracuse's available cash-on-hand is located.

- In 2016, the City of Syracuse's highest yield on interest bearing accounts was .15%, in the J.P. Morgan Chase Money Market. This hasn't changed since 2014; interest revenue does not seem to be a viable source of income for the city.
- Syracuse also has issued debt through bonds and Revenue Anticipation Notes that will be used for City Capital Projects. The City of Syracuse borrows money based on its cash flow; this allows money to be readily available when needed.
- This total is a reflection of money going to JSCB purposes.
- When the City of Syracuse borrows money it is subject to a constitutional limit, with the exception of projects concerned with "Sewers" and "Water" infrastructure.
- All information and documents were provided by the Bureau of Accounts "Systems Accounting Manager" and the "Accountant II" located on the first floor Syracuse City Hall.

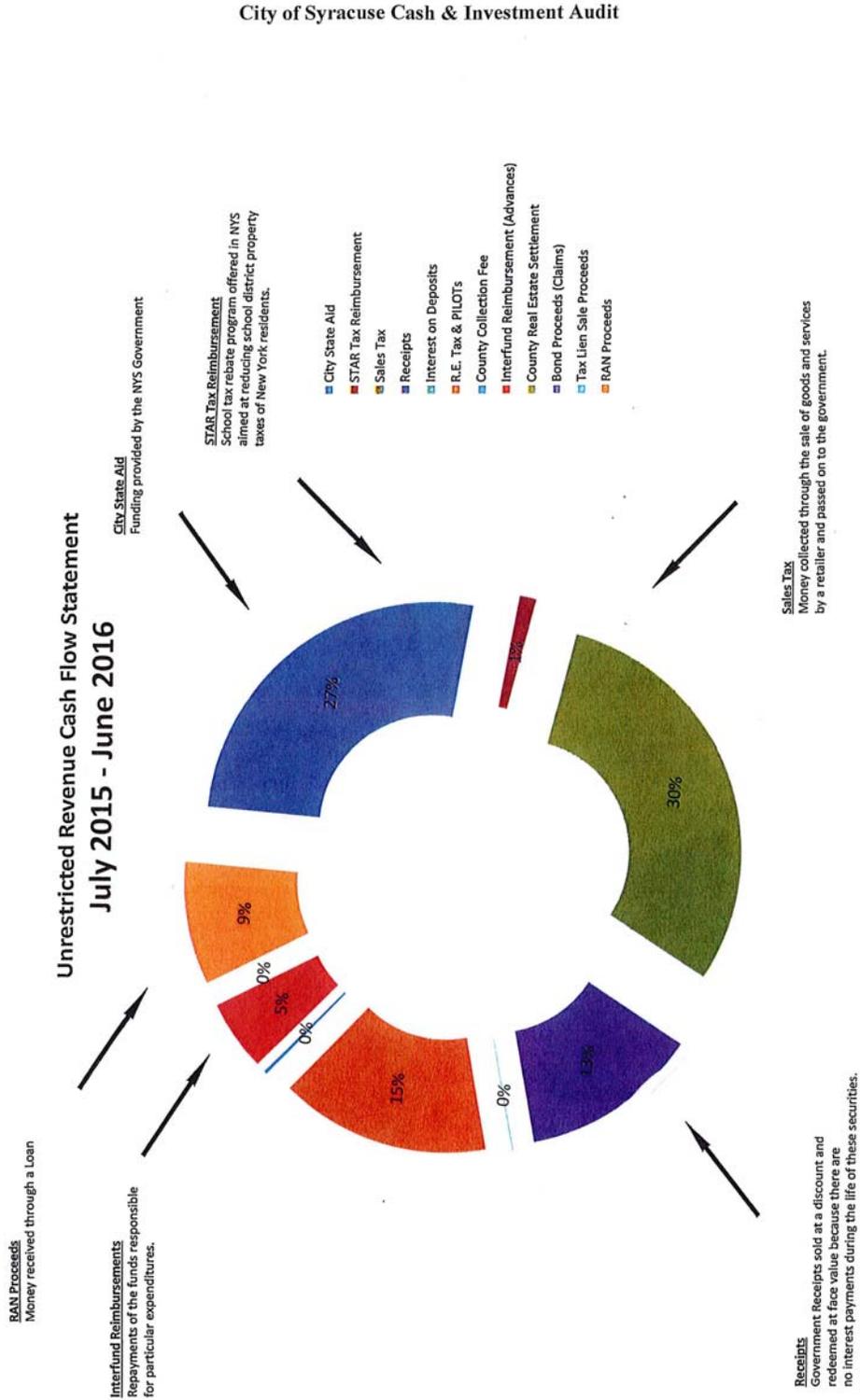
Conclusion:

The City Auditor's Office has completed an audit of the City's Accounting Bureau's "Cash and Investments." The department has fully implemented the PeopleSoft program and is actively using it. Improvements have been identified with in the PeopleSoft operating system, from the previous year's reviews. The ACS system is no longer being used, although there is still information being transferred from the Excel system into PeopleSoft software. Training is still available for the PeopleSoft system on a "as needed" basis. The introduction of the new software has had no negative impact on Tax revenues and department revenue records; everything is still collected regularly and is deposited promptly.

All accounts and balances are represented and cash is accounted for accurately on a daily basis. Finally the City last year fiscally spent "-.8%" over available revenues. The evaluation is not material, although this type of behavioral spending unanalyzed will capitalize over time. Before it becomes a material issue, the City auditor advises the Accounting Bureau manager to recognize this negative cash flow, track its fluctuation with intentions to create a "Compensation Plan" (if one is not in place) with alternative sources of revenue for the future.

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These percentages represent "Revenue Cash Flow": \$276,758,000.00



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These percentages represent “Disbursement Cash Flow”: **\$279,012,000.00**

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