

**CITY OF BUFFALO
DEPARTMENT OF AUDIT AND CONTROL**

**AUDIT REPORT ON THE INTERNAL
CONTROLS OVER REVENUE AT THE
DIVISION OF LICENSES**

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Preface

In accordance with the goals set forth in the Annual Audit Plan, we conducted an audit of the internal controls over revenue at the Division of Licenses (“Licensing”). The audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

Background

Licensing revenue consists of fees related to licensure required to conduct certain businesses within the City of Buffalo (“the City”). Licenses are required for certain businesses in order to protect the health, safety and general welfare of the citizens of the City. Fees are charged in accordance with chapters 175 and 263 of the City Charter. Revenue recorded for Fiscal Year (FY) 2017 from July 1, 2016 to June 30, 2017 was approximately \$1,300,000.

In Licensing there are 4 employees who assist customers, receive payments and process transactions. With the amount of revenue handled, it is imperative to have an effective system of internal controls.

The following terms will be used throughout the report:

MUNIS – City of Buffalo’s financial accounting software.

Hansen – Financial and record management software used by Licensing to record and issue various types of licenses.

Crywolf – Software program used by Licensing to maintain a database of registered alarm owners, alarm monitoring companies and addresses.

Audit Summary

An audit was last conducted on the internal controls over revenue at Licensing in 2014. As a result, effective September 1, 2016, cash was no longer accepted as a form of payment. This change in policy mitigated the most significant risk to misappropriation of assets. However, additional steps should be implemented to further improve internal controls over revenue.

The main internal control deficiencies relate to the lack of reconciliation between the computer software systems and the absence of monitoring activities.

Key Findings

1. Multiple computer systems are used to record, process and print license fee transactions. The computers systems do not directly communicate with each other.
2. Licenses are not printed on pre-numbered documents. This could allow licenses to be issued without payment being received or recorded.
3. There is no common field, such as the license number, recorded in each of the computer systems. It is not possible for an individual transaction to be tracked between computer systems or back to the supporting documentation. This makes it impossible to reconcile individual transactions between computer systems.
4. There is no documentation of supervisory review over the revenue process. There is no reconciliation of transactions recorded in the various systems to verify completeness and accuracy of Licensing revenue.

The lack of a regular reconciliation of the systems, combined with the lack of monitoring, creates an environment where the completeness and accuracy of the City's financial records cannot be determined. This makes it possible for fraudulent transactions and errors to occur and go undetected.

Key Recommendations

1. Determine if the processing of licenses can be centralized into one computer system, or if the different systems can communicate directly with each other. This would reduce the likelihood of transactions occurring without being recorded in all systems.
2. Paper with sequential security numbers should be used for printing licenses. A record of sequential security numbers, licenses issued and revenue recorded should be maintained and reconciled regularly.
3. The license number should be recorded in all computer systems to enable transactions to be vouched back to the license number and supporting documentation.
4. A regular reconciliation of transactions recorded in each system should be performed to determine the accuracy and completeness of revenue. This reconciliation should be prepared by someone who is not involved in the revenue process and should be reviewed by management.

Audit Objectives

The objectives of the audit are to document and evaluate the internal controls over revenue at Licensing.

To achieve the objectives, the following procedures were performed:

- Interviewing of staff regarding the revenue process. Documentation of the revenue cycle. The detailed documentation of the cycle is listed in Exhibit A.
- Testing of transactions to determine if the revenue process performs as documented.
- Evaluation of the process to determine the strengths and weaknesses of the internal controls of the revenue cycle.
- Reconciliation of transactions for FY 2017 by clerk ID between Hansen, Crywolf and MUNIS to determine if all transactions entered into Hansen and Crywolf have been recorded in MUNIS and deposited with Treasury into a City bank account.
- Testing of controls over the license fee refund process and waiving of fees.

Audit Findings - Reconciliation

- 1. Licenses are Not Issued on Pre-Numbered Documents** – The paper used to print licenses is not pre-numbered. This could allow for licenses to be issued without the City receiving or recording a payment.
- 2. No Common Fields between Computer Systems to Reconcile Revenue** – All transactions entered into Hansen and Crywolf must be imported into MUNIS. There is no common field in MUNIS, Hansen or Crywolf that allows for a transaction to be identified between computer systems. There is a lack of identifying characteristics entered into MUNIS that allows for a license to be vouched back to the supporting documentation. The license number from Hansen is not recorded in MUNIS.

Hansen and MUNIS cannot be reconciled by date. Hansen transactions entered after 2pm are recorded on the next business day by the software. MUNIS transactions are recorded as of date of import.

Despite the inability to trace individual transactions from start to finish, in total it appears that the number of, and dollar value of, transactions is consistent between systems. For FY 2017 total dollars and total transactions recorded in Hansen and Crywolf was within 1% (\$8,100 variance on \$1.3 million in revenue, and a variance of 122 out of 10,500 transactions) of transactions imported into MUNIS.

3. **Crywolf Revenue not Reconciled** – A total of \$195,610 was billed in the Crywolf software, while \$20,300 shows as outstanding for FY 2017. The outstanding balance at the end of FY 2016 was \$6,150. This should equate to \$181,460 collected during FY 2017. However, Crywolf revenue imported into MUNIS for FY 2017 was \$171,980, a difference of \$9,480.
4. **Crywolf Accounts Receivable not Reconciled** – A total of \$195,610 was billed in the Crywolf software for FY 2017. \$20,300 shows as outstanding in Crywolf for FY 2017. This is not an accurate amount of uncollected invoices. The total amount billed to monitoring companies is overstated as it includes locations that no longer have alarm monitoring services. The alarm companies reduce payment for locations that are no longer monitored and remit payments net of inactive locations. The billed amount is not adjusted to remove the inactive locations in Crywolf. Therefore, the uncollected amount of \$20,300 for FY2017 represents a combination of billings for inactive locations as well as unpaid invoices. The actual uncollected amount is unknown.

Audit Findings - Control Environment and Monitoring

5. **Multiple Computers Systems are used that are not Directly Linked** – In order to process a license and record the payment of the fee, multiple computer systems are used. None of the systems directly interface with each other, and no system controls are in place to prevent employees from omitting transactions imported to MUNIS. No management level control is in place to mitigate this risk.
6. **Lack of Reconciliation and Oversight** – 4 employees operate independently recording transactions under their individual user identification and preparing their own deposits. There is no supervisory review or reconciliation of each employee's Hansen and Crywolf transactions imported into MUNIS. The Hansen and Crywolf systems are not reconciled with MUNIS. Therefore, it cannot be determined if all revenue received is recorded in MUNIS.
7. **License Not Issued After Receiving Payment and Proper Documentation** – During audit testing, one of four transactions selected for testing was not accurately recorded. Payment for the license was received and deposited on 6/29/17, but the license was never issued. Once this error was discovered the license was issued and mailed to the customer.
8. **No Standard Time Frequency for Deposits** – Deposits were made approximately once per week by each employee within Licensing during FY 2017. Infrequent deposits make the reconciliation process difficult.

- 9. Lack of Segregation of Duties** – One employee has the ability to print licenses and waive fees in Hansen. This could allow for transactions to be processed with no evidence of occurrence, no receipt of payment and without any other employee’s knowledge.
- 10. Revenue Process is Inefficient** – Regardless if a deposit is prepared, all funds received are brought to Treasury every day. The funds are picked up from Treasury the following morning. This was a necessary internal control procedure when cash was collected, but now this procedure does not enhance internal control over revenue and decreases efficiency.
- 11. Form of Payment Misreported in MUNIS** – All transactions in FY 2017 for bingo licenses show up as cash transactions in MUNIS despite being check payments. Per Licensing personnel, cash was no longer accepted as of 9/1/16. This is a Hansen software issue.
- 12. Restricted Transaction Input** – Bingo license transactions cannot be entered into Hansen after 12pm due to a Hansen software problem. This decreases efficiency and timeliness of processing transactions.
- 13. No Standard Procedure for Waiving Fees and Recording Transactions** – Late fees are incurred when a license fee is paid 90 days past the due date. Waiving of late fees is at the discretion of Licensing personnel. Based on a review of transactions with fees waived, there is no standard procedure in place for waiving fees and recording such a transaction. Waived fees are not supported by documentation within Hansen or MUNIS. It was not evident why fees were waived and if it was properly approved.
- 14. Formal Documented Policies and Procedures for the Revenue Process Do Not Exist** – The absence of policies and procedures leads to a lack of standardization in the processing and recording of transactions.

Recommendations to Improve Internal Controls over Revenue at Licensing

The two following recommendations would increase efficiency and internal controls over the revenue process.

- 1. Move all Payment Processing to the Division of Treasury** - This has already been implemented for customers paying cash. Separating the payment processing and license issuing functions would greatly increase internal control and reduce the potential for misappropriation of assets.
- 2. Use a Single Computer Systems to Record the Entire Licensing Transaction** – If this is not possible management should determine if an interface could be developed that would automatically record transactions in all computer systems. This would increase efficiency and reduce the likelihood of a transaction going unrecorded.

Additionally, the following recommendations will further enhance the internal controls over the revenue process:

- 1. Use Pre-Numbered Documents** – Paper with sequential security numbers should be used for printing licenses. Tracking the sequential numbers would reduce the risk of transactions not being recorded. A record of sequential security numbers, licenses issued and revenue recorded should be kept and reconciled regularly to MUNIS and deposits with Treasury.
- 2. Record Common Fields in MUNIS and Hansen**– The license number from Hansen should be imported into MUNIS to enable every transaction to be vouched back to the license and supporting documentation. Entering the license number in MUNIS would allow for reconciliation of license numbers between the computer systems, which would help prevent transactions from being recorded without a license being issued, or a license being issued without a transaction being recorded.
- 3. Deposits Should be Made Daily** – All funds received should be deposited with Treasury at the end of each day. This is a common practice for other operations, such as the City Clerk. Having a deposit and reconciliation performed daily increases internal control over revenue.
- 4. Perform Reconciliation of all Computer Systems** – A reconciliation of revenue recorded in Hansen, Crywolf and MUNIS should be prepared on a regular basis. Any discrepancies between the computer systems should be investigated. This reconciliation should be prepared by someone who is not involved in the revenue receipt process and reviewed by management.

Outstanding invoices within Crywolf should be examined to determine if they are truly outstanding or if they were billings for inactive locations that were correctly omitted by the monitoring companies. The accounts receivable listing should be adjusted to show only amounts due to Licensing, in order to allow collection efforts to be performed.

Employees performing, and management reviewing, the reconciliations should sign and date their work to document completion.

- 5. Improve Segregation of Duties** – One employee should not be able to accept payment, record the transaction, print a license and make a deposit. Additionally, the individual who is performing the reconciliation should not be involved in the cash receipts process. Checks received should be restrictively endorsed and totaled by someone not involved in the cash receipts process, and then given to someone in the cash receipts process. Totals recorded in Hansen should be reconciled to the total given to cash receipts personnel. An employee who records transactions should not be able to waive fees. Permissions should be adjusted so that only management, or a supervisory employee who does not input transactions, has the ability to waive fees.
- 6. Correct Check Payments Being Recorded as Cash in MUNIS** – The Hansen and MUNIS systems should be fixed to correct the issue with the bingo licenses showing up as cash payments in MUNIS.
- 7. Remove Cash as Payment Option within Hansen and MUNIS** – As Licensing no longer accepts cash as a form of payment on the third floor, the Hansen and MUNIS software should have the cash payment category eliminated for employees in that location.
- 8. Establish Written Policies and Procedures** – Establish and document policies and procedures that improve internal controls, increase efficiency and standardize processing.
- 9. Install Security Cameras** – Due to the approximately \$1,300,000 of receipts processed annually at Licensing, a camera should record activity at the front desk where payment is received. This should act as a fraud deterrent and should assist management to identify any fraudulent transactions or errors that occur.

EXHIBIT A

Description of the Division of Licenses Revenue Process

General

Licensing revenue consists of fees related to licensure required to conduct certain businesses within the City of Buffalo (“the City”). Licenses are required for certain businesses in order to protect the health, safety and general welfare of the citizens of the City. Fees are charged in accordance with chapters 175 and 263 of the City Charter. Revenue recorded for Fiscal Year (FY) 2017 from July 1, 2016 to June 30, 2017 was approximately \$1,300,000.

Receipt Process

The revenue process begins in one of two ways. Individuals can walk in to Licensing or submit a request with payment (check or money order) by mail (forms available on [City Website](#)). The process for a walk-in or mail-in payment is identical after it is received.

Walk-Ins

An individual enters Licensing and is assisted at the counter by one of four employees who handle transactions. Each of the four employees have their own user identification in Hansen. Hansen is the asset management software used to enter license information, record transactions and print licenses. Each employee is responsible for only the transactions entered under their user identification.

Customers can bring in completed applications that are available on the City website or obtain and complete the applications at Licensing. The applications vary depending on the type of business license being obtained. Customers must provide required documentation with a completed business license application including copy of photo identification, current utility bill listing applicant’s home address, SSN or NYS Tax ID, copy of DBA, proof of ownership of property (deed) or a commercial lease agreement and police record check for certain business types. If the customer does not have the invoice for a recurring license renewal, it can be printed by the Licensing employee.

Once all completed forms and required documentation are compiled and reviewed by Licensing, the payment is due. Accepted forms of payment include check or money order. Licensing stopped accepting cash in September 2016. Checks are restrictively endorsed with a stamp “for deposit only” and the license number is written on it as well. The employee selects the license type within Hansen and enters the payment into Hansen including the check number or money order number. Based on the license type selected, Hansen automatically fills in the Hansen charge code and dollar amount. License numbers for new licenses are generated by Hansen sequentially, regardless of license type. If the transaction is a license renewal, the license number remains the same as previously recorded in the system. The license is printed and provided to the customer. A receipt is only provided upon request from a customer. A copy of the license is not retained by Licensing as the current year license can be printed out of Hansen if needed. Supporting documentation provided by the customer is scanned into Hansen and is associated with the license within the program. The paper documentation is retained for approximately one year and then sent to records storage which is offsite. All checks and money orders are stored at the respective employee’s desk until the end of day process. The employee can lock their desk if they leave the office during the day.

Licenses are printed on a blue color paper containing a water mark stating void if copied. If the paper is copied it would be marked with the word void all over. The license paper is not pre-numbered. Paper is placed in the printer with additional stock stored in the Assistant Director of House Property Inspections

office. A license cannot be printed until all steps are entered in Hansen. However, one Senior Account Clerk Typist and the Assistant Director of House Property Inspections have the ability to print a license without completing the steps within Hansen.

Mail-In Requests

Customers can obtain applications from the Licensing website and mail in their request. The request is then fulfilled using the same process as a walk-in transaction. All mail is opened by Licensing employees. The business license applications, checks and money orders are then given to one of the four employees that enter transactions.

Cash Payment at Treasury

If a customer has cash, they are provided with a remittance and directed to Treasury to complete their transaction. Treasury does not have the ability to print a license. Customers must return to Licensing if they need a copy of the license.

Reconciliation/Day End/Deposit Process

All transactions entered into the Hansen system must be imported into MUNIS. The import process is done through a program called MUNIS Import. Once in the program, the clerk will enter the starting date and the ending date of the transactions to be captured. The starting date will include any transactions made from 2:00 PM going forward on that date, and the ending date will include any transactions made up to 2:00 PM on that date. Once this report is created it is then printed. The clerk can now open MUNIS Live to create a batch. The clerk will pull the payments that were created in the MUNIS Import report, and import them to MUNIS. Once the batch is created, the clerk will print two copies of the MUNIS batch.

To make a deposit with Treasury, each employee must perform the day end process which includes running a MUNIS import which is a Hansen detailed transaction listing. Transactions in Hansen are sorted by date and by charge code. Each employee reconciles the physical checks and money orders to the Hansen transaction listing. Once reconciled, a calculator tape tallying the checks and money orders is attached to the Hansen transaction listing. A MUNIS batch deposit is printed and signed by the employee. The MUNIS batch is attached to the Hansen transaction listing, calculator tape and the money bag containing the checks and money orders. All paperwork, checks and money orders are then brought down to Treasury by the employee that prepared the reconciliation and deposit. A duplicate paper copy of everything is retained at Licensing. All deposits are filed by day the batch deposit report is run. Each day will have a variable number of deposits as the four employees perform the close out and reconciliation process independently and at their own discretion.

There is no standard time for each employee to perform their MUNIS import and deposit with Treasury. The import and deposit can be done daily, or for multiple days. The employee enters the date range for which they are performing the reconciliation and deposit process. There is no control in the Hansen system that prevents an employee from skipping a day or multiple days from the import process. There is no supervisory review of the import and deposit process. There is no supervisory reconciliation between Hansen and MUNIS performed for each employee's recorded transactions.

No Deposit at End of Day

All checks and money orders are brought to Treasury every day, regardless if a deposit is made. Checks and money orders are placed in a locked money bag and brought to Treasury at the end of the day usually around 4pm. Treasury does not have a key to the money bag. There is no record of the total checks and money orders in the money bag. Each employee's checks and money orders are bundled together to keep them separate from other employee's checks and money orders. The individual employee bundles of

checks and money orders are not totaled. A Licensing employee will obtain the money bag from Treasury the following morning and bring it back to Licensing.

Late Fees

In the event a license is paid 90 days past due, a late fee is incurred and charged to the customer. The payment is sent back to the customer with a notice of the penalty. Payments remitted less than 90 days late have no penalty charged.

Waiving of Fees

When processing license renewals, if a fee/penalty has been added to a license and the customer or clerk feels there is a reason to have it removed, they must inform the Assistant Director of House Property Inspections or the Senior Account Clerk Typist. It is at their discretion to remove such fee. If a receipt is printed, only the amount paid will be displayed. The removal of the fee does not appear on the receipt.

Three individuals have the ability to waive fees. A Senior Account Clerk Typist has the permissions to waive fees. This employee also performs input of transactions. Additionally, the Commissioner of Permits and Inspections and the Assistant Director of House Property Inspections who is acting as the Director of Housing & Inspections have the ability to waive fees. Waived fees are documented in Hansen with a note in the system. Notation in Hansen would include if a license is associated with a business that is no longer in business or if the Commissioner has approved a fee waiver. If the employee with permissions to waive fees is absent, temporary permissions are given to another employee to carry out such transactions. Management Information Systems (MIS) can also waive fees if needed.

Crywolf

Crywolf is a software program that maintains a database of alarm owners addresses and alarm monitoring companies. It tracks false alarms, processes invoices, payments and simplifies false alarm management for jurisdictions. The software automatically generates notices, invoices and calculates fees in accordance with the City of Buffalo's alarm ordinances. Licensing pays an annual fee to the vendor for use of the Crywolf software. The fee for 2017 was approximately \$18,000. Two employees have this program installed on their computer.

Registration Fee

The City of Buffalo charges a \$20 fee for two years of having an alarm in your home or business. This is not refundable if alarm services are stopped before the two years are complete. Crywolf automatically generates invoices for locations every two years prior to the term expiring. The bill is sent to the alarm monitoring companies. It is up to the alarm monitoring companies to register their customer addresses with Licensing.

False Alarm Fee

After three false alarms within a one year period, a charge of \$50 per occurrence is charged and increases to \$100 at the 8th false alarm. Licensing is responsible for billing these fees. Individuals are billed directly for false alarms. Licensing downloads the false alarms from the 911 system on a weekly basis. Licensing is emailed a link to the excel file from the Police Department. The excel file is downloaded and imported to Crywolf. If there is a false alarm at an unregistered location, the alarm company is charged \$200.

Crywolf import to MUNIS

Payments entered directly into the Crywolf software are imported into MUNIS the same way as Hansen transactions. When the two employees who use Crywolf run their MUNIS import it imports their Crywolf system and Hansen system transactions into MUNIS. There is no standard time frame but a deposit appears to be recorded approximately once per week.



BYRON W. BROWN
Mayor

CITY OF BUFFALO
PERMIT & INSPECTION SERVICES



JAMES COMERFORD, JR.
Commissioner

May 15, 2018

Kevin J. Kaufman, CPA
Department of Audit and Control
1225 City Hall
Buffalo, NY 14202

RE: Audit Response License Department

1. **Use Pre-Numbered Documents-** There is six (6) staff members who can issue licenses. Numbered paper would be difficult to use as the department uses network printers which cannot be dedicated to one purpose. Additionally if we were to dedicate a particular tray to licenses, the copy machines are programmed to cycle through the trays until they find one that contains paper. There is a very real possibility that the printer will complete a job using the security paper dedicated for licenses. License can't be issued without payment and each license has to be in license issuing milestone in Hansen. No one would be able to issue another copy of the license accept a supervisor. This prevents any transaction from not being recorded. We have very rarely had any problems with the issuance of false licenses. The benefit of added security and easier auditing would be negated by the disruption to the present work flow, the complication of an existing system which leads to errors, and the additional time associated with correcting any errors.
2. **Record Common Fields in MUNIS and Hansen-** Working on getting the license numbers to be imported into MUIS for every transaction
3. **Deposits should be Made Daily-** This is a practice that we do. Only time that it will go passed a day is when our office is super busy and each person can't take the time to run their reports.
4. **Perform Reconciliation of all Computer Systems-** A reconciliation is done by each individual and then match with their checks/money orders and then imported to MUNIS and brought down to treasury for review. If they have a discrepancy it is brought to the supervisor to help correct it. Outstanding invoices for CryWolf are looked at when each company sends in payments, or corrections stating that location is no longer theirs.
5. **Improve Segregation of Duties-** We have four staff members that take checks/money orders and they make the payments, and issue the license. At the end of the day they reconcile their transactions and if there is a descrpincie it is brought to the supervisor for review. The supervisor then reviews all payments and issuance of license. All permissions have been adjusted and only supervisory employee can waive fees.

Office of License
65 NIAGARA SQUARE / 301 CITY HALL
BUFFALO, NY 14202-3303

6. **Correct Check Payments Being Recorded as Cash in MUNIS-** This has already been corrected
7. **Remove Cash as Payment Option within Hansen and MUNIS –** The cash button for our department has been in-active but needs to stay on because treasury accepts cash.
8. **Establish Written Policies and Procedures-** Our department is working on Procedures/Duties Manual
9. **Install Security Cameras-** We will be looking to see if we can implement putting camera at front desk.