

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

**REPORT ON THE INTERNAL
CONTROLS OVER THE OFFICE OF
LICENSES REVENUES**

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Preface

The Office of Licenses performs the duties outlined below. In the process of performing these duties, revenues are collected. This report will assess the internal controls over the revenues collected by the Office of Licenses.

A valid license is 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. The Office of Licenses coordinates various reviews and inspections by agencies such as the Building Inspection Office, Fire Prevention Bureau, Health Department, Police Department and the Zoning Office in order to issue a license.

The Office of Licenses also receives complaints and coordinates investigations with regards to businesses operating in the City of Buffalo. The Office of Licenses by city charter is authorized to hold administrative hearings, issue summonses, initiate court action and close down businesses found to be operating in violation of city, state or federal rules, regulations and laws.

Additionally the Office of Licenses will inform businesses as to whether or not a license is required and will assist businesses in viewing the city codes and regulations for a particular license type.

Objective

The objective of the report is to document and evaluate the internal controls of the Office of Licenses over revenues.

To achieve the objective, the following procedures were performed:

- Interviewing staff regarding the revenue process and the documentation of the revenue cycle.
- Testing of transactions to determine if the revenue process performs as documented.
- Review of the process to determine the strengths and weakness of the internal controls of the revenue cycle.

Description of the Office of Licenses Revenue Cycle

Clerks process payments of licenses. When processing license payments, the clerk will review the application along with any supporting documents required. Payment data and application

information, including the name of the business, type of business, address, and billing information, are entered and stored in the Hansen system. The Hansen system stores all the licensing data, including both licensing data and payment data. Once the payment data has been entered in Hansen, the license is printed and provided to the customer.

All financial activity recorded in Hansen must be imported to the City's financial system, MUNIS. Clerks typically import their license payment transactions from Hansen to MUNIS on a daily basis. The import process is done through an internally developed Microsoft Access program called MUNIS Import. Once in MUNIS Import, the clerk will enter the starting dates and the ending dates of the transactions to be captured. A batch is then created in MUNIS. The clerk will then gather the cash, checks, the MUNIS Import report and the MUNIS batch report and submit these items to the Division of Treasury to be deposited. The teller in Treasury verifies that the grand total on the MUNIS batch report agrees with the sum of the cash and checks being deposited. Then the deposit is accepted and the MUNIS batch sheets are stamped by Treasury.

Weaknesses of the Revenue Process – Internal Controls

Manipulation of Data – MUNIS Import

Clerks are not required to import all Hansen transaction into MUNIS, and only transactions recorded in MUNIS are deposited in Treasury. The clerk inputting transactions into Hansen selects which transactions to import to MUNIS. The import function is not required to be performed daily, nor is it reviewed by anyone other than the clerk responsible for the entry. Therefore, there is no verification if all of the clerk's activity has been imported into MUNIS and all receipts were deposited with Treasury.

Cash Receipts

Receipts for transactions are not normally given to customers, therefore it is possible for a fee or penalty to be waived, and the customer would not know of the waiver.

Cash received by the Clerks is not checked to determine if it is counterfeit. Counterfeit detecting pens are not available to the Clerks.

Treasury Count of Batch

The amounts recorded as cash and checks in MUNIS are not compared individually to the totals of actual cash and checks being deposited in Treasury. Only the grand total of the batch is verified. Therefore, the amount of cash deposited may not match the amount of cash payments recorded in MUNIS. This creates a situation where the Clerk could keep cash payments and substitute checks for the same amount and it would go undiscovered.

Weaknesses of the Revenue Process – Efficiency

Timeliness of Recording Transactions

Some checks received by mail are not processed in a timely fashion. Clerks have the ability to hold checks indefinitely, as there is no supervisory review of unprocessed checks. Processing check payments late causes Hansen to add penalties when fees are not paid by the renewal date. These penalties need to be waived if payment was received timely, but not processed timely. This reduces efficiency, as it requires additional effort to process transactions in which penalties need to be waived.

Walk-in Transactions

Several clerks are stationed close to the reception desk where walk-in customer transactions are processed. Having the clerks near the reception desk appears to cause customer confusion and the customers assume that they should be helped by an individual who is next to the reception desk. This also distracts the clerks who are processing other transactions and not helping walk-in customers.

Recommendations to Improve Internal Controls of the Office of Licenses

The most effective internal control for the Office of Licenses would be to move all payment processing to the Division of Treasury. We suggest this be implemented immediately.

If this is not possible the following recommendations will enhance the internal controls of the Office of Licenses revenue processing:

Manipulation of Data – MUNIS Import

A person not responsible for inputting transactions should perform the MUNIS import function. This person should also be responsible for verifying that the amount of the import agrees to the actual collections from the clerks. Additionally the timing of the MUNIS Import should be adjusted. It should be done at the end of each business each day, or prior to opening for business the following day. These changes would increase the likelihood that all transactions are captured on the MUNIS Import, recorded in MUNIS and funds deposited in Treasury.

Cash Receipts

For all cash transactions, two copies of the Payment Transaction Receipt should be printed. One copy should be given to the customer. The second copy should be signed by the customer, verifying that the payment on the receipt is the amount paid by the customer. The signed copy

should be scanned and saved with other documentation provided by customer. This would decrease the ability to have unrecorded cash transactions.

Counterfeit detecting pens should be used by all clerks to verify that cash received is genuine.

Treasury Count of Batch

The Treasury should verify that the amounts of cash and checks delivered match to the cash and check totals on the MUNIS Batch report.

Recommendations to Improve Efficiency within Licensing Department

Timeliness of Recording Transactions

There should be a supervisory review of unprocessed checks. The supervisor should verify that checks are being processed timely, and prioritize checks to be processed to reduce improper late fees from being charged.

Walk-in Transactions

Consider assigning one person to handle walk-in customers. This person would process walk-in transactions only, leaving the remainder of the staff to process mail-in transactions. The office should be arranged so the walk-in customers do not expect other clerks to process their transactions. This would create less confusion from customers walking into the office and reduce distractions for the other clerks so that mail-in transactions could be processed quicker.



CITY OF BUFFALO
DEPARTMENT OF
PERMIT & INSPECTION SERVICES
OFFICE OF THE COMMISSIONER



BYRON W. BROWN
Mayor

JAMES COMERFORD, Jr.
Commissioner

November 17, 2014

Mark J. Schroeder
Comptroller
Department of Audit and Control
1225 City Hall
Buffalo, New York 14202

Dear Comptroller Schroeder:

In response to your Departments Audit that was requested by the Department of Permit & Inspection Services regarding "Internal Controls" with this Department's Office of Licenses; please be advised of the following:

- "Manipulation of Data" - The Department of Permit & Inspection Services will work with the City's MIS Department in order to try and establish more restrictive daily import guidelines for the City's financial software "Munis" and this Departments "Hansen" software. In the interim the Department has Supervisory personnel verifying daily import reports.
- "Cash Receipts" - "Hansen" software permissions have been altered so that only Supervisory personnel can waive any fees. Additionally, receipts are given to all customers completing cash transactions. Finally, this Department is working to have all cash transactions performed through the Division of treasury.
- "Treasury Count of Batch" - This Department is requesting that the Department of Audit and Control contact the Division of Treasury with regards to their employees reviewing and verifying Office of Licenses daily check and cash deposit reports. Also, this Departmental has policy and procedure guidelines for the timely processing of checks and any employee found in violation of said policy will be formally charged with nonperformance of duties. Office of License Supervisory personnel review checks to determine timely processing.

The Department of Permit & Inspection Service would like to thank your Department for the timely response to our departments request for an audit and for its recommendation for better Internal Financial controls.

Respectfully,

James Comerford, Commissioner
Permits & Inspection Services