

City of Detroit

OFFICE OF THE AUDITOR GENERAL



Audit of the General Services Department

June 2017



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Mark W. Lockridge
AUDITOR GENERAL

MEMORANDUM

DATE: July 5, 2017

TO: Honorable City Council
Honorable Mayor Mike Duggan

FROM: Mark W. Lockridge, CPA *MWLR*
Auditor General

RE: Audit of the General Services Department

CC: Brad Dick, Director
Angela Taylor, Agency CFO
Stephanie Washington, Esq., City Council Liaison

Attached for your review is our report on the Audit of the General Services Department. This report contains our audit purpose, scope, objectives, methodology and conclusions; background; our audit findings and recommendations; and the responses from the General Services Department.

Responsibility for the installation and maintenance of a system of internal control that minimizes errors and provides reasonable safeguards rests entirely with the General Services Department. Responsibility for monitoring the implementation of recommendations is set forth in Section 7.5-105(4) of the City Charter which states in part:

Recommendations that are not put into effect by the department shall be reviewed by the Finance Director who shall advise the Auditor General and the City Council of the action being taken with respect to the recommendations.

Copies of all of the Office of the Auditor General reports can be found on our website at [www.detroitmi.gov/How-Do-I/View City of Detroit Reports/Auditors General-Audits](http://www.detroitmi.gov/How-Do-I/View%20City%20of%20Detroit%20Reports/Auditors%20General-Audits).

Audit of the General Services Department

January 2014 – December 2016

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General Services Department

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AUDIT PURPOSE, SCOPE, OBJECTIVES, METHODOLOGY AND CONCLUSIONS

AUDIT PURPOSE

The audit of the General Services Department (GSD) was performed in accordance with the Office of the Auditor General's (OAG) charter mandate to conduct audits of the financial transactions, performance and operations of City agencies based on an annual risk-based audit plan prepared by the Auditor General, or as otherwise directed by the City Council, and report findings and recommendations to the City Council and the Mayor.

AUDIT SCOPE

The scope of this audit included an independent review and assessment of the effectiveness and efficiency of GSD's operations, its internal controls and its compliance with applicable Finance Directives, policies, plans, procedures, laws and regulations regarding financial transactions for the period January 1, 2014 through December 31, 2016.

Our audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States, except for the completion of an external peer review of the Office of the Auditor General within the last three years.

AUDIT OBJECTIVES

The objectives of the audit were:

- To review the effectiveness and efficiency of the Department's operations and their compliance with Finance Directives, policies, plans, procedures, laws and regulations.
- To evaluate GSD's internal controls over financial transactions.
- To review and determine the status any prior audit findings.

AUDIT METHODOLOGY

To accomplish the audit objectives, our audit work included:

- Reviewing the prior audit report and working papers, City Charter, Municipal Manual, DRMS reports, the department's budget reports, the CAFR, and organization charts.
- Gathering policies and procedures of core operations and similar data.
- Conducting an audit-planning meeting to determine the scope and audit objectives, and to determine the financial transactions and/or areas to audit.
- Developing critical questions regarding the department's transactions, controls, functions, records, and personnel.
- Identifying specific risks relative to financial transactions and mitigating controls with department personnel.

- Interviewing department personnel, reviewing documentation, and making observations to aid in developing audit programs.

CONCLUSIONS

The auditors' determined that GSD did not in some instances:

- Comply with City Finance Directives, policies and procedures;
- Have adequate internal controls over financial transactions; and
- Resolve one prior audit finding concerning Capital Assets.

BACKGROUND

The General Services Department was created July 1, 2006. The overall mission of GSD is to improve City services and achieve operational efficiencies by consolidating core and non-core processes occurring throughout City government and deliver them through a common service provider, thus promoting cost efficiencies in line with best practices in other U.S. cities.

GSD has four divisions focused on the shared services of city government:

1. The Grounds Maintenance Division
2. The Fleet Management Division
3. The Facilities Management Division
4. The Administration Division

Responsibilities of the General Services Department include:

- The Grounds Maintenance Division cuts grass and removes litter at major City parks and in City-owned vacant lots, manages snow and ice removal at municipal facilities, cleans 220 bus shelters, and maintains flower beds.
- The Fleet Management Division responsibilities include: chairing the City's Vehicle Steering Committee, approving vehicle specifications, receiving and disposal of vehicles, repairing and maintaining 2400 municipal vehicles, supporting the City's employee local driving policies, and administering the vehicle loaner pool.
- The Facilities Management Division provides professional and technical services which include: Architectural, Engineering, Planning and Project Management services. The division also provides Building Maintenance, Technical (HVAC, Plumbing, Electrical, and Structural Systems) and Custodial services to City owned facilities, and graffiti removal throughout the City. The Security Services Unit manages human and technological resources associated with security and monitoring of City operations and facilities, including armed, bonded and unarmed manpower and remote monitoring equipment.
- The Administration Division analyzes the service requirements of General Fund agencies, executes Service Agreements with customer departments, develops and oversees standard operating procedures, develops department budget and contract requirements.

Mr. Brad Dick was appointed Executive Director of the General Services Department in September 2011. The following table shows the budgeted appropriations, revenues and number of staff for GSD for fiscal years 2014-2015 and 2015-2016.

	<u>Fiscal Year 2015</u>	<u>Fiscal Year 2016</u>
Budgeted Appropriations		
General Fund	\$ 41,253,137	\$ 66,541,148
Capital Projects	<u>1,000,000</u>	<u>0</u>
Appropriation Total	\$ 42,253,137	\$ 66,541,148
Budgeted Revenues		
General Fund	\$ 13,418,386	\$ 13,124,164
Capital Projects	<u>1,000,000</u>	<u>0</u>
Revenue Total	\$ 14,418,386	\$ 13,124,164
Net Tax Cost	\$ <u>27,834,751</u>	\$ <u>53,416,984</u>
Number of Staff	492	345

STATUS OF PRIOR AUDIT FINDINGS

The prior audit of the General Services Department issued September 2009 by the Office of the Auditor General included the following audit findings:

1. **Failure to Adequately Safeguard Fuel When in a Bypass Mode** - *This finding has been resolved.*
2. **Failure to Maintain Sufficient Physical Security Over Fuel Supply** - *This finding has been resolved.*
3. **Internal Control Deficiencies in the Inventory Process** - *This finding has been resolved.*
4. **Failure to Bill and Collect Payments for Weed and Grass Cutting Services Provided** - *This finding has been resolved.*
5. **Non-compliance with the Finance Department's Capital Assets Policies** - *This finding has not been resolved and is discussed in Finding 2 on page 8 of this report.*
6. **Internal Control Weaknesses in the Imprest Cash Process** - *This finding has been resolved.*
7. **Non-compliance With the Finance Department's Year-end Closing Procedures** - *This finding has been resolved.*

AUDIT FINDINGS AND RECOMMENDATIONS

1. The General Services Department (GSD) Did Not Establish Appropriate Internal Controls Over Revenue Contracts

GSD had four revenue contracts:

- UAW-Ford - \$650,000 annual rent payment. The City sold the building to UAW-Ford during the audit period in February 2015.
- Diversified Municipal Credit Union (DMCU) - \$13,950 annual rent payment.
- Advance Disposal - \$78,000.52 annual rent payment.
- Hilco - \$284,516.46 one-time revenue from sale of surplus items.

Our review of the internal controls over Revenue Contracts revealed the following deficiencies:

- GSD did not have operating policies and procedures:
 - Staff did not have written policies and procedures specific to the administration and monitoring of Revenue Contracts.
 - GSD did not comply with the City's Contract Administration Manual's requirement to maintain copies of contracts and documentation.
- Transactions were not properly recorded and accounted for:
 - GSD did not provide proof that they monitored or verified lease payments to ensure they were made in accordance with the relative revenue contracts.
 - GSD did not track and monitor maintenance repairs in lieu of rent payments per the vendor contract for rent abatements.
 - GSD failed to bill a contractor timely 12 out of 14 times or 86% for utilities.
- GSD did not properly manage the Citywide Auction of Surplus Capital Assets. GSD collects and coordinates with all City Departments to have an auction of all City surplus assets as needed. Typical examples of sale items include vehicles (motorcycles, cars, trucks, and trailers), snow plow blades, and basketball nets.
 - GSD did not account for items given to the Auction Company. GSD did not create or maintain a complete list of items given to the Auction Company for sale and could not provide a reconciliation of all items sold (and paid for) at the auction.

According to the Commission of Sponsoring Organizations control activities consist of the following:

- Policies/procedures that ensure management directives are carried out;
- Control activities include approvals, authorizations, verifications, reconciliations, and reviews of operating performance, security of assets and segregation of duties; and

- Control activities occur throughout the company at all levels and functions.

The City's Contract Administration Manual requires that contract administrators maintain files that are complete and include the original contract plus all revisions. In addition the policy states that the most important step in monitoring contracts is to always document contractor performance.

Internal controls need to be designed to reduce the risks associated with undetected errors or misappropriation. Failure to maintain adequate cash controls can result in multiple abuses including theft or misappropriation of funds, and inaccurate financial records.

The three revenue contracts authorized by the GSD who represents the City of Detroit were created and designed to generate incoming revenue for the city. When Contractors and Lessors are not properly monitored and invoiced by City departments, the City faces the prospect of losing revenue and dealing with the consequences of lost revenue. The lack of additional financial contributions could hinder the City's efforts to efficiently and effectively offer municipal services to the residents of the City.

The auditors determined that management failed to establish and maintain a proper system of internal control over revenue contracts.

Recommendations

We recommend that the GSD:

- Correct all internal control weaknesses as soon as possible to ensure proper accountability and transparency:
 - For revenues by creating and communication operating policies to administer and monitor revenue contracts;
 - To properly record and account for revenue payments; and
 - In the auction process by creating a complete list of items to be auctioned and reconciling the items for sale to the items actually sold.
- Actively supervise revenue contracts and the invoicing process.
- Invoice contract Lessors according to the contracts.
- Actively monitor and record incoming contract lease payments.

2. GSD Failed to Follow the City’s Capital Asset Policy

The GSD Fleet Management Division is responsible for receiving and disposal of obsolete and surplus City assets including vehicles. GSD organizes auctions as necessary. During calendar year 2016, GSD had one auction in May 2016, which generated \$283,516.46 in revenue. GSD contracted with an Auction Company to conduct the auction that was held in May 2016 to dispose of City assets.

The following table details the auction results *per the Auction Company*:

	SOLD	NOT SOLD	TOTAL ITEMS
Lots	129	2	131
Skids	34	3	37
Other	142	4	146
Vehicles	124	4	128
Total Items	428	13	442

The auditors noted the following conditions after their review of the May 2016 auction information provided:

- GSD could not provide the auditors with a complete list of items available for sale at the auction; the list provided by GSD contained only 150 items for sale.
- GSD did not fill out any asset disposal forms per the City’s Capital Asset Policy.
- GSD failed to update the Oracle Capital Asset Systems/DRMS after assets were sold since May 2016.

The City’s Capital Asset Policy Guide and Reporting Requirements requires that:

- All City Departments shall utilize the Oracle Asset module to record, track, maintain and report their capital assets.
- A Disposal and Transfer form must be completed for capital assets slated for retirement. This includes any asset that is to be disposed of, sold, used for trade-in, reported as scrapped, stolen or missing.
- City Departments must regularly update their capital asset records, including interdepartmental location changes, cost adjustments, transfers, retirements and disposals to ensure the accuracy of the City’s capital asset records in the Oracle Capital Asset Systems/DRMS.

Failure to comply with the Capital Asset Policy reduces the effectiveness of the policy and the concurrent controls it is designed to impose. Non-compliance also impairs the City’s ability to properly record and track all assets in the financial records of the City and safeguard assets against fraud, theft or abuse.

According to the GSD Capital Asset Coordinator, completing asset disposal forms were on their list of Things to Do in July 2016. However, the lack of staff and knowledge were the reasons why asset disposal forms were not completed prior to the audit period.

The auditors determined that GSD failed to adequately maintain records of their capital assets in compliance with City policy.

Recommendations

We recommend that the GSD:

- Maintain and always send a complete list of items to be sold to the auction company so that the results of auctions can be reconciled and verified.
- Comply with the City's Capital Asset Policy Guide and Reporting Requirements by completing the Asset Disposal form in all instances for tracking purposes.
- Record all acquisitions, transfers or disposals in the Oracle Capital Asset Systems/DRMS.

3. The GSD Did Not Fully Comply With the City's Pre-Paid (P-Card) Credit Card Policies and Procedures

The auditors reviewed the GSD P-Card reconciliations for the period of January 2014 through April 2016. The review of the P-Card Reconciliations revealed the following conditions:

- Vendor statement amounts that totaled \$8,657.13 were charged to the P-Card account. Individual transaction receipts were not included in the monthly reconciliations.
- The amount charged to the P-Card account did not match the receipt amount; the transaction charged to the P-Card account was \$54.00 more than the receipt amount.
- Calendar Year 2014
 - 32 of the 105 or 30% of the Purchase Receipts were not included in the P-Card Reconciliations.
 - 6 of the 73 or 8% of the Purchase Receipts included Sales Taxes Paid.
- Calendar Year 2015
 - 21 of the 62 or 34% of the Purchase Receipts were not included in the P-Card Reconciliations.
 - 13 of the 62 or 21% of the Purchase Receipts were not Signed by the Purchasers.
- January 2016 through April 2016
 - 12 of the 24 or 50% of the Purchase Receipts were not included in the P-Card Reconciliations.
 - 4 of the 4 or 100% of the P-Card Reconciliations were not Dated by the Authorized Signer.

According to the Office of the Chief Financial Officer Pre-Paid Credit Card Policies and Procedures Manual, every City agency and/or department which has a P-Card must prepare and submit a monthly reconciliation which includes the following information:

- Copies of all Purchase Receipts
- Purchase Receipts must be Signed by the Purchaser

In addition, P-Card transactions are exempt from Sales Taxes.

When required fields of information and forms are not completed according to the Office of the Chief Financial Officer's policies and procedures, the lack of the required information may cause delays in the processing of P-Card reconciliations and the reporting of crucial financial data. In addition, missing or unaccounted for transaction receipts exposes P-Card accounts to potential fraud, abuse, and misappropriation of P-Card funds.

City departments must adhere to Office of the Chief Financial Officer policies' and procedures to promote a clear understanding of the processes involved in reporting financial information, to ensure that financial information is submitted in a timely manner, and City assets are reasonable protected from fraud and abuse.

GSD management stated that when items are purchased by the department, work orders may not start until two or three days later. When the work does begin, it is completed by different employees, some items may have to be returned and receipts cannot be turned in until the work order is complete. Items purchased with the P-Card can be traced to a GSD work order.

GSD management could not explain why Sales Taxes was paid on transactions receipts or why some receipts did not match the P-Card credit card statement amount.

Recommendations

We recommend that the GSD ensure that P-Card:

- Purchase receipt amounts match credit card statement amounts.
- Purchase receipt copies are included in all reconciliation packages.
- Transaction Receipts are signed by the purchasers.
- Reconciliations include copies of signed Transaction Receipts.
- Transactions do not include Sales Taxes paid.
- Reconciliation packages are signed and dated by Authorized Signers.

4. The GSD Failed to Adequately Control Fuel Cards

GSD issued 257 fuel cards to their employees. The auditors documented the following conditions:

- Forty-six or 18% of the fuel cards are assigned to employees no longer employed by GSD.
- GSD failed to complete the Highly Interconnected Data (H.I.D.) card form to cancel fuel cards issued to former employees.

According to the General Services Department Vehicle Management Division Fuel System Policies and Procedures:

- The Fleet Coordinator is the departmental person responsible for validating the Real Efficient Vehicle System (REVS) fuel employee card roster.
- The Fleet Coordinator is to review and validate the listing and request names to be deleted.

The Fleet Coordinator is responsible for immediately notifying the System Manager by e-mail and by returning the employee fuel cards to the System Manager when an employee is no longer authorized to fuel vehicles (employee is dismissed, laid-off, retired, etc.).

The insufficient management and oversight of fuel cards makes them vulnerable to improper usage allowing the potential for fraudulent use to obtain fuel.

The auditors determined that GSD failed to properly monitor, maintain and manage their fuel cards.

Recommendations

We recommend GSD management require:

- All Divisions to collect fuel cards from individuals who will no longer be employed at GSD.
- An H.I.D. card request form be completed to deactivate fuel cards when received.
- The REVS System Manager process deactivation request promptly.

ATTACHMENT A

June 30, 2017

Mark Lockridge, Auditor General
Office of the Auditor General
2 Woodward Avenue
Coleman A. Young Municipal Center, Room 216
Detroit, Michigan 48226

Dear Mr. Lockridge:

The following presents the General Services Department's response for the indicated findings and related recommendations in the June 2017 audit of the General Services Department, as prepared by the Office of the Auditor General. Our responses include the actions taken or to be taken regarding the recommendations, and the implementation dates or the targeted implementation dates for those actions.

Finding Number 1. The General Services (GSD) Did Not Establish Appropriate Internal Controls Over Revenue Contracts

The General Services Department no longer collects revenues from UAW-Ford, and Diversified Municipal Credit Union. As noted in the finding, UAW-Ford was sold and, while the DMCU lease agreement expired in 2015, they have continued on a month-to-month arrangement with the revenues being paid to the Detroit Building Authority.

Advance Disposal has been abating 100% of their rent due to their undertaking of capital improvements to the premises. When these payments resume, the collection and reconciliation of the revenues will be overseen by the Department's Agency Chief Financial Officer and her team, as described below.

The policies and procedures implemented to address Finding Number 2 (see next page) will also address concerns related to the management of the auction revenue contract.

Additionally, the General Services Department's revenue collections oversight is now under the purview of the Department's ACFO and her staff members, who are employees of the Office of Departmental Financial Services. While the General Services Department interacts with the auction vendor on the operational side and will ensure that all assets intended for disposition are recorded and reconciled with post-auction records, the collection of auction proceeds, subsequent booking to the appropriate revenue accounts, and any dispute resolution regarding revenue amounts falls to the ACFO team.

Finding 2. GSD Failed to Follow the City's Capital Asset Policy

The General Services Department is in the process of developing a permanent process for auction and disposition of retired assets, to replace the interim process laid out during the restructuring of 2014. GSD is implementing policies and procedures under the Mayor's new Capital Planning system, and they will ensure the following:

1. An annual asset inventory will be conducted, including assessments of condition and remaining useful life, and the results will be used to update the asset records listed in the City's Oracle Capital Asset System. These inventory results will also be used to manage internal processes as well as develop our annual budget request.
2. All acquisitions, transfers, and disposals will be documented using the City of Detroit Equipment Acquisition Report and Capital Asset Disposal and Transfer Report (as appropriate), copies of which shall be retained for the duration of the City's default record retention period and copies of which shall be delivered regularly to the appropriate ODFS staff member on the General Services Department's Agency CFO team.
3. Each capital asset disposed of at auction will receive its own Capital Asset Disposal Report.
4. Each asset (capital and non-capital) to be sold at auction will be documented in a Master Auction Disposition List.
 - a. This information includes, but is not limited to, asset condition, asset description, make/model, Vehicle Identification Number, and exact quantity (or reasonable estimate in cases such as outdated surplus parts and materials such as bolts, screws, and smaller non-capital assets).
 - b. We will also continue to track assets in our work order systems
5. The Master Auction Disposition List will be transmitted to the auction company and used as the baseline from which sales quantities and remainders will be calculated.

Finding 3. The GSD Did Not Fully Comply With the City's Pre-Paid Credit Card (P-Card) Policies and Procedures

Due to more rigorous policies and procedures promulgated by the Office of the Chief Financial Officer and due to the department's diligent adherence to these new policies and procedures, the General Services Department believes that all current departmental usage of the pre-paid credit cards (P-cards) issued to it is now fully compliant and addresses any observations of past non-compliance.

The General Services Department reviewed the shortfalls during the period of audit. We can give assurance that current practices within the department require all P-card holders to complete a monthly reconciliation of expenses charged, retain copies of all receipts,

ensure compliance with the City's tax exempt status (and return to the vendor in question to remedy any charges of tax immediately or within an operationally feasible window of time no later than the due date of the monthly reconciliation), sign all receipts clearly and legibly, and ensure that all reconciliation packages are reviewed thoroughly by Authorized Signers. The OCFO has been working diligently to assure that contracts are in place for recurring operating requirements, and this has reduced the need for ad hoc purchases.

These internal P-card procedures result from the new OCFO policies that require a P-card become unusable upon failure to complete regular reconciliations. As a result, the General Services Department must remain in constant compliance in order to ensure that no disruptions occur in our service provision.

Finding 4. The GSD Failed to Adequately Control Fuel Cards

First, the General Services Department offers the following point of clarification: Fleet Coordinators are staff members in each City department charged with managing their respective departments' assigned vehicles and coordinating the care and maintenance of those vehicles with the General Services Department's Fleet Division. They are employees of their respective departments and are not employees of, or authorized agents for, the General Services Department.

The General Services Department has implemented new policies and procedures to address the presented concerns. These provide that:

1. Employees who separate from service with the City turn in their fuel cards as part of their off-boarding procedures. In the event an employee separates but does not turn in their fuel card, the fuel card will be immediately deactivated. The Coordinators in each department are charged with ensuring this policy is followed by their department's staff. In April 2017, under the Vehicle Steering Committee's direction, GSD held its first annual Agency Vehicle Coordinator policy and procedures rollout, and fuel usage was part of the agenda.
2. A Highly Interconnected Data (HID) form shall be filled out for each fuel card activation, deactivation, or transfer request. These forms will be retained by the General Services Department's Fleet Management Principal Clerk in files which are accessible and organized for easy review.
3. The Principal Clerk shall process activation, deactivation, and transfer requests as soon as possible but no later than 24 hours of their receipt.
4. Once every quarter, an audit checklist will be sent to each Agency Fleet Coordinator containing a listing of that coordinator's departmental staff who have been issued a fuel card. The coordinators must then check the list and provide any corrections or relevant updates, including staff separation or card transfers, to the Principal Clerk within one week. All changes indicated will be entered into the REVS fuel card

tracking system and any fuel cards that cannot be accounted for will be immediately deactivated. It is also the case under Vehicle Steering Committee initiatives, that regular utilization review of assigned city vehicles will occur, and this largely focuses on fuelling and mileage patterns.

5. All fuel cards that remain inactive for 180 days will be deactivated.

The General Services Department believes these new policies and procedures will more than address concerns regarding the administration of the fuel card system.

Sincerely,

A handwritten signature in black ink, appearing to read "Brad Dick". The signature is written in a cursive, flowing style with a long horizontal stroke at the end.

Brad Dick
Director
General Services Department

