

City of Detroit

OFFICE OF THE AUDITOR GENERAL



**Audit of the
Community Access Centers
January 2008 – June 2011**



City of Detroit
OFFICE OF THE AUDITOR GENERAL
COLEMAN A. YOUNG MUNICIPAL CENTER
2 WOODWARD AVENUE, SUITE 208
DETROIT, MICHIGAN 48226
PHONE: (313) 224-3101
FAX: (313) 224-4091
WWW.CI.DETROIT.MI.US

LOREN E. MONROE, CPA
AUDITOR GENERAL

MEMORANDUM

DATE: March 23, 2012

TO: Honorable City Council

FROM: Loren E. Monroe, CPA *Loren E. Monroe*
Auditor General

RE: Audit of the Community Access Centers

C: Mayor Dave Bing
Lori Cunningham, Director Community Access Centers
Cheryl Johnson, Group Executive/ Finance Director

Attached for your review is our report on the Follow-Up Audit of the Community Access Centers. This report contains our audit purpose, scope, objectives, methodology, and conclusions; status of prior audit findings; background; audit findings and recommendations; and the responses from the Community Access Centers.

Responsibility for the installation and maintenance of a system of internal control that minimizes errors and provides reasonable safeguards rests entirely with the Community Access Centers and the Finance 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, which are not put into effect by the agency 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.

We would like to thank the Community Access Centers for the cooperation and assistance extended to us during this audit.

Copies of all of the Auditor General's reports are located on our website at www.detroitmi.gov/CityCouncil/LegislativeAgencies/AuditorGeneral/tabid/2517/Default.aspx.

Audit of the Community Access Centers

July 2008 – June 2011

CONTENTS

	<u>Page</u>
AUDIT PURPOSE, SCOPE, OBJECTIVES, METHODOLOGY AND CONCLUSIONS	1
BACKGROUND	3
STATUS OF PRIOR AUDIT FINDINGS	4
AUDIT FINDINGS AND RECOMMENDATIONS	
1. Voucher Disbursement Duties Were Not Properly Segregated	5
2. There Were Deficiencies In The Handling of Cash Receipts	6
3. Capital Assets Were Not Posted to DRMS Capital Assets Module	7
AGENCY RESPONSE	
Community Access Centers	ATTACHMENT A

AUDIT PURPOSE, SCOPE, OBJECTIVES, METHODOLOGY AND CONCLUSIONS

AUDIT PURPOSE

The Follow-Up Audit of the Community Access Centers, formerly known as Neighborhood City Halls was performed in accordance with the Office of the Auditor General's (OAG) Charter mandate to audit the financial transactions of all City agencies at least once every two years and report findings and recommendations to the City Council and the Mayor.

AUDIT SCOPE

The scope of the audit was limited to a follow-up of the prior audit findings and an assessment of the Community Access Centers internal controls over cash receipts, voucher disbursements, capital assets, contract compliance, information technology and imprest cash transactions for the period January 2008 through June 2011. We determined that there are certain weaknesses in the system of internal controls. We focused our audit on the weaknesses discovered during the assessment and the status of prior audit findings, and issues of non-compliance from the prior audit report.

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

Our audit objectives were to:

- Assess the Community Access Centers internal controls related to financial transactions;
- Determine the Community Access Center's compliance with Finance Directives, policies, plans, procedures, laws and regulations; and
- Conduct a follow-up review of the prior audit findings and issues of non-compliance from the prior audit report.

AUDIT METHODOLOGY

To accomplish our audit objectives, our audit work included the following:

- A review of the prior audit report, Finance Directives, City ordinances, State laws and City policies and procedures;
- Interviews of appropriate Community Access Centers management and other personnel to gain an understanding of the Community Access Centers internal control structure; -
- An evaluation of the Community Access Centers internal controls over its major financial systems;

- An examination of sample transactions that we considered satisfactory to achieve our objectives; and
- A review of the status of the findings and noncompliance issue cited in the prior audit report.

CONCLUSIONS

As a result of our audit we have concluded that:

- Internal controls related to cash receipts, capital assets, and voucher disbursements are inadequate.
- The Community Access Centers does not fully comply with Finance Directives, policies, and procedures.
- Of the six findings from the previous audit report dated March 18, 2008, one has not been resolved and five are no longer applicable.

BACKGROUND

The Community Access Centers was formerly known as the Neighborhood City Halls. There are currently four locations throughout the City including a location inside the Coleman A. Young Municipal Center. The Community Access Centers is a division of the Mayor's Office and serves as an important link between the Mayor's Office and the community. Community Access Centers serves as an advocate for residents seeking services from City departments.

Community Access Centers distribute information from other City departments as well as special community events, such as town hall meetings, the Angels' Night Volunteer Campaign, Motor City Makeover and other citywide activities of interest to the community at large. Community Access Centers also assists block clubs and community associations in organizing and planning neighborhood events. Community Access Centers interfaces with businesses and community groups in building strong relationships to promote positive, productive neighborhoods.

The current Director of the Community Access Centers, Lori Cunningham was appointed to the position in December of 2010. Prior to Ms. Cunningham's appointment, Stephanie Young served as Director of the Community Access Centers.

The following table shows the budgeted appropriations, revenues and number of staff of the Community Access Centers for the 2010 and 2011 fiscal years:

	<u>Fiscal Years Ended June 30</u>	
	<u>2010</u>	<u>2011</u>
Budgeted Appropriations	\$ 1,911,205	\$ 2,264,677
Budgeted Revenues	<u>15,000</u>	<u>449,219</u>
Net Tax Cost	<u>\$ 1,896,205</u>	<u>\$ 1,815,458</u>
Number of Staff	22	23

STATUS OF PRIOR AUDIT FINDINGS

The prior Follow-Up Audit of the Neighborhood City Halls (now known as the Community Access Centers) for the audit period January 2006 to December 2007, by the Office of the Auditor General, included the findings listed below. One has not been resolved and five are no longer applicable.

1. The Neighborhood City Halls Lacked Appropriate Segregation of Duties for the Halloween Initiative Bank Account (September 2008)
This finding is no longer applicable as the Halloween Initiative Bank Account has been closed.
2. The Neighborhood City Halls Expended Grant Monies Inappropriately (September 2008)
This finding is no longer applicable as the Community Access Centers did not receive any grant funds during the audit period.
3. The Neighborhood City Halls Lack Adequate Internal Controls Over Cash Receipts (September 2008)
This finding has not been resolved, and is discussed in Finding 2 on page 6 of this report.
4. The Neighborhood City Halls Management Did Not Enforce Control Procedures Over the NCH-Halloween Initiative Account Expenditures (September 2008)
This finding is no longer applicable as the Halloween Initiative Bank Account has been closed.
5. The Neighborhood City Halls Did Not Fully Comply with the City Council Resolution Authorizing the NCH-Halloween Initiative Account or With Finance Directive 139 (September 2008)
This finding is no longer applicable as the Halloween Initiative Bank Account has been closed.
6. The Neighborhood City Halls Did Not Properly Oversee the Imprest Cash Fund (September 2008)
This finding is no longer applicable as the Community Access Centers no longer have an imprest cash account.

AUDIT FINDINGS AND RECOMMENDATIONS

1. Voucher Disbursement Duties Were Not Properly Segregated.

The Community Access Centers have one employee that orders, receives and approves payment for goods. No other employees or management are involved in this process.

The Association of Certified Fraud Examiners states that good control requires that there is separation of duties between authorization, purchasing, receiving, shipping, and accounting.

Inadequate segregation of duties increases the risk of theft or misappropriation. Relying on a single employee to perform all of the functions related to purchasing could impede the functioning of the department if that employee is away from work for a long period of time.

Because of a change in management at the Director and Deputy Director level in December of 2010 there is only one staff person trained to carry out the voucher disbursement process.

Recommendations

We recommend the Community Access Centers strengthen internal controls by:

- Obtaining the appropriate DRMS training for additional members of the staff and the Director and Deputy Director.
- Segregating incompatible duties wherever possible.
- Authorizing and monitoring process were segregation of incompatible duties is not possible.

2. There Were Deficiencies in the Handling of Cash Receipts

The CAC division:

- Does not deposit cash receipts within 48 hours.
- Does not properly reconcile its cash receipts.
- Does not have proper segregation of duties for cash receipts.

City of Detroit Finance Directive 20 requires that all cash receipts be deposited within 48 hours of receipt or that a waiver of the requirement be obtained from the Finance Director.

Inadequate internal controls over cash receipts provides the opportunity for multiple abuses including theft of funds, inappropriate expenditures, and inaccurate financial records. Moreover, improper oversight of cash receipts can increase the likelihood of abuse.

According to the CAC not enough cash is taken in to warrant deposit more than weekly. The department indicates a waiver will be obtained.

Recommendations

We recommend that the Community Access Centers:

- Adhere to Finance Directive 20.
- Establish procedures to properly reconcile cash receipts on a daily basis.
- Require that someone not involved in the cash receipts process reconcile all cash receipts.

3. Capital Assets Were Not Posted to DRMS Capital Assets Module.

The Community Access Centers staff has not entered its capital assets into the capital asset module of the Detroit Resource Management System (DRMS). The 311 system is now a part of the Community Access Centers, but the capital assets of the 311 system have not been added to the CAC portion of the Mayor's Office Capital Asset listing.

The Finance Department's Capital Assets Manual for the City of Detroit requires that electronic equipment be entered into the DRMS Capital Asset Module when it is acquired.

Inadequate internal control over capital assets increases the risk of theft and/or inappropriate use of assets and inaccurate financial records.

Community Access Centers management was not aware of the City's Capital Asset Module policies and procedures.

Recommendations

We recommend that the Community Access Centers:

- Acquire training for designated personnel for the Capital Asset Module of DRMS.
- Implement policies and procedures which result in newly acquired and previously acquired, but not properly entered capital assets are entered into the Capital Asset Module.



ATTACHMENT A

March 9, 2012

Lori Cunningham, Director
Community Access Centers
2 Woodward Avenue
Detroit, Michigan 48226

Dear Mr. Monroe:

The following presents the Community Access Centers' response for the indicated findings and related recommendations in the Audit of the Community Access Centers 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. Procurement Duties Were Not Properly Segregated

Department's Response

Procurement duties were previously improperly segregated due to limited staff and training. These duties were reassigned when we were appointed to our positions and a new person was hired to take on a portion of the responsibilities. The Executive Secretary orders goods and the Director/Deputy Director will receive and approve all payments for any goods.

Finding Number 2. There Were Deficiencies in the Handling of Cash Receipts

Department's Response

Cash receipts are deposited on a weekly basis and the waiver was approved by the Finance Director in 2010. All cash collection/receipts were modified in 2011 to reflect the process that our Central Office followed. Money is turned in at the field office and a receipt is issued for each office, then it is turned in to the Administrative Office and the deposit is approved by the Director and entered into DRMS.



Finding Number 3, Capital Assets Were Not Posted to DRMS Capital Asset Module

Department Response

The 311 Call Center and Neighborhood City Halls merged in 2010 prior to our appointment. We were unaware that the capital assets were not posted to the DRMS Capital Asset Module until the receipt of this letter. We have since contacted Saied Rouhani in Finance, and he will provide us with the training in late March or early April and then we will have all capital assets posted.

Sincerely,

Lori Cunningham, Director
Community Access Centers