

**City of Detroit**

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**OFFICE OF THE AUDITOR GENERAL**



**AUDIT OF THE DETROIT POLICE DEPARTMENT'S SPECIAL OPERATIONS  
IMPREST CASH FUND**

**January 2011 – March 2012**

# City of Detroit

## OFFICE OF THE AUDITOR GENERAL

2 WOODWARD AVENUE, SUITE 208

Detroit, Michigan 48226

PHONE: (313) 224-3101

FAX: (313) 224-4091

[www.detroitmi.gov](http://www.detroitmi.gov)

Mark Lockridge  
AUDITOR GENERAL



### MEMORANDUM

**DATE:** July 16, 2013

**TO:** Honorable City Council

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

**RE:** Audit of the Detroit Police Department's Special Operations Imprest Cash

**CC:** Mayor Dave Bing  
Chief James E. Craig – Detroit Police Department  
Board of Police Commissioners  
Kevyn Orr, Emergency Manager

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Attached for your review is our report on the audit of the Detroit Police Department's Special Operations Imprest Cash Fund. This report contains our audit purpose, scope objectives, methodology and conclusions; background; our audit findings and recommendations; and the responses from the Detroit Police Department and the Finance Department.

Responsibility for the installation and maintenance of a system of internal control that minimizes errors and provides reasonable safeguards rests entirely with the Detroit Police Department. Responsibility for monitoring the implementation of recommendations is set forth in section 7.5-105 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 action being taken with respect to the recommendations.

We would like to thank the Detroit Police Department and the Finance Department for their cooperation and assistance extended to us during this audit.

You can find copies of all of the Auditor General's reports on our website at [www.detroitmi.gov/citycouncil/legislativeagencies/auditorgeneral/tabid/2517/default.aspx](http://www.detroitmi.gov/citycouncil/legislativeagencies/auditorgeneral/tabid/2517/default.aspx).

**Audit of the Detroit Police Department's  
Special Operations Imprest Cash Fund**

**January 2011 – March 2012**

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Detroit Police Department

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## **AUDIT PURPOSE, SCOPE, OBJECTIVES, METHODOLOGY AND CONCLUSIONS**

### **Audit Purpose**

The audit was performed under City Ordinance 1-91, Section 18-5-57(c), which states that the Auditor General shall perform an audit of the Detroit Police Department's (DPD) Special Operations Imprest Cash Fund, also known as Secret Service Fund (SSF), appropriation annually and present the audit to the City Council.

### **Audit Scope**

Our audit focused on the Detroit Police Department's internal control procedures over Special Operations Imprest Cash reimbursements and expenditures for the period January 1, 2011 through March 31, 2012.

Our audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States, except for 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:

- Determine whether the actual amount of the SSF is in agreement with the authorized amount;
- Determine whether the SSF is adequately safeguarded against loss, theft, and defalcation;
- Determine whether the DPD is following prescribed procedures as outlined in the Finance Department's *Procedures Manual for Imprest/Petty Cash Custodians*;
- Determine whether the fund is complying with City Ordinance 1-91, Chapter 18, Article 5 – To Further Restrict the Use of the Police Department's Special Operations Imprest Cash Appropriation to Certain Purposes;
- Determine whether the fund is complying with City Ordinance 13-91, Chapter 18, Article 5 – To Further Restrict the Use of the Police Department's Special Operations Imprest Cash Appropriation to Certain Purposes;
- Determine whether the DPD's Fiscal Management Directive 103.1-4 encompasses all of the provisions of City Ordinances 1-91 and 13-91, Article 5, and
- Determine whether the fund is complying with Fiscal Management Directive 103.1-4 Confidential Funds Management.

### **Audit Methodology**

To accomplish the audit objectives, our audit work included:

- Review of prior audit and permanent working papers;
- Review of applicable city ordinances, city policy, and departmental policy;

- Perform unannounced cash count;
- Interview key DPD personnel;
- Review and observe cash handling procedures at the primary, secondary, and sub-account levels;
- Identify significant inherent and control risks in acquisition, expenditure, and reimbursement cycles;
- Review of bank reconciliations for timeliness, completeness, and accuracy;
- Review of DPD internal audits of the fund for timeliness, completeness, and accuracy;
- Verify reimbursement expenditures for proper authorization, proper use,, accuracy, and proper supporting documentation; and
- Review general ledger for proper posting, proper balance, and completeness of expenditures and reimbursements.

### **Conclusions**

We determined the following results of our audit:

- The SSF is not adequately safeguarded against loss, theft, and defalcation.
- The DPD is not following prescribed procedures as outlined in the Finance Department's *Procedures Manual for Imprest/Petty Cash Custodians*.
- The SSF is not complying with City Ordinance 1-91 Chapter 18, Article 5 – To Further Restrict the Use of the Police Department's Special Operations Imprest Cash Appropriation to Certain Purposes.
- The SSF is not complying with City Ordinance 13-91, Chapter 18, Article 5 – To Further Restrict the Use of the Police Department's Special Operations Imprest Cash Appropriation to Certain Purposes.
- The DPD's Fiscal Management Directive 103.1-4 does not encompass all of the provisions of City Ordinances 1-91 and 13-91, Article 5.

## **BACKGROUND**

The City of Detroit established the Detroit Police Department's (DPD) Special Operations Imprest Cash Fund appropriation, referred to as the "Secret Service Fund" (SSF) in the City budget, in 1981 to provide for the purchase of evidence, information, or services in support of covert operations. The City of Detroit adopted City Ordinances 1-91 and 13-91 to establish controls and procedures for all uses of the SSF. The Board of Police Commissioners adopted rules and procedures intended to be in accordance with City Ordinance 1-91 for all expenditures and activities of the SSF appropriation. The authorized appropriation amount for the SSF is \$250,000.

The DPD administers the SSF at three account levels: the Primary Account, Secondary Accounts, and sub-accounts. The DPD's Fiscal Management Bureau administers the Primary Account for replenishing Secondary Accounts. Different departmental commands, such as the Homicide command, administer Secondary Accounts. The Primary Account funds the Secondary Accounts. The Secondary Accounts of the reporting command funds the sub-accounts. The classification and accounting for the SSF can be divided into three major categories: lease vehicle expenses, lease maintenance expenses, and confidential funds. "Confidential funds" shall refer to the SSF and/or Special Operations Imprest Cash Account.



## STATUS OF PRIOR AUDIT FINDINGS

The previous audit of the Detroit Police Department's Special Operations Imprest Cash for the period October 1, 2008 through December 31, 2010, issued by the Office of the Auditor General in November 2011, cited the following findings:

1. Control Deficiencies in the Imprest Cash Process  
*This finding has not been resolved and is included in finding 1 on page 5 of this report.*
2. Lack of Segregation of Duties  
*This finding has not been resolved and is included in finding 1 on page 5 of this report.*
3. Failure to Properly Safeguard the Imprest Cash Fund and P-Card  
*This finding has been resolved.*
4. Reimbursement Requests Were Not Submitted to Accounts Payable on a Monthly Basis  
*This finding has not been resolved and is included in finding 3 on page 8 of this report.*
5. Fiscal Management Directives Were Not Updated  
*This finding has not been resolved and is included in finding 4 on page 9 of this report.*
6. Inadequate Handling of Vehicle Lease Payments  
*This finding has not been resolved and is included in finding 5 on page 10 of this report.*

## AUDIT FINDING AND RECOMMENDATIONS

### 1. Control Deficiencies in the Imprest Cash Process

During our examination of the internal controls of the Secondary Accounts of the Special Operations imprest cash, we noted the following weaknesses:

- The Homicide Division has an authorized amount of \$3,000. The Office of the Auditor General (OAG) performed a count of the fund and noted that the fund had a shortage of \$1,237.40. We noted this shortage in our prior audit report, and the Internal Affairs Division noted the shortage in its internal audit reports.
- The Narcotics Division has an authorized amount of \$52,500. The Division has sub-accounts totaling \$18,000, but there is no documentation signed by the commanding officers taking responsibility for the funds given to them.
- The Internal Affairs Division has an authorized amount of \$5,100. The Division had an outstanding voucher-in-process for February 2012 for \$919.88. A review of the supporting receipts indicated that the officers made the purchase of equipment needed for their investigation in September 2011.
- The commands were not following the DPD's internal control structure. At Forfeiture, the commanding officer was also the fiscal officer, meaning the commanding officer was performing the record keeping for the fund, approving the disbursements, and maintaining custody of the funds.

The Finance Department's *Procedures Manual for Imprest/Petty Cash Custodians (Manual)* states, "At all times the Imprest Cash Fund must agree with the total amount authorized." In addition, the *Manual* indicates that department must report shortages immediately to the Chief Financial Officer. Furthermore, the department must notify Mayor's Office, the Auditor General, and the Finance Department of the loss. A statement signed by the department head must explain the circumstances of the loss. The department must attach a Check Request for the loss amount to the signed statement. The *Manual* indicates that if a portion of the fund is cash, the department should have on hand a written statement signed by the cash custodian and approved by a supervisor indicating the amount of cash retained by the cash custodian. The DPD Directives do not have any procedures on how to deal with shortages.

DPD Directive 103.1-8.11 states, "Within five working days following the end of the month, fiscal officers of secondary accounts shall make copies of the activity log sheets that cover the prior month. These copies, together with the Confidential Fund Monthly Reconciliation Report, will support the request for reimbursement."

According to DPD Directive 103.1-6.5(1), a fiscal officer shall be appointed by the commanding officer to maintain the ledger and necessary records.

By not submitting reimbursement requests timely and by not reporting shortages in the fund, the Division risks running out of funds to conduct covert operations along with limiting its effectiveness. In addition, the lack of proper documentation leaves the fund



vulnerable to misappropriation and malfeasance. Furthermore, the lack of segregation of duties can lead to possible malfeasance, fraud or theft.

With officers leaving and retiring, there is a high turnover in officers assigned to perform these duties, and the officers have received little to no training. In addition, the submitting of receipts on a monthly basis is not a high priority item. Furthermore, there was a redeployment of staff. The DPD Directives does not have any procedures to rectify shortages and overages.

**Recommendation**

We recommend the DPD develop a procedures manual for the fiscal officers explaining step-by-step the procedures for submitting reimbursement requests timely. In addition, the DPD should integrate the Finance Department's *Procedures Manual for Imprest/Petty Cash Custodians* into its Directives to address areas such as how to resolve overages and shortages. Also, we recommend the DPD review its Directives and develop contingency procedures for commands where segregation of duties is impossible.

## **2. Reimbursement Requests Were Not Submitted to Accounts Payable on a Monthly Basis**

The Detroit Police Department Management Services Bureau (MSB) did not submit the monthly reimbursement requests for the Primary Account timely to the Finance Department's Accounts Payable Division. During the audit period, the MSB submitted two reimbursement requests for the Primary Account, one submitted March 10, 2011 for the months June 2010 through March 2011, and the other submitted June 12, 2012 for the months August 2011 through January 2012.

In the Detroit Police Department Manual Directive 103.1-8.11(1) states "Within five working days following the end of the month, fiscal officers of secondary accounts shall make copies of the activity log sheets that covers the prior month. These copies, together with the Confidential Fund Monthly Reconciliation Report, will support the request for reimbursement." However, the Directives do not specify when the Department must submit the Primary Account reimbursement request to the Finance Department Accounts Payable Division. The City of Detroit's *Procedures Manual for Imprest/Petty Cash Custodians* states, "Check Requests for reimbursement must be made within thirty (30) days from the end of the month in which the original purchase was made...."

When MSB does not submit reimbursement requests timely to the Finance Department Accounts Payable Division the Primary and Secondary Accounts could run out of funds needed for covert activities.

The Detroit Police Department did not stress the importance of submitting the reimbursement requests timely to its fiscal officers.

### **Recommendation**

We recommend the Detroit Police Department implement directives to ensure the timely submission of reimbursement requests to the Finance Department Accounts Payable Division on a monthly basis.

### **3. Fiscal Management Directives Were Not Updated**

Significant restrictions contained in the City's Ordinances 1-91 and 13-91 are not included in the DPD's Directives 103.1-4 through 103.1-8. The following are some examples:

- DPD Directive 103.1-5.3 does not indicate that the Security Appropriation has to be separate from the Special Operations Imprest Cash.
- DPD Directive 103.1-5.3(6) does not indicate that the appropriation for the lease and maintenance of vehicles must be segregated from the Special Operations Imprest Cash.
- The DPD Directives do not restrict the paying of professional or personal services contracts by the Special Operations Imprest Cash as stated in the City Ordinances.

The following sections of the City's Ordinances 1-91 and 13-91 represent the restrictions not included in the DPD's Directives are as follows:

- Section 18-5-54. – Security Appropriation states " There shall be established a separate appropriation in each annual budget for the purpose of expenditures for security of city officials, all other dignitaries, public officials, or visitors and security for all others."
- Section 18-5-53. – Vehicle Appropriation states "There shall be established a separate appropriation in each annual budget for the purpose of expenditures for leasing and maintenance under cover police vehicles. This appropriation shall be separate from the special operations imprest cash appropriation."
- Section 18.5.51 (c) (5) indicates the DPD cannot pay for professional or personal services contracts using the special operations imprest cash appropriation.

The DPD Directives are the policies and procedures governing the Special Operations Imprest Cash and should include the restrictions noted in the City's Ordinances. The exclusion of these restrictions could lead to the DPD using the Special Operations Imprest Cash funds counter to the noted restrictions.

The DPD has drafted new Directives but has not implemented them because management has not reviewed them.

#### **Recommendation**

We recommend the DPD review and update its Directives to include the restrictions cited in City Ordinances 1-91 and 13-91 along with incorporating other applicable City internal policies.



#### **4. Inadequate Handling of Vehicle Lease Payments**

In our previous audit report, the Office of the Auditor General (OAG) noted the Detroit Police Department (DPD) was using the Petty Cash account of the Special Operations Imprest Cash to pay for the vehicle leases. The DPD stated that pre-paid cards (PCARDS) would be used to pay for the vehicle leases and maintenance expenses; however, the dealer, Trader Ray Leasing, would not accept the lease payment using the PCARDS. The DPD began writing checks from the Primary Account to pay for the vehicle leases.

The DPD was on a month-to-month payment policy with Trader Ray Leasing after the contract expired. Until the City approved a new vehicle lease contract, the DPD and Trader Ray Leasing agreed to the following lease payment terms as of June 2012:

- A 50% reduction in all 2004 model year vehicles being leased.
- A 45% reduction in all 2005 model year vehicles being leased.
- A 40% reduction in all 2006/2007 model year vehicles being leased.

According to the officer involved in the negotiations, the DPD has nothing in writing stipulating the above terms that they have forwarded to the City Council for approval.

According to City Ordinance Section 18-5-53 – Vehicle Appropriation, “There shall be established a separate appropriation in each annual budget for the purpose of expenditures for leasing and maintenance of under cover police vehicles. This appropriation shall be separate from the special operations imprest cash appropriation.” In addition, Section 18-5-50 (c) states that the purpose of the Primary Account is to replenish the Secondary Accounts. The DPD Manual Section 103.1-6.1 reiterates this statement.

City Charter Section 4-122 states, “The City may not purchase or in any way procure property or the services of independent contractors without approval by resolution of the City Council except as provided by ordinance.”

The lack of an approved written contract that stipulates the payment terms makes it possible for the individuals involved to dispute the terms to which they agreed.

#### **Recommendation**

We recommend the DPD resubmit the leasing contract for bid so that contract can properly go through the procurement process and have the final agreement approved by the City Council. We also recommend the DPD contact the Finance Department Accounts Payable Division to establish payment procedures for undercover vehicle leases ensuring covert operations are not compromised and the lease payments are separated from the Special Operations Imprest Cash appropriation.

## **5. Pre-Paid Cards (PCARDS) Are Not Reconciled Timely**

The Special Operations Imprest Cash Fund uses pre-paid cards (PCARDS) to pay for the maintenance on the undercover and Division vehicles. The Office of the Auditor General (OAG) reviewed the PCARD reconciliations for the audit period for the Commercial Auto Theft, Vice, and Violent Gang Task Force Divisions. We noted the reconciliations were prepared after the date stipulated by the *City of Detroit Pre-Paid Card Policy and Procedures Manual (Manual)*. For example, the Commercial Auto Theft Division did not prepare the reconciliation for the August 2011 PCARD statement until May 24, 2012 (283 days). In addition, the Vice Division did not prepare the reconciliation for the July 2011 PCARD statement until January 11, 2012 (180 days). The Violent Gang Task Force Division did not prepare the reconciliation for October 2011 until December 28, 2011 (75 days).

On page 6, the Manual states "Submit credit card reconciliation to Finance-Treasury Division ... on a monthly basis by the 10<sup>th</sup> of the following month in order for the PCARD to be replenished."

By not preparing and submitting the PCARD reconciliations to the Finance-Treasury Division on time, errors, omissions or impropriety could go undetected for prolonged periods of time. In addition, the Department is risking not having enough funds available to perform maintenance on the Division's vehicles when needed.

The Department does not make preparing and submitting the PCARD reconciliations a priority. In addition, the Department has not stressed through proper training of its personnel the importance of the need to submit the reconciliations timely.

### **Recommendation**

We recommend the Department, through training and memorandums, the importance of timely preparation and submission of PCARD reconciliations by the 10<sup>th</sup> of the following month to its personnel.





July 16, 2013

Mr. Mark W. Lockridge  
Auditor General City of Detroit  
2 Woodward Avenue, Room 208  
Detroit, MI 48226

**SUBJECT: RESPONSE TO THE AUDIT OF THE DETROIT POLICE  
DEPARTMENT'S SPECIAL OPERATIONS IMPREST CASH**

Dear Mr. Lockridge:

The following represents the Detroit Police Department's response to the findings and recommendations contained in the audit of the Detroit Police Department's Special Operations Imprest Cash Account for the period of January 1, 2011 through March 31, 2012.

**Finding No. 1: CONTROL DEFICIENCIES IN THE IMPREST CASH PROCESS**

**Agency Response No. 1** DPD has reviewed the findings and will address the issues at the specific commands noted in the report which included Homicide, Narcotics, Internal Affairs and Forfeiture. Personnel will be re-trained to be in compliance with the department procedures and finance directives.

**Finding No. 2: REIMBURSEMENT REQUESTS WERE NOT SUBMITTED TO  
ACCOUNTS PAYABLE ON A MONTHLY BASIS**

**Agency Response No. 2** There has been a challenge getting some entities reconciliation requests within the five (5) day period. This would subsequently cause the submission of the reimbursement request to Accounts Payable to be delayed as well. The Fiscal Officers, once there reports are completed, must have a Commanding Officer review and approve the Confidential Funds Monthly Reconciliation Report. There are times when this takes longer than the five (5) days. The department will continue to work towards compliance in this area.

**Finding No. 3: FISCAL MANAGEMENT DIRECTIVES WERE NOT UPDATED**

**Agency Response No. 3** DPD will continue to review and update its Directives as needed. Planning and Accreditation will be a key partner in this effort.





CITY OF DETROIT  
POLICE DEPARTMENT

Mr. Mark W. Lockridge

Subject: Response to Special Operations Imprest Cash Audit Findings

July 16, 2013

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Thank you for allowing me the opportunity to meet with you today to respond to your audit of the department's Special Operations Imprest Cash Account. If you have any questions, please contact me at (313) 516-2581, Monday through Friday, 8:00a.m. to 5:00p.m.

Sincerely,

A handwritten signature in blue ink, appearing to read "Tina M. Tolliver".

**TINA M. TOLLIVER**  
2<sup>nd</sup> Deputy Chief

TMT:jt