

**City of Detroit**

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**OFFICE OF THE AUDITOR GENERAL**



**Follow-up Audit of the Finance Department  
Accounts Division – Accounts Payable  
Section**

**July 2008 – December 2010**



**City of Detroit**  
**OFFICE OF THE AUDITOR GENERAL**  
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LOREN E. MONROE, CPA  
AUDITOR GENERAL

**MEMORANDUM**

**DATE:** May 10, 2012

**TO:** Honorable City Council

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

**RE:** Follow-up Audit of the Finance Department – Accounts Division -  
Accounts Payable Section

**CC:** Mayor Dave Bing  
Cheryl Johnson, Group Executive/Finance Director

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Attached for your review is our report on the Follow-up Audit of the Finance Department – Accounts Division - Accounts Payable Section. This report contains our audit purpose, scope, objectives, methodology and conclusions; background; our audit findings and recommendations; and the response from the Finance Department – Accounts Division - Accounts Payable Section.

Responsibility for the installation and maintenance of a system of internal control that minimizes errors and provides reasonable safeguards rests entirely with Accounts Payable 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 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.

We would like to thank the employees of Accounts Payable Section for their cooperation and assistance extended to us during this audit.

Copies of all of the Office of the Auditor General reports can be found on our website at <http://www.detroitmi.gov/CityCouncil/LegislativeAgencies/AuditorGeneral.aspx>.

**Follow-up Audit of the Finance Department –  
Accounts Division – Accounts Payable Section**

**July 2008 – December 2010**

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Finance Department - Accounts Payable Section

ATTACHMENT A

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

### **AUDIT PURPOSE**

The audit of the Finance Department – Accounts Division - Accounts Payable Section (Accounts Payable) 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 this audit was for the period July 1, 2008 through December 31, 2010. It was limited to following-up on the current status of the progress made toward implementing the recommendations of the OAG that were cited in the OAG prior audit issued on April 17, 2009.

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 overall audit objectives were:

- To conduct a follow-up review of the prior audit findings from the prior audit report;
- To assess Accounts Payable's internal controls related to financial transactions; and,
- To determine Accounts Payable's compliance with Finance Directives, policies, plans, procedures, laws and regulations.

### **AUDIT METHODOLOGY**

To accomplish our audit objectives, our audit work included:

- A review of prior audit reports;
- A review of pertinent ordinances, Finance Directives, policies and procedures;
- Interviews with Accounts Payable personnel and other personnel involved in the payment process;
- Observation and testing of Accounts Payable processes and procedures that we considered adequate to accomplish our objectives; and
- Other audit procedures necessary to accomplish our objectives.

## **CONCLUSIONS**

As a result of our audit we have concluded that:

- Six of the ten previously cited prior audit findings have not been resolved.
- Internal controls over the daily work are adequate although there were weaknesses in the internal controls related to non-routine functions.
- Accounts Payable was not fully compliant with Finance Directives, policies, plans, and procedures.

## **BACKGROUND**

The Accounts Payable Section (Accounts Payable) is part of the Accounts Division of the Finance Department. The Accounts Division is responsible for maintaining accounting controls, the pre-audit of expenditures, and processing all payments excluding payroll.

The following Finance Department goals are directly related to the responsibilities of Accounts Payable:

- Improve customer satisfaction by instituting business processes that meet the needs of departments, vendors, taxpayers and employees in an accurate and timely manner.
- Improve the City's financial position by maximizing revenues, controlling expenditures, managing exposure to risk, monitoring debt parameters and reporting financial information in an accurate and timely fashion.
- Improve the payment processing time by upgrading systems and continuously improving internal operations.

Accounts Payable has 12 budgeted staff positions. Christina Ladson was the General Manager of the Section from January 2, 2010 to September 12, 2011. Mike Bridges is the Interim General Manager.

Accounts Payable processes approximately 175,000 transactions each year representing payments made pursuant to approved purchase orders and contracts, and non-purchase order payments for such items as travel reimbursement, mileage payments, and employee reimbursements, and inter-departmental charges. Accounts Payable is responsible for issuing jury duty payments on behalf of the 36<sup>th</sup> District Court and checks for election workers. Payments are made by the issuance of checks and wire transfers.

## STATUS OF PRIOR AUDIT FINDINGS

The prior audit of the Finance Department – Accounts Division – Accounts Payable Section (Accounts Payable) formerly known as the Voucher Audit Section for the period July 2006 to June 2008, by the Office of the Auditor General, included the findings listed below.

1. Insufficient Controls Over Payments Made by Memo Wire Transfers  
*This finding has been resolved.*
2. The Accounts Payable Process Lacks Some Necessary Controls  
*This finding has not been resolved and is discussed in finding 1 on page 5.*
3. Inadequate Controls Over User Access to the Detroit Resource Management System Accounts Payable Module  
*This finding has been resolved.*
4. Payment Requests Are Sometimes Processed With Inadequate Documentation  
*This finding has not been resolved and is discussed in finding 2 on page 7.*
5. The Accounts Payable Section Lacks an Adequate Procedures Manual  
*This finding has been resolved.*
6. The Finance Department Does Not Properly Administer the Prompt Payment Ordinance and Finance Directives 63 and 143  
*This finding has not been resolved and is discussed in finding 3 on page 9.*
7. The Quick Check Process Is Subject to Abuse  
*This finding has been resolved.*
8. Lost Discounts Are Not Adequately Monitored  
*This finding has not been resolved and is discussed in finding 4 on page 11.*
9. The Imprest Cash Reimbursement Process Does Not Fully Comply With Policies and Procedures and Lacks Adequate Controls  
*This finding has not been resolved and is discussed in finding 5 on page 12.*
10. Filing and Record Retention Processes Are Not Adequate  
*This finding has not been resolved and is discussed in finding 6 on page 14.*

## AUDIT FINDINGS AND RECOMMENDATIONS

### **1. The Accounts Payable Process Lacked Some Necessary Controls**

The Accounts Payable Section (Accounts Payable) did not employ or maintain several of the controls that are standard for an accounts payable operation.

Specifically:

- No tests were conducted periodically to determine if duplicate payments have been made.
- No lists were maintained showing vendors that are indebted to the City or who became indebted to the City after their contracts were initially approved.

Good financial practices require that:

- Disbursements are tested periodically for duplicate payments.
- Funds are not paid to vendors who are indebted to the City. This can be done by comparing the list of contractors and vendors with lists of people or businesses that are indebted to the City created by all departments and agencies responsible for billing and collecting taxes and fees.

The absence of these controls can result in:

- An increased risk that duplicate payments will be made in error or that fraudulent payments can remain undetected.
- An increased possibility that taxes and fees owed to the City will not be collected despite the opportunity to recover those funds from entities that are benefiting from contracts with the City.

Accounts Payable management stated that a Duplicate Payment report is run once a year. The report does not list duplicate invoices, but indicates that there is a potential probability of duplicate invoices. The Accounts Payable does not have the manpower to conduct the payment research involved after the report has been run. The priority of the Accounts Payable Section is to enter invoices and clear the Holds Report. Management also stated that the Accounts Payable does not know who owes the city money and must rely on information from other city agencies and departments. Other agencies and departments have requested that Accounts Payable offset payments for specific vendors and when informed Accounts Payable has done so at the agency's or department's request.

The Finance Department has met with the Information Technology Service (ITS) Department, Revenue Collections Division, Human Rights Department, Income Tax Division, and the Purchasing Division to discuss electronically connecting modules so that payments can be deducted when vendors owe debts to the city, but this project has not been completed because it is not an ITS and Finance Administration priority at this time.

The Human Rights Department has begun renewing clearances according to each project rather than each vendor for the time period of one year.



## **Recommendations**

We recommend that:

- Accounts Payable acquire the necessary software to routinely check for duplicate payments, train personnel on the use of the software, establish a schedule for performing the analysis, and report the results to the Chief Financial Officer and the Mayor.
- An interdepartmental task force be established, coordinated by the Finance Department, to develop a method of acquiring information regarding the names of contractors and vendors indebted to the City along with the amount and type of fee owed and develop a data base of the information which can readily be updated and used by city agencies and departments.

## **2. Payment Requests Were Sometimes Processed With Inadequate Source Documentation**

Accounts Payable had processed payment requests with inadequate source documentation. Based on a review of 59 processed payment requests, invoices and payments did not consistently include the following information and/or documents:

- Twenty-two payment requests did not include tax identification numbers.
- One payment request had no vendor address.
- One payment request did not include an authorized signature.
- Two payment requests had no invoice numbers and dates.
- Six invoices had no Agency or Department Received stamps.
- Ten payment requests were not stamped by Accounts Payable as received.
- Fifteen payment requests had no Purchase Order Numbers.
- Two payment requests did not include Request For Authorization For The Purchase of Food and Refreshment Forms.

According to Accounts Payable policies and procedures, all invoices should contain and/ or include complete information regarding vendors. In addition, according to Finance Department policies and procedures, a Request For Authorization For the Purchase of Food and Refreshments Form must be approved for all food purchases.

Finance Directive 143 and Ordinance 42-98 require that all documents be adequately supported and that all requests for payment that lack adequate support and approvals be denied or returned to the requesting department. Good management practices require that all disbursements be adequately supported.

When there is a lack of sufficient supporting documentation of the invoices to be paid there is greater potential for incorrect, improper or fraudulent payments. It also facilitates the submission of fraudulent or inappropriate payment requests.

Accounts Payable management stated that missing information and documents is an oversight on their part. Staff will be retrained reiterating policies and procedures. Staff will also be updated on policies and procedures each year. Management added that the clerks are under a lot of pressure to get invoices into the system and match correct dollar amounts so that invoice payments can be made correctly.

### **Recommendations**

We recommend that:

- Payment requests which lack supporting documentation or which have incomplete supporting documentation be returned promptly to the requesting department.
- Payment requests that do not have the actual signature of the approver be returned to the approver for signature.

- All payment requests require a purchase order unless the vendor has been established as a non-purchase order supplier or employee.

### **3. The Finance Department Was Not in Compliance With the Prompt Payment Ordinance and Finance Directives 63 and 143**

The Finance Department was not in compliance with the Prompt Payment Ordinance. Based on our review, several invoices were paid more than 200 days late. The Prompt Payment Ordinance was passed in an effort to ensure that vendors are paid promptly and when they are not, they receive interest on the unpaid amount. Finance Directive 63 requires that all vendors be paid on a timely basis. Finance Directive 143 contains the rules and procedures required to be adopted under the Prompt Payment Ordinance.

The Prompt Payment Ordinance requires that:

- All necessary steps are taken to ensure that payment for a vendor is mailed or delivered within forty-five (45) business days after the City's receipt of an invoice issued pursuant to the terms of a contract or purchase order, excluding incorrect or disputed invoices.
- Interest is paid to the vendor in the amount of one half of one percent (0.5%) of the delinquent payment for the first month and one per cent of the payment for each succeeding month or portion thereof that the payment is past due.

Finance Directive 63 requires that:

- Vendors are paid on a timely basis.
- City departments are responsible for processing payment requests in a timely manner.
- Voucher Audit (Accounts Payable) monitor all payment documents submitted for processing, document all deviations from standards, and submit repeated instances of delayed processing to the Deputy Mayor.

Finance Directive 143 requires Accounts Payable to generate interest payments commencing on the 45<sup>th</sup> business day after receipt of the invoice by the City. Payment requests that extended beyond 45 business days from the date the invoice was received must have a written explanation from the department director of the reason for the delay and the remedial action that will be implemented to prevent the problem from recurring.

The intent of the Prompt Payment Ordinance has not been accomplished. Invoices are routinely paid more than 45 after their date and the city does not pay interest penalties. The late payment of invoices continues to contribute to the City's reputation that it does not pay vendors on a timely basis, which can discourage vendors from actively seeking to do business with the City.

Accounts Payable management stated that it is difficult to pay interest on vendor invoices because each clerk must calculate interest manually. In one instance three different Finance Department managers calculated interest for one invoice and arrived at three different amounts.

Management explained that the ITS Department could not automate the accounting system to pay the interest and that the Prompt Payment Ordinance the way it is

written is not realistic. The priority for the Accounts Payable Section is to make sure that the checks are processed for the correct amount.

### **Recommendations**

We recommend that:

- The Finance Department analyze payments made during the past year to determine the root causes for payments being made more than 45 days after the invoice date and develop strategies to correct the situation.
- The Finance Director present the strategies developed to the Mayor so that all agencies and departments can be directed to improve the payment process.
- The Finance Department review the Ordinance, Finance Directives 63 and 143, and the existing logistics of the payment process to determine if revisions or updates are needed and, if so, develop recommendations for changes in the Ordinance to be presented to City Council, and that the Finance Director issue the necessary revisions to the Finance Directives.
- The Finance Department enforce the current requirement that all payment requests that extend beyond 45 business days from the date the invoice was received have a written explanation from the agency or department director of the reason for the delay and describing the remedial action that will be implemented to prevent the problem from recurring before the payment can be made.
- Accounts Payable pay interest as required under the Ordinance and submit a report of the interest paid, including the agency or department responsible for the late payment, to the Mayor and the City Council on an annual basis.
- City Council conducts an annual review of the penalty interest rate as required by the Ordinance.

#### **4. Lost Discounts Were Not Adequately Monitored**

Accounts Payable did generate a Lost Discount Report, but no action was taken as a result of the report. Information concerning lost discounts was not disseminated to departments, the Mayor, and City Council. This condition has been cited in audit reports as long ago as 1986.

Management has a responsibility to use City funds in the most efficient and cost effective manner. It is incumbent on City management, in every City agency and department as well as in Accounts Payable, to keep expenditures as low as possible without affecting quality or service levels.

Discounts not taken should be monitored by upper management so it can determine whether they represent unnecessary and/or excessive expenditures. For example, not taking a 2.0% discount over a 20-day period effectively represents a series of 18 short-term loans (360/20 days), which equates to the city paying approximately 36.0% interest on an annualized basis. In other words, it may be much cheaper to pay within the discount period. Failure to properly utilize the tools available to effectively manage the amount of discounts not taken can result in discount expenditures being much higher than necessary. Agencies and departments should be held accountable, particularly during times of financial crisis, for not effectively utilizing all methods available to reduce expenses and maximize revenues.

Accounts Payable management stated that invoices are received in the Accounts Payable Section from city agencies and departments usually three to four months after they are received by city agencies and departments. If there is a discount period, it has already elapsed and check requests do not indicate any discount amounts. It seems that monitoring lost discounts is not the priority of Accounts Payable.

#### **Recommendations**

We recommend that:

- Accounts Payable provide the dollar amount of lost discounts to the Mayor, City Council, agencies, and relative departments annually.
- All agency and department directors are held accountable by the Mayor and City Council for maximizing savings by taking advantage of discount opportunities that saves the City money on an annual basis.

## **5. Accounts Payable Did Not Fully Comply With the Policies and Procedures of the Imprest Cash Reimbursement Process**

Based on a review of 30 imprest cash payments, it was determined that Accounts Payable had processed Imprest Cash Reimbursement Requests, which contained and/or included the following:

- Eleven requests with mileage reimbursements and parking tickets
- Two requests with vendors which are set up in the Detroit Resource Management System
- Seven requests without the Schedule of Expenses
- Seven requests with supporting receipts not signed by the employee
- Five requests with payments over \$100 that were more than 30 days late and not approved by Finance Administration
- Five reimbursements were made to employees without the word "Custodian" after his or her name
- One request with sales tax on items purchased.

According to Finance Department Imprest Cash policies and procedures, all payment requests should include a Schedule of Expenses and all receipts signed by employees. No vendors set up in DRMS should be paid through the Imprest Cash process. Finance Administration must approve all payments over \$100 that are more than 30 days late. Sales taxes should not be reimbursed. The word "Custodian" should appear along with employee names.

According to Budget Directive 10-02, agencies and departments must submit a Private Car Reimbursement Authorization Schedule for employee mileage and parking.

Imprest Cash Reimbursement Payments should be processed in accordance with Finance and Budget Department policies and procedures. The risk of improper, inappropriate, and/or fraudulent imprest cash transactions being reimbursed is increased when there are no uniform policies and procedures in place and enforced.

Accounts Payable management stated that one problem is when imprest cash reimbursement payments are rejected by Accounts Payable and sent back to city agencies and departments according to policies and procedures. Agency representatives and department directors contact the Finance Department who override Accounts Payable management decisions and Accounts Payable is forced to make reimbursements based on the incorrect and inadequate documents.

Another problem is when the Imprest Cash Manual was distributed no one was trained on the contents of the manual. City agencies and departments are using the imprest cash accounts for their convenience rather than emergency situations.

**Recommendations**

We recommend that:

- All Accounts Payable clerks complete Imprest Cash training.
- All agency and department Imprest Cash Custodians complete Imprest Cash training, and
- Accounts Payable implement Imprest Cash policies and procedures uniformly regardless of which clerk is assigned payment responsibilities.



## **6. Record Retention Procedures Were Not Adequate**

During the review of the adequacy of controls over Accounts Payable filing and record retention practices, it was determined that although the transaction records appeared to be maintained and organized, they were not properly secured and/or safeguarded in the basement storage area as described in the prior audit report.

According to the State of Michigan Records Management Services Division guidelines, all documentation retained for the efficient operation of the City must comply with record retention guidelines, which include a safe and secure location. Particular attention must be given to records subject to legal retention requirement. Confidential information must be safeguarded against inappropriate access and use.

Critical records may be lost, removed, or destroyed. Records needed to answer subpoenas or Freedom of Information requests may not be available. Confidential information may not remain confidential and certain information such as payroll registers may permit unauthorized access to employee and vendor data.

A representative of the Finance Department stated that a long-term records' storage and retention plan will be considered to address with issue.

### **Recommendations**

We recommend that:

- The Finance Department assumes responsibility for the basement storage area and properly secures confidential files.
- The Finance Department develops a long-range plan to scan documents and store them in a retrievable electronic format.

## **FINDING RELATED TO OTHER DIVISION**

### **1. Vendor Information in the Detroit Resource Management System Was Incomplete**

Vendors were established in DRMS without a valid employer taxpayer identification number or social security number (tax identification number). The Finance Department – Purchasing Division is responsible for establishing vendor files.

Finance Directive 143 requires that each invoice have a Federal Tax Identification Number in order to be processed. The City's Supplier Application and related forms including the Income Tax Clearance form, all require that a taxpayer identification number be provided. A W-9 form (Request for Taxpayer Identification Number and Certification) is also required under Purchasing Division policy.

Internal Revenue regulations require that payments of \$600 or more for services performed by people not treated as employees, payments to physicians or physicians' corporation and gross proceeds paid to attorneys must be reported.

Vendor files should be periodically purged to remove inaccurate information or information related to vendors who have never received a payment or have never been active. All vendor information should be verified for accuracy.

Without a taxpayer identification number, IRS reporting requirements cannot be complied with. Failure to file required 1099 forms or failure to provide a taxpayer identification number on the form could result in penalties being levied, from \$15 to \$50 per form with a maximum fine of \$250,000. (Note: Proposed Internal Revenue Rules effective for payments made after December 31, 2011 will require all government entities to withhold taxes on all payments of \$10,000, or more to all persons [including individuals, partnerships and corporations] providing property or services to the government provided that the entity's total payments for property and services is \$100 million or more annually. Failure to withhold as required will result in the government entity becoming liable for the payment of the tax.)

Maintaining outdated or incorrect vendor information can result in this information being used. Inaccurate classification of vendors can result in information not being properly reported to the IRS.

Account Payable did not provide an explanation as to why vendor files are not accurate or the reason vendor names do not have taxpayer identification numbers.

### **Recommendations**

We recommend that the Purchasing Division:

- Require that all vendors, new and existing, have valid employer tax identification numbers or social security numbers on file.
- Obtain and enter valid taxpayer identification numbers for all vendors in the DRMS system.

- Take whatever steps necessary to have the DRMS Purchasing module modified to prohibit vendors being set up without the tax identification information being entered.
- Purge the vendor list subject to the requirements of Finance Directive 99 (Record Retention).
- Review all vendor organization types for accuracy, correct any incorrect information, and enter all missing information.

## AUDIT ISSUES AND CONCERNS

### City Agencies and Departments Do Not Consistently Adhere to Accounts Payable Policies and Procedures

The failure of City agencies and departments to follow the policies and procedures related to processing payment requests contributes to the processing problems. Payment requests submitted to Accounts Payable do not always have sufficient documentation and information to permit the request to be processed. Recurring problems include:

- Late submission of invoices. During the testing process it was noted that invoices continue to be submitted several months after the invoice date. Late submissions included invoices for routine, recurring expenditures.
- Purchase Orders are set up in DRMS incorrectly and/or have not been approved according to the DRMS Hierarchy.
- Invoices are not date stamped by the department upon receipt, which prevents an accurate determination of the delinquency of the submission to Accounts Payable. The creation of the purchase order in DRMS subsequent to the receipt of the goods and services or the invoice.
- Failure of the submitter to review the hold report for requests that could not be processed, and therefore corrective action is not undertaken promptly. Manually placed holds do not expire, which means that the invoice can remain on hold or not be paid indefinitely.

When agencies and departments submit incorrect or incomplete payment requests, the payment process is delayed while Accounts Payable and the submitters correct the problems. This delay can be extensive, particularly if the department is not reviewing the Invoice on Hold report. Late submission of invoices often results in vendors contacting Accounts Payable multiple times in an effort to determine why their payment has not been received. Failure to date stamp the invoice when it is received precludes the proper application of the Prompt Payment Ordinance. All of these situations create delays and inefficiencies in the payment process.

City agencies and departments are not familiar with Accounts Payable policies and procedures.

We recommend that:

- The Chief Financial Officer apprise the Mayor and the Directors of agencies and departments of the necessity of improving the payment submission process in order to make sure that the problem will receive attention and corrective action at the departmental level.
- The Finance Department develop and issue a new Finance Directive, which supersedes all relevant prior directives, outlining the current procedures to be followed in submitting a payment request. It should include the requirement that all departments and agencies must review their hold report daily.

- All departments obtain any necessary DRMS training to process payments.
- All departments attend the training being developed by the Accounts Payable.
- Accounts Payable develops a plan to notify applicable department directors of holds that have been outstanding for 30 days or more, and to provide a copy of the report to the Chief Financial Officer.
- The Finance Department provide all departments and agencies with information on setting up recurring payments with Accounts Payable as part of the year-end closing meeting and instructions.



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## ATTACHMENT A

DATE: April 5, 2012

TO: Loren E. Monroe, CPA  
Auditor General

FROM: Cheryl R. Johnson, Group Executive/Finance Director

RE: Responses to Follow-up Audit of the Finance Department – Accounts  
Division – Accounts Payable Section

Attached are the Finance Department's responses for findings contained in the Follow-up Audit of the Finance Department –Accounts Division – Accounts Payable Section (July 2008 – December 2010)

### 1. Finding Number 1 - The Accounts Payable Process Lacked Some Necessary Controls

#### Response:

*Through the Oracle system, Accounts Payable has the ability to generate reports regarding payment history and duplicate payments. Continued cooperation between Accounts Payable and the departments will result in minimized duplicate payments. The review and follow-up of these reports will be put in place.*

### 2. Finding Number 2 - Payment requests were sometimes processed with inadequate Source Documentation

#### Response:

*The Accounts Payable Division has reviewed the policies and procedures regarding required support documentation for payments. Revisions were made to the policy to ensure safeguards are in place to ensure that complete and accurate supporting documentation is provided along with check requests.*

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*The Accounts Payable Division also updated their Referral Form. This form is used when invoices are returned to the departments because there are deficiencies or incorrect information. The form was revised to make it clearer to departments what action is required for the invoice processed.*

*In an effort to ensure departments are apprised of the requirements of Accounts Payable, departmental meetings were conducted with the various agencies' Payment Liaisons and management to reinforce the policies. Training is ongoing for the staff of Accounts Payable to ensure that all staff is educated on the policies and procedures governing Accounts Payable. Accounts Payable will continue to explore best practices for updating our current processes to ensure compliance with accounting principles.*

3. Finding Number 3 – The Finance Department was not in Compliance with the Prompt Payment Ordinance and Finance Directives 63 and 143

Response:

*There are various reasons as to why payments are made beyond the 45 day period ranging from delivery of goods and/or services prior to the approval of a purchase order to invoices that have not been received by the departments. A valid City of Detroit purchase order along with receipt of the vendor's invoice is the driver for collection of interest payments under the Prompt Payment Ordinance. If these requirements are not met, the vendor cannot collect interest payments. Although this ordinance is intended to be self-enforcing, human resource and systematic limitations do not automatically generate interest payments for payments made beyond the 45-day period.*

4. Finding Number 4 – Lost Discounts Were Not Adequately Monitored

Response:

*Optimizing the City's ability to take advantage of discounts offered by vendors will require a joint effort between the departments, Purchasing and Accounts Payable. As noted in the report, often times Accounts Payable receives check requests after the discount period has lapsed. In addition, most check requests do not indicate any discount terms exist and thus the invoices are processed as Net 30 or Net 45. If a vendor offers a discount on a particular invoice, that invoice has to be submitted within that period and the check request must clearly indicate those terms.*

*Accounts Payable can generate a report through Oracle that identifies all payments made utilizing discounted terms. This report is generated on an ad hoc basis and not part of a normally scheduled review process. Currently, this is not done due to limited resources and the lack of sufficient data.*

*In addition, due to the current financial condition of the City, the timely payment of all invoices is not practical.*

5. Finding Number 5 – Accounts Payable Did Not Fully Comply With the Policies and Procedures of the Imprest Cash Reimbursement Process

Response:

*There has been an effort in Accounts Payable to have all staff cross-trained on the different assignments, such as processing Imprest Cash Reimbursements. This finding is a result of departments submitting reimbursement requests through the normal check request process and not through the Senior Voucher Audit Clerk who handles all imprest cash reimbursement requests. Items that would have been easily identifiable by the designated clerk may have been overlooked by the other staff members that are not familiar with the imprest cash requirements.*

*The Accounts Payable Division has distributed the Imprest Cash Manual, which was revised in 2011 to all staff members. Training on imprest cash reimbursements and other Accounts Payable policies and procedures is ongoing.*

6. Finding Number 6 – Record Retention Procedures Were Not Adequate

Response:

*It is important to point out that current files (up to two years) are maintained in the Accounts Payable area that is accessible only by staff and locked after hours. The files stored in the basement are stored in an area that is shared by all divisions of Finance. This is the area designated to store files that are older than two years, but less than four years old. Due to the fact that this area needs to be accessible to all divisions, there is no locked entry into the area. However, any files that are older than four years are maintained at DWSD Huber facility in a locked storage area until the retention period has ended.*



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*Whereas, the Accounts Payable area acknowledges the finding, space limitations preclude the storage of all files in the office until they can be archived and stored at the Huber facility. Accounts Payable looks forward to exploring the viability of an electronic document storage and retrieval solution, which would improve record storage and access for the department.*

Please let me know if you require further information or have additional questions.