

City of Detroit

OFFICE OF THE AUDITOR GENERAL



**Follow-up Audit of the
Finance Department
Treasury Division**

April 2009 – March 2011




City of Detroit
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LOREN E. MONROE, CPA
AUDITOR GENERAL

MEMORANDUM

DATE: October 14, 2011

TO: Honorable City Council

FROM: Loren E. Monroe, CPA
Auditor General 

RE: Follow-up Audit of the Finance Department – Treasury Division

CC: Mayor David Bing
Cheryl R. Johnson, Group Executive/Finance Director

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

Responsibility for the installation and maintenance of a system of internal control that minimizes errors and provides reasonable safeguards rests entirely with Treasury Division and the Finance Department. Responsibility for monitoring the implementation of recommendations is set forth in Section 4-205 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 the Treasury Division 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>.

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April 2009 – March 2011

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Finance Department

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AUDIT PURPOSE, SCOPE, OBJECTIVES, METHODOLOGY AND CONCLUSIONS

AUDIT PURPOSE

The follow-up audit of the Finance Department - Treasury Division was performed in accordance with the Office of the Auditor General's (OAG) charter mandate to investigate the administration and operation of all City agencies at least once every two years and report findings and recommendation to the City Council and the Mayor.

AUDIT SCOPE

The scope of the audit is for the period of April 1, 2009 to March 31, 2011 and includes the follow-up of prior audit findings.

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;
- To assess the Finance Department – Treasury Division's internal controls related to financial transactions, and
- To determine the Finance Department – Treasury Division'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 the prior audit report.
- A review of prior audit work-papers, City Charter, Municipal Manual, Detroit Resource Management System reports, budget reports, the Comprehensive Annual Financial Report, and organization charts.
- Gathering policies and procedures of core operations and other similar data.
- Conducting an audit-planning meeting to determine the scope and audit objectives.
- Developing questions regarding the Division's transactions, controls, functions, records, and personnel.
- Interviewing department personnel.
- Documenting and testing processes.

CONCLUSIONS

As a result of our audit we have concluded that:

- Of the seventeen Treasury Division audit findings from the prior audit report, eleven remain unresolved and six were resolved.
- There were some deficiencies in the recording and accounting of financial transactions.
- The Treasury Division was not in compliance with some Finance Directives, policies, and procedures.

BACKGROUND

The Finance Director, with the consent of the Mayor, appoints the Treasurer of the City of Detroit. The Treasurer serves at the pleasure of the Finance Director.

According to the City Charter, the Treasurer shall:

- Collect all moneys of the city and receive from other officers and employees all moneys of the city collected by them;
- Have custody of all moneys, funds and securities of the city, keep accounts of them and deposit them as directed by law or ordinance; and
- Except as otherwise provided by this Charter or ordinance, have such powers and immunities for the collection of taxes as provided by law.

Timothy Ngare served as Interim Treasurer from April 2009 through June 30, 2009. Cheryl R. Johnson, the current Treasurer, was appointed in July 2009.

	<u>Fiscal Year Ended June 30</u>	
	<u>2010</u>	<u>2011</u>
Budgeted Appropriations	\$4,611,555	\$4,248,697
Budgeted Revenues	<u>1,985,472</u>	<u>1,736,612</u>
Net Tax Cost	<u>\$2,626,083</u>	<u>\$2,512,085</u>
Number of Staff	53	44

STATUS OF PRIOR AUDIT FINDINGS

The prior audit of the Finance Department – Treasury Division for the period April 1, 2007 to March 31, 2009, by the Office of the Auditor General, included the findings listed below. The date following the finding indicates the date of the audit report in which the finding was first reported.

1. The Treasury Division Does Not Adequately Manage the City's Bank Accounts (June 1991)
This finding has not been resolved and is discussed in Finding 3 on page 8.
2. The Revenue Collection Unit Fails to Manage Revenues and Accounts Receivable (June 1987)
This finding has not been resolved and is discussed in Finding 5 on page 10.
3. The Treasury Division Lacks an Effective, Integrated Property Tax Billing and Collection System (March 2009)
This finding has not been resolved and is discussed in Finding 4 on page 9.
4. The Treasury Division Does Not Notify Taxpayers of Property Tax Overpayments
This finding has been resolved.
5. Property Tax Subsystems Cannot Be Reconciled to the Detroit Resource Management System (June 1981)
This finding has not been resolved and is discussed in Finding 2 on page 7.
6. Controls Over Cash Receipts and Cash Handling Are Inadequate (June 1993)
This finding has not been resolved and is discussed in Finding 6 on page 11.
7. The Treasury Division Does Not Adequately Manage the Non-sufficient Fund Check Process
This finding has been resolved.
8. The Treasury Division Does Not Comply with the Michigan Uniform Unclaimed Property Act of 1995
This finding has been resolved.
9. The Treasury Division Does Not Adequately Manage Unclaimed Property
This finding has been resolved.
10. The Treasury Division's Imprest Cash Did Not Agree with the Authorized Amount
This finding has been resolved.
11. The Treasury Division Does Not Adequately Manage Imprest Cash (June 1991)
This finding has not been resolved and is discussed in Finding 7 on page 12.
12. The Treasury Division Lacks Appropriate Segregation of Duties (March 2009)
This finding has not been resolved and is discussed in Finding 8 on page 14.
13. Management and Oversight of the Vault Room Is Inadequate (March 2009)
This finding has not been resolved and is discussed in Finding 9 on page 15.

14. The Treasury Cash Management Project Has Not Been Adequately Managed (March 2009)
This finding has been resolved.
15. Controls Over the Teller Computer System Are Inadequate (March 2009)
This finding has not been resolved and is discussed in Finding 10 on page 16.
16. The Treasury Division Failed to Adequately Control Capital Assets (March 2009)
This finding has not been resolved and is discussed in Finding 11 on page 17.
17. The Treasury Division Did Not Comply with Year-end Closing Procedures (March 2009)
This finding has not been resolved and is discussed in Finding 12 on page 19.

AUDIT FINDINGS AND RECOMMENDATIONS

1. Poor Management Oversight of Wayne County Delinquent Tax Settlements

Each year since 2005, the City provides Wayne County with a detailed list of delinquent property tax accounts. Wayne County advances the City payments of the total delinquent taxes and prepares monthly delinquent tax settlement reports. Wayne County attempts to collect the taxes owed either from the taxpayer or through the sale of the property at a tax sale, and offsets any amounts not collected against subsequent payments due to the City for delinquent accounts.

During our review of the monthly delinquent tax settlement reports submitted to the Treasury Division by Wayne County, our staff discovered a check payable to the City, in the amount of \$38,729.94. The check dated January 6, 2010, had not been deposited and was still attached to the settlement report. As a result of our discovery, the Treasury Division conducted a search and found a second check for \$318,902.63, dated October 7, 2009, which had not been deposited.

Finance Directive #20 states that all City departments should immediately institute procedures to ensure that all cash and checks are deposited in the bank and recorded in DRMS within 48 hours after receipt.

Failure to deposit negotiable instruments received resulted in the potential loss of \$357,632.57 if not discovered. Failure to deposit funds in accordance with Finance Directive #20 can result in the theft, fraud, or misappropriation of City funds.

The OAG determined that due to a lack of management oversight of the Monthly Delinquent Tax Settlement process, the funds were not deposited.

Recommendations

We recommend that the Treasury Division:

- Work with Wayne County to obtain detailed information concerning the property tax accounts being charged back to the City, and develop procedures to ensure all delinquent tax settlement checks are deposited.
- Ensure that all funds are deposited in accordance with Finance Directive #20.

2. Property Tax Subsystems Cannot Be Reconciled to the Detroit Resource Management System

Property tax records are maintained in three separate computer systems: the Billing and Accounts Receivable System (BARS), Equalizer, and the Detroit Resource Management System (DRMS). BARS contains information on property tax accounts through fiscal year 2002. Equalizer contains information on property tax accounts since 2002. DRMS contains summary property tax information. Due to the lack of detailed account information received and non implementation of the delinquent tax module, an accurate reconciliation of property tax information in BARS and Equalizer to DRMS cannot be completed.

The Accounting Procedures Manual for Local Units of Government in Michigan dated July 2007 states that a reconciliation of the general ledger and supporting ledgers be performed in a timely manner. Generally accepted accounting principals require that subsidiary accounts (BARS, Equalizer) be reconciled periodically to the related control ledger account (DRMS) to provide reasonable assurance of the accuracy and reliability of the records.

Failure to perform reconciliations increases the possibility of undetected errors. Accurate information may not be available for the City's financial statements.

According to Treasury personnel, the Treasury Division was instructed by BS&A (the vendor who recently upgraded the property tax system) not to implement the delinquent tax module until the upgrades to the property tax system have been implemented. Treasury stated that the upgrades have been completed and the implementation of the delinquent module is scheduled to take place in August 2011.

Recommendation

We recommend that the Treasury Division reconcile the BARS and Equalizer data to the appropriate DRMS accounts periodically to provide reasonable assurance that these records are reliable.

3. The Treasury Division Does Not Adequately Manage the City's Bank Accounts

The Treasurer is responsible for the custody and management of the City's bank accounts. This responsibility includes the opening and closing of bank accounts, the maintenance of bank account records, and the safeguarding of the funds. Based on our testing, it was determined that the Treasury Division does not ensure that City agency bank accounts are promptly and properly reconciled and does not enforce the requirement that all bank reconciliations are submitted.

Chapter 3, Section 6-305 of the City Charter requires that the Treasurer have custody of all monies, funds, and securities of the City and keep accounts of them.

According to the Monthly Bank Reconciliation memo dated February 28, 1998, issued by the Finance Department, "Beginning immediately, all Agencies that have bank accounts tied directly to their funds must complete a monthly reconciliation. This reconciliation must be completed no later than 45 days after the bank statement date and sent to the Treasury Division Room 150.

Failure to adequately manage the bank accounts results in cash not being utilized in an efficient and effective manner. The lack of adequate control over bank accounts provides greater opportunity for unauthorized use or loss of funds.

According to Treasury personnel, due to a lack of staffing levels, monthly bank reconciliations were not recorded and reviewed on a timely basis.

Recommendation

We recommend that the Treasury Division ensure that bank reconciliations are submitted and reviewed according to City policy and procedures.

4. The Treasury Division Lacks an Effective, Integrated Property Tax Billing and Collection System

The Treasury Division currently utilizes two software programs to bill and collect property taxes. The Billing and Accounts Receivable System (BARS) is the older of the two programs. The historical information in the BARS system cannot be transferred to the new system, which is Equalizer. BARS data is currently on a mainframe computer system, where reports can only be generated by the Information Technology Services Department (ITS). In our last audit we reported that the BARS system was not supported by our ITS. Data in BARS has not been archived into a web based format, as a result historical data regarding property tax is not accessible to other City departments or the public.

The Control Objectives for Information and related Technology (COBIT) is a set of generally accepted measures, indicators, processes, and best practices to provide IT governance. COBIT 4.0 requires that organizations should have processes for the acquisition, implementation and upgrade of technology infrastructure. This requires a planned approach to acquisition, maintenance and protection of infrastructure in line with agreed technology strategies.

The City and property tax revenue are at risk when computer systems are not adequate and are not supported as the City's ability to properly process delinquent taxes is limited.

Treasury personnel stated that the cost to archive BARS data, and the fact that other City agencies utilize BARS data, prohibits the data from being archived.

Treasury personnel stated that they were instructed by BS&A not to implement the delinquent tax module until the upgrades to the property tax system have been completed. The upgrades to the property tax system were completed in July 2011.

Recommendations

We recommend that the Treasury Division:

- Ensure the completion of the archiving of BARS data into a web-based system.
- Implement the delinquent tax module in Equalizer.

5. The Revenue Collection Unit Fails to Manage Outstanding Accounts Receivable

The Revenue Collections Unit did not adequately manage outstanding accounts receivables by failing to provide the Law Department with a listing of write-off uncollectible accounts in accordance with Article VI (Uniform Procedure for Accounts Receivable) Section 18-6-6 of the Detroit Municipal Code.

According to DRMS, the total outstanding accounts receivable, excluding interdepartmental receivables and property taxes, is \$73.9 million of which \$42.5 million has been outstanding for more than 361 days.

Article VI (Uniform Procedure for Accounts Receivable) of the Detroit Municipal Code requires:

- Departments are required to use diligent effort for a period not to exceed thirty days from date of issuance to effect collection of accounts receivable. (Section 18-6-3)
- After a reasonable period of time and after all efforts have been exhausted by the City Treasurer to collect the accounts, the accounts are to be submitted to the Corporation Counsel (Law Department) for the necessary legal proceedings. (Section 18-6-4)
- Accounts, which are determined by the Corporation Counsel to be uncollectible, may be adjusted or cancelled upon the approval of the City Council. The department originating the account shall forward the accounts to City Council. (Section 18-6-6)

The failure to effectively manage accounts receivable reduces the amount of revenue available to the City to pay for City operations. Public knowledge of the lack of collection efforts undermines the City's reputation.

Treasury personnel stated that a Deputy Director, who is no longer employed by the City, was directly responsible for the management and oversight of the Revenue Collections Unit. Treasury staff stated the failing to write-off of uncollectible receivables may be directly attributed to the lack of previous management oversight.

Recommendation

We recommend that the Treasury Division Develop recommendations for necessary changes in the collection process contained in Article VI of the Detroit Municipal Code.

6. Controls Over Cash Receipts and Cash Handling Are Inadequate

Based on our examination of controls over the cash receipts and cash handling processes, the following conditions were noted:

- Processing of Cash by Tellers
 - There are no established cash drawer limits for tellers.
- Deposit Process
 - Tellers prepare their own deposits, which are not counted and verified before being deposited to the bank.
 - Cash deposits are walked to three different banks by an employee and two policemen.

Standard cash handling practices require that:

- Cash limits are established for the total amount that can be kept on the premises, in the vault, and in each teller's drawer.
- Cash deposits be reviewed and verified by management.
- The practice of hand carrying deposits to the bank should be avoided.

Failure to maintain adequate controls over cash receipts can result in multiple abuses including theft or misappropriation of receipts, inaccurate financial records, and inaccurate accounts receivable records. Without a physical count of cash receipts on the day received, accountability is weakened. Discrepancies, errors or shortages are not discovered timely making correction or recovery more difficult.

According to Treasury staff, policies and procedures, which include cash drawer limits, are currently in the process of being drafted. Staff is knowledgeable of cashier operations, which include not accumulating cash in the top cash drawer. Treasury staff stated that tellers are responsible for preparing their own deposit in order to ensure that the teller is solely responsible for any adjustments made by the bank to the deposit. The OAG observed the procedure and determined that due to inadequate operating procedures; deposits are currently hand carried to the banking institutions.

Recommendations

We recommend that the Treasury Division:

- Establish and enforce reasonable teller drawer limits.
- Ensure that teller deposits are counted and verified by supervisory authority prior to being deposited.
- Review the feasibility of contracting with armored car services when depositing funds to financial institutions.

7. The Treasury Division Fails to Adequately Manage Imprest Cash

During the audit the following conditions were found:

- Daily revenue was commingled with imprest cash funds.
 - The imprest cash account is utilized as a cashier starting drawer change fund.
 - Tellers are given a specific amount of imprest cash to keep and use each day to make change during routine transactions. The tellers' imprest cash funds are not audited on a regular basis nor are they always separated from daily cash receipts prior to a deposit being made.
- The policies and procedures specified in the imprest cash manual were not followed. Specifically:
 - The Treasury Division did not routinely conduct quarterly independent audits of its imprest cash funds and retain written records of such audits for review by the Auditor General.
 - Surprise cash audits are not routinely performed.

The Imprest Cash Manual requires that:

- All imprest cash funds must be kept in a secured location and must not be commingled with private funds or with other departmental funds.
- At a minimum, quarterly audits of the imprest cash fund must be performed and written records must be retained until the next audit by the Auditor General. In addition, supervisors or accounting personnel must make periodic audits of the imprest cash fund. In addition to the normal reconciliations and periodic audits, good cash control practices require surprise cash counts be conducted when there are large amounts of cash involved, to ensure the integrity of the cash at all times.

Imprest cash funds are susceptible to misuse, theft, and other loss. Failure to follow the controls of the Imprest Cash Manual increases the risk that discrepancies, loss, or misuse of imprest cash will not be identified and resolved promptly. The Treasury Division has experienced shortages and losses in their imprest cash. Failure to segregate imprest cash from other cash receipts may delay the discovery of shortages or overages of imprest cash. Additionally, failure to conduct surprise cash counts, prepare monthly reconciliations and audit imprest cash quarterly creates an environment in which theft, misappropriate or processing errors can occur and remain undetected.

According to Treasury staff, the imprest cash funds are utilized by the tellers as a starting cash drawer fund. The OAG determined that due to a lack of effective management oversight quarterly and surprise cash audits are not completed as necessitated.

Recommendations

We recommend that the Treasury Division:

- Immediately discontinue the practice of commingling imprest cash funds with cash receipts, and fully comply with the imprest cash manual.
- Establish a cashier starting drawer fund separate from imprest cash funds.

8. The Treasury Division Lacks Appropriate Segregation of Duties

During our assessment of the Treasury Division's internal controls, we noted that the head teller, who is also the imprest cash custodian, has access to the daily cash receipts and functions as a teller as necessary.

A primary internal control is the appropriate segregation of functional responsibilities or duties. The four general categories of responsibility are: custody, authorization, record keeping and reconciliation. Ideally, a different employee should perform each of these four major functions. Responsibility for all of these functions should never be vested in one person, particularly as it relates to cash, which is highly susceptible to theft and misuse. If adequate segregation of duties cannot be achieved, compensating controls must be implemented to reduce the possible risks.

Inadequate segregation of duties, particularly cash-related duties, provides the opportunity for multiple abuses including theft of funds, inappropriate expenditures, and inaccurate financial records.

The Treasury Division was unable to provide an explanation upon request.

Recommendations

We recommend that:

- The cash handling activities be divided among departmental employees in order to achieve proper segregation of duties;
- The head teller should not be responsible for and have access to revenue and the imprest cash fund;
- If duties cannot be segregated, an employee independent of the cash handling function should perform frequent, periodic and detailed reviews of the work performed by employees having incompatible duties, and
- Duties should be periodically rotated among employees, and a supervisor or manager should periodically perform each employee's responsibility as a means of providing appropriate management oversight.

9. Management and Oversight of the Vault Room Is Inadequate

There is a vault room (vault) located in the Treasury Division that provides a secure storage area for cash and important records. It contains two safes, file cabinets and shelves. One safe has individual compartments with combination locks that are used to store the cash of individual tellers. Entry to the vault is controlled through use of a timed lock, and a combination with limited distribution. Access is further limited by its location behind locked doors. The following deficiencies were noted concerning the vault:

- Footage from the security cameras is not archived after 30 days.
- There are no written policies regarding access to the vault or the safes.

Standard best practice requires that security footage should be maintained for an adequate amount of time.

The Accounting Procedures Manual for Local Units of Government in Michigan date July 2007 states that control activities require that policies and operating procedures in every department are written down and communicated to employees.

Due to a lack of effective management over control operations, inefficient and ineffective past operating practices are currently followed.

Recommendations

We recommend that the Treasury Division:

- Establish written policy and procedures related to the accessing of vaults and safes.
- Archive digital video recordings.

10. Controls Over the Teller Computer System Are Inadequate

The tellers use Netvantage software to process transactions. Based on our examination of controls over the teller software and the computer system we noted that there is no contingency plan in place in the event of a software or hardware failure.

The Government Finance Officers Association (GFOA) recommends that every government formally establish written policies and procedures for minimizing disruptions resulting from failures in computers or other advanced technologies following a disaster. These written policies and procedures should be evaluated annually and updated periodically, no less than once every three years.

Failure to establish a written policy and procedures contingency manual could allow for the disruption of services which may result in significant inconvenience to those whom a government serves.

The OAG determined that due to the resistance or unwillingness to change, controls over the teller computer system are inadequate.

Recommendation

We recommend that a backup and disaster recovery contingency plan be established.

11. The Treasury Division Failed to Adequately Control Capital Assets

We selected a sample of 18 capital assets located in the Treasury Division and traced their City tag numbers to the Capital Assets System's (CAS) Asset Inventory Report to verify the completeness of the report. Based on our testing, we determined the following:

- None of the capital assets reviewed were listed in the CAS.
- Three of the capital assets reviewed did not have a City issued tag number.

Based on our review over the controls over capital assets, we determined that the Treasury Division's capital assets coordinator does not have access to the CAS module in the Detroit Resource Management System (DRMS).

The City's Capital Asset Policy and Procedure Manual requires that:

- All capital assets including real property, works of art, infrastructure, taggable and controlled assets shall be recorded in the City's Capital Asset system and reported to the Finance Capital Asset Section (FCAS) within three business days from the physical receipt of the assets by the recipient department.
- Certain equipment such as a computer system (workstation) that consists of separate integrated components (CPU box, monitor, keyboard and mouse) shall be considered as one unit. In such cases, only one tag should be affixed to the major component (as in the above example, the CPU box).
- Each Agency designates a Capital Assets Inventory Coordinator to plan and execute the physical inventory of the Agency's capital assets. City Department shall perform an inventory update of their capital assets at least annually before the end of each fiscal year and reconcile to the Oracle capital asset inventory report.

Non-compliance with the Capital Asset Policy reduces the effectiveness of the policy and the controls it is designed to impose. Non-compliance with the policy impairs the City's ability to properly record all assets in the financial records and safeguard assets to prevent losses.

According to the Treasury Division, the Capital Asset Coordinator did not have access to the CAS module; therefore capital assets were not entered into the CAS. Treasury personnel stated that they were not aware of the requirement to tag capital assets within 3 days of receipt and in its place tagged capital assets upon disbursement to personnel.

Recommendations

We recommend that the Treasury Division abide by the Capital Asset Policy Guide and Procedure Manual, which requires:

- Recording all acquisitions, transfers and disposals in the CAS system; and
- Ensuring that all personnel responsible for capital assets have the necessary training to perform their job and are aware of their role within the Department.

12. The Treasury Division Did Not Comply with Year-end Closing Procedures

The Treasury Division did not submit its fiscal year 2008-2009 and 2009-2010 year-end closing documents in accordance with the Finance Department's policies and procedures. Based on the review of the 45 year-end closing documents, we noted the following:

- Twenty-two year-end closing documents (49%) were submitted beyond the scheduled due date.
- Three year-end closing documents (7%) were not dated.

Finance Department year-end closing exhibit policies and procedures for fiscal years 2008-2009 and 2009-2010 state that each agency is responsible for submitting all required information to this office accurately, completely, and timely.

Failure to submit all of the year-end closing exhibits as required increases the risk that the Finance Department will not complete the City's Comprehensive Annual Financial Report (CAFR) by its scheduled due date or that information presented in the CAFR may be incorrect.

The OAG determined that due to an ineffective or lack of adequate planning, year-end closing exhibits were not submitted in a timely fashion.

Recommendations

We recommend that the Treasury Division:

- Comply with the Finance Department's year-end closing schedules and due dates.
- Take steps to ensure that year-end exhibits are complete and accurate, contain the dates when exhibits were prepared, and a management signature indicating review and approval by Treasury Division management.



October 14, 2011

Loren E. Monroe, Auditor General
Office of the Auditor General
2 Woodward Avenue
Coleman A. Young Municipal Center, Room 208
Detroit, Michigan 48226

Dear Mr. Monroe:

The following presents the Finance Department's response to the Auditor General's findings and recommendations to the Follow-up Audit of the Finance Department – Treasury Division.

1. Poor Management oversight of Wayne County Delinquent Tax Settlements

Review of the monthly delinquent tax settlement process and reports is now the responsibility of Treasury Manager II. Part of the process will be to reconcile the report to determine if money is owed to the City and if so to make sure it is deposited.

2. Property Tax Subsystems Cannot Be Reconciled to the Detroit Resource Management System (DRMS)

Treasury is in the process of enabling automated reports from Equalizer for property tax collection reconciliation to DRMS. This process is estimated as 90% complete. A written procedure for this process is currently in draft form. When complete, Treasury will generate automated Equalizer reports that identify the amount of money collected for the time period (2 times per month), the appropriate distribution of the dollars to the other taxing authorities (schools, library, etc.) and the distribution of the dollars to the appropriate DRMS General Ledger accounts on a separate report. Treasury has already verified that these reports match and are generating appropriate, consistent information. Upon completion of this bi-monthly process, a manual journal entry will be completed and entered into DRMS, retaining the supporting hardcopy Equalizer report detail for an appropriate audit trail of information. In addition, a periodic reconciliation process is being established to move monies from a "new" central undistributed tax liability account into the appropriate "due to" tax distribution accounts, so that dollars are not inappropriately being held in the undistributed tax liability account. Ideally, Treasury is going to work jointly with IT and Finance staff to automate the current manual journal entries via an import/export process, to minimize manual intervention. This will provide for optimum reliability that the DRMS accounts are being credited and debited appropriately, based upon reliable Equalizer data.

BARS is planned to be eliminated in the near future. Options for BARS data conversion are currently being contemplated as part of the Equalizer Delinquent Property Tax Module implementation. Practical leadership decisions will be made regarding what historical data to transfer to the Equalizer Delinquent Property Tax Module, which will get this information into an Equalizer database and enable an equivalent, reliable process as outlined above to be implemented for BARS data as well.



3. The Treasury Division Does Not Adequately Manage The City's Bank Accounts

The reconciliation process for bank accounts will be done going forward by the Accounts Division. This will provide greater control over the cash functions due to a separation of duties between the staff processing cash transactions and those reconciling it. The Accounts Division will be able to provide dedicated staff to the bank reconciliation process which should help make sure they are submitted and reviewed on a timely basis. In addition, Treasury will follow up to verify that the reconciliation's are submitted timely.

4. The Treasury Division Lacks and Effective, Integrated Property Tax Billing and Collection System

Implementation of the Equalizer Delinquent Property Tax Module is in progress. This implementation is intended to address both historical BARS data, as well as more recent delinquent personal and real property tax collection parcels. This will be accomplished through modifications to the Equalizer Delinquent Property Tax Module, which is currently only designed to handle personal property. Current project activities relate to identifying and executing a data cleansing effort, so that only relevant parcels are converted into the new module. Completion of this project is anticipated within the first six months of 2012. The project was initiated in August 2011.

6. Control Over Cash Receipts and Cash Handling are Inadequate

Treasury does not receive actual cash in the mail. We receive checks and money orders. We have received as many as 10 to 15 trays of mail in one day during our busy season (5000 to 7500 pieces of mail). It is not feasible to establish a log for this volume of mail.

The supervisor in the tellers' office verifies daily that the amount deposited by each teller is equal to the amount taken in at their station. The supervisor, however, does not verify the actual amount in the deposit bags. If there is any discrepancy with the deposit total, the teller has responsibility since she sealed the bag and counted it herself. The tellers are also subject to a very strict overage and shortage policy.

Treasury does contract with an armored car service which takes the deposits to the bank on a daily basis. This is done for the City's main depository account at Chase bank. Only special deposits are hand carried to the bank by a Treasury employee and a police officer.

7. Treasury Division Fails to Adequately Maintain Imprest Cash

Treasury will establish imprest cash funds which are separate from the cashiers starting drawer funds. In addition, the Treasury Manager I will perform surprise cash audits of the imprest cash funds.

8. Treasury Division Lacks Appropriate Segregation of Duties

Due to the lack of Treasury staff, the head teller is also the imprest cash custodian. As noted in 7. above, the Treasury Manager I will perform surprise cash audits as well as reviewing the work of head teller.

9. Management and Oversight of the Vault Room is Inadequate

a. Since it is not feasible for Treasury to have dual control when opening the safe due to limited staffing we have instituted a policy were the opening of the safe is witnessed and noted by an impartial person. This impartial person is either the police officer assigned to the office or a supervisor from another section.



b. We will establish some written procedures for access to the safe area. There is currently a sign in sheet which must be used by any one to gain access.

c. We will investigate the cost related to archive the digital video off the safe.

10. Controls over the Teller Computer System are Inadequate

Treasury has cash registers that can be used as a backup for the Netvantage tellers' system. In addition, Treasury will work with ITS to develop a backup and disaster recovery contingency plan.

11. The Treasury Division Failed to Adequately Control Capital Assets

The capital assets coordinator will be provided access to the CAS module and will be trained on using it.

12. Treasury Division Did Not Comply with Year-end Closing Procedures

Treasury has taken the steps to ensure that year end schedules are prepared and submitted on time and reviewed by management.

Respectfully Submitted,

Cheryl R. Johnson
Finance Director

CRJ/ec