

**City of Detroit**

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**OFFICE OF THE AUDITOR GENERAL**



**Audit of the General Services  
Department  
July 2008 – September 2009**



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

LOREN E. MONROE, CPA  
AUDITOR GENERAL

**MEMORANDUM**

**DATE:** March 22, 2010

**TO:** Honorable City Council

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

**RE:** Audit of the General Services Department

**CC:** Mayor Dave Bing  
Craig Rice, Director, General Services Department  
Norman L. White, Chief Financial Officer

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

Responsibility for the installation and maintenance of a system of internal control that minimizes errors and provides reasonable safeguards rests entirely with the General Services Department. Responsibility for monitoring the implementation of recommendations is set forth in section 4-205 of the City Charter which states in part:

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

We would like to thank the General Services Department's personnel for their cooperation and assistance extended to us during this audit.

Copies of all of the Office of the Auditor General's reports can be found on our website at [www.ci.detroit.mi.us/legislative/charterappointments/auditorgeneral](http://www.ci.detroit.mi.us/legislative/charterappointments/auditorgeneral).

# Audit of the General Services Department

July 2008 – September 2009

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

### **AUDIT PURPOSE**

The audit of the General Services Department (GSD) was performed in accordance with the Office of the Auditor General's (OAG) Charter mandate to 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**

Our audit focused on GSD's internal control procedures over transactions pertaining to revenues, disbursements, payroll, imprest cash, inventory, and capital assets, and year-end closing procedures for the period July 1, 2008 through September 30, 2009. We also determined the status of the findings included in our Memorandum to City Council dated July 22, 2008. The findings pertained to the GSD's lack of internal controls over the City's fuel supply.

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 assess GSD's internal controls related to financial transactions:
- To determine if GSD is in compliance with Finance Directives, policies, plans, procedures, laws, and regulations; and
- To determine the status of findings included in the OAG's Memorandum to City Council dated July 22, 2008.

### **AUDIT METHODOLOGY**

To accomplish our audit objectives, our audit work included:

- Review of the City Charter, Detroit Resource Management System (DRMS) reports, GSD's budget reports, the Comprehensive Annual Financial Report, and organizational structure.
- Review of OAG's memorandum to City Council dated July 22, 2008.
- Interviews with GSD personnel and gathering information pertaining to the department's financial processes, internal controls, operating functions, and duties of key personnel.
- Walkthroughs and observations of GSD facilities including several fueling stations.
- Documenting and testing GSD's internal controls.

## **CONCLUSIONS**

As a result of our audit, we concluded the following:

- GSD has adequate controls over payroll and disbursements. However, there were control weaknesses in GSD's financial transactions related to revenues, imprest cash, inventory, and capital assets.
- GSD did not comply with certain City's policies and procedures.
- GSD resolved two of the five findings included in the OAG's Memorandum to City Council dated July 22, 2008.

We also concluded that the Detroit Police Department's control over its fuel bucket accounts is poor.

## BACKGROUND

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

Responsibilities of the General Services Department include:

- **Grounds Maintenance** - All landscape activities including forestry, parks, street islands and boulevards, freeway entrance berms, vacant lots and snow removal.
- **Vehicle/Equipment & Fleet Maintenance/Management** – Maintenance and management of all equipment, vehicular fleet, and vehicle assignments.
- **Inventory/Stores Management** – Management of all stores operations for parts, materials and supplies.
- **Building Operations/Maintenance** – Maintenance and operation of all city-owned buildings.
- **Security/Janitorial Services** – Management of services citywide by employees and contracted services.
- **Property Management** – Management of inventory of city-owned properties (structures and land), lease reviews, space allocation and property disposition process.

Mr. Craig Rice was appointed Director of GSD in January 2010. However, Mr. Terrence King, appointed in March 2008, served as Director the entire audit period. The following table shows the budgeted appropriations, revenues and number of staff for GSD for the 2008-2009 fiscal year.

	<b>Fiscal Year Ended June 30, 2009</b>
<b>Budgeted Appropriations</b>	
General Fund	\$ 70,825,926
Capital Projects	<u>1,100,000</u>
Appropriation Total	\$ 71,925,926
 <b>Budgeted Revenues</b>	
General Fund	\$ 12,738,171
Capital Projects	<u>1,100,000</u>
Revenue Total	<u>\$ 13,838,171</u>
 <b>Net Tax Cost</b>	 <u><u>\$ 58,087,755</u></u>
 <b>Number of Staff</b>	 643

## STATUS OF PRIOR AUDIT FINDINGS

The Office of the Auditor General's memorandum dated July 22, 2008, contained the following five findings.

1. Failure to Adequately Monitor the Fuel Tracking System.  
*This finding has been resolved.*
2. Failure to Monitor Fuel Used in the Bypass Mode  
*This finding has not been resolved, and is discussed in Finding 1 on page 5 of this report.*
3. Failure to Monitor Fuel Used with Blanket Authorization (Bucket)  
*This finding pertains to the Detroit Police Department and is discussed in Finding 1 on page 13.*
4. Failure to Maintain Effective Security  
*This finding has not been resolved, and is discussed in Finding 2 on page 6 of this report.*
5. Failure to Adequately Control Gas Cards  
*This finding has been resolved.*

## AUDIT FINDINGS AND RECOMMENDATIONS

### **1. Failure to Adequately Safeguard Fuel When Pumps Are in Bypass Mode**

During the auditors' field visits to the Livernois fueling station on September 16 and September 24, 2009, the City's automated fuel tracking system, Fleet Focus M5-Real Efficient Vehicle System (REVS), was in automatic bypass mode with no compensating or mitigating controls in place to prevent the unauthorized use of fuel. To demonstrate how easily unauthorized access to the gasoline pumps was, the auditor freely pumped fuel into a container without the use of a fuel card, or any other form of authorization.



*An auditor pumps fuel into a 2-gallon gasoline container without proper authorization.*

A review of the gasoline usage report for the period September 15 through September 24, 2009 indicated that the pumps were in bypass mode and only 1 of the 62 transactions performed were linked to a gas card and employee number. GSD's poor control of the City fuel supply when gasoline pumps are in bypass mode was also a finding in our July 22, 2008 memorandum to City Council.

Good internal control requires that compensating procedures be put into effect to offset the risk imposed by a weakness in another procedure. An example of a compensating procedure for security pumps is to have a security guard verify that individuals pumping gas are properly authorized.

Failure to adequately control fuel usage while pumps are in automatic bypass mode may lead to unauthorized use, which increases the cost to the City.

According to GSD representatives, there was an outage in the City's server that caused the pumps to go offline. The GSD representative stated that anytime Groupwise or the City's server goes down, it causes the fuel system to go into bypass mode.



**Recommendation**

We recommend GSD develop compensating controls to limit the risk of unauthorized use when the pumps are in automatic bypass mode.

## **2. Failure to Maintain Sufficient Physical Security Over Fuel Supply**

Physical security at GSD fueling locations was insufficient during the audit period. On September 16, 2009, the auditors drove by the security posts at the Southfield and Livernois fueling stations, in a non-City owned vehicle, without being required to present any form of identification. In addition, the auditors were able to park next to the fuel pumps and take pictures.

Sufficient security requires that individuals present proper personal identification, and vehicle identification, before being allowed to enter the City's facilities, and obtain fuel. Physical security controls represent the first line of defense in safeguarding the City's assets. Without sufficient physical security controls, the City's assets are unduly exposed to theft and misuse.

According to GSD management, City employees who have been injured on the job are reassigned as property guards at the various fueling stations. Training is received on the job; there is no formal training provided. GSD management stated that the absence of a security guard at the Southfield location is due to the lack of resources needed to hire or increase contractual security.

### **Recommendations**

We recommend that GSD ensure sufficient physical security controls are in place at all of the City's fueling locations. Sufficient security includes:

- Ensuring that a security guard is at each of the City's fueling locations every day, and on all shifts when the facility is accessible.
- Ensuring that security staff are properly trained and qualified to deal with issues that are common for the position including:
  - When to deny access;
  - Identifying suspicious activity;
  - What to do in case of suspicious activity;
  - Who to call in case of suspicious activity, and
  - What to do in emergency situations.

We also recommend GSD implement compensating controls to mitigate risks when no security guards are available, due to budget cuts, or for any other reasons.

### **3. Internal Control Deficiencies in the Inventory Process**

We noted the following weaknesses in the GSD's inventory system:

- The Grounds Maintenance Division, Forestry Division, and Inventory Management Division did not utilize a tracking method that could give a reasonably adequate account of inventory at any given point in time. Inventory records are based on visual inspections.
- Storekeepers responsible for inventory within the Huber warehouse also are involved in the annual audits of the inventory within the warehouse.
- Obsolete inventory was not always salvaged or disposed of properly. Certain obsolete inventory was maintained on a shelf within the Huber warehouse and was not sold for scrap.

The following represents the criteria for how the conditions pointed out above should have been handled:

- Perpetual inventory records should be maintained, and inventory count on a periodic basis should have been performed to compare inventory on hand to perpetual records. Sufficient inventory counts could require counting inventory on a cycle basis in addition to the annual physical count to ensure that the perpetual records are reasonably accurate throughout the year.
- Incompatible duties should have been properly segregated. Authorization to execute transactions, record transactions, maintain custody of assets involved in the transaction, and periodic reconciliation of assets to recorded amount, should be performed by different persons.
- Obsolete inventory should be auctioned in a timely manner or otherwise disposed of in accordance with City policy.

Unreliable inventory records can potentially lead to operating inefficiencies, fraud, or theft. Necessary supplies could run low or become depleted when needed because visual inspections are not an adequate means for tracking inventory. Inventory records that are not properly updated may reflect supplies on-hand in error causing delay for departments that rely on those supplies. In addition, incompatible inventory duties can lead to theft of inventories.

The following points represent some of the causes for the conditions mentioned above according to GSD representatives:

- GSD implemented a new system in November 2008 called AIM, formerly known as Facility Max, which would allow them to be aware of the inventory level at all times. However, due to lack of staff, they are not using the system.
- Due to a lack of resources it was difficult to maintain the proper segregation of duties.
- There is no process set up with the Finance Department's Purchasing Division to dispose of the obsolete parts.

- Lack of staff has prevented GSD from disposing of the parts, as well.

### **Recommendations**

We recommend GSD:

- Implement perpetual inventory records for all locations where inventory is stored.
- Implement monitoring and performance controls, such as inventory cycle counts, and random test counts throughout the year, to improve controls over inventory.
- Ensure that employees are not performing incompatible duties in the inventory process.
- Ensure that obsolete inventory is salvaged or disposed of in a timely manner.

#### **4. Failure to Bill and Collect Payments for Weed and Grass Cutting Services Provided**

GSD does not collect fees or bill for services associated with cutting weeds and grass from private owners with the exception of Wayne County. Furthermore, there is no process in place to determine which lots need to be cut. Contractors use their own judgment based upon how tall the grass is and if the house appears to be vacant or in foreclosure.

GSD's failure to bill private owners for services provided results in a loss of revenue to the City. According to GSD records, contractors' fees for cutting vacant property for the period July 25, 2008 through September 29, 2008 was \$566,795. The City could recoup weed and grass cutting charges with a successful billing process.

GSD management stated the following:

- It is difficult for GSD to bill or collect from private citizens for weed and vacant lot cutting, because they do not have the resources to identify who owns the property.
- The City does not have a process to identify vacant property owners.
- An analysis was performed in the past, which determined that it was not cost effective to monitor and track the cutting of vacant lots on behalf of private citizens.
- GSD attempted to send a report to the Assessor's Office last year with a number of vacant lots that had been cut by the vendor but the Assessor's Office did not want it.
- GSD cannot directly bill citizens for this service. Billing would have to be handled by the Finance Department.

#### **Recommendation**

We recommend that the GSD work with the Assessor's Office, the Finance Department, and the Law Department to determine the most feasible way to bill and collect funds from property owners for cutting weeds and grass on their property.

## **5. Non-compliance With the Finance Department's Capital Assets Policies**

GSD has not entered all of its capital assets into the Capital Assets Module. Only thirteen capital assets were entered. A Finance Department representative indicated that GSD has not transferred capital assets that are on the books of other City agencies to GSD's Capital Asset Module.

The City's capital asset policy requires that all departments maintain accurate records of their capital assets. Any changes arising from the acquisition, disposal, or transfer of assets should be communicated to the Finance Department to update the Capital Asset Module.

When accurate capital asset records are not maintained, the ability to detect theft is reduced. In addition, non-compliance with the Capital Asset Policy reduces the effectiveness of the policy, the controls it is designed to impose, and it could result in misstatements in the financial report.

GSD management stated that lack of staff and training prevented their department from entering all of the asset information in the Capital Asset Module System.

### **Recommendation**

We recommend that GSD enter all of their capital assets in the Capital Asset Module, and comply with the policies, and procedures, as stated in the Capital Assets Policy.

## **6. Internal Control Weaknesses in the Imprest Cash Process**

GSD has an authorized imprest cash fund of \$10,000. Our examination of the adequacy of internal control governing GSD's imprest cash disclosed the following weaknesses:

- The designated imprest cash custodian did not maintain physical custody of the checkbook.
- No alternate custodian has been established.
- GSD could not provide an updated signature list for the Vehicle Management Division's imprest cash checking account. As a result, the auditors could not verify the authorized signers for the account.

A satisfactory internal control system requires that the custodian of an imprest cash account maintain control of the imprest cash checkbook, and an updated list of signers for the imprest cash checking account. The Imprest Cash Manual requires an alternate custodian be designated.

The failure to maintain adequate control over imprest cash checking accounts can result in errors, fraud, and inaccurate financial reporting.

The following points represent some of the causes for the conditions mentioned above according to GSD representatives:

- GSD's designated imprest cash custodian for the Vehicle Management Division stated that he could not keep the imprest cash checkbook secure at his location. To ensure that he was following proper protocols, he left the checkbook locked in a filing drawer under the accounting manager's control.
- One of the GSD's representatives stated that their plan is to close the Vehicle Management Division's Imprest Cash Checking account due to little or no activity. There have been only one or two transactions for the last year.

### **Recommendation**

We recommend that GSD maintain internal controls over the imprest cash fund, and comply with the Imprest Cash Manual.

## **7. Non-compliance with the Finance Department's Year-end Closing Procedures**

GSD did not submit all of its year-end closing exhibits for fiscal year 2007-2008 in accordance with the Finance Department's requirements. A review of the twenty required exhibits, revealed the following non-compliance items:

- Five exhibits were not submitted to the Finance Department by the stated due dates.
- Three exhibits lacked completion of required information including: preparer's name, date completed, and/or approver.

The Finance Department requires that year-end exhibits be submitted by designated dates. Year-end exhibits should be filled out completely, dated, and approved by appropriate individuals. The agency is responsible for submitting all required information in an accurate, complete, and timely manner.

When year-end financial exhibits are submitted to the Finance Department late, it affects the Finance Department's ability to close the City's books in a timely manner. The efforts of the external auditors to complete the Comprehensive Annual Financial Report (CAFR) could be hindered, costing the City additional audit fees. When year-end exhibits are not dated and signed off by management, it makes it impossible to know when the exhibits were prepared, and if the appropriate managers are aware of what is being reported to the Finance Department.

According to a GSD representative, the employees who completed the exhibits were unfamiliar with the year-end forms. Some exhibits were submitted late because the Civic Center Department informed GSD, late, that its Materials and Supplies Inventory exhibit needed to be completed by GSD.

### **Recommendations**

We recommend GSD:

- Comply with the Finance Department's year-end closing schedules and due dates.
- Ensure that all financial exhibits are filled out completely, including the date prepared, signature of preparer, the date submitted to the Finance Department, and the approver's signature.



## OTHER FINDINGS RELATED TO THE DETROIT POLICE DEPARTMENT

### **1. The Detroit Police Department Does Not Adequately Control Its Fuel Bucket Accounts**

The Detroit Police Department (DPD) has three bucket accounts, which represent a blanket authorization to obtain gasoline without being tracked individually. We determined that DPD's control of the bucket accounts is poor. The following conditions existed:

- Fuel usage reports are not reviewed on a periodic basis.
- Bucket account numbers are not periodically changed to control unauthorized use.

Adequate management control requires sufficient periodic reviews of fuel consumption charged to bucket accounts to enable early intervention into misuse of fuel obtained through unauthorized use.

Considering the relative ease of sharing bucket account identification numbers among cardholders, the use of bucket accounts is inherently risky, and highly susceptible to misuse and/or abuse, especially if the activity is not sufficiently monitored.

A DPD representative stated the following:

- They have not received monthly reports for fuel usage related to the bucket accounts.
- No training has been provided on the City's automated fuel tracking system, so there is no direct access to the reports.
- There is no real process in place to monitor the fuel usage.

### **Recommendation**

We recommend DPD implement procedures to monitor the use of bucket fuel accounts.

February 17, 2010

ATTACHMENT A

Loren E. Monroe, CPA, 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 General Service Department's (GSD) response for the indicated findings and related recommendation in the July 2008- September 2009 audit of the General Services Department, as prepared by the Office of the Auditor General.

Finding No. 1. Failure to Adequately Safeguard Fuel When in Bypass Mode

Department's Response:

The incident that occurred on 9/16/09 at the Livernois Fueling Station was a result of an electronic bypass (voltage issue). Fleet Management contacted Asset Works, GSD's software and service provider, the City of Detroit ITS department as well as Best Fuel, our fuel pump service provider. They were asked how the system could go into bypass without the department's knowledge and what could be done to prevent another occurrence. We have manually checked this site on numerous occasions. GSD is working with the software provider to set up system alerts when pumps are in bypass mode.

The manual bypass of 7/22/08 was activated by Fleet Management personnel during a system upgrade.

Finding No. 2 Failure to Maintain Sufficient Physical Security Over Fuel Supply.

Department's Response:

GSD is currently reviewing RFQ 29351 (closed circuit television system). This system is to be installed at all GSD fueling stations and will have the ability to record all fuel transactions and vehicle license plates. This is expected to enhance our security force. Locked automatic gates will also be installed at all fuel locations.

Finding No.3. Internal Control Deficiencies in the Inventory Process

Departments' Response:

GSD is implementing a software program (AIM) to track the non automotive store rooms inventory within GSD.

Implementation of this software will allow the department to segregate duties in the annual audits.

GSD will work with the Finance Department Purchasing Division to develop a process to dispose of the obsolete.

Finding No. 4. Failure to Bill and Collect Payments for Weed and Grass Cutting Services Provided

Department's Response:

Due to recent changes in the foreclosure laws – relating to the tracking of the ownership of vacant properties- billing may be possible for the City of Detroit to pursue cost recovery for the cutting of these properties. Based on these changes the GSD is partnering with Assessors Office, Buildings Safety and Engineering, and Planning and Development Department to outline a strategy for tracking ownership and reviewing the possibility of establishing a billing system to property owners or the responsible party for maintenance. Presently we are in the infancy stages of this planning and should have more information to report in the near future.

Finding No. 5. Non-compliance with the Finance Department's Capital Assets Policy

Department's Response

Have addressed issue with GSD Capital Assets Coordinator and data is to be entered starting the week of February 22, 2010.

Finding No. 6. Internal Control Weaknesses in the Imprest Cash Process

Department's Response

The imprest cash checkbook has been retrieved from the Central Accounting Office for GSD and the physical custody of the checkbook is now with the Custodian

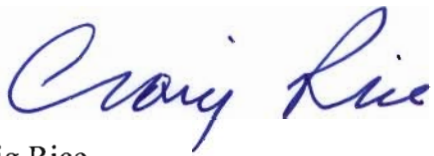
A request was sent to Finance, Project Administration to request to close the account.

Finding No. 7. Non-Compliance with the Finance Department's Year-end Closing Procedures

Department's Response:

The General Services Department will comply with the Finance Department's year-end closing schedules and due dates, including ensuring that all financial documents are filled out completely.

Sincerely,

A handwritten signature in blue ink that reads "Craig Rice". The signature is written in a cursive style with a large initial "C".

Craig Rice  
Director



CITY OF DETROIT  
POLICE DEPARTMENT

1300 BEAUBIEN, SUITE 303  
DETROIT, MICHIGAN 48226  
PHONE: 313-596-1800  
WWW.DETROITMI.GOV

February 16, 2010

Loren E. Monroe, Auditor General  
Office of the Auditor General  
City of Detroit  
2 Woodward Avenue, Room 208  
Detroit, Michigan 48226

Dear Mr. Monroe:

The following represents the Detroit Police Department's (Department) response to the findings and recommendation contained in the audit of the General Services Department. The audit was prepared by the Office of the Auditor General and is for the period of July 1, 2008, through September 30, 2009.

**Finding No. 1: The Detroit Police Department Does Not Adequately Control Its Fuel Bucket Accounts**

**Agency Response No. 1:** The Department has three bucket accounts, which represent a blanket authorization to obtain gasoline without being tracked individually. The Department acknowledges fuel usage reports were not reviewed on a periodic basis and that bucket account numbers were not periodically changed to control unauthorized use.

The Department did not have direct access to fuel usage reports due to lack of training on the functionality of the City of Detroit's automated fuel system. The General Services Department will provide training to members of the Department's Fleet Management. The tentative date is February 22, 2010. Upon completion of the training, Fleet Management will have direct access to the fuel usage reports which will be reviewed on a monthly basis.

The Department has created a signature log of all members who are authorized to use a bucket account. The General Services Department and Fleet Management are working cooperatively to identify triggers that will alert us of possible abuse relative to fuel usage. In addition, the bucket account numbers will be changed every 90 days to prevent unauthorized use.



CITY OF DETROIT  
POLICE DEPARTMENT

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*Auditor General Loren E. Monroe*  
*Subject: General Services Audit Response*  
*February 16, 20109*  
*Page 2*

Thank you for extending me the opportunity to respond to your audit of the General Services Department for the period of July 1, 2008, through September 30, 2009. Should you have additional questions, concerns, or comments, please contact Commander Benjamin F. Lee, of the Fiscal Management Bureau, at (313) 596-1870, Monday through Friday, 9:00 a.m. to 5:00 p.m.

Sincerely,

A handwritten signature in black ink, appearing to read "Warren C. Evans".

**WARREN C. EVANS**  
Chief of Police

WCE:jhl

Enclosure: Copy of General Services Division Audit

cc: Commanding Officer, Resource Management