

City of Detroit

OFFICE OF THE AUDITOR GENERAL



**Audit of the Department of Human Services
New Beginnings Clothing Boutique**

July 2009 – September 2011



City of Detroit
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LOREN E. MONROE, CPA
AUDITOR GENERAL

MEMORANDUM

DATE: February 8, 2012

TO: Honorable City Council

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

RE: Audit of the Department of Human Services New Beginnings Clothing Boutique

CC: Mayor Dave Bing
Ursula Holland, Interim Director
Chris Brown, Group Executive

Attached for your review is our report on the audit of the Department of Human Services New Beginnings Clothing Boutique. This report contains our audit purpose, scope, objectives, methodology and conclusions; background; our audit findings and recommendations; and the response from the Department of Human Services.

Responsibility for the installation and maintenance of a system of internal control that minimizes errors and provides reasonable safeguards rests entirely with the Department of Human Services 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 the Department of Human Services 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/tabid/2517/Default.aspx>

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Department of Human Services

ATTACHMENT A

AUDIT PURPOSE, SCOPE, OBJECTIVES, METHODOLOGY AND CONCLUSIONS

AUDIT PURPOSE

The audit of the Department of Human Services (DHS) was performed in accordance with the Office of the Auditor General's (OAG) charter mandate to investigate the administration and operation of any City agency and to audit the financial transactions of City agencies, and report our findings and recommendations to City Council and the Mayor.

AUDIT SCOPE

The scope of this audit was an independent review and assessment of the effectiveness and efficiency of the Department of Human Services New Beginnings Clothing Boutique's operations and internal control procedures for financial transactions; and compliance with Finance Directives, policies, plans, procedures, laws and regulations regarding financial transactions for the period July 1, 2009 through September 30, 2011.

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 objectives of the audit were to:

- Review the effectiveness and efficiency of the boutique's operations and its compliance with grant terms, Finance Directives, policies, plans, procedures, laws and regulations regarding financial transactions.
- Assess control procedures for transactions of cash receipts, disbursements, inventory, and determine if any control weaknesses exist.
- Review program performance in delivery of services to meet the program's stated goals and objectives.

AUDIT METHODOLOGY

To accomplish our audit objectives, our audit work included:

- Reading the prior audit report on the DHS's operations and finances.
- Reviewing prior audit working papers, City Charter, Municipal Manual, Detroit Resource Management System (DRMS) reports, the department's budget reports, the Comprehensive Annual Financial Reports, organization charts, and Single Audit reports.
- Performing other general procedures deemed necessary.
- Conducting an audit planning meeting to determine the scope and audit objectives, and to determine the financial transactions and/or areas to audit.
- Developing questions regarding the department's transactions, controls, functions, records, and personnel.

- Interviewing personnel of the DHS.
- Identifying financial transaction risks and mitigating controls with department personnel.
- Documenting and testing control processes.

CONCLUSIONS

As a result of our audit we have concluded that:

- DHS failed to institute controls over the boutique's operations and finances.
- DHS did not comply with the City's purchasing ordinances.
- DHS failed to put in place safeguards over grant funds and inventories.
- DHS failed to establish an inventory system for the clothing in the boutique.
- DHS did not meet its performance objective for the boutique.

BACKGROUND

The Office of the Auditor General originally began to audit the Department of Human Services' (DHS) financial transaction documents stored at 5301 Grandy. However, due to the DHS's packing of the documents in connection with its relocation from 5031 Grandy to 1151 Taylor, Herman Kiefer Complex, and the documents not being immediately available for examination, the auditors redirected their efforts on auditing the New Beginnings Clothing Boutique, the Customer Choice Pantry, and the Call Center all located in the Community Action Service Center at 1970 Larned. Separate reports will be issued on the operations of the boutique, food pantry, the Community Action Service Center, and the DHS's financial transactions. This report is on the boutique.

The Department of Human Services (DHS) is a grant-funded agency. Its primary purpose is to help identify and alleviate causes of poverty and promote self-sufficiency and self-determination by providing quality, efficient services in a compassionate manner to income-eligible and disadvantaged persons, children, families and individuals with special needs.

DHS received over \$11 million in funding thanks to the Community Service Block Grant/American Reinvestment and Recovery Act of 2009. As a result of the funding, DHS opened a new service center, composed of the Customer Choice Pantry, the New Beginnings Clothing Boutique and the Call Center, that has the capacity to help over 60,000 Detroit families in need.

At the center, food and clothing are provided to eligible individuals. The call center schedules appointments for individuals to shop at the food pantry.

The purpose of the boutique, which is the focus of this audit, is to provide professional business attire to eligible persons for job interviews. To receive clothing, individuals must meet income eligibility levels and have a scheduled job interview.

In connection with the grant, which the boutique is one of the programs included in the grant application, DHS contracted with a company to act as a fiduciary to process payments to vendors. The fiduciary was to be paid on a reimbursement basis.

AUDIT FINDINGS AND RECOMMENDATIONS

1. Failure to Establish Internal Controls over the Boutique

In the proposal filed under the Community Service Block Grant/American Reinvestment and Recovery Act of 2009, the DHS included an initiative to provide clothing for eligible persons to wear on job interviews. As part of this initiative, the DHS formed a boutique. The DHS hired a personal services contractor who manages and operates the boutique.

During the audit of the boutique operations, the auditors noted a number of weaknesses in control over the boutique:

- The personal services contractor negotiated a purchase of clothing for the boutique with a clothing retailer without the DHS's involvement.
- Documentation in forms of packing slips and receiving reports providing proof of receipt of clothing was not provided to the auditors.
- The personal services contractor had keys to the boutique and the Community Action Service Center where the boutique is located. A DHS employee should have keys to the center and boutique.
- The DHS does not have an inventory system for the clothing in the boutique.
- Policies and procedures were not developed governing the operations of the boutique.

According to the Committee of Sponsoring Organizations of the Treadway Commission and Sawyer's Internal Auditing, Fifth Edition, effective systems of internal controls include:

- Management directions and approvals, authorizations, verifications, reconciliations, operational reviews, security of assets, segregation of duties, adequate documentation, records, and reports;
- Policies, procedures, and monitoring that ensure management directives are carried out;
- Inventory record-keeping systems; and
- Periodic counts of inventory and comparison of such counts by persons independent of custody of the inventory.

Failure to create, implement, monitor and evaluate internal controls may prevent DHS from achieving the boutique's objectives and goals. Inadequate internal controls may stop management from achieving operating efficiencies, reducing risk of asset losses and complying with Community Service Block Grant/American Reinvestment and Recovery Act grant terms, laws and regulations.

The potential loss of thousands of dollars exists because controls have not been established for the boutique. In addition, failure to maintain an adequate inventory system results in the inability to efficiently monitor and safeguard inventory and to identify inventory losses from theft and damages.

The DHS did not provide the Office of Auditor General with causes for the weaknesses. In the auditors' opinion, the weaknesses result from the DHS administration and management's failure to institute internal controls over the boutique and to monitor for compliance with the controls.

Recommendations

We recommend the DHS:

- Direct all activities of the boutique;
- Approve all purchases related to the boutique;
- Prepare and maintain receiving reports for all shipments of clothing;
- Safeguard the DHS's assets;
- Provide keys to access its facilities to DHS employees;
- Develop a perpetual inventory record-keeping system for the clothing in the boutique;
- Document in a timely manner all additions to and deletions from boutique inventory in an inventory record;
- Conduct regular independent physical inventory of clothing in the boutique and comparison of inventory counts with the inventory record;
- Establish policies and procedures for the operations of the boutique, and monitor the operations of the boutique for compliance with them; and
- Adequately segregate the duties for the boutique.

2. Weaknesses in the Process of Buying Clothing for the Boutique

In carrying out its initiative of providing clothing to eligible persons for job interviews, the DHS established a boutique, and hired a personal services contractor who manages and operates the boutique. The DHS contracted with a fiduciary to pay vendors for supplies and services furnished under various grant programs.

Weaknesses were found in the process for buying clothing for the boutique:

- Clothes were purchased without competitive bidding. The personal services contractor negotiated the purchase with a retailer.
- In another incident, the DHS provided the fiduciary with \$148,100 in grant funds. The fiduciary paid the clothing retailer the \$148,100 in advance for future purchases of clothing. The retailer opened an interest-bearing account in its name and deposited the \$148,100 in the account. The City is not included as an owner of the account. As of August 31, 2011, the account had a \$148,358.62 balance.
- The retailer billed the DHS \$148,100. Invoices submitted by the retailer related to the \$148,100 advanced payment are not adequately descriptive and are not sufficiently itemized. The invoices include types of clothing, a quantity of one for each line item, although a few of the line items consist of more than one type of clothing, rather than the brands, colors, sizes and quantities of clothing, unit price and total price for each item of clothing.
- There was no contract detailing the obligations and responsibilities of the DHS, fiduciary, and retailer.

The City's purchasing ordinances require competitive bidding in buying supplies and services and agencies to acquire their purchases through the Finance Department Purchasing Division.

Establishing a contract to document agreed on obligations and responsibilities among parties is a sound business practice and reduces misunderstanding and misinterpretation regarding contractual terms. A good business practice is to pay for goods and services after they are received or rendered.

The DHS violated the City's purchasing ordinances by not purchasing clothing competitively and circumvented the City's purchasing and accounts payable processes, which are designed to provide checks and balances to deter, prevent, and detect fraudulent activities. Without competitive bidding, the DHS may not have obtained the best price for the clothing. The DHS subjected the City to possible losses by not having the City included on the account that money advanced to the retailer was deposited in; and by not entering into a contract among the DHS, fiduciary, and retailer.

The current administration and management of the DHS indicated that they were not aware of the funds held by the clothing retailer. The owner of the retailer indicated that he was asked by the overseer of the boutique to bill the DHS \$148,100 to avert the DHS having to return the funds to the grantor. The DHS did not provide the Office of the Auditor General (OAG) with causes for the described weaknesses in controls.

However, in the OAG's opinion, the hiring of a fiduciary to pay vendors for supplies and services is a way to circumvent the City's purchasing and accounts payable processes.

Recommendations

We recommend the DHS:

- Comply with the City's purchasing ordinances in buying goods and services and buy them through the City's purchasing process;
- Pay vendors for supplies and services through the City's account payable process;
- Seek requests to pay vendors only after supplies and services are received or rendered;
- Require vendors to submit invoices that include a description (brand, type, color, size, etc.) of each item or service bought, unit price of item or service purchased, quantity of each item or service acquired and total price per item or service bought;
- Establish a contract among its fiduciaries and other parties when the responsibilities and obligations are divided among two or more parties;
- Have the City of Detroit included on bank accounts when advancing money to external companies; and
- Obtain the funding held by the retailer and return it to the grantor unless the grantor permits differently.

3. Failure to Meet Performance Objective

The DHS's goal is to provide four hundred eligible persons with clothing to wear on job interviews, according to the Community Service Block Grant /American Reinvestment and Recovery Act Plan submitted to the State of Michigan Department of Human Services.

Between October 2010 and September 2011, the DHS provided attire from clothing in the boutique to two eligible persons. The DHS was only able to provide the auditors with two referral forms signed by two clients documenting that they received clothing from the boutique.

Eligible Detroiters are not being served with available clothing being stocked in the boutique.

The DHS did not provide the Office of the Auditor General (OAG) with a reason for not attaining its goal of providing four hundred eligible persons with clothing to wear on job interviews. However, in the OAG's opinion, the DHS did not sufficiently advertise the program to accomplish its goal.

Recommendation

We recommend that the DHS partner with other City agencies and external organizations to increase, by marketing the program, the number of eligible persons receiving clothing from the boutique to wear on job interviews.



Pictures from the New Beginnings Clothing Boutique









the actions taken or to be taken regarding the program, "Action" and the implementation, "Action" the





January 30, 2012

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 represents the Department of Human Services' response to the indicated findings and related recommendations in the September 2011 audit of the Department of Human Services New Beginnings Clothing Boutique, as prepared by the Office of the Auditor General. Our responses include the actions taken or to be taken regarding the recommendations, and the implementation dates or the targeted implementation dates for those actions.

Finding #1: Failure to establish internal controls over the Boutique

Department's Response:

The Department is reviewing internal control policies for all of DHS's programs. Further, the following procedural changes have been implemented as it relates to the boutique:

- 1) Specifically, an experienced certified City of Detroit employee is assigned to the 1970 Larned site with directives to develop policies and procedures, additionally to review & revise deficient procedures governing operations at the above referenced location. This person is also the primary key holder for the site with a staff person designated as backup.
- 2) Only City-Certified Management level employees are allowed to engage in negotiations for the purchase and/or lease of materials, goods and services.
- 3) All Future purchases must be accompanied by itemized packaging slips detailing the correct quantity and pricing. Additionally, the Site Administrator must examine deliveries against the packaging slip before any items can be disbursed.
- 4) A temporary clothing inventory system has been established using Microsoft Excel. The staff will conduct a monthly physical inventory and any additions or subtractions from the inventory are noted in a comment section, with an explanation of the transaction clearly indicated. All clothing provided to clients must be inspected and approved by the Site-Administrator. The items are then subtracted from the inventory with the date and time noted. The above functions will be automated once the new inventory control equipment and software is installed.

Finding # 2: Weaknesses in the Process of Buying Clothing for the New Beginnings Boutique

Department's Response:

- 1) In our efforts to improve efficiencies and compliance with established Purchasing ordinances governing the acquisition of goods and services, all purchasing activities will occur as a result of the competitive bid process. Request for Proposals will be published to attract competition that will deliver the best products for the best price.
- 2) Once a successful bidder is identified at the completion of the RFP evaluation process, a Professional/Personal service contract will be executed.
- 3) The Purchasing Division of the Finance Department has issued a revised Scope of Services specifically outlining the roles and responsibilities for Fiduciary Agents entering contracts with the City of Detroit and the guidelines outlined in the new protocol will be adhered to by the department.
- 4) The funds referenced in this section have been returned to the City of Detroit.

Finding #3: Failure to Meet Performance Objectives

Department's Response:

The anticipated goal of the Program was in fact to provide interview attire to Four Hundred (400) eligible persons, however due to a number of mitigating factors, the goal was not reached. It's possible that the eligibility requirements were too stringent, efforts to partner with other City Departments did not materialize and marketing efforts failed to generate a substantial increase in traffic coming to the Boutique.

Currently, the Department is revising the eligibility guidelines and renewing opportunities to form relationships with other City of Detroit Departments, Community Agencies and Employment Agencies. Finally, a new set of marketing plans are being designed (Public Service Announcements, Strategically placed Flyers, etc.) to increase awareness and attract more customers to the New Beginnings Clothing Boutique.

Sincerely,



Ursula Holland
Interim Director