City of Detroit

OFFICE OF THE AUDITOR GENERAL

Audit of the
Information Technology Services Department
July 2007 – June 2009

City of Detroit

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LOREN E. MONROE, CPA
AUDITOR GENERAL

MEMORANDUM

DATE: November 18, 2010
TO: Honorable City Council

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

RE: Audit of the Information Technology Services Department

C: Mayor Dave Bing
Charles Dodd, Deputy Director
Norman White, Chief Financial Officer

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

Responsibility for the installation and maintenance of a system of internal control that minimizes errors and provides reasonable safeguards rests entirely with the Information Technology 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 with respect to the recommendations.

We would like to thank the employees of the Information Technology Services Department for their cooperation and assistance extended to us during the audit.

Copies of all of the Auditor General's reports are located on our website at
www.detroitmi.gov/CityCouncil/LegislativeAgencies/AuditorGeneral/tabid/2517/Default.aspx .

Audit of the Information Technology Services Department

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Contents

AUDIT PURPOSE, SCOPE, OBJECTIVES, METHODOLOGY, AND CONCLUSIONS

Audit Purpose
The audit of the Information Technology Services Department (ITSD) 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 OAG performed an assessment of the ITSD 's internal controls over cash receipts, payroll, voucher disbursements, capital assets, and imprest cash transactions for the period from July 2007 through June 2009 and determined that there are certain weaknesses in the system of internal controls. We focused our audit on the weaknesses discovered during the assessment and the status of the 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 objectives of the audit were:

- To assess the ITSD 's internal controls related to financial transactions;

- To determine the ITSD 's compliance with Finance Directives, policies, plans, procedures, laws and regulations; and

- To conduct a follow-up review of the audit findings and issues of noncompliance from the prior audit report.

Audit Methodology
To accomplish the audit objectives, our audit work included:

- A review of prior audit reports, Finance Directives, City ordinances, State laws and City policies and procedures;

- Interviews with appropriate ITSD management and personnel to gain an understanding of the ITSD's internal control structure;

- An evaluation of the ITSD 's internal controls over its major financial systems;

- An examination of a sample of transactions that we considered satisfactory to achieve our objectives; and

- Determination of the status of the findings and noncompliance issues cited in the prior audit report.

Conclusions

Based on our audit, we have concluded the following:

- The ITSD's internal controls related to voucher disbursements, cash receipts, capital assets and imprest cash are inadequate.

- The ITSD does not fully comply with Finance Directives, policies, and procedures.

- Of the four findings and three non-compliance issues from the previous audit report dated June 29, 2007, the ITSD did not resolve two of the findings and two of the non-compliance issue, partially resolved one finding, and one finding and one non-compliance issue are no longer applicable.

ISSUES FOR CONSIDERATION

In addition to the specific recommendations made for each finding, the ITSD should consider the following issues that affect the ITSD's efficiency and effectiveness.

Disaster Recovery

The ITSD needs to revise its disaster recovery plan (plan). The ITSD's last documented plan is dated 2002 and is based on the ITSD's Y2K plan. Other weaknesses related to the plan are not included in this report due to their sensitive nature to the City's system security.

Citywide Information Technology Infrastructure

Departments that are considering the purchase of new computer software to improve their efficiency and effectiveness are not seeking the input of the ITSD. The departments do not consider whether the proposed computer software needs to interface with the City's current computer programs, the needed upgrades and maintenance of the software, and if the City's computer hardware can support the software. The input of ITSD is critical because ITSD will be responsible for implementing and maintaining the software once purchased, and ITSD will need to determine if the current infrastructure can support the software under consideration. The ITSD is responsible for the maintenance of the City's computer hardware and the implementation and maintenance of the computer applications. It is responsible for the strategic technology planning for the City as well as the City's computer system security. This means the ITSD should be responsible for the overall information technology planning for the City.

BACKGROUND

The Information Technology Services Department (ITSD) is the central staff agency responsible for directing, developing and providing information technology and consulting services to City agencies. The responsibilities of ITSD include:

- Information management;

- Strategic technology planning;

- Application development and implementation;

- System/application maintenance and support;

- Telecommunications;

- Data center operations;

- Technology acquisitions;

- Business needs solutions; and

- Other services necessary to aid agencies in harnessing technology to improve operations and the quality of services provided to their customers.

The following table shows the budgeted appropriations, revenues, and number of staff of the ITSD, a general fund agency, for fiscal years 2007-2008 and 2008-2009:

	Fiscal Years Ended June 30	
	2008	2009
Expenditures	$ 23,366,537	$ 24,853,470
Revenues	1,320,694	232,237
Net Tax Cost	$ 22,045,843	$ 24,621,233
Number of Staff	111	110

During our audit period, the ITSD Directors were Derrick Miller (November 6, 2006 through November 9, 2007) followed by Sreenivas Cherukuri (January 7, 2008 through July 14, 2009). Presently, Charles Dodd, the Deputy Director, is in charge of the day-to-day operations of the ITSD.

STATUS OF PRIOR AUDIT FINDINGS

The prior audit of the Information Technology Services Department dated June 29, 2007 contained the following findings and non-compliance issues:

Findings:

1. Analyze Financial Variances Monthly
   This finding will be repeated. (See Finding 6 on page 11)

2. Establish Controls Over Cash Receipts
   This finding has been partially resolved. (See Finding 2 on page 7)

3. Ensure Contracted Pay Phone Commissions Are Received
   This finding is no longer applicable.

4. Deposit Cash Receipts and Record Them within 48 Hours of Receipt
   This finding will be repeated. (See Finding 2 on page 7)

Non-compliance Issues:

1. Review Fringe Bank Balance Reports
   This issue is no longer applicable.

2. Maintain Fixed Asset Inventory
   This issue will be included in a finding. (See Finding 3 on page 8)

3. Perform Quarterly Audits of the Imprest Cash Fund
   This issue will be included in a finding. (See Finding 4 on page 9)

AUDIT FINDINGS AND RECOMMENDATIONS

1. Inadequate Controls Over Disbursements

We sampled thirty-four ITSD disbursements and noted the following discrepancies:

- The ITSD paid seven vendors a total of $5,610.76 related to a Mayor's Office awards dinner. Mayor's Office personnel initialed the invoices thereby initiating the payment process by the ITSD.

- Four professional service contracts do not indicate the specific services that the vendor is to provide.

- Vendor invoices submitted for payment do not indicate the services provided or the deliverables received.

- Two professional service invoices indicated the ITSD paid rates in excess of the contracted amounts. For example, a vendor billed a Project Assistant at a rate of $44 per hour instead of $31 per hour, which is the maximum rate according to the contract. Additionally, another vendor billed a Desktop Support Specialist at a rate of $52 per hour instead of $50 per hour, the contract rate.

Unless a written agreement specifies that one department will be responsible for the expenditures of another department, departments should not be responsible for paying the expenses of another. As the departments expect vendors to adhere to their contracts and provide the agreed upon goods and services for the agreed upon price, the departments should pay its vendors in accordance with the terms of the contract. If the departments need to make contract changes, then the departments should obtain the approval of City Council. Standard business practices indicate that the invoices include a description of the goods and/or services procured, the quantity purchased or the number of days or hours worked, the rate and the total amount charged.

The ITSD runs the risk of exceeding its own budget as well as misclassifying expenditures with the wrong agency by paying expenditures for another department. , The ITSD does not have any evidence indicating what the vendor and ITSD agreed to by not specifying in the contract the services the vendor is to deliver. The departments are not sure that they have received all of the contracted services to which they are entitled by not indicating the services delivered on the invoice,

An ITSD representative stated the ITSD Director at the time approved the payments over the objections of the staff. The representative said the same concerning the payments made for the Mayor's Office awards dinner. An ITSD representative also stated the ITSD writes the service contracts in such a way to allow the ITSD to obtain the necessary "resources" to perform the assignments. In addition, the title of the individuals used by the ITSD indicates the service the individuals provided.

Recommendations

We recommend the ITSD adhere to:

- Not paying expenditures for other agencies unless stipulated by a written agreement;

- Pay the rates agreed to by contract. If the rates change, the changes should receive the proper approvals, specifically City Council approval; and

- Specify in the contracts the services the vendors are to provide. In addition, the ITSD should require vendors to include on their invoices the services provided along with the billing period.

2. Geographic Information System (GIS) Division's Cash Receipts Are Not Deposited Timely

The ITSD's GIS Division sells geographic materials and data to the public. The GIS Division receives payment by checks and money orders. For our audit period, GIS received $22,334 from the public for 316 projects. We noted the ITSD did not submit GIS receipts for deposit within 48 hours of receipt and could not verify the timeframe from the receipt of payment to the date of deposit.

According to Finance Directive 18 – *Timely Deposits of Check*, all City Departments are to deposit all cash, checks, money orders or cash equivalents received and record the deposit in DRMS within 48 hours of receipt.

The ITSD is exposing itself to possible theft by not depositing the funds received within 48 hours. Furthermore, the City loses the possible interest revenue from not having the money in its bank accounts.

An ITSD representative stated the ITSD did not make the deposits within 48 hours of receipt because of a lack of staff.

Recommendation
We recommend the ITSD deposit all GIS receipts within 48 hours of receipt in accordance with Finance Directive 18.

3. Lack of Capital Asset Documentation And Tracking

During our review of the ITSD's capital assets, we noted the following:

- The ITSD did not perform a physical count of its capital assets for fiscal year 2008-09.

- The ITSD could not provide any documentation noting any recent Department equipment acquisitions, transfers, and retirements.

- The ITSD does not have a listing of its capital assets and their locations.

Finance Directive #95 – *Capital Asset Policy Guide and Reporting Requirements* – require Departments to perform a physical count annually. In addition, Departments are required to complete forms to record all acquisitions, transfers and retirements of capital assets and record the information in the Oracle Capital Asset System/DRMS. Also, Finance Directive #99, *Records Management Handbook – Guidelines and Approved Retention and Disposal Schedule for Cities and Villages,* requires municipalities maintain equipment inventory data sheets (physical count documentation) until the audit is completed, equipment on hand records are to be kept permanently, and disposed equipment records are to be kept until the audit is completed.

The ITSD is creating an environment for possible theft by not maintaining capital asset documentation and by not performing annual physical counts. In addition, the ITSD cannot account for nor track any equipment acquisitions, transfers and retirements.

An ITSD representative stated the ITSD maintains a listing of capital assets and acquisition notices; however, the representative could not locate the documents. Furthermore, the ITSD representative stated the ITSD completed its last physical inventory in 2008; however, the representative could not locate the documentation showing that the physical inventory was performed.

Recommendations

We recommend the ITSD perform an annual physical count of its capital assets in accordance with Finance Directive #95, along with listing the capital assets' location. In addition, we recommend the ITSD prepare and maintain the proper forms to record all ITSD equipment acquisitions, transfers, and retirements in accordance with Finance Directive #99.

4. Inadequate Controls Over Imprest Cash

The ITSD has a petty cash fund of $700. We performed a surprise cash count and noted the following conditions:

- The petty cash fund had a shortage of $126.19.

- The Imprest Cash Custodian did not have a copy of the Finance Department Imprest Cash Manual.

- The ITSD has not sought reimbursement of an unvouchered item dated May 2009.

According to the *Procedures Manual for Imprest/Petty Cash Custodians (Manual)*, shortages must be reported to the Chief Financial Officer and to the Finance Department Project Administration Section. In addition, the Department must submit a report of the shortage to the Mayor's Office, the Auditor General, and the Finance Department. Furthermore, the *Manual* states that Departments must make requests for reimbursements within thirty days from the end of the month of the original purchase; however, if reimbursement is for $100 or less, the request may be submitted quarterly.

The ITSD is not aware of the appropriate procedures to replenish the petty cash fund back to its authorized amount by not having an Imprest Cash Manual.

According to the Imprest Cash Custodian, the shortage of $126.19 is due to lost invoices. The window in the Custodian's office was broken, and the Custodian believes that the vacuum created by the broken window blew some of the invoices out of the window. Furthermore, the Imprest Cash Custodian was unaware that there was an Imprest Cash Manual available.

Recommendations

We recommend the ITSD perform the following:

- Obtain a copy of the *City of Detroit Procedures Manual for Imprest/Petty Cash Custodians* for the Imprest Cash Custodian and follow the policies and procedures contained within.

- The Imprest Cash Custodian should notify the Mayor's Office, Auditor General, and the Finance Department of the shortage in the petty cash fund. In addition, the Custodian should submit all of the pertinent documentation to have the shortage replenished.

- The Custodian should submit all outstanding invoices for reimbursement, and in the future, the Custodian should submit all invoices within thirty days of month end.

5. Year-end Closing Exhibits Were Not Submitted Timely

We reviewed the year-end closing exhibits submitted by the ITSD for the fiscal years 2007-2008 and 2008-2009. Of the twenty-two exhibits that were to be submitted to the Finance Department each fiscal year, ITSD submitted eight exhibits in fiscal year 2007-2008, and ITSD submitted three exhibits in fiscal year 2008-2009.

All Departments receive the City of Detroit's Finance Department Year-end Closing Instructions, which contains a schedule indicating the dates when Departments are required to submit their year-end exhibits to the Finance Department.

This causes the Finance Department to delay compiling information for the City of Detroit's Comprehensive Annual Financial Report (CAFR) by not adhering to the Year-end Closing Instructions schedule. In addition, it causes a delay in the timely submission of the audited statements to the State of Michigan.

The ITSD could not explain why it did not submit all of the necessary exhibits.

Recommendation

We recommend the ITSD implement procedures to ensure that the Department submits all year-end closing documents to the Finance Department in accordance with the Finance Department's Year-end Closing Instructions.

6. Need to Analyze Financial Variances Monthly

In our previous audit report, the ITSD did not monitor its financial activity. A follow-up to the prior audit finding indicated the ITSD is still not monitoring its financial activity.

A component of good internal control is management monitoring financial transactions. This ensures that management has reliable financial data to make decisions.

Management will not be aware of possible trends that could indicate issues that they need to address immediately, such as possible theft by not analyzing the monthly variances in the Department's budget.

An ITSD representative stated that a former employee was responsible for monitoring the ITSD's budget; however, there was no documentation indicating that the employee was performing this task. The ITSD representative also stated that meetings were held with the ITSD Director, but the representative was not present for the meetings and could not state with any certainty that the ITSD's budget was discussed.

Recommendation

We recommend the ITSD monitor its budget on a monthly basis and investigate any significant variances between budget and actual amounts. Based on the results of the investigation, ITSD management should take corrective action to address the problem.

CITY OF DETROIT

INFORMATION TECHNOLOGY SERVICES

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October 8, 2010

ATTACHMENT A

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 Information Technology Services Department's responses for the indicated findings and recommendations in the July 2007 through June 2009 audit of the Information Technology Services Department, as prepared by the Office of the Auditor General.

Finding No. 1: Inadequate Controls Over Disbursements

Department's Response:

       The ITS department does not disburse anymore inadequate payments. In the past the former administration instructed the former Director to cover charges for the Mayor's office. Since the administration has changed and transparency is being practiced, these types of payments have ceased. The ITS department is following the standard process for processing payments according to City policy as it pertains to the ITS budget and technical needs.

       Since July 2009, the ITS department has created and implemented the Resource Funding Authorization Form. This form provides details on contractual resources such as resource name, title, job description, period of contract, billing amount and City funding source. Once the verification form is completed by the requesting department and approved by ITS, the form is placed in the Contracting Company (vendor) folder. This provides ITS and the departments with data on specific services that the vendor and the resource are providing, along with keeping in line with the negotiated contractual billing rates for specific titles.

Finding No. 2: Geographic Information System (GIS) Division's Cash Receipts Are Not Deposited Timely

Department's Response:

The ITS department will comply with the Finance Directive 18, for timely deposits of checks. The GIS department has been notified and mandated to submit any cash, checks, money orders, certified checks to the ITS contracts and administration division within 48 hrs. The GIS division has created a log to track orders and payments.

Finding No. 3: Lack of Capital Asset Documentation and Tracking

Department's Response:

The ITS department has assigned a City resource to serve as the ITS Capital Asset Coordinator. As of July 2010, the ITS department completed and compiled our assets. ITS will continue to log our assets to close out future fiscal years to comply with the Finance Directive #95 – Capital Asset Policy Guide

Finding No. 4: Inadequate Controls Over Imprested Cash

Department's Response:

The ITS department has obtained and reviewed the City of Detroit Procedures Manual for Imprest/Petty Cash Custodians. Per the guidelines, ITS will comply with the directive. The missing cash $126.19 was discovered by the petty cash custodian, the money was inside of the Petty Cash safe.

Finding No. 5: Year-end Closing Exhibits Were Not Submitted Timely

Department's Response:

The ITS department did complete all exhibits for the Year-End closing for 2010. The department will continue to follow the year end closing instructions and complete all documents pertaining to ITS and reply non-applicable on the forms that do not apply to ITS

Finding No. 6: Need to Analyze Financial Variances Monthly

Department's Response:

The ITS department is meeting with the Budget department on a monthly basis review analyze and monitor the ITS budget. These monthly meetings with ITS administration will help to identify any variances or budget issues so that ITS will not have a deficit at the end of the fiscal year. The monthly meetings started in August 2010.

Sincerely,

Charles Dodd
Deputy Director
Information Technology Services Department

cc: Thomas Lijana, Group Executive - Finance