

**City of Detroit**

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**OFFICE OF THE AUDITOR GENERAL**



**FOLLOW-UP AUDIT OF  
THE LAW DEPARTMENT**

**July 2008 – June 2010**



**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 30, 2011

**TO:** Honorable City Council

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

**RE:** Audit of the Law Department

**C:** Mayor Dave Bing  
Krystal A. Crittendon, Corporation Counsel  
Norman L. White, Chief Financial Officer

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Attached for your review is our report on the audit of the Law 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 Law Department.

Responsibility for the installation and maintenance of a system of internal control that minimizes errors and provides reasonable safeguards rests entirely with the Law Department 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, 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 Law Department for the cooperation and assistance extended to us during this 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](http://www.detroitmi.gov/CityCouncil/LegislativeAgencies/AuditorGeneral/tabid/2517/Default.aspx).

# Audit of the Law Department

July 2008 – June 2010

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## AGENCY RESPONSES

Law Department

ATTACHMENT A

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

## **AUDIT PURPOSE**

The audit of the Law Department 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 Law Department's internal controls over cash receipts, voucher disbursements, capital assets, contract compliance, information technology and imprest cash transactions for the period from July 2008 through June 2010 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 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**

Our audit objectives were:

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

## **AUDIT METHODOLOGY**

To accomplish our audit objectives, our audit work included the following:

- A review of prior audit reports, Finance Directives, City ordinances, State laws and City policies and procedures;
- Interviews with appropriate Law Department management and personnel to gain an understanding of the Law Department's internal control structure;
- An evaluation of the Law Department's internal controls over its major financial systems;
- An examination of sample transactions that we considered satisfactory to achieve our objectives; and

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

### **CONCLUSIONS**

As a result of our audit we have concluded that:

- The Law Department's internal controls related to cash receipts, capital assets, imprest cash, information technology, and voucher disbursements are inadequate.
- The Law Department does not fully comply with Finance Directives, policies, and procedures.
- Of the six findings from the previous audit report dated March 18, 2008, none of the prior audit findings were resolved by the Law Department.

### **ISSUE OF CONCERN**

The September 2005 Audit of the Law Department and the June 2007 Follow-up Audit of the Law Department conducted by the Office of the Auditor General identified significant weaknesses related to imprest cash funds. In the course of this audit, we found that the previously identified imprest cash issues, specifically related to segregation of duties and bank reconciliation concerns, have yet to be resolved and continue to exist today. We recommend that the Law Department take corrective action to ensure compliance with our recommendations.

### **RECOMMENDATION**

In the June 2007 Follow-up Audit of the Law Department, we proposed that the Law Department establish a monthly billing agreement with the 36<sup>th</sup> District Court and other courts, in order to eliminate the use of imprest cash funds for recurring filing fees. Although this recommendation was never completed since the prior audit, we recommend that the Law Department continue to make efforts to implement this recommendation.

## BACKGROUND

The Law Department is directed by the Corporation Counsel, who is appointed by the Mayor, subject to approval of the City Council. The duties and responsibilities of the Corporation Counsel, as set forth in the City Charter, include, but are not limited to, the following:

- Defend all actions or proceedings against the City;
- Prosecute all actions or proceedings to which the City is a party or in which the City has a legal interest;
- Prepare or approve all contracts, bonds, and other written instruments related to City operations; and
- Give legal advice or opinions upon request, and prepare or assist in the preparation of ordinances and resolutions.

The Law Department is comprised of five divisions:

1. The Financial Management/Administration Division manages the Law Department's financial resources. The Financial Management Division provides supervision, management and disbursement of the Law Department's imprest cash, interagency billings, outside counsel contracts, and other departmental fees and costs.
2. The Governmental Affairs Division provides legal advice and representation to the Executive and Legislative Branches of City government. The Division is comprised of three sections: Contract, Freedom of Information, and Municipal.
3. The Labor and Employment Division provides legal counsel and representation, proactive risk management, training, and timely and pertinent advice to City departments relative to diverse employment matters.
4. The Litigation Division provides support to City departments by minimizing financial exposure through risk management efforts, Alternative Dispute Resolution (ADR) practices, and defense and prosecution of litigation matters.
5. The Property and Environment Division provides informed representation on environmental and real estate transactions, ownership, usage, and litigation issues.

The Law Department collects the following payments on behalf of the City:

- Freedom of Information Act (FOIA) fees;
- Subpoena fees; and
- Labor charges.

John E. Johnson served as Corporation Counsel from 2006 to July 2008. Kathleen Leavey was appointed Corporation Counsel from September 2008 through January 2009. Krystal A. Crittendon was appointed in January 2009 as Corporation Counsel by the Mayor and has been the Director of the Law Department since her appointment.

The following table shows the budgeted appropriations, revenues and number of staff for the Law Department for the 2008-2009 and 2009-2010 fiscal years.

	Fiscal Years Ended June 30	
	<u>2009</u>	<u>2010</u>
Budgeted Appropriations	\$22,273,896	\$ 19,764,987
Budgeted Revenues	<u>2,720,000</u>	<u>2,611,073</u>
Net Tax Cost	<u>\$20,003,896</u>	<u>\$17,153,914</u>
Number of Staff	148	124

## STATUS OF PRIOR AUDIT FINDINGS

The prior follow-up audit of the Law Department for the audit period July 1, 2005 to June 30, 2007, by the Office of the Auditor General, included the findings listed below. None of the six prior audit findings were resolved.

1. Strengthen Internal Controls Over Imprest Cash (September 2005)  
*This finding has not been resolved, and is discussed in Finding 1 on page 6 of this report.*
2. Fully Comply With The Imprest Cash Manual (March 2008)  
*This finding has not been resolved, and is discussed in Finding 1 on page 6 of this report.*
3. Submit 1099 Vendors To The Finance Department (March 2008)  
*This finding has not been resolved, and is discussed in Finding 3 on page 9 of this report.*
4. Strengthen Internal Controls Over Cash Receipts (September 2005)  
*This finding has not been resolved, and is discussed in Finding 5 on page 12 of this report.*
5. Comply With The Accounts Payable Section's Procedures (March 2008)  
*This finding has not been resolved, and is discussed in Finding 1 on page 6 of this report.*
6. Submit Year-End Closing Schedules To The Finance Department (September 2005)  
*This finding has not been resolved, and is discussed in Finding 6 on page 13 of this report.*



## AUDIT FINDINGS AND RECOMMENDATIONS

### **1. There Are Weaknesses in the Law Department's Imprest Cash Account**

The Law Department has an authorized imprest cash amount of \$41,000 which is comprised of \$37,000 in a checking account and \$4,000 in a Pre-paid Purchase Card (P-Card). Based on our review, the Law Department did not fully comply with the City's Imprest Cash policies and procedures as demonstrated by the following:

- Imprest cash bank statements are addressed to an individual who is no longer employed by the City. The individual to whom the bank statements are address retired in November 2006.
- There is a lack of segregation of duties. The imprest cash custodian has complete control over the Law Department's accounting software (QuickBooks), writes checks, reconciles, and is an authorized signer on the imprest bank account.
- Periodic imprest cash audits are not conducted.
- The imprest cash custodian signs blank checks prior to requested time off.
- The bank signature card listing the authorized signers of the imprest checking account is out-of-date. Three signers, who have retired from the City, are currently listed.
- Monthly bank reconciliations received for the scope of the audit indicate that the bank statement balance and the QuickBooks balance did not agree.
- Persons other than the imprest cash custodian have sole access to the imprest cash check-stock.

The City's Imprest Cash Manual states the following:

- Bank statements should be sent to a person other than an authorized signatory or a custodian of the imprest cash fund.
- All checking accounts must be reconciled with the bank statements monthly. Persons other than custodians or authorized signatories of the imprest cash fund should perform the reconciliation of the imprest cash account.
- At a minimum, internal audits must be made once every three months.
- It is recommended that at least three, preferably four signatories be named to allow for absences of any of the signatories
- At all times, the imprest cash fund must agree with the total amount authorized.

The State of Michigan Accounting Procedures Manual for Local Units of Government states that:

- Checks must not be signed prior to being completely filled out.
- Cash, equipment, inventories, and other property must be physically secured.

Inadequate internal controls over imprest cash, provides the opportunity for multiple abuses including theft of funds, inappropriate expenditures, and inaccurate financial records. Moreover, improper oversight of the imprest cash fund can increase the likelihood of abuse. The high volume of transactions processed from imprest cash can increase the potential for losses due to abuse, theft, or fraud.

According to the Law Department, a lack of personnel has contributed to the overall lack of controls over the imprest cash account. Due to the continuation of past practices, check-stock was accessible to individuals other than the imprest cash custodian.

### **Recommendations**

We recommend the Law Department strengthen internal controls over imprest cash by:

- Adhering to policies and procedures established in the Imprest Cash Procedure Manual.
- Segregating duties wherever possible, and ensure that management reviews the imprest cash transactions and processes on a regular basis.
- Ensure that access to imprest cash check-stock by persons other than the custodian is accessible only under dual control.

## **2. The Law Department Did Not Fully Comply with the City's P-Card Manual**

The Law Department's authorized P-Card amount is \$4,000. Based on the review of P-Card policies and procedures, we noted the following:

- The P-Card Cardholder (PCC) has not attended training as required.
- Three individuals other than the PCC have unauthorized access to the P-Card located in a safe.
- There is a lack of segregation of duties. The PCC is also responsible for preparing the bank reconciliation.

The City's P-Card Manual requires that:

- Each PCC is required to attend training.
- The card and card number are protected from theft or loss.
- The P-Card reconciler should not be authorized to make purchases, whenever possible.

Failure to comply with the P-Card Manual can result in funds being susceptible to theft, loss and misuse.

According to the Law Department, the custodian was unable to attend the P-Card training class as required, but received the appropriate materials in lieu of attendance. Due to past operations of the Law Department, the P-Card was able to be accessible to persons other than the PCC. Inadequate staffing levels are attributed to the lack of segregation of duties over the P-Card process.

### **Recommendations**

We recommend that the Law Department:

- Adhere to the policies and procedures established in the P-Card Manual.
- Ensure that access to the P-Card is limited to authorized personnel.

### **3. The Law Department Did Not Submit a List of 1099 Vendors to the Finance Department**

The Law Department did not submit a list of vendors who were paid from the imprest cash fund and required to receive a 1099-MISC form to the Finance Department form for payments in excess of \$600.

According to the Internal Revenue Service (IRS), 1099-MISC forms for Miscellaneous Income should be given for other income payments, issued in excess of \$600 to individuals or businesses by January 31<sup>st</sup> of each year and submitted to the IRS in February of each year.

Failure to provide the Finance Department with appropriate documentation to issue vendors 1099 forms paid from imprest cash may subject the City to penalties and fines from the IRS.

According to the Law Department, the Finance Department Accounts Payable Division did not submit notification requesting a list of vendors paid from imprest cash who received payments in excess of \$600.

#### **Recommendations**

We recommend that the Law Department:

- Implement procedures to create a list of all vendors who should receive 1099 forms and ensure that the list is submitted to the Finance Department timely, in accordance with IRS regulations.
- Require 1099 vendors' complete W-9 (Request for Taxpayer Identification Number and Certification) forms annually to simplify the process of gathering 1099 information for the Finance Department.

#### **4. Information Technology Controls are Inadequate**

The Law Department utilizes multiple software programs for daily operations. Some of the key software used by the Law Department includes Legal Edge, Legal Key, and Worldox. Legal Edge is a comprehensive case-tracking database that maintains an extensive variety of information associated with a case. Legal Key is the software that creates the case file that is entered into Legal Edge. Various City departments, including the Detroit Police Department, Detroit Department of Transportation, and the Department of Public Works (DPW), utilize Legal Edge data. Legal Key also provides the ability to create a physical case file for the assigned attorney. The Worldox system is a document management database that brings together the Law Department's scanned paper documents, word processing documents and spreadsheets. We reviewed the Law Department's information technology (IT) controls and noted the following:

- Law Department records in the Legal Edge and Legal Key system were not adequately backed up. Subsequently, when the server crashed and became inoperable, pertinent data was lost in each system. Forensic experts were contracted by the City in order to retrieve lost information, but all data has yet to be retrieved in the Legal Key system.
- The implementation of Legal Edge was never fully completed. Only one of the five modules (Litigation) has been implemented since Legal Edge's inception in 1998. There is no scheduled implementation date of the other four modules (Administration, Labor Relations, Claims, and Government Affairs).
- Upgrades to key software programs utilized by the Law Department have not been performed. The Legal Edge, Legal Key, and Worldox system, which were acquired in 1998, 1999, and 2002 respectively, have not been upgraded since their implementation date.
- The Legal Edge, Legal Key, and Worldox system, which currently operate on a client-server basis, are antiquated and will no longer be supported due to the requirement for web-based servers to be utilized by each provider.
- Legal Edge, Legal Key, and Worldox are not currently providing maintenance and support services due to non-payment by the Law Department
- The Law Department IT Section does not have an established disaster / contingency plan manual.
- User logon access is not purged from the Legal Edge and Legal Key systems for individuals who no longer require access to either system.

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 a business entity:

- Develop a framework for IT continuity to support enterprise-wide business continuity management with a consistent process. The plan should address the principles of backup and recovery.
- Establish and maintain a project management framework that defines the scope and boundaries of managing projects, as well as the methodologies to be adopted and applied to each project undertaken. The methodologies should cover, at a minimum, the initiating, planning, executing, controlling and closing project stages, as well as checkpoints and approvals.
- Develop a strategy and plan for the maintenance and release of software application. Issues to consider include contractual conditions such as support issues and upgrades, periodic review against business needs, risks and security requirements.
- Develop IT continuity plans based on the framework, designed to reduce the impact of a major disruption on key business functions and processes. The plans should address requirements for resilience, alternative processing and recovery capability of all critical IT services. They should also cover usage guidelines, roles and responsibilities, procedures, communication processes, and the testing approach.
- Take expedient actions regarding job changes, especially job terminations. Knowledge transfer needs to be arranged; responsibilities reassigned and access rights removed such that risks are minimized and continuity of the function if guaranteed.

The absence of effective IT controls can increase the risk of unexpected costs to the City for IT services, decrease the Law Department's ability to effectively transmit requested information as needed and cause the loss of critical case data information.

According to the Law Department, the loss of a key staff person responsible for the oversight of the Legal Edge software, as well as the inability to obtain approved budgeted funding for the software systems is attributed to the IT issues. Law Department IT personnel stated that a draft contingency plan was developed, but was never officially implemented by management.

### **Recommendation**

We recommend that the Law Department adhere to the policies and procedures established according to COBIT standards. COBIT standards provides managers and IT users with a set of generally accepted standards and best practices to establish appropriate IT governance, maintenance, and control within an organization.

## **5. Controls Over Cash Receipts are Inadequate**

We reviewed the Law Department's cash receipts process to determine whether controls were adequate. Based on our examination, we noted the following:

- Seven of ten cash receipt journal entry input forms reviewed (70%) indicated that the checks received were not deposited within 48 hours of receipt.
- There is a lack of segregation of duties. Staff persons in the Law Department are responsible for collecting, recording, preparing, and depositing cash receipts.

The City's Finance Directive 20 states that cash should not accumulate. City departments should institute procedures to ensure that all cash and checks are deposited in the bank within 48 hours of receipt.

According to the State of Michigan Accounting Procedures Manual for Local Units of Government in Michigan, no one person is to have control over all aspects of the financial transactions. An individual is not to have more than one of the three transaction components: authorization, custody, and recordkeeping.

Failure to deposit cash receipts on a timely basis and segregate duties increases the risk of losses due to misappropriation or theft.

According to Law Department staff, cash receipts are not always deposited within 48 hours of receipt due to an increase in workload and a lack of personnel. A segregation of duties over the cash receipts process exists due to lack of staff on hand.

### **Recommendations**

We recommend the Law Department:

- Deposit cash receipts within 48 hours of receipt in accordance with Finance Directive 20 or obtain a waiver from the Finance Department.
- Ensure that there is segregation of duties related to cash receipt operations. Where the Law Department cannot segregate duties, the Law Department should rotate responsibilities and increase managerial oversight.

## **6. The Law Department Did Not Comply with the Finance Department's Year-end Closing Procedures**

The Law Department did not submit its fiscal year 2008-2009 and 2009-2010 reports in accordance with the Finance Department's policies and procedures. Based on the review of the forty-five year-end closing documents for fiscal years 2008-2009 and 2009-2010, we noted the following:

- Eleven year-end closing exhibits (24%) were not submitted to the Finance Department.
- Twenty-five year-end closing exhibits (56%) were submitted beyond the scheduled due date.

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. Policies and procedures for fiscal year 2009-2010 specifically states that the form preparer must enter "N/A" on the form, sign it, have the form signed by an approved signor, scan and email sent along with the other completed forms.

Non-compliance with year-end closing procedures delays the Finance Department from compiling accurate year-end information for the City of Detroit Comprehensive Annual Financial Report (CAFR). Not submitting timely documents could prevent the external auditors from completing the financial audit on time in order to meet the State mandated due date.

According to the Law Department, non-applicable year-end exhibits were not submitted for fiscal year 2008-2009, as this was not required per the policy and procedures. Due to higher workloads and low staff levels, in addition to providing other documentation for the completion of the City's CAFR, year-end closing exhibits were not submitted by the required due dates to the Finance Department.

### **Recommendation**

We recommend that the Law Department implement procedures to ensure that all year-end closing reports are submitted to the Finance Department in accordance with the Finance Department's year-end closing procedures.



**7. Voucher Disbursements Were Not Always Processed in Accordance with the Prompt Payment Ordinance**

We selected a random sample of fourteen voucher disbursement requests processed by the Finance Department Accounts Payable Section. Four of the fourteen voucher disbursement requests reviewed (29%) indicated that invoices date stamped by the Law Department were processed more than 45 business days after the invoice was received.

The Prompt Payment Ordinance (42-98) contained in Sections 18-5-71 through 18-5-80 of the Detroit Municipal Code, which became effective June 16, 1999, requires that all necessary steps be taken to ensure that payment for a vendor is mailed or delivered within 45 business days after the City's receipt of an invoice issued pursuant to the terms of a contract or purchase order, excluding incorrect or disputed invoices.

Late payment of invoices processed contributes to the City's reputation that it does not pay vendors on a timely basis, which can discourage vendors from actively seeking to be City vendors.

According to the Law Department, the inability to fill positions which were originally responsible for the handling and processing of vendor invoices has attributed to the delay in payment to vendors.

**Recommendation**

We recommend that the Law Department adhere to the Prompt Payment Ordinance which stipulates that payments to vendors be processed within 45 days of receipt of an invoice.

## **8. The Law Department Failed to Adequately Control Capital Assets**

We selected a sample of ten fixed assets from the Capital Assets System's (CAS) Asset Inventory Report. Based on our testing, we determined that nine of the ten (90%) items located in the Law Department, which were selected for testing, were not listed on the Asset Inventory Report.

Based on our review over the controls over capital assets, we determined the following:

- The capital assets coordinator does not have access to the CAS module in the Detroit Resource Management System (DRMS).
- The Law Department has not performed a physical inventory of its capital assets in over a year.
- The Law Department does not maintain an up-to-date list of capital asset inventory.

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

- During the inventory process, if a taggable asset is found that does not have a City of Detroit Property Tag, it should be tagged and processed as a new asset addition.
- Each Agency designate a Capital Assets Inventory Coordinator to plan and execute the physical inventory of the Agency's capital assets.
- All departments maintain accurate records of their capital assets. Departments must conduct a physical inventory at least annually and compare the results to their updated Asset Inventory Report. All discrepancies should be reconciled, resolved, documented, and entered into the CAS system.

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 Law Department, the Capital Assets Coordinator was scheduled to receive access to the Capital Assets Module in DRMS, but have yet to receive access form the Finance Department. Due to the inability of the Capital Assets Coordinator to obtain a listing of taggable capital assets from the City's DRMS system, an inventory was not performed, nor an up-to-date list maintained.

### **Recommendations**

We recommend that the Law Department abide by the Capital Asset Policy Guide and Procedure Manual, which requires;

- A physical count of all fixed assets and documentation of the count;

- Recording all acquisitions, transfers and disposals in the Capital Assets System; and
- Ensuring that all personnel responsible for capital assets have access to the Capital Assets System module.

March 29, 2011

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

Dear Mr. Monroe:

The following represents the Law Department's response for the indicated findings and related recommendations in the July 2008 - June 2010 audit of the Law Department as prepared by the Office of the Auditor General.

**Finding No. 1 There Are Weaknesses in the Law Department's Imprest Cash Account**

**Law Department's Response:**

1. The Law Department's imprest cash bank statement information will be corrected and the bank's file regarding the same will be updated. Future bank statements will be addressed to the Administrative Assistant of the department's Financial Management Unit.
2. Lack of segregation of duties is due solely to a lack of personnel in the department's Financial Management Unit. In 2007 this unit was staffed with (1) Administrative Assistant II, (2) Principal Clerks, (2) Senior Clerks and (1) Clerk. Since May of 2008 and currently, the unit consists only of (1) Administrative Assistant II and (1) Principal Clerk. The department, for three consecutive budget cycles requested, that at minimum the Principal Clerk position be filled. The requests for this position were denied and most recently, during the 2010-2011 budget request process, the Principal Clerk position was eliminated from the department's personnel roster as part of the City's budget reduction/deficit elimination plan.
3. The Law Department has obtained the professional services of an outside accounting firm, Rehmann Accounting LLC, to assist in reconciling a number of outstanding imprest cash items. Once all outstanding items have been reconciled, periodic, internal audits will be conducted and written record of such audits will be retained. This will allow for early detection and resolution of discrepancies in the fund.

**Finding No. 1 There Are Weaknesses in the Law Department's Imprest Cash Account (cont.)**

4. The Law Department's imprest cash custodian has been advised that signing blank checks prior to requested time off is forbidden and does not comply with the policies set forth in the Imprest Cash Procedures Manual. The occurrence noted in the findings of the department was an isolated incident. The custodian and the department's Financial Management Unit staff is, and will continue to adhere to the policies listed in the Imprest Cash Manual in regards to the same. Currently, three signatories in addition to the custodian are named to this account to allow for absences of any of these individuals.
5. With the assistance of the Finance Department/Treasury the bank signature card will be updated to include only the authorized signers of this account. The three signers who have retired from the City will be removed from the list.
6. The Law Department's Financial Management Unit is working in conjunction with Rehmann Accounting to reconcile the imprest cash fund to its total authorized amount. The majority of the outstanding items have been reconciled and submitted Finance/Accounts Payable for reimbursement. Once all items have been reconciled and reimbursed the bank statement balance and the Quick Books balance will be in agreement.

In addition, the Law Department intends to upgrade to a more current version of Quick Books to more efficiently manage and maintain the department's financial records.

7. The Law Department is currently seeking measures to ensure that the imprest cash check stock is accessible solely, only to the imprest cash custodian. Individuals other than the custodian will have access by means of dual controls only.

**Finding No. 2 The Law Department Did Not Fully Comply with the City's P-Card Manual**

**Law Department's Response:**

1. A representative from the Law Department's Financial Management Unit attended one of the two offered P-Card training sessions. The department's representative then relayed pertinent information from the session to the department's P-Card Cardholder. In addition, the P-Card Administrator provided training materials from the session, which included the P-Card Manual and instructions.
2. The Law Department's P-Card will be stored in a more secure location. Only the P-Card Cardholder and the designated alternate will have access to the card. This action will protect the card and card number from theft & loss.

**Finding No. 2 The Law Department Did Not Fully Comply with the City's P-Card Manual (cont.)**

Lack of segregation of duties regarding the P-card is due solely to the severe staff shortage in the Law Department's Financial Management Unit. Given the limited number of personnel and the increasing demands of the unit, required assignments are completed by one of the two available employees.

**Finding No. 3 The Law Department Did Not Submit a List of 1099 Vendors to the Finance Department**

**Law Department's Response:**

1. The Law Department acknowledges its failure to submit list of vendors paid the from imprest cash fund. The department will take the necessary measures to implement procedures to create a list of vendors who should receive 1099 forms and also ensure that the list is submitted to the Finance Department in a timely manner, in accordance with IRS regulations.

**Finding No. 4. Information Technology Controls are Inadequate**

**Law Department's Response:**

1. The Law Department fully embraces the findings and conclusions of the Auditor Generals report concerning the need to back up data maintained by Legal Edge and Legal Key software. Law has been working with the ITS Department to ensure that the hardware necessary to support those programs is used and backed up consistent with prevailing IT industry standards.

As such, and to address the backup of data for the Legal Edge and Legal Key System, the ITS department has moved the solution into the City's Virtual Environment. Currently an initial file server, full backup, has been taken and scheduled backs are Fulls every 3 months and incremental each night. The database server are part of our enterprise MS SQL environment which is in our VM environment and on the NetApps so it is being backed up to tape and disk.

2. For the last four budget cycles Law has requested the estimated \$500,000.00 in funds necessary to upgrade the 1998 Legal Edge version employed by the department to a web based system that is consistent with standards in the industry and critical to continued usage of Legal Edge along with Legal Key and Worldox. These requests have been uniformly denied without explanation.

**Finding No. 4. Information Technology Controls are Inadequate (cont.)**

3. Upgrades of Legal Key and Worldox (which cost a comparatively modest amount) have been delayed in the hopes of a complete software upgrade inclusive of Legal Edge.
4. See response No. 2 above.
5. The unwieldy contract approval process involving the human rights, property tax and income tax clearance labyrinth that the simplest of contracts approvals must navigate delayed payment of the annual maintenance and support services costs for Legal Edge, Legal Key and Worldox. The decrease in administrative staff at Law Department over the past several years, along with furlough and DWOP day has negatively affected the department ability to manage this time consuming process.

The Law Department IT Section has diminished 50% going into the new budget year due to the transfer of the department's dedicated Micro Computer Specialist, and the removal of that position from the department budget.

6. The City of Detroit is in the process of developing a disaster recovery plan, which will include the Law Department. The plan will be comprehensive for all critical applications and will include a business continuity plan.
7. The Law Department's technical staff will work to develop a quarterly or semi annual review of system access rights and an outlined schedule of such reviews. This will identify those employees who have access as well as those who will need access.

**Finding No. 5 Controls Over Cash Receipts are Inadequate**

**Law Department's Response:**

1. The Law Department acknowledges inadequate controls over cash receipts and will take the necessary steps to ensure that all cash receipts are recorded promptly and deposited (in the Treasurer's Office) within forty-eight hours of receipt.
2. Lack of Segregation of Duties in the Municipal Division is due to the lack of clerical/secretarial staff. This division currently employs only (2) Legal Secretaries that perform and maintain the required operations of this section. Until such time that the department is afforded additional clerical support, every attempt and effort, to the degree possible, will be made to segregate duties related to cash receipt operations. In instances where duties cannot be segregated the department will rotate responsibilities and increase managerial oversight. This will allow for early detection of errors and possible misappropriation of cash receipts.

**Finding No. 6 The Law Department Did Not Comply with the Finance Department's Year-end Closing Procedures**

**Law Department's Response:**

1. The year-end closing exhibits (24%) not submitted to the Finance Department were those containing requested information not applicable to the Law Department. The department was unaware, until later in the process, that according to Finance Department policies and procedures N/A must be entered on these forms. The forms must then be signed and submitted along with the other required year-end closing reports and documents.

The Law Department will comply with the Finance Department's year-end closing procedures and any forms, although non-applicable, will be noted as such, signed and submitted, as part of the departments year-end closing reports.

2. The Law Department acknowledges late submission of those year-end closing exhibits as noted in the findings. Computer system software and network problems were the main cause of these late submissions. The availability of information and the lack of staff were also factors.

The Law Department has requested funds for the upcoming fiscal year to cover the costs of much needed software upgrades (see Finding No. 4 –responses no. 2 & 3).

The Law Department, in the interim, will take the necessary measures available and make every attempt to ensure more timely submission of the department's year-end closing documents. Timely submission of these documents will aid in the timely completion of the City's CAFR in adherence to State mandated due dates.

**Finding No. 7 Voucher Disbursements Were Not Always Processed in Accordance with the Prompt Payment Ordinance**

**Law Department's Response:**

1. Processing delays of the Law Department's invoices are due, mostly, to a lack of staff in the department's Financial Management Unit. The Senior Clerk who was responsible for processing invoices retired in May 2008 and her position was never filled. As well, the Principal clerk who provided assistance with invoices and payments, retired in October 2007 and the position eliminated from the department's roster in 2010.

Lengthy delays of contract approvals by City Council and Purchasing and clearance issuances by Finance/Income Tax and Human Rights also contribute to delays in invoice processing. In such instances, although the invoices are stamped as received, they cannot be submitted for prompt payment until the contract purchase order and standard purchase order are approved.



**Finding No. 8 The Law Department Failed to Adequately Control Capital Assets**

**Law Department's Response:**

1. The Law Department's Capital Assets Coordinator will contact the Finance Department to gain access to the DRMS Asset Module. After obtaining access the Asset Coordinator will be able to add all outstanding assets to the inventory and delete items no longer in the department.

The Department will also implement policies/procedures for all department staff to perform a physical count of fixed assets.

Sincerely,



Krystal A. Crittendon  
Corporation Counsel