

**City of Detroit**

---

**OFFICE OF THE AUDITOR GENERAL**



**Audit of the Senior Citizens Department**

**July 2007 – 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:** May 5, 2010

**TO:** Honorable City Council

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

**RE:** Audit of the Senior Citizens Department

**C:** Mayor Dave Bing  
Norman L. White, Chief Financial Officer  
Terra M. Defoe, Senior Citizens Department, Director

---

Attached for your review is our report on the audit of the Senior Citizens Department. This report contains our audit purpose, scope, objectives, methodology, and conclusions; status of prior audit findings; background; audit findings and recommendations, and the Senior Citizens Department's response.

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

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

We would like to thank the employees of the Senior Citizens Department for their cooperation and assistance extended to us during this audit.

Copies of all 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 Senior Citizens Department**

**July 2007 – September 2009**

## **Contents**

	<u>Page</u>
AUDIT PURPOSE, SCOPE, OBJECTIVES, METHODOLOGY, AND CONCLUSIONS	1
BACKGROUND	3
STATUS OF PRIOR AUDIT FINDINGS	5
AUDIT FINDINGS AND RECOMMENDATIONS	
1. Deficient Internal Controls Over Grant Revenues and Expenditures	6
2. Internal Controls Over Donations and Cash Receipts are Weak	8
3. Non-compliance with Capital Asset Policies and Procedures	10
4. Non-compliance with the Imprest Cash Manual and Finance Department Procedure	11
5. Food Purchases Were Made without Proper Authorization.	14
6. Non-compliance with Year-end Closing Procedures	15
OTHER FINDING RELATED TO THE FINANCE DEPARTMENT	
1. Failure to Monitor and Control the Processing of Grants	16
2. Non-Compliance with the Imprest Cash Manual	18
AGENCY RESPONSES	
Senior Citizens Department	ATTACHMENT A
Finance Department	ATTACHMENT B

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

### **AUDIT PURPOSE**

The audit of the Senior Citizens Department was performed in accordance with the Office of the Auditor General's (OAG) Charter mandate to audit 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 the internal controls of the Senior Citizens Department's operations and their compliance with Finance Directives, policies, plans, procedures, laws and regulations regarding financial transactions and the Department's overall performance during the period of July 2007 to September 2009.

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:

- Evaluate adequacy of the Department's internal controls over the major financial reporting processes; assess control procedures for transactions of cash receipts, payroll, disbursements, fixed assets, revenue, imprest cash, and determine the control weaknesses.
- Determine if the Department is in compliance with Finance Directives, policies, plans, procedures, laws and regulations.
- Determine if prior audit findings were resolved.

### **AUDIT METHODOLOGY**

To accomplish our objectives, our audit work included:

- A review of City ordinances, and other pertinent information related to the Senior Citizens Department;
- A review of City directives, policies and procedures;
- Interviews with Senior Citizens Department management and personnel to gain an understanding of the agency's internal control structure;
- An evaluation of the Senior Citizens Department's internal controls over its major financial systems; and
- An examination of a sample of transactions that we considered satisfactory to achieve our objectives.

## **CONCLUSIONS**

As a result of our audit we have concluded that:

- There are internal control weaknesses over the financial transaction and reporting processes.
- The Senior Citizens Department is not fully compliant with Finance Directives, policies, plans, procedures, laws, and regulations.
- Four of the prior audit findings have not been resolved. One was partially resolved.

## **BACKGROUND**

The Senior Citizens Department works to provide direct and indirect services to senior citizens to help the elderly attain and/or maintain lifelong dignity and independence.

The Department's aim is to enhance the quality of life for Detroit senior citizens through the delivery of services designed for the elderly. Those services, provided in conjunction with various federal, state and City agencies, include:

- Distributing information on issues and services affecting seniors, referrals to health screening services, and assistance in obtaining government benefits.
- Providing information and outreach services for Spanish-speaking elders, and assessing the needs of Detroit's elder population and coordinating senior citizens-related special events.
- Promoting the active involvement of seniors in the life and health of their neighborhoods.

The Department has three divisions: The Outreach & Assistance Division, Consumer Advocacy Division, and Special Events Division.

The Outreach and Assistance Division (O&A), a federally funded program mandated by the 1965 Older Americans Act, is the senior's link to the community. O&A provides information and telephone assistance to older persons seeking human and social services.

The Consumer Advocacy Division provides service to consumers and businesses through education, mediation and investigation. It protects the citizens of Detroit against dishonest business practices in the sale of goods and services and provides consumer advice and assistance to the public.

The Special Events Division plans community awareness forums, educational forums, safety and health awareness programs and social functions. This division is organized to provide seniors with the opportunity to expand their social relationships and remain active participants in the community.

Sandra Ramsey served as the Director of the Senior Citizens Department during the initial part of the audit period, which commenced July 1, 2007. Terra Defoe was appointed as Director in June 2009.

The following table shows the Budgeted Appropriations and Revenues of the Senior Citizens Department for fiscal years ended 2008 through 2010:

	<u>Fiscal Years Ended June 30</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
Budgeted Appropriations	\$984,370	\$977,436	\$994,136
Budgeted Revenues	<u>275,000</u>	<u>275,000</u>	<u>267,737</u>
Net Tax Cost	<u>\$709,370</u>	<u>\$702,436</u>	<u>\$726,399</u>
Budgeted Staff	8	8	8

## STATUS OF PRIOR AUDIT FINDINGS

The Office of the Auditor General reviewed three prior audit reports of the Senior Citizens Department issued by the Office of the Auditor General. The audit reports were: an Internal Control Review (June 1993), a Financial Related Audit (January 2002), and an Audit of the Senior Citizens Department's Imprest Cash (April 2008). Audit findings cited in these reports are as follows:

1. Imprest Cash - Failure to Conduct Quarterly Audits (June 1993)  
*This finding has been partially resolved. See Finding 4 on page 11.*
2. Non-compliance with Finance Directive 95 – Annual Physical Inventory (June 1993)  
*This finding has not been resolved. See Finding 3 on page 10.*
3. Reconciling Schedules Needed to Link DRMS Data to Grant Reports (January 2002)  
*This finding has not been resolved. See Finding 1 on page 6.*
4. Lacks Appropriate Segregation of Duties for Imprest Cash (April 2008)  
*This finding has not been resolved. See Finding 4 on page 11.*
5. Not in Compliance with the City's Imprest Cash Policies and Procedures (April 2008)  
*This finding has not been resolved. See Finding 4 on page 11.*



## **AUDIT FINDINGS AND RECOMMENDATIONS**

### **1. Deficient Internal Controls Over Grant Revenues and Expenditures**

The Senior Citizens Department Outreach and Assistance Division (O&A) receives grants to finance program initiatives. The O&A receives funding from the Detroit Area Agency on Aging (DAAA). DAAA receives funding from the Office of Services to the Aging (OSA). The Department submits monthly Financial Status Reports (FSR) to the grantor, providing detailed information on the expenditure of grant funds and requesting reimbursement for expenditures. According to a Department representative, the due date to file FSR to DAAA is the 10<sup>th</sup> of the following month. Our review of the internal controls over the grant revenues revealed the following deficiencies:

- Actual grant revenues were not recorded in the Detroit Resource Management System (DRMS) under the appropriate budgeted revenue account. Rather, grant revenues were recorded as an offset to an expense account.
- There were no reconciliations performed between the financial activities as recorded in DRMS and the related expenditures reflected in the FSR reports.
- Financial Status Reports were not submitted to DAAA on time. We reviewed four FSRs that the Senior Citizens Department submitted to DAAA and found that only one was submitted on time, three were submitted late.
- Financial Status Reports were not submitted to the Finance Department's Grant Management Section.

Finance Directive 26 – Revised Uniformed Grant Management Procedures requires that:

- The operating department is responsible for submitting timely reports as required by the grantor. These reports should be reconciled to DRMS prior to submission.
- Copies of all financial reports submitted must be sent to the Grant Management Section of the Finance Department when they are submitted to the grantor agency. These should be accompanied by any DRMS documents needed to correct any errors in DRMS or to make any changes needed to reconcile DRMS to the report.

The following represents some of the negative effects as a result of the conditions mentioned above:

- Recording grant revenues as offsets to expenses reduces the ability to compare actual revenues and expenses to the budgeted amounts. It also misstates individual accounts.
- Not using DRMS as the basis for preparing reports could result in the use of incorrect information, reporting expenditures in the wrong period, incurring expenditures in excess of budgeted amounts, and minimizing the reliability and accuracy of financial information for the programs. Additionally, there is a possibility of understating expenditures that may be allowable for reimbursement.
- Not submitting FSRs on time to the grantors could result in a loss of funding.
- Not submitting FSRs to the Finance Department's Grant Management Section could cause a delay in the preparation of the City's Single Audit.

Representatives of the Senior Citizens Department stated:

- Grant revenue is recorded under an expense account.
- The primary expenditures in the grant reports are payroll expenses, but the Department could not get copies of the Personal Payroll System (PPS) reports from the Human Resources Department's Payroll Section in order to reconcile FSRs to DRMS. In addition, there is a lack of staff to perform the reconciliations.
- They did not submit the FSRs to the Grant Management Section of the Finance Department because they were not aware of the policy.

### **Recommendations**

We recommend the Senior Citizens Department:

- Record grant revenue in DRMS under the appropriate revenue accounts, on a timely basis.
- Coordinate with the Human Resources Department Payroll Division to obtain a copy of the PPS report.
- Develop procedures to ensure that the grant reports prepared can be reconciled to DRMS.
- Submit FSRs to the Grant Management Section of the Finance Department in accordance with policy.

## **2. Internal Controls Over Donations and Cash Receipts Are Weak**

The Senior Citizens Department sends letters to the various vendors requesting sponsorship for workshops and events. The Department accepts cash and in-kind donations from sponsors. Our review of the internal controls over donations and cash receipts revealed the following deficiencies:

- The acceptance of donations was not specifically approved by City Council.
- Receipts were not issued to donors.
- Cash receipts were not recorded in DRMS for up to eight months after they were deposited into the bank. The number of days that cash was held by the Department before being deposited into the City's bank account could not be determined due to inadequate cash receipt records.
- Cash receipt duties were not properly segregated. The manager maintains custody of cash donations, makes deposits to the bank, and records cash receipts in DRMS.
- There is no initial mail listing (log) of cash receipts maintained, therefore, there is no reconciliation performed between cash receipts, cash deposits, and receipts as recorded in DRMS.
- There were no written procedures for receiving, acknowledging and processing donations.

Finance Directive 26 - Revised Uniformed Grants Management Procedures requires City Council action to accept gifts or donations.

Finance Directive 20 – Cash Handling Procedures requires that:

- To insure complete accountability, the receipt of cash should be recorded by use of a formal City of Detroit receipt, or other cash-registering device.
- All City Departments should insure that all cash and checks are deposited in the bank and recorded in DRMS within 48-hours after receipt.

A primary internal control is the appropriate segregation of responsibilities or duties. The four general categories of responsibilities are: custody, authorization, record keeping and reconciliation. Ideally, a different employee should perform each of these four major functions.

The Accounting Procedures Manual for Local Units of Government in Michigan requires that cash receipting procedures must include controls to ensure that every receipt is included in a periodic listing of cash receipts. Cash collections should be reconciled to deposits and the general ledger in a timely manner.

Policies should be clearly stated in writing, systematically organized into handbooks, manuals and communicated to all officials and appropriate employees of the organization.

The following represent possible negative effects that can occur as a result of the deficiencies in the cash receipts process:

- Failure to obtain the consent of the City Council precludes the Council from accepting or rejecting the donations.
- Failure to issue pre-numbered receipts increases the risk of errors and reduces the accountability of cash receipts.
- The lack of adequate records precludes verification that cash receipts were deposited into the bank within 48-hours of receipt.
- Failure to properly segregate duties pertaining to donations and cash receipts increases the possibility of misappropriation and fraud.
- The lack of adequate records precludes reconciliation between cash receipts, cash deposits, and receipts recorded in DRMS. Revenues as reflected in the City's Comprehensive Annual Financial Report may be incomplete.
- Without a department procedures manual for donations, errors, inconsistencies, and misappropriation could result.

Representatives of the Senior Citizens Department stated:

- The City Council approved donations when it approved the budget.
- The Department only accepts checks (not currency) for donations; the cancelled checks can be used as receipts by the sponsors.
- The Senior Citizens Department only has eight employees. Lack of staff and proper training are the reasons for the other deficiencies.

### **Recommendations**

We recommend the Senior Citizens Department:

- Obtain specific approval from the City Council for each donation or group of donations related to a specific event.
- Record the receipt of cash by use of a formal City of Detroit receipt. These receipts are to be obtained from the Finance Department – Record Center.
- Deposit to the bank and record cash receipts in DRMS within 48-hours after receipt.
- Segregate incompatible duties for cash receipts and assign an employee to reconcile the listing of mail receipts to cash receipts records.
- Develop and implement standard operating procedures over donations and the cash receipts process.
- Fully comply with the Finance Directives.
- Provide training for the employees handling cash receipts and donations.

### **3. Non-compliance with Capital Asset Policies and Procedures**

The Office of the Auditor General (OAG) identified the following weaknesses and deficiencies while performing internal control testing of the Senior Citizens Department's capital assets:

- Sixteen computer monitors, fourteen central processing units, and eleven printers in the Senior Citizens Department's possession were not reflected in the City's DRMS Capital Asset System.
- As of November 2009, the DRMS Capital Asset System still did not reflect any capital assets assigned to the Senior Citizens Department
- The designated capital asset coordinator did not ensure that the Senior Citizens Department asset additions and retirements were entered into the DRMS Capital Asset System.
- There was no physical inventory performed during the past three fiscal years.

Capital Asset Finance Directive 95 requires City Departments to:

- Perform an inventory of their capital assets at least annually before the end of each fiscal year, and reconcile to the DRMS Capital Asset Inventory Report.
- Forward to the Finance Department's Capital Asset Section necessary documents regarding capital asset additions, transfers, retirements and adjustments.

Failure to perform an annual physical inventory, and record all asset additions and retirements in DRMS in a timely manner increases the risks of inaccurate capital asset records, misstatement of financial statements and misappropriation or fraud.

The Senior Citizens Department management stated that a lack of training of their capital asset coordinator resulted in the capital assets policies and procedures not being followed.

### **Recommendations**

We recommend that the Senior Citizens Department:

- Perform a physical inventory annually and reconcile results to the DRMS Capital Asset System.
- Ensure that all asset additions and retirements are entered into the DRMS Capital Asset System in a timely manner in accordance with Finance Directive 95.

#### **4. Non-compliance with the Imprest Cash Manual and Finance Department Procedure**

The Senior Citizens Department maintains an authorized imprest cash fund of \$500.00. Our review of the internal controls over the fund revealed the following inaccuracies and deficiencies:

- The actual amount of imprest cash on hand was \$52.82 higher than the authorized amount.
- Reconciliations of the imprest cash bank account were not prepared during the 27-month audit period.
- Audits of imprest cash prepared by the Department were incomplete: cash counts, bank statements, and unreimbursed vouchers necessary to support the audits were missing.
- According to the Department, the amount of the imprest cash fund to be maintained in currency was \$150.00 although at one point the actual balance of currency (\$270.00) during the audit period exceeded the prescribed maximum by \$120.00. The \$150.00 amount was not documented either in the Department, or in the Finance Department.
- Appropriate segregation of duties for managing imprest cash were lacking. The imprest cash custodian was the only person assigned the task of preparing the bank reconciliations. The employee who prepared the quarterly imprest cash audits was also a check signer.
- The Department had not submitted a check request since June 2009. Receipts dating back as far as May 12, 2009 were not submitted to the Finance Department Accounts Payable Section for reimbursement in a timely manner.
- Six check requests submitted to the Finance Department's Accounts Payable Section during the audit period had the following deficiencies:
  - Three receipts were not signed by the employees who made the purchases. The purposes for disbursements were not clearly indicated on two of the receipts.
  - Two expenditures totaling \$229.00 that were not for public purposes were paid from imprest cash and submitted to Accounts Payable for reimbursement.
- Failure to deposit one imprest cash reimbursement check for \$303.58 to the imprest cash account within 48-hours.

The Imprest Cash Manual requires:

- At all times the imprest cash fund must agree with the total amount authorized. Overages in Imprest Cash Funds are to be deposited into a Treasury checking account.
- All checking accounts must be reconciled with the bank statements monthly and a copy must be sent to Finance, Project Administration within 45-days of the bank statement date.
- At a minimum, quarterly audits of the imprest cash fund must be performed. Such audits should be unannounced and a written record of such audits must be retained until the Auditor General has made an audit of the period covered by the audits. This audit record must include date, name and signature of the auditor and must include information that would be required in reconciling an imprest cash fund.
- If a portion of the Imprest Cash Fund is comprised of a cash supply, the custodian of the fund must keep a written statement indicating the amount of cash given out.
- Ideally, bank statements and cancelled checks should be sent to a person other than an authorized signatory, or a custodian of the imprest cash fund.
- Check requests for reimbursement must be made within thirty days from the end of the month in which the original purchase was made.
- Cash register receipts are valid only if a description of the purchase is written on the receipt and no original invoice can be obtained from the vendor. Each invoice, sales ticket and receipt for imprest cash purchase must show the date paid, be legibly signed and name printed by the employee making the purchase, or invoice and clearly indicate the purpose, or function of the purchase.

Finance Directive 20 – Cash Handling Procedures requires that all City Departments insure that all cash and checks are deposited in the bank within 48-hours of receipt.

Imprest cash funds are susceptible to misuse, theft, and other loss. Failure to follow the controls as prescribed in the Imprest Cash Manual increases the risk that discrepancies, loss, or misuse of imprest cash monies will not be identified and resolved promptly.

Management stated that the Senior Citizens Department only has eight employees. Lack of staff and proper training are the reasons for the internal control deficiencies cited above.

**Recommendations**

We recommend that the Senior Citizens Department fully comply with the Imprest Cash Manual including:

- Ensuring that the imprest cash funds agree with the total amount authorized. Remit overages to the Treasury Division.
- Assigning an employee who is not an imprest cash custodian or check signer to reconcile bank statements.
- Assigning an employee who is not an imprest cash custodian or check signer to perform imprest cash audits at least quarterly; retain the supporting documents for cash counts, bank statements and unreimbursed vouchers.
- Keeping a written statement indicating the amount of imprest cash maintained in currency, and maintaining the stated amount of cash-on-hand.
- Signing vendor receipts by the employees that made the purchases, and writing the purposes of the disbursements on the receipts.
- Ceasing the use of imprest cash for non-public purposes.
- Depositing imprest cash reimbursement checks within 48-hours of receipt.



## **5. Food Purchases Were Made Without Proper Authorization**

Our review of the internal controls over the Senior Citizens Department's disbursements revealed the following:

- The Department hosted a Christmas Gala for seniors in each of the years 2007, 2008 and 2009 at the Cobo Hall Conference Center. The department incurred no expenses in 2008 and 2009 as the events were fully sponsored by vendors. However, in 2007, the Department had to pay a portion of the expenses. The event was held on December 07, 2007, but the disbursement for food was not properly authorized until February 29, 2008, more than two months after the event.
- Five receipts for the purchase of food were reimbursed through the imprest cash process without proper authorization during the audit period.

Finance Directive 145, regarding the Guidelines for the Purchase of Food and Refreshments by Departments for City of Detroit Functions, requires approval of the Finance Department prior to any purchases being made. Evidence of the Finance Department's pre-approval must be submitted with any check request. Requests must be made on an individual basis.

By not complying with Finance Directive 145, the purchase of food and refreshments may be made for the benefit of a specific individual, or class of persons without a specific public purpose.

Representatives of the Senior Citizens Department stated:

- The 2007 Christmas Gala was sponsored by several vendors, but management did not realize until after the event that the City would be responsible for a portion of the expenses.
- Food authorization requests are made at the beginning of the fiscal year annually, not per occurrence.

### **Recommendations**

We recommend the Senior Citizens Department:

- Coordinate with event vendors to determine the part of expenditures the City has to pay for special events.
- Comply with Finance Directive 145 by submitting authorization requests per event, not annually, to the Finance Department for pre-approval before any purchases for food or refreshments are made.

## **6. Non-compliance with Year-end Closing Procedures**

The Senior Citizens Department did not comply with the Finance Department's year-end closing procedures for the fiscal years ended June 30, 2008 and June 30, 2009. Out of 22 exhibits to have been completed and submitted to the Finance Department for the fiscal year ended June 30, 2008, we found that only four exhibits were submitted on time, three were submitted late, and 15 were never submitted. There were no exhibits submitted to the Finance Department as of October 19, 2009 for the June 30, 2009 year-end closing period.

The Finance Department's year-end closing procedures require all City Departments to submit specific exhibits reflecting year-end balances of specific financial accounts by designated dates, which are usually within a week or two after June 30. The reports should be filled out completely, dated, and signed by an appropriate manager. It is the responsibility of the agency to submit all required information in an accurate, complete, and timely manner.

When year-end financial exhibits are submitted to the Finance Department late, or not submitted at all, the Finance Department's ability to close the City's books in a timely manner is affected. Failure to submit all of the year-end financial reports as required increases the risk that the Finance Department will not complete the City's Comprehensive Annual Financial Report (CAFR) by its scheduled due date, or that information presented in the CAFR may be incomplete.

Management stated that because the Senior Citizens Department was included in the Mayor's Office budget for the years ended June 30, 2008 and June 30, 2009, it was not clear if they were required to submit year-end closing documents.

### **Recommendation**

We recommend that the Senior Citizens Department fully comply with the Finance Department's year-end closing procedures.

## OTHER FINDING RELATED TO THE FINANCE DEPARTMENT

### **1. Failure to Monitor and Control the Processing of Grants**

During our review of the Senior Citizens Department's processing of grants we noted that the Finance Department does not monitor or account for the processing of grants throughout the year. The Finance Department also does not obtain and track the Financial Status Reports (FSR) generated by the Senior Citizens Department, or any other grant funded agency. At one time the Finance Department had a Grants Management Section that was responsible for the accounting of grants, but that Section has been defunct since approximately 1999. During the audit period and beyond, there has been no designated individual or section of the Finance Department dedicated to tracking financial grant activities. In lieu of accounting for grants throughout the year, the Finance Department hires contractors to collect and compile expenditure activities related to grants as reported in the Schedule of Expenditures of Federal Awards (SEFA) in the City's annual Single Audit Report.

Finance Directive 26 requires that copies of all FSRs be sent to the Grant Management Section of the Finance Department when they are submitted to the grantor agency. It also requires all grant-funded agencies to submit the following information to the Grants Management Section:

- Award Notification Letter from funding Agency
- Award/Allotment Letter (Sub-recipient)
- City Council Approval (Resolution Acceptance Letter)
- Request for General Ledger Accounting Segment Values
- Award Management Setup Request Form
- Project Setup Request Form
- Budget Journal Entry Form
- Contract SPO/CPO Number
- Sub-recipient List
- Sub-recipient Financial Audit Report

FSRs submitted to the Grants Management Section should be accompanied by any Detroit Resources Management System (DRMS) documents needed to correct any errors in DRMS or to make any changes needed to reconcile DRMS to the report.

The following represent significant negative effects of the Finance Department's inability to centrally control the processing of grants:

- A backlog of errors, inconsistencies, incompleteness, and inaccuracies in the processing and reporting of grants by city agencies.
- An excessive amount of time and money expended to correct the problems that were created during the reporting year.
- Increased contractor costs to prepare the City's Schedule of Expenditures of Federal Awards, which is included in the City's annual Single Audit Report.
- Grants not being funded due to noncompliance with grantor reporting requirements.
- No control whether or not departments are submitting complete and accurate FSRs to grantors by their due dates.

Failure to account for the City's grants during the year of activity has significantly eroded the processing and timely reporting of grants. The latest Single Audit of the City was issued in July 2009, for the fiscal period ended 2006-2007. The 2007-2008 and 2008-2009 Single Audit Reports have not been completed as of February 2010.

Representatives of the Finance Department stated that the Grants Management Section of the Finance Department has been defunct since approximately 1999 due to budget constraints, although the 2009-2010 Redbook includes three positions for the specific purpose of managing the City's grants. The Department intends to revive the Grants Management Section by hiring a General Manager and two senior accountants by July 1, 2010.

**Recommendation**

We recommend the Finance Department adhere to its own Finance Directive 26 to ensure the proper processing and timely reporting of the City's grants.

## **2. Non-compliance with the Imprest Cash Manual**

Our review of the Finance Department's internal controls over imprest cash as it relates to the Senior Citizens Department revealed the following deficiencies:

- The Finance Department's Accounts Payable Section made a check payable to an individual who was not the current imprest cash custodian.
- The Finance Department's Project Administration Section did not inform the Finance Department's Account Division, and the Finance Department's Purchasing Division about the change of custodian at the Senior Citizens Department.
- The Finance Department's Imprest Cash Fund Detail Report did not reflect the actual imprest cash custodian. The Report had not been updated for the Senior Citizens Department since 1994.

The Imprest Cash Manual requires:

- Check requisitions to be made payable to the custodian of imprest cash only.
- Upon approval of a new imprest cash custodian, the Project Administration Section will notify the Account Section and Purchasing Division of the change in custodian.

Good accounting practice requires that proper records be maintained. The Finance Department is responsible for all financial transactions of the City and should maintain appropriate records.

Imprest cash funds are susceptible to misuse, theft, and other loss. Failure to follow the controls of the Imprest Cash Manual increases the risk that discrepancies, loss, or misuse of imprest cash monies will not be identified and resolved promptly.

Failure of the Finance Department to adhere to its own policies and procedures or document the reasons for exceptions reduces the effectiveness of the procedures and the concurrent controls it mandates. It also creates an impression that City policies and procedures are not important, and can therefore be deliberately or inadvertently ignored.

Representatives of the Finance Department stated that staff reductions in the Finance Department have resulted in the lack of staff to keep accurate records and to maintain proper controls.

### **Recommendation**

We recommend the Finance Department adhere to its own imprest cash policies and procedures.



City of Detroit  
Senior Citizens Department

## ATTACHMENT A

18100 Meyers RD, Ste. 105  
Detroit, Michigan 48235  
Phone 313•224•1000  
Fax 313•224•1476  
[www.ci.Detroit.mi.us](http://www.ci.Detroit.mi.us)

March 23, 2010

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 Senior Citizens Department's response for the indicated finding and related recommendations in the audit of the Senior Citizens Department, as prepared by the Office of the Auditor General.

### Finding No. 1. Deficient Internal Controls Over Grant Revenues and Expenditures

#### Department's Response:

The Senior Citizens Department has continually requested that the proper PPS reports be received from Finance-Payroll to facilitate report processing. There is no departmental access to the City's Cypress system. Receipt of the Payroll Distribution Audit Report must be made to properly record and account for all salary and fringe costs. After repeated attempts to obtain reports, FSR's are estimated based on prior actual costs and adjustments made at a later time in fiscal year. CRV's are prepared on all received checks from grantor. Checks are processed against line item 721100. This is the line item preparer was informed to use, and has been the same line used for the past 11 years. If need be, Journal Entries will be prepared to reallocate the funds to the proper line.

There is a five-page spreadsheet maintained for each fiscal year of grant received. Future reconciliations will be made against these spreadsheets and DRMS.

Lack of receipt of Payrolls reports causes the untimely submission of FSR's to grantor.

In accordance with policy, all future Financial Status Reports will be submitted to the Grant Management Section of the Finance Department.

Finding No. 2. Internal Controls Over Donations and Cash Receipts Are Weak

Department's Response

Upon completion of the Department's annual fiscal budget, the anticipated donations and events are included in our council request. Future submissions will list the proposed events with a more accurate list of solicited vendors. Larger anticipated events will be submitted with separate council requests.

Department currently keeps an excel spreadsheet to account for donations made to special events. Department will contact the Finance Department – Record Center to obtain copies of formal City of Detroit receipt.

Department Executive Secretary is responsible for mailing requests to vendors. This mailing list will be reconciled against actual receipts provided by Manager I. Deposits are made directly to the bank by the Manager I. Lack of staff often prevents timely bank runs and JE preparation. Letter to be drafted to the Finance Director requesting a waiver of the 48-hour limit due to time restraints.

Finding No. 3. Non-compliance with Capital Assets Policies and Procedures

Department's Response

The Senior Citizens Department will obtain the proper training for it's Capital Asset Coordinator. It will also request assistance from the Finance Department is proper input of any necessary items. A physical inventory is perform annually, but is not entered into DRMS. Copy of Finance Directive 95 for Capital Assets was obtained from Auditor General representative during audit.

Finding No. 4. Non-compliance with the Imprest Cash Manual and Finance Department Procedure

Department's Response

Lack of staff and proper training result in internal control deficiencies. Lack of staff prohibits required separation of duties on some levels. Department will establish an imprest cash log to record and reconcile and purchases and cash on hand.

Finding No. 5. Food Purchases Were Made Without Proper Authorization

Department's Response

Department will continue to submit annual authorization requests for regularly scheduled workshops that are held each week. Department will submit authorization requests for larger annual events for pre-approval before any purchases for food or refreshments are made.

Finding No. 6. Non-compliance with Year-end Closing Procedures

Department's Response

The Senior Citizens Department has been unclear on the necessity to complete various reports due to inclusion in the Mayor's Office budget. Not being a stand alone department, there was no Agency No. assigned strictly to Senior Citizens. The Senior Citizens Department will fully comply with the Finance Department's year-end closing procedures.

Sincerely,



Terra DeFoe  
Director

CC: Mark Lockridge  
Lucy Zhang  
Terra DeFoe  
LaJewel Dunwoody





CITY OF DETROIT  
FINANCE DEPARTMENT  
ADMINISTRATION

**ATTACHMENT B**  
MUNICIPAL CENTER  
2 WOODWARD AVENUE, SUITE 1200  
DETROIT, MICHIGAN 48226  
PHONE 313•224•3491  
FAX 313•224•4466  
WWW.DETROITMI.GOV

March 25, 2010

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

Dear Mr. Monroe:

The following presents the Finance Department's response for the indicated Other Findings in the audit of the Senior Citizens Department, as prepared by the Office of the Auditor General.

Finding No. 1. Failure to Monitor and Control the Processing of Grants

Department's Response:

The Finance Department agrees with the Auditor General's finding and will adhere to Finance Directive 26 to ensure the proper processing and timely reporting of the City's grants. The Finance Department is in the process of hiring a Grants General Manager. Also, through the Finance Department's reorganization efforts, the appropriate staff will be assigned to work with the General Manager in accounting for the city's grants.

Finding No. 2. Non-compliance with the Imprest Cash Manual

Department's Response

The Finance Department agrees with the finding and has made administrative changes to ensure that the finding will not be repeated. All balances of imprest cash have been returned to the office of the Treasurer, and will be replaced with P-Cards. These cards and the instructions on the use of the cards will be delivered in the near future.

Sincerely,

Thomas J. Lijana  
Group Executive – Finance Director

