

**City of Detroit**

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**OFFICE OF THE AUDITOR GENERAL**



**Audit of the Detroit Department of  
Transportation**

**July 2013 – June 2015**




**City of Detroit**  
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Mark W. Lockridge  
AUDITOR GENERAL

**MEMORANDUM**

**DATE:** June 30, 2016

**TO:** Honorable City Council  
Honorable Mayor Mike Duggan

**FROM:** Mark W. Lockridge, CPA, CIA, CGAP   
Auditor General

**RE:** Audit of the Detroit Department of Transportation

**CC:** Dan Dirks, Director  
John Wallace, Agency CFO  
Palencia Mobley, City Council Liaison

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

Responsibility for the installation and maintenance of a system of internal control that minimizes errors and provides reasonable safeguards rests entirely with the Detroit Department of Transportation. Responsibility for monitoring the implementation of recommendations is set forth in Section 7.5-105(4) of the City Charter which states in part:

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

Copies of all of the Office of the Auditor General reports can be found on our website at <http://www.detroitmi.gov/CityCouncil/LegislativeAgencies/AuditorGeneral.aspx>.

# Audit of the Detroit Department of Transportation

July 2013 – June 2015

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## AGENCY RESPONSE

Detroit Department of Transportation

ATTACHMENT A

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

### **AUDIT PURPOSE**

The audit of the Detroit Department of Transportation (DDOT) was performed in accordance with the Office of the Auditor General's (OAG) charter mandate to conduct audits of the financial transactions, performance and operations of City agencies based on an annual risk-based audit plan prepared by the Auditor General, or as otherwise directed by the City Council, and report findings and recommendations to the City Council and the Mayor.

### **AUDIT SCOPE**

The scope of this audit was an independent review and assessment of the effectiveness and efficiency of DDOT's operations; its internal control procedures for transactions and its compliance with applicable Finance Directives, policies, plans, procedures, laws and regulations regarding financial transactions for the period July 1, 2013 through June 30, 2015.

Our audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States, except for the completion of an external peer review of the Office of the Auditor General within the last three years.

### **AUDIT OBJECTIVES**

The objectives of the audit were:

- To review the effectiveness and efficiency of the Department's operations and their compliance with Finance Directives, policies, plans, procedures, laws and regulations.
- Assess control procedures for transactions of cash receipts, revenue, payroll, disbursements, fixed assets, inventory, and determine if any control weaknesses exist.
- To assess DDOT's internal controls related to financial transactions.

### **AUDIT METHODOLOGY**

To accomplish the audit objectives, our audit work included:

- Reviewing the prior audit report and working papers, City Charter, Municipal Manual, DRMS reports, the department's budget reports, Comprehensive Annual Financial Reports, and organization charts.
- Gathering policies and procedures of core operations and similar data.
- Conducting an audit planning meeting to determine the scope and audit objectives and to determine the financial transactions and/or areas to audit.
- Developing questions regarding the department's transactions, controls, functions, records, and personnel.

- Identifying risks relative to financial transactions and mitigating controls with department personnel.
- Interviewing department personnel, reviewing documentation, and making observations to aid in developing audit programs.

**CONCLUSIONS**

DDOT did not:

- Create and maintain proper documentation to verify and reconcile financial transactions.
- Create and implement an appropriate system of internal controls over revenue and pass inventory.
- Comply with the City’s Finance Directive #20 and #143, and Pre-Paid Credit Card Policy.
- Comply with DDOT’s Fare Box Policy nor DDOT’s Cashier Area, Cash Receipts and Cash Handling Policies.
- Maintain accurate inventory records for 5-Day Passes and \$10 Value Cards.

**Concern**

During our audit we noted that DDOT has four Senior Tellers. However one Senior Teller had volunteered and been assigned additional responsibilities, and some of her responsibilities violate a basic principle of internal controls; segregation of duties. We call this Senior Teller the “Lead Senior Teller” to distinguish this person from the other three Senior Tellers. Below we outlined the responsibilities of each Senior Teller based on our audit of DDOT.

Job Task	Lead Senior Teller 1	Senior Teller 2	Senior Teller 3	Senior Teller 4
✓ Daily Sales of passes and collection of revenue	X	X	X	x
✓ Receives, documents and fills phone orders for passes from non-profit organizations and third party vendors.	X	X		
✓ Manages change fund for all tellers.	X			
✓ Resolves any cashier issues.	X			
✓ Receives fare boxes from disabled buses, counts and deposits revenue from fare boxes	X			
✓ Reconciles passes sold, verifies revenue collected, and deposits revenue from the RPTC and DDOT Admin.	X			
✓ Prepared P-card reconciliations for DDOT's 5 P-cards.	X			
✓ Receives insurance and special services payments.	X			
✓ Receives and distributes pay checks.	X			
<b>Total Number of Job Task Assigned</b>	<b>9</b>	<b>2</b>	<b>1</b>	<b>1</b>

## BACKGROUND

The mission of the Detroit Department of Transportation (DDOT) is to provide public transit services that are reliable, clean, customer-focused, fiscally responsible, safe and secure. DDOT is the largest transit provider in the State of Michigan.

DDOT's primary facilities include the Rosa Parks Transit Center (RPTC), which is the passenger transit station located in downtown Detroit, and the Administration Building located at 1301 East Warren. The latter facility also houses the body shop; heavy repair facility, and plant maintenance building. DDOT also maintains two other satellite terminals (Shoemaker and Gilbert) with each having light repair garages and storage bays onsite.

The Finance Division of DDOT processes the revenue from the sale of passes and fare box revenue. Bus passes are sold by DDOT at two locations: the DDOT Administration Building and the Rosa Parks Transit Center in downtown Detroit. Bus passes are also sold by third-party vendors at various retail locations around the City.

Mr. Dan Dirks currently serves as the director of DDOT. He was appointed in January 2014.

	<b>Fiscal Years Ended June 30</b>	
	<b>2014</b>	<b>2015</b>
General Fund	\$ 0	\$ 0
Enterprise Fund	157,055,567	138,205,000
<b>Budgeted Revenues</b>	<b>\$ 157,055,567</b>	<b>\$ 138,205,000</b>
General Fund	\$ 0	\$ 0
Enterprise Fund	162,172,419	162,172,419
<b>Budgeted Expenditures</b>	<b>\$ 162,172,419</b>	<b>\$ 162,172,419</b>
<b>Net Tax Cost</b>	<b>\$ (5,116,852)</b>	<b>\$ (23,967,419)</b>
<b>Budgeted Positions</b>		
General Fund	0	0
Enterprise Fund	965	917
<b>Total Budgeted Positions</b>	<b>965</b>	<b>917</b>

## AUDIT FINDINGS AND RECOMMENDATIONS

### **1. DDOT Failed to Properly Account for Cash Receipts Due to Material Weakness in Internal Controls**

#### **Condition**

DDOT's "Lead Senior Teller" located at DDOT's Administrative building collects revenue primarily from the sale of bus passes and fare box revenues. These revenues are collected in the form of coins, currency (paper money), checks, credit cards and money orders. After obtaining an understanding of DDOT's revenue cycle and related systems of internal controls, the auditors concluded that there were material weaknesses in internal control over cash receipts. The most significant weakness in DDOT's processing of these receipts is the lack of proper segregation of duties. The auditors observed that the Lead Senior Teller controlled the entire cash receipts process and was responsible for:

- All cashiers' source documents
- All accounting and record keeping
- Preparing and making bank deposits, and
- Reconciliation of all cash receipts

Other deficiencies contributing to the material weaknesses include:

- Cash drawers were not balanced daily by tellers with a cash register Z print out from the Point of Sale cash register system.
- Source documents of cash receipts were either not generated, prepared or retained.
- Daily cash collections were not summarized based on source documents such as cash register and sequentially numbered hand written receipts.
- Daily balancing reports between all receipts and the actual amount of cash collected and counted were not done and approved by management.
- Daily cash receipts were not reconciled to actual cash deposited to the bank.
- Independent and/or surprise cash audits of change funds were not performed.
- Management oversight in the form of signatures and approvals was not evident.
- The Lead Senior Teller came to work during her vacation to work on daily cash receipts paperwork.
- Inconsistent recordkeeping among tellers.
- No overage/shortage log was maintained or submitted to the DDOT Accounting Office.

### **Effect**

The combination of duties performed by one person are such that errors or even misappropriation of those receipts could occur and go undetected indefinitely. DDOT's unnecessary and convoluted processes, procedures, and inconsistent practices precluded the auditors from verifying that all cash collected over a given period was actually deposited into the City's bank account. The auditors found substantial unaccounted for and unexplained variances in the cash collected verses cash deposited into the bank. Based upon unfavorable initial results of a seven day cash receipts test, the sample size was increased to 24 day's cash receipts in total with the following unexplained results:

Month	Days Tested	Days with Negative Variances	Cash Receipts Recalculated by Auditors	Total Cash Deposited	Negative Variance Amounts
December 2014	7	7	\$79,411.22	\$70,818.12	\$(8,593.10)
January 2015	6	4	56,884.01	52,187.51	(4,696.50)
February 2015 <sup>(1)</sup>	8	4	89,708.09	83,710.09	(5,998.00)
March 2015	1	1	4,438.75	3,456.85	(981.90)
April 2015 <sup>(2)</sup>	1	1	4,010.50	2,749.30	(1,261.20)
May 2015 <sup>(2)</sup>	1	1	16,562.77	13,841.97	(2,720.80)
<b>TOTAL</b>	<b>24</b>	<b>18</b>	<b>\$251,015.34</b>	<b>\$226,763.84</b>	<b>\$(24,251.50)</b>
% of Days with Negative Variances	100%	75%			

(1) February includes the initial 7 days tested.  
(2) Only one day was tested in these months based on receipts held by the cashier.

Seventy-five percent of the days' cash receipts tested by the auditors reflected a total negative cash variance of (\$24,251.50). That is, all of the variances were negative. None of the variances were positive. If the variances were a timing issue one would expect the variances over time to be both negative and positive. DDOT insisted that the auditors did not understand the way they accounted for the cash, but the effect of DDOT's poor internal controls over cash receipts made it impossible for the auditors to verify that nearly 10% of the cash collected of the 24 days in review were actually included in bank deposits.

Cash receipts are the most liquid of all assets and easily convertible. When cash receipts are not properly safeguarded with effective internal controls it is likely that theft, misappropriation, and fraud will occur.

### **Criteria**

The State of Michigan Department of Treasury's Accounting Procedures Manual for Local Units of Government in Michigan – Cash Receipting Procedures requires:

- Incompatible duties must be segregated among different people to reduce the risk of error or misappropriation.
- Formal evidence must be created for each collection (such as printed sequentially numbered cash receipts ticket, cash register receipt, etc.) and provided to payors where practicable.



- The system must include controls to ensure that every receipt is to be included in a periodic listing of cash receipts.

DDOT's Cashier Area, Cash Receipts, and Cash Handling Policy requires:

- Cash drawers are balanced daily by Tellers included with a Z print out from the Point of Sale cash register system.
- The Tellers reconcile the Daily Balance report.
- Cash overages/shortages resulting from the daily balancing of the cashier drawers are summarized and submitted to DDOT Accounting Department on a weekly basis.

Finance Directive #20 – Cash Handling Procedures requires:

- The receipt of cash should be recorded by use of a formal City of Detroit receipt. These receipts are to be obtained from the Finance Department.
- All employees handling cash will be held strictly accountable for cash shortages and overages. It shall be the department's responsibility to review carefully all reported variances and take appropriate action warranted by the circumstances, including requiring the restitution of funds. Unusual variances are to be reported to the Police Department, Mayor's Office, Finance Department and the Office of the Auditor General.
- Change funds should be audited periodically by supervisors or accounting personnel. These audits should be unannounced and performed no less than quarterly. Unresolved discrepancies should be reported and considered grounds for disciplinary action.

Generally Accepted Accounting Principles requires that cash handlers take mandatory vacations for the explicit purpose of having another individual perform the duties of the person on vacation. This common practice functions as an independent check of the results of the processes and procedures performed by the regular employee.

### **Cause**

According to the Lead Senior Teller the auditors did not understand the DDOT reconciliation process and that receipts written as "cash" could be either "cash or checks." In addition, DDOT's management stated that certain financial records within the audit scope were thrown out by accident. The auditors concluded that a lack of understanding was not related to DDOT failing to establish and practice an effective system of internal controls over cash collected by its tellers.

### **Recommendations**

We recommend that DDOT implement cash handling processes and procedures utilizing adequate records and supporting evidential documents, etc. that clearly reflect that all revenue collected by its tellers (and/or other DDOT cash handlers) are safely deposited intact in the City's bank accounts in a timely manner. We also recommend

that DDOT adhere to its own cash handling policy, the City's Finance Directives, and where applicable, the State of Michigan Department of Treasury's Accounting Procedures Manual for Local Units of Government in Michigan.

## **2. Cash Controls at the Rosa Parks Transit (RPTC) Center Are Weak**

### **Condition**

DDOT failed to implement satisfactory cash controls at the RPTC. The auditors noted the following deficiencies:

- There was no daily supervision of employees.
- Deposits were not made daily.
- No daily paperwork was created nor required of tellers concerning transactions processed each day.
- Register tapes printed daily were not used in the reconciliation process.
- There were no surprise cash counts of cashier drawers.

### **Criteria**

The State of Michigan Department of Treasury Accounting Procedures Manual for Local Units of Government in Michigan requires:

- Management needs to provide an appropriate level of direction and supervision.
- Deposits should be made daily.
- Control activities include such items as approvals, authorizations, statutory duties, verifications, reconciliations, security of assets, and segregation of duties.
- Make certain that cash and other property are secured physically, counted periodically and compared with control records.

### **Effect**

Internal control needs to be designed to reduce the risks associated with undetected errors or misappropriation. Failure to maintain adequate cash controls can result in multiple abuses including theft or misappropriation of funds, and inaccurate financial records.

### **Cause**

The auditors' determined that DDOT management did not ensure that proper internal controls were created, implemented and monitored.

### **Recommendations**

We recommend that DDOT implement appropriate internal controls that:

- Protect resources against waste, misappropriation and inefficiency;
- Ensure accuracy, timeliness and reliability in accounting and operating data; and
- Maintain compliance with applicable laws and regulations.

### **3. DDOT (RPTC) Allowed Cash Receipts to Accumulate**

#### **Condition**

Revenue collected daily at the RPTC did not get deposited into the bank until after it had accumulated for more than thirty days. The process for depositing revenue from the RPTC is as follows:

- The Lead Senior Teller and General Manager would go to the RPTC and perform a reconciliation of passes sold to revenue collected after the end of each month.
- The Lead Senior Teller and General Manager would transport the funds collected back to the DDOT Administration building.

#### **DDOT Administration Building**

- The Lead Senior Teller would account for the funds collected on the Cash Misc. Report she creates daily.
- The Lead Senior Teller would then put the funds into a sealed deposit bag and create a deposit slip for the revenue collected and write the required information into the log book for the armored courier service.
- The courier service would pick the funds up and take them to the bank for deposit.

The following table shows the amount of revenue collected each month and not deposited timely at the RPTC.

<b>Sales for the month of</b>	<b>Bank Deposit Slip Date</b>	<b>Amount</b>
December 2014	January 2, 2015	\$ 16,204.70
January 2015	February 9, 2015	32,235.70
February 2015	March 11, 2015	32,840.50
March 2015	April 13, 2015	18,704.80
April 2015	May 7, 2015	33,783.40
May 2015	June 3, 2015	31,845.30
		<b>\$165,614.40</b>

#### **Criteria**

Finance Directive 20 – Cash Handling Procedures requires that cash should not accumulate. All City departments should immediately institute procedures to insure that all cash and checks are deposited in the bank and recorded in DRMS within 48 hours after receipt.

#### **Effect**

The lack of controls over cash collections as stated in Finding No. 2, and allowing cash to accumulate creates a compounded negative condition. When cash is allowed to accumulate without being properly accounted for when received, cash shortages could go undetected indefinitely. Failure to maintain adequate controls over cash receipts can

result in multiple abuses including theft or misappropriation of cash receipts, and intentionally misstated financial records.

**Cause**

According to the DDOT General Manager, cash is not deposited in compliance with the Finance Directive because of the reconciliation process of the DDOT Pass Sales; however, DDOT does not have a waiver excusing them from the timely deposit of cash.

**Recommendation**

We recommend that DDOT comply with the requirements of Finance Directive 20 and create, implement and enforce a policy that complies with all applicable Finance Department policies and procedures.

#### **4. DDOT Violated Their Fare Box Revenue Policy**

##### **Condition**

On December 16, 2014 the auditor observed a cart with cash on it in the DDOT Vault. The auditor was told by a DDOT staff person that:

*“The funds were from cash boxes removed from DDOT coaches. Fare boxes are retrieved from coaches downed for service and/or damaged. Senior Tellers perform the count of the funds within the Restricted Cashier’s Office area.”*

The auditor reviewed four days from the Cash Processing Activity Log for December 16, 2014, January 12, March 13, and May 2, 2015. The auditor noted the following results:

- None of the four logs listed the source of funds.
- Three of four of the logs listed only the process by person.
- One of four of the logs listed the counted by and verified by person.

The paperwork received when the fare boxes are dropped off is inconsistent and is received by the Lead Senior Teller who counts and deposits the revenue from the fare boxes.

For the period January 2014 – June 2015, \$14,391.00 was sent to the bank by the Lead Senior Teller as fare box revenue. There is no way to determine if this amount includes all fare box revenue because the Lead Senior Teller is the only person that counts, prepares and deposits the funds to the bank.

##### **Criteria**

The DDOT Electronic Equipment Maintenance Guidelines and Procedures requires:

- Before removing a fare box for any reason, you must first probe and vault the cash. If the coach is not drivable, remove the fare box, take it to the box house, connect it to a power source, probe it and vault the cashbox.
- Return the cashbox to fare box, lock the pedestal door and lid of the fare box.
- Tag the fare box with the coach number, date removed and reason for the removal.
- Place the fare box in the designated area and enter your work in FMS.

The DDOT Fare Box Revenues Policy and Procedures requires:

- DDOT Accounting Manager or Designee views the Global Fleet Information (GFI) system to submit the daily bin retrieval data to the Armored Car Service (ACS). GFI gives the percentage of money currently held in the vaults for the previous day end of shift cash boxes. The vaults are stored at the DDOT Terminal locations.

- TAC Supervisor gives the report and instructions of which vaults to remove the bins out of, load and return vaults to the ACS secured location for processing, upon receipt of email.
- Upon return, the ACS Crew unloads the bins and the ACS Currency/Coin Supervisor opens the bins with the key provided from DDOT. ACS processes all currency/coin at the ACS secured location.
- Upon completion of revenue processing, the ACS deposits revenue in the bank within the City of Detroit two day deposit policy. ACS Supervisor emails the deposit slip, detail count sheets and summary count sheets to DDOT Accounting Manager or Designee.

**Effect**

Without proper segregation of duties or dual control of funds, there is no way to verify the actual amount of revenue contained in the fare boxes. In addition there is no tracking of how many fare boxes are received by the Lead Senior Teller.

The existing process lacks adequate controls and can result in multiple abuses including theft or misappropriation of cash receipts and inaccurate financial records.

**Cause**

The auditors determined that DDOT management failed to ensure and monitor that management's directives, policies and procedures were carried out.

**Recommendation**

We recommend that DDOT create, implement and enforce a policy that complies with City policies and procedures and put proper internal controls in place.

## **5. DDOT Failed to Properly Account for 5-Day Passes and \$10 Value Cards Due to Material Weakness in Internal Controls**

### **Condition**

The auditors reviewed the pass inventory process and determine that:

- The two Senior Tellers at DDOT Headquarters had the following incompatible duties:
  - Conducting daily sales of passes.
  - Receiving and filling orders for passes received by phone from non-profit agencies, consignment vendors and cashier at the RPTC.
  - Unlimited individual access to the storage area for all pass inventory.
- There was no written inventory procedure on how to account for passes.
- The Fare Card Report and Transit Pass Tracking forms were not always completely filled out.
- All pass sales were not processed through the cash register.
- There was no reconciliation of the Lead Senior Teller's inventory reports to a physical inventory count performed by another individual independent of the process.
- Unused inventory is destroyed after being held in the safe after three to seven years.
- DDOT's Transit Pass Tracking Form used to track bus passes account for pass inventory given to and completed by all DDOT Tellers and consignees did not have a place for \$10 Value and 5-Day pass inventory.
- The \$10 Value and 5-Day pass inventory report received by the auditors did not match the daily sales records created by the Lead Senior Teller.

### **Criteria**

The State of Michigan Department of Treasury's Accounting Procedures Manual for Local Units of Government in Michigan – Cash Receipting Procedures requires:

- An individual is not to have responsibility for more than one of the three transaction components: authorization, custody, and recordkeeping.
- Ensure that records are reviewed and reconciled routinely by someone other than the preparer to verify that transactions are properly processed.

Also, the Standards for Internal Control in the Federal Government as promulgated by the US Government Accountability Office states:

"Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and



recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.”

**Effect**

By not segregating the duties related to bus pass inventory among the staff and having most of the authority in one person, the department is creating an environment that could allow theft and fraud to occur. For example, the auditors tested the monthly inventory report for \$10 Value Cards and 5-Day passes received from and created by the Lead Senior Teller. The auditors compared the report to the sales recorded on the daily paperwork created by the Lead Senior Teller which summarizes transactions. The auditors noted the following discrepancies:

<b>\$10.00 Value Card' Sold</b>				
<b>Month</b>	<b>Sold Per DDOT</b>	<b>Sold Per Daily Paperwork</b>	<b>Calculated Variance</b>	<b>Calculated Dollar Value</b>
December 2014	640	277	363	\$ 3,630.00
January 2015	740	586	154	1,540.00
February 2015	415	637	(222)	(2,220.00)
March 2015	928	654	274	2,740.00
April 2015	141	905	(764)	(7,640.00)
<b>Sub Total</b>	<b>2864</b>	<b>3059</b>	<b>(195)</b>	<b>\$ (1,950.00)*</b>
<b>5-Day Passes Sold</b>				
December 2014	25	29	(4)	\$ (56.00)
January 2015	58	69	(11)	(154.00)
February 2015	50	171	(121)	(1,694.00)
March 2015	50	77	(27)	(378.00)
April 2015	35	120	(85)	(1,190.00)
<b>Sub Total</b>	<b>218</b>	<b>466</b>	<b>(248)</b>	<b>\$ (3,472.00)*</b>
<b>TOTAL</b>	<b>3082</b>	<b>3525</b>	<b>(443)</b>	<b>\$ (5,422.00)*</b>
<b>Note (*) Unaccounted for revenue</b>				

For the five months tested there was a variance of 443 5-Day and \$10 Value Cards combined for a total value of \$5,422.00. This inventory variance may be additional revenue that may have been stolen, lost or misappropriated (see Finding #1).

**Cause**

A DDOT representative stated the previous person responsible for tracking \$10 Value Cards and 5-Day Pass inventory did not have an established method for tracking the replenishment and distribution of items; therefore the DDOT staff person developed their own method of tracking those items. However, the auditors determined that DDOT management failed to implement and maintain an inventory system with proper checks and balances.

## **Recommendations**

We recommend that DDOT implement an inventory system that:

- Segregates incompatible duties.
- Have someone who is independent of the sales and collection of revenue perform a reconciliation of pass inventory.

## **6. DDOT Failed to Execute and Follow Consignment Agreements with Vendors**

### **Condition**

All vendors that sell bus passes for DDOT are required to have a consignment agreement. The auditors selected nine vendors who sell bus passes for DDOT for review. The auditors noted the following deficiencies:

- DDOT did not have consignment agreements for two of the nine vendors selected for testing.
- DDOT invoiced two vendors for the bus pass sells in violation of their written consignment agreements.

### **Criteria**

The consignment agreement requires: When passes are delivered, the consignee shall remit the amount of the full purchase price less the aforementioned 4 percent for all passes sold along with any expired and unsold passes.

### **Effect**

The lack of an executed consignment agreements could lead to misunderstandings concerning terms agreed to by the department and the consignment vendors. When DDOT routinely breaches the written agreements executed with consignment vendors, it opens the door for vendors to also violate the agreement and could be cause for the vendor to terminate the contract.

### **Cause**

DDOT management could not explain why they could not locate the missing consignment agreements.

The auditors determined that DDOT failed to retain copies of consignment agreements and chose not to adhere to the terms of two of the consignment agreements.

### **Recommendations**

We recommend that DDOT:

- Execute and maintain copies of all consignment agreements for vendors selling DDOT bus passes; and
- Adhere to the terms of the agreements.

## **7. DDOT Did Not Fully Comply With the City's Pre-Paid Credit Card Policies and Procedures**

### **Condition**

The auditors reviewed DDOT's Pre-Paid Credit Card (P-Card) reconciliations of the five DDOT divisions for the period of January 2014 through June 2015. The review of the P-Card Reconciliations for the five DDOT divisions revealed the following conditions:

- The amount charged to one P-Card did not match the receipt amount. The transaction charged to the P-Card was \$36 more than the receipt amount.
- Transaction Logs for the Vehicle Maintenance Division, Administration Division, and the Coolidge Terminal Division indicated that some purchases were made by "Unknown" personnel.

### **DDOT Vehicle Maintenance Division:**

- Three of 51 Purchase Receipts tested were not included in the P-Card Reconciliations.
- Seven of 48 (14%) Purchase Receipts tested included Sales Taxes Paid.
- Twenty two of 48 (46%) Purchase Receipts tested were not signed by the Purchasers.
- One of 13 P-Card Reconciliations tested did not include a Check Request Form.
- One of 13 P-Card Reconciliations tested did not include a Transaction Log.

### **DDOT Administration Division:**

- Three of 50 Purchase Receipts tested included Sales Taxes Paid.
- Forty three of 50 (86%) Purchase Receipts tested were not signed by the Purchasers.
- One of 16 P-Card Reconciliations tested did not include a Check Request Form.

### **DDOT Plant Maintenance Division:**

- Three of 90 Purchase Receipts tested included Sales Taxes Paid.
- Eighty one of 90 (90%) Purchase Receipts tested were not signed by the Purchasers.

### **DDOT Coolidge Terminal Division:**

- One of 4 Purchase Receipts tested included Sales Taxes Paid.
- Three of 4 Purchase Receipts tested were not signed by the Purchasers.

### **Criteria**

According to the Finance Department Pre-Paid Credit Card Policies and Procedures Manual, every city agency and/or department which has a P-Card must prepare and submit a monthly reconciliation which includes the following information:

- The names of employees who used the P-Card

- Transaction Logs
- Check Request Forms
- Copies of collected transaction receipts

In addition, P-Card transactions are exempt from Sales Taxes and transaction receipts are to be signed by the Purchaser.

### **Effect**

When required fields of information and forms are not completed according to Finance Department policies and procedures, the lack of the required information may cause delays in the processing of P-Card reconciliations and the reporting of crucial financial data. City departments must adhere to Finance Department policies and procedures to promote a clear understanding of the processes involved in reporting financial information and to ensure that financial information is submitted in a timely manner.

### **Cause**

DDOT representatives stated that incomplete reconciliation packages were sent to the Finance Treasury Division so that the documents could be submitted in a timely manner. They added that the file documents retained at DDOT would be more complete packages.

DDOT representatives could not explain why Sales Taxes were paid on transactions receipts or why some receipts did not match the P-Card credit card statement amounts.

### **Recommendations**

We recommend that the DDOT ensure that P-Card:

- Purchase receipt amounts match credit card statement amounts.
- Transaction Logs include the names of employees who use the P-Cards.
- Transactions do not include Sales Taxes Paid.
- Purchase receipt copies are included in all reconciliation packages.
- Transaction Receipts are signed by the purchasers.
- Reconciliations include copies of signed Transaction Receipts, Check Requests and Transaction Logs.

## **8. DDOT Processed Vendor Invoices Without Supporting Documentation**

### **Condition**

DDOT processed invoices with missing information and documentation. Based on a review of 91 processed invoices, the invoices did not consistently include the following information and/or documents:

- Supporting Documents
- Purchase Order Numbers
- Vendor Tax Identification Numbers
- Vendor Addresses
- Vendor Telephone Numbers
- Vendor Invoice Numbers and Dates

In addition, DDOT created and processed spreadsheet invoices every quarter without written agreements with the vendors who received the quarterly payments.

### **Criteria**

According to Finance Department policies and procedures, only valid invoices which contain and/or include complete information regarding vendors should be submitted for payment.

Finance Directive 143 and Ordinance 42-98 require that all documents be adequately supported and that all requests for payment that lack adequate support and approvals be denied and returned to the vendor to be corrected. Good management practices require that all disbursements be adequately supported.

### **Effect**

When there is a lack of sufficient supporting documentation of the invoices to be paid, there is a greater potential for incorrect, improper or fraudulent payments to be processed. Valid invoices which contain complete vendor information prevent unauthorized payments to non-existent vendors and the submission of fraudulent or inappropriate payment requests.

### **Cause**

DDOT management stated that the type of information requested for invoices depends on the type of invoices that are to be processed. No one could explain why all of the invoices did not include complete and valid information.

### **Recommendations**

We recommend that:

- DDOT obtain written agreements before processing payments to vendors on a quarterly basis.

- Invoices which lack required information and supporting documentation or which have incomplete supporting documentation be returned promptly to the vendor for corrective actions.

## GLOSSARY

### Glossary of Acronyms and Terms

<i>Word</i>	Definition or Meaning
<b><i>ACS</i></b>	Armored Car Service
<b><i>Fare Box</i></b>	A box like device used to collect monies on a bus.
<b><i>DDOT</i></b>	Detroit Department of Transportation
<b><i>GFI</i></b>	Current vendor (GFI Genfare) contracted by the City of Detroit to provide fare box services.
<b><i>Receipts</i></b>	Usually refers to the cash that a company receives.
<b><i>Revenues</i></b>	Amounts a company earned as the result of business activities such as selling merchandise or performing services.
<b><i>RPTC</i></b>	Rosa Parks Transit Center.
<b><i>Segregation of Duties</i></b>	Segregation of Duties (SOD) is a basic building block of sustainable risk management and internal controls for a business. The principle of SOD is based on shared responsibilities of a key process that disperses the critical functions of that process to more than one person or department. Without this separation in key processes, fraud and error risks are far less manageable.
<b><i>(Terminal) Box House</i></b>	The location where bus fare box revenues are removed from the buses. The fare box revenue received at the location is recorded and stored in vaults until pick-up by the Armored Car Service.
<b><i>Third-party Vendor</i></b>	An outside vendor that sells bus passes to customers on behalf of DDOT in return for compensation.
<b><i>Vault Room</i></b>	Secured area located within the money room used for storage and safekeeping of valuables, currency and coin, documents, and other miscellaneous items.





July 19, 2016

Mark Lockridge, Auditor General  
Office of the Auditor General  
2 Woodward Avenue  
Coleman A. Young Municipal Center, Room 216  
Detroit, Michigan 48226

Dear Mr. Lockridge:

The following presents the Detroit Department of Transportation's response for the indicated findings and related recommendations in the June 2015 audit of the Detroit Department of Transportation, as prepared by the Office of the Auditor General. Our responses include the actions taken or to be taken regarding the recommendations, and the implementation dates or the targeted implementation dates for those actions.

We appreciate the work and effort that has gone into this report. We take matters such as these very seriously and have worked diligently to correct these findings.

**Finding Number 1. DDOT Failed to Properly Account for Cash Receipts Due to Material Weakness in Internal Controls**

Management acknowledges the importance of collecting revenue for the City and depositing these funds in a timely manner.

The cash handling processes and procedures were updated in April 2014 (attached) to address the shortcomings noted for passes sold, daily balancing by the Tellers, deposit of funds and batch activity.

Additionally, in August 2015, we took steps to increase the adequacy, oversight, consistency and verification of the revenue collected by the Tellers, by having the source documents of each deposit verified and signed by Accounting personnel outside of the Cashier area. Copies of this verified and signed paperwork are kept in the Cashier area and Accounting area.

Deposits are picked up and taken to the bank by the Armored Car Service (ACS) three times a week; within the 48 hours window.

All Cashier personnel are required to take vacations for the explicit purpose of having another individual perform the duties of the person on vacation.

At this time, segregation of duties at the Central office are limited to the current number of personnel in the Cashier's area. Plans are underway to hire a Teller III by August 31, 2016 to provide additional oversight and verification.

## Finding 2. Cash Controls at the Rosa Parks Transit Center (RPTC) Are Weak

Management recognizes the need for the cash controls at RPTC to be strengthened. In February 2016, the Teller staffing level of RPTC has been increased to two personnel which we feel is proper at this time. This allows for more segregation of duties and security of assets.

We will work with the ACS to increase the number of pickups to more closely align with the size of deposits experienced at the center.

During our reconciliation process at the RPTC, we have noted no instances of theft, fraud or abuses.

## Finding 3. DDOT (RPTC) Allowed Cash Receipts to Accumulate

As noted in #2 above, we will work with the ACS to increase the number of pickups at RPTC to more closely align with the size of deposits experienced at the center.

Until that time, the Accounting personnel perform the reconciliation of passes sold to revenue collected each month.

We intend to increase this reconciliation process on a more frequent basis with the addition of the Teller III position to comply with the Finance Directive.

At the Central office, all cash and checks are deposited three times per week and are not allowed to accumulate. All credit card purchases, from both locations, are settled with the bank on a daily basis.

## Finding 4. DDOT Violated Their Fare Box Revenue Policy

Damaged fare boxes from coaches brought to the Cashier area is a very infrequent occurrence.

When this does happen, a log is kept of each occurrence. The fare box funds are counted, verified by Accounting personnel, and deposited within 48 hours.

## Finding 5. DDOT Failed to Properly Account for 5-Day Passes and \$10 Value Cards Due to Material Weakness in Internal Controls

The 5-Day Passes and \$ 10 Value Cards are paid for at time of purchase. By September 30, 2016, the tracking procedure will be changed with tracking to be included on the Transit Tracking Form. It will be accomplished by an individual independent of the Cashier area.

Currently, there is consideration of eliminating these two types of passes.

## Finding 6. DDOT Failed to Execute and Follow Consignment Agreements with Vendors

Vendor consignment agreements are kept on file in the Cashier area. One agreement could not be located at time of audit. The missing agreement was subsequently sent to the vendor for completion, signature and was returned. We intend to monitor the vendor agreements more closely and obtain updated agreements on a rotational basis.

**Finding 7. DDOT Did Not Fully Comply With the City's Pre-Paid Credit Card Policies and Procedures**

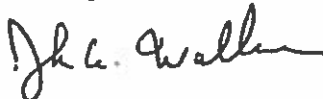
In the last six months, Accounting personnel have focused on the recommendations outlined in this report. They have been matching the credit card statements to the receipts amount. The reconciliation packages are complete before sending to the Finance Treasury Division. The Transaction Logs now include the names of the employees who use the cards. If Sales Tax is included in the purchase, the person using the card is to reimburse the City. Receipt copies are included in all reconciliation packages. If a receipt is missing, the Accounting personnel contact the user of the card or vendor in order to obtain a copy of the receipt. Transaction Receipts are signed by the purchasers where necessary. Reconciliations are not sent to the Finance Treasury Division without the proper documentation.

**Finding 8. DDOT Processed Vendor Invoices Without Supporting Documentation**


With the roll out of the new Oracle Fusion (Cloud) financial system, the paying of vendor invoices without supporting documentation has been greatly diminished. In Oracle Fusion, before a vendor invoice can be paid, a purchase order needs to be obtained, a properly documented receipt needs to be entered and vendor invoice needs to be received. The Accounts Payable Department then does a three way match in order to for the invoice to be paid. Invoices that do not follow this process cannot be paid.

Once again, we take findings such as these seriously. We will continue to work diligently to maintain the recommendations contained in this report.

Sincerely,



John Wallace  
Agency CFO

	<b>Issued: March 25, 2014</b> <b>Effective: April 1, 2014</b>
<b>Cashier Area, Cash Receipts, and Cash Handling</b>	

## Overview

The State of Michigan's Accounting Procedures Manual for Local Units of Government in Michigan requires that policies and procedures in every department are written down and communicated to employees. In accordance with the State of Michigan, the Detroit Department of Transportation (DDOT) has established such for the handling of cash receipts in the cashier area, which shall be issued and used in accordance with the policy and procedures established herein.

## Policy and Procedures

1. The Cashiers office receives payments and deposits from various customers (students/adults/employees/etc.) for passes sold. Passes sold are matched against the Transit Pass Tracking Form provided by Vendor.
2. Cash drawers are balanced daily by Tellers included with a Z print out from the Point of Sale cash register system. The Tellers reconciles the Daily Balance report. Cash overages/shortages resulting from the daily balancing of the cashier drawers are summarized and submitted to DDOT Accounting department on a weekly basis.
3. The Cashiers Office receives funds and prepares bank deposit slips. Funds for the day are kept in a locked vault, and are delivered to the bank by the Total Armored Car Company (TAC). TAC retrieves deposit slips from the Main Office Cashier Window to deposit in bank. The Senior Teller reviews and sends copies of deposit slips with detail to DDOT Accounting department.
4. The Senior Teller reviews the daily cashing activity prior to preparing batch activity (Daily Balance Report, Credit Card Report, miscellaneous sales, etc.) which is submitted to DDOT Accounting to complete journal entry and enter batch activity in DRMS (Oracle GL Module).

This policy statement supersedes all previous memos, directives, policy statements, etc.

  
 Angelica Jones, Manager II

  
 Date