

City of Detroit

OFFICE OF THE AUDITOR GENERAL

BIRTH AND DEATH RECORDS




Audit of the Department of Health and Wellness Promotion

January 2012 – August 2013

MEMORANDUM

DATE: December 6, 2013

TO: Honorable City Council
Honorable Mayor Mike Duggan

FROM: Mark Lockridge, CPA, CIA, CGAP 
Auditor General

RE: Audit of the Department of Health and Wellness Promotion

CC: Vernice Anthony, Health Director, and Public Health Officer
David Bell, Building Official & Interim Director Buildings, Safety
Engineering and Environmental Department
Bradley Dick, Director, General Services Division
John Naglick, Finance Director
Kevyn Orr, Emergency Manager

Attached for your review is our audit report on the Department of Health and Wellness Promotion (DHWP). This report contains our audit purpose, scope, objectives, methodology, and conclusions; background; our audit findings and recommendations for the period of January 2012 through August 2013. We recognize and acknowledge that since the conclusion of this Audit Report, many changes have taken place including an administrative reorganization in DHWP, transfer of the Vital Records Division to Wayne County, and closing of the Herman Keifer Health Complex resulting in relocation of health related activities to multiple locations. However, our findings and recommendations set forth in this report are still relevant to ongoing operations.

Responsibility for the installation and maintenance of a system of internal control that minimizes errors and provides reasonable safeguards rests entirely with the Department of Health and Wellness Promotion, the General Services Division, the Buildings Safety Engineering and Environmental Department, and the Finance Department. Responsibility for monitoring the implementation of recommendations is set forth in Section 7.5-105(4) of the City Charter which states in part:

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

We would like to thank the employees of the Department of Health and Wellness Promotion, the Buildings Safety Engineering and Environmental Department, the General Services Division, and the Finance Department for their cooperation and assistance extended to us during this audit.

Copies of all of the Office of the Auditor General reports can be found on our website at <http://www.detroitmi.gov/CityCouncil/LegislativeAgencies/AuditorGeneral/tabid/2517/Default.aspx>.

**Audit of the Department of Health and Wellness Promotion
January 2012 – August 2013**

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AUDIT PURPOSE, SCOPE, OBJECTIVES, METHODOLOGY AND CONCLUSIONS

AUDIT PURPOSE

The audit of the Department of Health and Wellness Promotion 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 the Department of Health and Wellness Promotion's administrative and vital records operations and its compliance with Finance Directives, policies, plans, procedures, laws, and regulations regarding its operational performance during the period of January 1, 2012 through August 31, 2013.

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 SCOPE LIMITATIONS

Our audit did not include a review, evaluation, or substantiation of the divisions, departments, or services transition to or provided the Institute for Population Health.

AUDIT OBJECTIVES

The overall audit objectives were:

- To evaluate the effectiveness and efficiency of core operations of the Department of Health and Wellness Promotion;
- To determine the Department of Health and Wellness Promotion's compliance with Finance Directives, policies, plans, procedures, laws, and regulations; and
- To determine the status of findings from prior related audit reports.

AUDIT METHODOLOGY

To accomplish our audit objectives we:

- Read the prior audit report(s);
- Reviewed prior audit workpapers, City Charter, Municipal Manual, DRMS reports, the department's budget reports, the Comprehensive Annual Financial Report (CAFR), organization charts, policies, procedures, ordinances, and Finance Directives;
- Gathered policies and procedures of core operations and other similar data;
- Developed questions regarding the department's transactions, controls, functions, records, and personnel;

- Interviewed department personnel;
- Documented and tested processes;

CONCLUSIONS

Based on our performance audit, we have concluded that the Department of Health and Wellness Promotion:

- Did not effectively manage its cash receipts and the lack of internal controls resulted in missing cash and unaccounted revenues for the City;
- Does not follow the City policies for contracts and disbursements nor does it effectively administer or monitor contracts;
- Does not adequately safeguard public property and original records from damage or destruction due to environmental risks;
- Has significant weaknesses in the internal controls surrounding the accounting for capital assets;
- Did not comply completely with year-end closing procedures;
- Has unresolved prior audit findings.

We have also concluded that the Buildings Safety Engineering and Environmental Department violated the City's Building Code; the General Services Division violated several sections of the City's Property Maintenance Code, and the Finance Department did not comply with the City's finance directives regarding administration of personal and professional services contracts, purchases of other goods and services, and the imprest cash/pre-paid credit card fund.

The results of our investigation relative to the transition of health services to the Institute for Population Health are covered in a separate memorandum to the City Council, Transition of Health Services, dated September 26, 2013.

BACKGROUND

The Detroit Department of Health and Wellness Promotion (DHWP) is authorized under the City Charter Section 7-201 which states that the City is responsible for providing an adequate level of health services, both physical and mental, to all its residents. It is responsible for preventing and addressing diseases that threaten the health and well-being of Detroit citizens. On October 23, 2013, DHWP relocated from the Herman Kiefer Health Complex, which was located at 1151 Taylor Street, Detroit, Michigan. Currently, the Administrative Division of the Department is located at 1600 W. Lafayette Boulevard, on the second floor of the Municipal Parking Department building, Detroit, Michigan. The Vital Records Division of the Department relocated to the Coleman Young International Airport (formerly City Airport), 11499 Conner, Detroit, Michigan.

DHWP has three core functions as defined by the Institute of Medicine. These functions are to assess the health of the community, lead and promote evidenced-based policies that are in the public's best interest, and assure the availability of community and personal health services that are important to the residents of Detroit. DHWP Administration exists to develop and execute the core functions. In addition, DHWP administration exists to implement and enforce all laws and regulations within its authority to protect the public's health and safety, including responding to emergencies, disasters, and communicable diseases.

DHWP continues to maintain direct responsibility for administering and operating the Vital Records Division. Detroit's vital record system refers to activities that include the filing, preservation, and tabulation of information on births, and deaths, including fetal deaths.

The City of Detroit has designated the Institute for Population Health (IPH) as the entity through which public health, substance abuse, and related health services are delivered to city residents as of October 1, 2012 including Women, Infants, and Children (WIC) Supplemental Food Services, Children's Special Health Care Services and Early-On, Maternal and Infant Health Program, Insurance Enrollment, Family Planning, Dental, Vision and Hearing, Immunization, Tuberculosis Control, STD Clinic, HIV/AIDS Prevention, Substance Abuse Services, Food Safety, Environmental Safety, and Emergency Preparedness.

DHWP's fiscal year 2012-2013 goals are:

- A. Reduce/eliminate health disparities impacting the citizens of Detroit;
- B. Develop and/or support innovative and evidence-based programs that address health priorities;
- C. Establish key partnerships to advance public health policy, practice and the delivery of services;
- D. Ensure access to primary care and preventive health services;
- E. Improve, protect, and promote the health of women, infants, and children;

- F. Prevent and control transmission of communicable diseases;
- G. Prevent and control injury and disease from exposure to environmental hazards;
- H. Strengthen the Department's role and capacity as a first responder in the event of an environmental/biological threat;
- I. Improve the operational infrastructure for public health services;
- J. Prevent and assure treatment and recovery for substance abuse.

The City of Detroit maintains its designation as a local health department operated by (1) the Health Officer, (2) the Deputy Health Officer, and (3) the Medical Director. These employees, at a minimum, assure the provision of required public health services, and enforce local and state ordinances, and the Michigan Public Health Code ("Code"). The Health Officer or designee exercises all powers and duties vested in them by the Code.

- **Health Officer**, Vernice Anthony (*Appointed November 5, 2012*)
- **Deputy Health Officer**, Deborah Whiting (*Appointed January 22, 2013*)
- **Medical Director**, Talat Danish, MD (*Appointed September 4, 2012*)

In addition to the City Charter, the Michigan Public Health Code regulates all local health departments, mandating particular duties and provision of certain baseline services within the department. Under the Public Health Code, a local health department shall:

- Continually and diligently endeavor to prevent disease, prolong life, and promote the public health through organized programs, including prevention and control of environmental health hazards; prevention and control of diseases; prevention and control of health problems of particularly vulnerable population groups; development of health care facilities and health services delivery systems; and regulation of health care facilities and health services delivery systems to the extent provided by law;
- Implement and enforce laws for which responsibility is vested in the local health department;
- Utilize vital and health statistics and provide for epidemiological and other research studies for the purpose of protecting the public health;
- Make investigations and inquiries as to:
 - The causes of disease and especially of epidemics;
 - The causes of morbidity and mortality;
 - The causes, prevention, and control of environmental health hazards, nuisances, and sources of illness.
- Plan, implement, and evaluate health education through the provision of expert technical assistance, or financial support, or both;

- Provide or demonstrate the provision of required services;
- Have powers necessary or appropriate to perform the duties and exercise the powers given by law to the local health officer and which are not otherwise prohibited by law;
- Plan, implement, and evaluate nutrition services by provision of expert technical assistance or financial support, or both.

The following table shows the budgeted expenditures, revenues, and number of staff for DHWP for the 2011-2012 and 2012-2013 fiscal years per the Adopted Budgets:

	Fiscal Years Ended	
	2012 Adopted Budget	2013 Adopted Budget*
General Fund	\$16,716,081	\$7,030,000
Grants*	60,727,784	0
Budgeted Appropriations	\$77,443,865	\$7,030,000
General Fund	\$10,223,431	\$4,981,929
Grants*	60,727,784	0
Budgeted Revenues	\$70,951,215	\$4,981,929
Net Tax Cost	\$ 6,492,650	\$2,048,071
Number of Staff	271	115

*Note: DHWP's fiscal year 2013-2014 Budget is being amended to reflect the City's acceptance of grant revenues from State sources of \$43 million for health and wellness programs.

STATUS OF PRIOR AUDIT FINDINGS

The prior audit of the Department of Health and Wellness Promotion (June 2008) by the Office of the Auditor General included the following audit findings:

1. Internal Control Weaknesses in Processing Cash Receipts
Some portions of this finding have not been resolved and are discussed in findings 1 and 2 on pages 7 and 11 of this report.
2. Inadequate Segregation of Cash Handling Duties
This finding has not been resolved and is discussed in finding 3 on page 14 of this report.
3. Cash Was Not Deposited Within 48 Hours of Receipt
This finding has not been resolved and is discussed in findings 1 and 2 on pages 7 and 11 of this report.
4. The Finance Department Did Not Fully Comply with the City's Imprest Cash Policies and Procedures
Some portions of this finding have not been resolved and are discussed in finding 1 related to the Finance Department on page 52 this report.

AUDIT FINDINGS AND RECOMMENDATIONS

1. Lack of Effective Management Over Cash Receipts in Vital Records

The Detroit Department of Health and Wellness Promotion (DHWP) lacks effective management over cash received at its Vital Records Division and in its Business Office. The following discoveries indicate significant weaknesses in internal controls over cash receipts:

- There are unexplained discrepancies between cash received versus the cash register receipts in Vital Records:
 - The amount of cash collected on a daily basis cannot be accurately determined. According to a department staff person, the cash registers produce reports that are incorrect 90% of the time and the staff has to rely on manual counts;
 - Actual cash collected does not match the daily total of cash register receipts. Listed below is the outcome of two separate cash counts performed by OAG:

<u>Date of OAG Cash Count</u>	<u>Source of Cash Counted</u>	Cash Compared to the “Z”* <u>Register Receipt</u>	Amount of Overage/ (Shortage)
9/4/2012	Birth Records	Shortage	\$(40)
9/4/2012	Funeral Records	Overage	\$ 50
9/12/2012	Birth Records	Overage	\$ 31
9/12/2012	Funeral Records	Overage	\$ 80

**Note: A “Z” report is a typical end-of-day cash register report containing all balances of sold items per category and the total amount that should be in the cash register drawer. After the “Z” report is run, the day has ended, and all further receipts are counted as next day receipts.*

- Inconsistent procedures with the cash receipt process at customer service counters with respect to providing and maintaining customer receipts;
- The Vital Records Division does not follow its own standard operating procedures and does not reconcile revenue for services provided to the amount of cash collected on a daily basis;
- The Business Office does not:
 - Count, verify, or total, the amount of checks received before depositing cash receipts into the City’s bank account, but instead relies on the bank to make corrections;

- Require corrections to deposits slips for cash overages; instead and in some cases, the clerk would return the cash to the depositor trusting them to include it in the next deposit;
- In the example below, OAG’s cash count matched the corrected deposit by the bank, but the cash register receipt, Vital Records deposit slip, and the Business Office deposit did not match the actual amount:

<u>Amount Collected</u>	<u>Cash Count Per OAG</u>	<u>Per Cash Register Receipt</u>	<u>Per Vital Records Tally Sheets</u>	<u>Per DHWP Business Office</u>	<u>Per Actual Bank Deposit</u>
Cash	\$1,240	\$1,210	\$1,210	\$1,210	\$1,240
Checks	155	105	155	155	155
Total	<u>\$1,395</u>	<u>\$1,315</u>	<u>\$1,365</u>	<u>\$1,365</u>	<u>\$1,395</u>
Difference from OAG’s Cash Count Over/(Short)	\$0	+\$80	\$(30)	\$(30)	\$0

- There was a shortage of \$98.50 from the authorized amount of the Vital Records Change Fund of \$1,000;
- The amount of money in Vital Records Change Fund (\$1,000) is more than required; each Teller starts the day with \$50, and there are only five cashiers and one supervisor;
- There are inadequate records and no follow-up on DHWP’s Cash Receipts books distributed to the various Division’s:
 - A Division manager had no knowledge of receiving a receipt book that was signed out in his name;
 - Receipts were being issued from receipt books that were not recorded or recognized in the Business Office distribution log.

The cash register is often an inherent point of significant risks. Only one employee at a time should be responsible for a cash register. Each cash register employee should begin each shift with a fixed amount of money, and at the end of the shift, the register receipts should equal the total cash in the register minus the fixed opening amount. The person responsible for each specific register should not have access to the register’s special functions, such as totaling, subtotaling, transaction voiding, customer refunding, and the opening of the cash drawer without ringing up a sales transaction. Also, only one employee at a time should have custody of cash. Any time cash changes hands, it should be counted by the transferor and the transferee, and both employees should sign a transfer from that indicated the details of the transfer.

Finance Directive 20 states that all employees handling cash will be held strictly accountable for cash shortages and overages. Variances are to be reported to the Police Department, Mayor's Office, Finance Department, and the Office of the Auditor General.

According to Finance Directive 18, cash should not accumulate and deposits must be made timely. All city departments should immediately institute procedures to insure that all cash and checks are deposited in the City's bank account and recorded in the City's financial systems within 48 hours after receipt. Each day, all collections whether from cash sales or collections should be deposited intact into the City's bank account.

The State of Michigan Department of Treasury requires that formal evidence be created for each collection (such as a printed sequentially numbered cash receipt ticket, cash register receipt, etc.) and provided to payors where practical.

Other best practices for handling cash state that:

- Currency denominations must be deposited intact. Procedures must ensure that currency (cash and coins) are counted separately from checks or other payment methods, both in the list of cash receipts and in the deposit slip (or other bank deposit support). Total currency collected must be in agreement between these two sources;
- Change funds should be audited periodically by supervisors or accounting personnel. The audits should be unannounced and performed no less than quarterly. Unresolved discrepancies should be reported and considered grounds for disciplinary action;
- Receipts books issued to other departments must be accounted for numerically.

Failure to monitor and deposit cash receipts on a timely basis increases the risk of schemes, undetected errors, misappropriation, theft, or loss. Because cash is the most liquid and negotiable of all assets, adequate internal controls must be put in place to safeguard the city's cash receipts. The lack of effective internal controls resulted in the inability for management to know actual receipts or the actual revenues for the Division.

According to DHWP staff, equipment, old registers, outdated and unsupported software, and not enough staff are reasons for the conditions over cash receipts:

- The cash registers were programmed by the software company who installed DHWP's vital record system. The registers were programmed incorrectly; this is the system they inherited and there is no way to verify if the correct amount of cash is being collected;
- The City does not have a support or maintenance contract with the system's software vendor to maintain or enhance the system. A DHWP information technology support person confirmed that the Vital Records cashing system is a standalone, self-contained system, which they cannot access due to the proprietary nature of the system. In fact, if there are problems, DHWP must contract with the company that created the system at a monthly cost of \$2,000. In addition, the City's

Information Technology Services Division (ITSD) was not involved with the initial purchase of the software. According to the Director, “in the past they were not involved in the RFP process because it was always based on the department’s needs.”

Lack of training also contributed to the ineffectiveness and inefficiencies of the division’s operations. A key staff member stated that there was no training or a job description, for them and that they “basically learned the job through reading the manual and asking questions to the State Registrar.” DHWP did not have adequate cash management policies governing cash handling and management.

Recommendations

We recommend that DHWP implement the following steps to improve internal controls in its cash receipts process:

- Implement a short-term manual solution to reconcile services provided to the amount of cash collected by either enhancing and using their own procedures or use the suggested format from OAG;
- Expedite cash deposits for Vital Records and deposit directly to a City bank account daily;
- Replace the current system and cash receipts equipment with an adequate point-of-sale cashiering system;
- Create or update policies and procedures to reflect the new operating environment for the handling of cash receipts;
- Install a customer audit compensatory control by placing signs at the registers that offer the customer a reward if there is no sales receipt;
- If feasible, install mitigating monitoring controls such as video cameras to monitor over-the-counter transactions for the protection of the staff and the public;
- Require the Business Office to perform random audits, surprise cash counts, and reconciliations often enough to insure that the process is working and all receipts are deposited;
- Reduce the Change Fund from \$1,000 to \$300.

We recommend that management identify appropriate knowledge and skills needed for various jobs and provide needed training, as well as candid and constructive counseling, and performance appraisals.

2. Lack of Effective Management Over Cash Received Via Incoming Mail

The Department of Health and Wellness Promotion (DHWP) lacks effective management over cash received through the mail in the Vital Records Division and the Business Office.

The Vital Records Division of DHWP receives requests for birth and death certificates through in-person requests and through the mail. The requestor must include the appropriate fee in the form of check or money order; cash is not accepted through the mail. The stated turn-around time for drop-off requests is five business days, and the processing time for a mail-in request is two to four weeks. However, DHWP's actual average turnaround time to respond to a customer's mail-in request is six to eight weeks.

The following discoveries indicate significant weaknesses in internal controls over incoming mail cash receipts:

- DHWP does not comply with the City's directive to deposit all cash received within 48 hours of receipt. We observed trays of incoming mail in the Vital Records Division containing checks, valued at approximately \$14,000 - \$15,000 representing mail (at least) two to four weeks old;
- Unprocessed checks are kept in desk drawers and are not properly safeguarded;
- Incoming mail is opened by persons in Vital Records and the Business Office having access to cash receipts records;
- The log of incoming mail into the Business Offices is not subsequently compared to cash receipts records and authenticated copies of deposit slips by an employee having no access to cash.

Delays in processing mail increased the occurrence of checks and money orders that were later dishonored by the bank when they are presented for payment. To stem the practice of accepting fraudulent checks, the Division implemented a manual process which required staff to manually generate and maintain a list of persons who had checks returned by the banks due. The tellers were instructed to review the list prior to accepting checks from customers; if the customer name was on the list, the customer had to pay in cash the current charges plus any previous fees owed. This process proved to be inefficient and lengthened the time to service customers.

In addition, there is a different process for fees submitted for death records, which are currently non-refundable, versus fees submitted for birth records which are refundable. Therefore, the clerk processing the mail will not deposit the payment until after the request have been processed, again lengthening the time between receipt and deposit. Subsequently, if the birth record is not found, the Division refunds or sends the check back to the customer. This process is inconsistent, inefficient, causes delays in depositing cash, and does not recover the full administrative costs of performing record searches.

According to the City's Finance Directive 18, all city departments should immediately institute procedures to insure that all cash, checks, and money orders or cash equivalent received, be deposited into the bank and recorded in the financial systems within 48 hours after receipt.

Cash and check receipts require a series of specialized controls. Best practices suggest that checks received in the company mail should be received under the authority of the Treasury function and they should be immediately endorsed restrictively "for deposit only" to the company's account. Whoever opens the incoming mail should prepare a remittance list for the checks received. If the checks are given to a second person, the second person should sign a copy of the remittance list acknowledging receipt of the listed checks.

The State of Michigan's Accounting Procedures for Local Units of Government require that when possible, someone other than the person who writes receipts or posts the accounting records should be responsible to verify that collections received in the mail are properly receipted (i.e. - collections should be reconciled by an individual not involved in the receipting process.)

According to the Government Accounting Office, "an agency must establish physical control to secure and safeguard vulnerable assets such as cash and checks which are at risk of loss or unauthorized use.

Another best practice for check acceptance is to set guidelines regarding the types of checks your business will accept - personal, two-party, payroll, government, or traveler's checks and make sure signs are posted in your establishment so customers know your check cashing policy.

Lack of segregation of key duties and responsibilities among different people increases the risk of error or fraud. And checks or other cash items that are received through the mail which are not properly recorded on remittance advices are susceptible to misappropriation, theft, of loss. There is no system of checks and balances to ensure that all monies received is accounted for and deposited into the City's bank account.

The longer the length of time between the creation of a check or money order as the instrument of payment, and the time it is presented to the bank, increases the chances that it will not be honored by the bank (insufficient funds, account closed, money order cancelled, etc.) Processes that delay the pickup and processing of mail, severely affect the Division's ability to make timely deposits.

According to a staff person in DHWP's mailroom, "considerable amounts of mail for Vital Records sit in the mailroom for days at a time, and even though the majority of the mail contains money, they do not pick up their mail on a daily basis." It was stated that on one occasion mail sat in the mailroom for three days and included 66 pieces of mail.

According to staff, requests coming through the mail normally would be turned around in 4-6 weeks; and the policy states that it takes 3-5 weeks to process incoming mail request. However, according to management, the current average is 6-8 weeks because of being short-staffed.

Recommendations

We recommend the following solutions to strengthen DHWP's internal controls over incoming mail:

- Pick up mail daily from the mailroom;
- Implement a manual solution for processing incoming mail to include two persons opening mail daily, and creating a remittance listing of checks and money orders received;
- Ensure that all cash (checks) received through the mail are deposited into city bank accounts within 48 hours of receipt;
- Insure adequate segregation of duties between recordkeeping, authorization, and custody of cash items;
- Compare the Incoming Mail Cash Receipts Log to daily journal entry and bank deposits; reconcile to revenue reported in the City's financial systems.

Short-term, the Division should implement one of its own recommendations, which is to revise its money handling procedures to discontinue accepting personal checks in favor of money orders or certified/bank checks.

We recommend that DHWP discontinue the practice of opening incoming mail containing cash or cash items. This process is the responsibility of the Finance Department Treasury Division. Best practices from the Government of Finance Officers describe the use of "lockbox or remittance services" for its incoming mail, containing payments. With a wholesale lockbox system, the City's customers would send their payments to the post office box, the bank collects and processes the payments directly and deposits them to the City's bank account. The wholesale lockbox handles transactions that do not include a standardized payment coupon and potentially can reduce the amount of checks and money orders returned due to insufficient funds by expediting the clearing of these cash items. This type of service minimizes the risk of theft and embezzlement.

Lockbox services should increase payment and posting accuracy, improve cash flow by reducing processing time between deliver of mail and depositing of payments, and increase staff productivity by freeing personnel from the labor-intensive process of manually handling mail, making daily deposits, and posting manual payments.

We recommend the Department conduct a cost/benefit analysis of using lockbox services; and consider a long-term plan of accepting electronic payment methods such as electronic funds transfers (EFT), and debit and credit card payments.

3. Lack of Segregation of Duties in the Handling of Cash Receipts

There is a lack of segregation of duties in the handling of cash receipts in the Department of Health and Wellness Promotion (DHWP).

Front Office Process Prior to Turning Cash Over to Business Office

There is a lack of adequate segregation of duties in the Vital Records Division in the handling of cash receipts. The same person that counts and tallies the daily cash receipts, also creates the deposit records.

Back Office Process Turning Cash Over to the Business Office

Although all deposits from divisions require a completed "Daily Cash Receipts Deposit" form; these three part forms are not pre-numbered. The Division representative (depositor) must sit with Business Office staff person while the cash (**only**) is counted and compared to the Daily Cash Receipts Deposit form:

- If there are overages in the actual cash versus the amount on the form, the Business Office staff person gives the depositor the option to change the amount on the form, create a new form, or they will return the overage back to the depositor with the "understanding" that it should be included in the next day's receipt.
- We observed a cash count where there was a \$20 overage. The Business Office Staff person gave the \$20 overage back to depositor. In this case, the depositor stated that they did not want the money back and instead changed the amount on the receipt.

According to the Government Accounting Office, no one individual should control all key aspects of a transaction or event. Key duties and responsibilities need to be divided or segregated among different people to reduce the possibility of fraud and error. This should include separating the responsibilities for authorizing transactions, processing, and recording them, reconciling transactions, and handling any related assets.

The Government Finance Officers Association (GFOA) and the State of Michigan Department of Treasury, recommend as a best practice for receipts that when possible, collections should be reconciled by an individual not involved in the receipting process.

Best practice money handling procedures require that money collected should be first counted by the teller, second counted by a designated supervisor, and third, double checked by another teller. Additionally, the procedures require that two designated employees rotate counting the money from the previous day.

According to the State of Michigan's Accounting Procedures Manual for Local Governments all funds should be deposited intact and cash stated separately from checks or other payment forms. Depositing intact means that the amount deposited should equal the total of the cash drawer receipts for the day. Identifying each receipt (either in a cash register or on manual cash receipts forms) as cash and then separately

stating cash on the bank deposit slip is a strong protection against cash replacement fraud. Checks must be restrictively endorsed (stamped for deposit only) at the point and time of collection.

Lack of resources, lack of appropriate training, and lack of management oversight was cited as the cause of an inadequate segregation of duties. Further, a staff person stated that they were trained to give the depositor the option of how they wanted to handle overages.

We recommend the Vital Records Division have two persons on a rotating basis collect the daily deposits, tally the collections, and complete the daily deposit forms. Then a person not involved with the receipt process should perform reconciliations, and trace deposits from the original log books maintained by the Business Office to cash deposits in the general ledger.

We also recommend that the Business Office perform random audits, surprise cash counts, and reconciliations often enough to insure that the process is working and all receipts are deposited.

4. Lack of Sufficient Internal Controls over Purchases and Effective Contract Monitoring

The Department of Health and Wellness Promotion (DHWP) did not comply with the Purchasing Ordinance that requires City Council to approve all revenue contracts, nor did they comply with the City's Finance Directives regarding clearances and contracting. DHWP does not comply with the City's Contract Administration Manual which requires contract administrators to maintain master contract files and review invoices for all contracts as to format, accuracy, and validity of cost. Also, there is a lack of segregation of duties in the procurement process.

Rental Space Contract/Lease Agreement

Effective May 1, 2012, DHWP entered into a lease agreement with a vendor to rent space at the Herman Kiefer Health Complex, located at 1151 Taylor Street, Detroit, MI. The contractor opened a snack shop and offered the following items:

- Pre-packaged foods (candy, chips, cookies, ice cream bars, beverages and other packaged non potentially hazardous foods);
- Potentially hazardous/exposed foods (meat based sandwiches, hot soup, cheese sauce for nachos, and self serve coffee).
- The terms of the lease agreement (from 5/1/2012 to 4/30/2015), was for 750 rentable square feet for \$334 per month, or a total \$4,008 per year. It should be noted that this rental space did not have any access to water or drainage systems. As of February 2013, the City has received only \$650 in rent payments for September and October 2012.

DHWP did not comply with the City's procurement processes as there was no evidence of competitive bidding on the contract for the snack shop, which is required for non-professional services greater than \$400.

We requested a copy of the purchasing revenue contract from the City's Finance Purchasing Division, however, after an "exhaustive research," the contract was not found, and there is no indication that the contract went through the City's procurement process.

We requested an opinion from the Law Department on the legality and validity of the contract. Upon review of the contract, the City's Law Department found that the contract was invalid because:

- The "City Officials" who signed the contract were not duly authorized;
- No evidence of City Council's approval for this revenue contract as required by the City's Purchasing Ordinance;
- Contract not certified by Finance, Budget, or Corporation Counsel;
- Lease agreement not handled by GSD;

- The contract was not recorded in the City's financial system and there is no proof of insurance or proof of due authorization by the tenant.

We contacted the Michigan Department of Agriculture & Rural Development (MDARD), the agency responsible for licensing food establishments in Detroit. Their response stated that "the facility referenced is not licensed by MDARD-Food & Dairy Division and the operator was informed to cease the sale of all potentially hazardous/exposed foods until they obtained a food license."

Payments to Fiduciary as a Disbursement Agency for Non-Medical Personnel and Services

The approved contract for one of DHWP's primary fiduciary stated that the "the administrative fee shall be two point fifty-five percent (2.55%) of expended funds for each of the programs the fiduciary administers in accordance with the Contract." However, based on our analysis of federal and state grants for this fiduciary, the administrative fees paid to them during the contract period was five percent per program, resulting in a calculated overpayment of \$279,675 (based on 2.45% of \$11,415,294 in state grants for fiscal year October 1, 2011 to September 30, 2012.)

Lack of Segregation of Purchasing Duties

A staff member has conflicting responsibilities in the City's financial and procurement system (Oracle DRMS), and can create requisition, create purchase orders, create purchasing receipts (including releases against blanket purchase orders), and is responsible for the Division's capital assets. In addition, the staff person has complete control when processing disbursements under \$2,000 - from creating the purchase order through processing the receipt of goods or services.

While the City Purchasing Ordinance allows for the use of non-profit institutions for the provision of health services (i.e. fiduciaries), it still requires all purchases to be made in accordance with the city's purchasing procedures including:

- Finance Directive 104 (Purchasing Procedures) states that competitive bidding for the purchase of all goods and non-professional services, regardless of dollar value;
- Finance Directive 76 (Revised Contract Processing Procedures and Forms), which states that all contracts submitted for review by the Budget, Finance and Law Departments will be logged in and assigned contract numbers by the Purchasing Division, using the Contract Processing and Transmittal Record.
- Finance Directive 28 (Contract Clearances) requires all parties contracting or in any way doing business with the City of Detroit to have Human Rights Department and City Income Tax Division clearances.

The Department did not comply with the City Code – Purchasing Ordinance – that requires that all revenue contracts, regardless of dollar value, to be approved by City Council.

Procurement activities are subject to various forms of abuse resulting from corrupt practices of government employees and/or actions by suppliers of goods and services such as:

- Circumventing competitive bidding requirements
- Using sole source when competition is available.

Contracts are procurement actions that are, in effect legal actions. A well-documented and complete contract file can speak for itself by supporting actions taken, providing information for reviews and investigations, and furnishing essential facts in the event of litigation or legislative inquiries. Inadequate review of invoices can result in overpayment for services. The lack of maintaining properly documented and complete procurement files may leave the Division defenseless in the case of litigation and open to audit findings. The City's Purchasing Contract Administration Manual requires that contract administrators maintain master contract files, and include the purchase request, list of sources solicited, source selections, and other documents that record the key steps in the procurement process. They should review invoices for all contracts as to format, accuracy, and validity of cost. The file should be complete and include the original contract plus all revisions. In addition, the policy states that the most important step in monitoring contracts is to always document contractor performance.

The State of Michigan, Department of Agriculture & Rural Development (MDARD) requires retail grocery stores, convenience stores, and party stores to have a valid Food Establishment License for the sale of all potentially hazardous/exposed foods.

Regarding the lack of segregation of duties, the Government Accounting Office suggests that key duties and responsibilities need to be divided, and procedures should be so coordinated that one employee's work is automatically checked by another who is independently performing separate prescribe duties. This should include separating the responsibilities for authorizing, transactions, processing, and recording them, reviewing transactions, and handling any related assets.

Regarding the leasing of space to the vendor for the retail snack store, a member of DHWP's administration stated that there was no RFP and that the vendor "approached them" regarding his services.

A DHWP staff member reported that management planned to enhance its monitoring of contracts by subcontracting this function. They noted that for the past ten years, there were findings in the single audit for lack of monitoring, particularly for professional service contracts. However, this has not happened in DHWP.

Another staff member reported that due to lack of staff, the Department only reviews contracts when there is a problem, like over- or under-spending. File management and maintenance was listed as one of the top three challenges facing DHWP's Finance Division.

Regarding the overpayment in fiduciary fees, and according to DHWP's Finance division, the contract language was inadvertently changed and was incorrect. They indicated that the correct language should have been and has always been similar to other fiduciaries approved contract language which reads in part "the administrative fee shall be five (5%) of the first one million dollars (\$1,000,000) of expended funds for each of the programs...and two (2%) of the expended funds per program thereafter."

The Chief Procurement Officer reiterated that the City's contract rules and finance directives does apply to DHWP as well as their fiduciaries. At one time, the Purchasing Department was working with the Law Department to implement tighter contracting and subcontracting language in contracts with fiduciaries, but they were not successful.

Recommendations

We recommend the Department of Health and Wellness Promotion to:

- Fully comply with the City's Procurement Ordinance and Finance Directives governing purchases of goods and services;
- Ensure that purchase orders and contract files are maintained and well-documented;
- Implement contract monitoring procedures for the major professional contacts and expenditures, including detail review of invoices, costs compared to the contract;
- Discontinue renting space under the invalid lease agreement and reduce the City's risk to potential lawsuits;
- Adequately segregate duties over disbursements, including imprest cash disbursements handled through DRMS purchase orders.

5. Improper Disbursements in the Administration of a State Grant

The Department of Health and Wellness Promotion (DHWP) did not fully comply with the City’s finance directives regarding administration of personal and professional services contracts. Some disbursements did not comply with the purpose, and intent of a state awarded health grant.

Disproportionate Share Hospital Fund Grant Disbursements

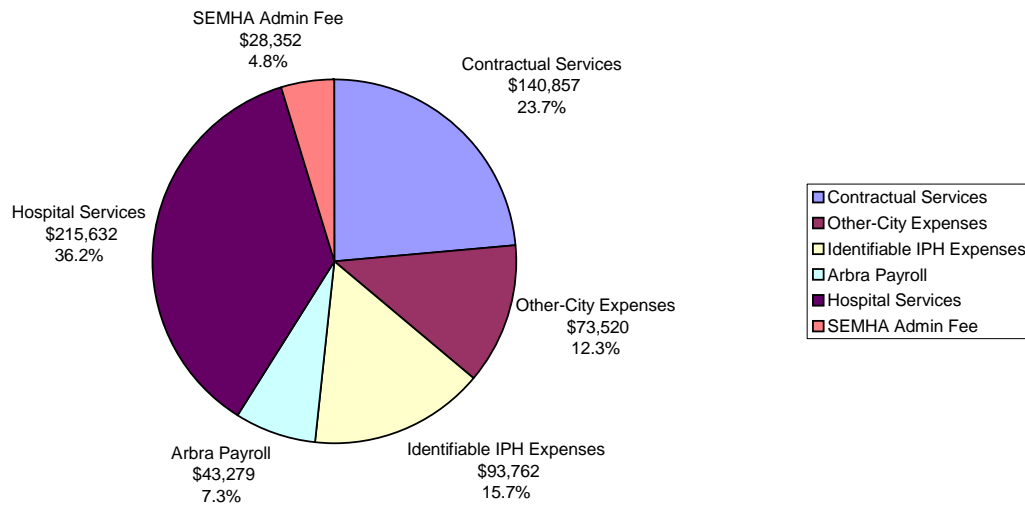
The Disproportionate Share Hospital Fund (DSH) fund was established by the Michigan Department of Community Health (MDCH) to provide funding for inpatient hospitals that serve a disproportionate share of low-income patients with special needs and was awarded to the City in or around 2006. Per a DHWP staff person, the intent of the grant was to help pay for services for the uninsured or underinsured residents.

A review of all disbursements from the DSH grant from October 1, 2011 to September 30, 2012 revealed that DHWP spent \$595,402 from the DSH fund, however only \$215,632 or 36.2% of the dollars were paid for hospital services in compliance with the intent of the grant:

<u>Category</u>	<u>Total DSH Payments</u>	<u>%</u>
All Other Non-Hospital Payments	\$ 351,418	59.0%
Payments to Hospitals	\$ 215,632	36.2%
SEMHA Administration Fee	\$ 28,352	4.8%
Total DSH Grant Payments 10/2011-9/2012	\$ 595,402	100.0%

The following table and chart summarizes payments from the DSH grant:

<u>Category</u>	<u>Contract Services</u>	<u>Other Payments</u>	<u>Total DSH Payments</u>
Disbursements for City	\$ 140,857	\$ 360,783	\$ 501,640
Identifiable Disbursements for IPH	45,070	48,962	93,762
Total DSH Grant Payments 10/2011-9/2012	\$ 185,927	\$ 409,475	\$ 595,402



Contractual Services - Personal Services Contracts

We requested detail of all ten personal services contracts associated with expenses paid from the DSH from Oct. 2011-Sept 2012, which totaled \$185,927. The personal services contracts were executed between SEMHA and DHWP on behalf of the independent contractor(s) providing the service. With respect to the contracts, the following conditions of non-compliance were found:

- 20% (2 of 10) of the personal services contracts requested were not provided; 80% were provided;
- 70% (7 of 10) of the services provided through these personal services contracts did not comply with the intent of the grant;
- Only 30% (3 of 10) services may comply with the services intended by the grant even though they are not directly for hospitals.

Of the eight (8) contracts actually provided to OAG:

- 50% (4 of 8) of the personal services contracts were approved after the date of service, 50% were approved before the dates of service;
- 100% (8 of 8) of the personal services contract rates matched the actual rates paid.
- None of the contracts specifically stated that the contractor was not entitled to receive overtime, holiday, sick or vacation pay;
- There is no evidence that the personal/professional contracts were subjected to competition or that request for proposals, quotes or information were made available to the public (RFP's, RFQ's, or RFI's).

Of great concern to OAG, were the results of a detailed analysis which revealed that \$45,070, (or 24.2%) of the amount paid for contract services (\$185,927) was used to

pay for services that benefited the non-profit established to provide the city health services, the Institute for Population Health (IPH). IPH is the health organization established to provide health services to the residents of Detroit in lieu of the City providing these services.

Analysis of All Other Purchases/Disbursements from DSH (Non-Contractual Services)

The following table summarizes other disbursements made from the DSH fund from Oct 2011 to Sept 2012:

<u>Description</u>	<u>Amount</u>
Reimbursement to SOM for unallowed clothing expenditures from 9/2010 to 11/2011 (Labeled as Office Supplies on FSR)	\$ 12,650.23
Reimbursement to SOM for OPHEP Audit for 2009-10	9,772.66
Biohazard Waste Removal	8,750.00
Fabricate & Install walkway canopy awning	6,700.94
Animal Control Pet Disposal	6,321.00
Office Supplies, Printing & Software Services	6,105.45
Membership Dues	5,000.00
Troubleshoot Vital Records Cashiering System	4,000.00
Cell Phone Bills	3,872.69
17 in Macbook Pro for DHWP Director	3,348.90
Food & Refreshments for Activity with Children of Detroit	2,465.00
Lease Payments for 2 copiers for 2 months	1,011.00
Legal Notices	873.60
Move Desk & Cab 3rd Floor	408.00
Detail Not Provided	200.48
Culligan Bottled Water	120.48
Subtotal Detailed Other DSH Disbursements	<u>\$ 71,600.43</u>
All other	<u>\$ 1,919.57</u>
Total Other DSH Disbursements - City Related	<u>\$ 73,520.00</u>

The detailed analysis of non-contractual services payments, revealed that 59% of the disbursements did not comply with the intended purpose of the grant. Notable exceptions are:

- DHWP repaid the State with its own (State) funds for over \$22,000 in disallowed costs from prior year grants. Included in these disallowed costs was \$12,650 in clothing expenses, that were labeled as office supplies on the prior year Financial Statement Report;

- \$6,700 was paid for awning covers for the Herman Keifer Health Complex walkways, which was scheduled to be closed July 2013.
- \$5,000 membership dues were paid to a non-profit organization that provides resource information to the uninsured and under-insured populations of Detroit. The organization is not a hospital and the membership was not approved by the Budget Department. The Director of DHWP is on the Executive Committee and the Mayor is on the Board of Directors of the "VOICES OF DETROIT INITIATIVE";
- \$4,000 was paid to the software company that owns Vital Records cashiering software (a proprietary system) that is no longer under contract;
- DHWP paid \$3,348 for a 17" Mac Book Laptop computer for the Director. The purchase was not approved by ITSD, and was never tagged or entered into the City's Capital Asset System. In addition, the amount disbursed was based on a "shopping cart" list from the Apple Store internet web site with a check made payable to a manger in DHWP (to obtain cash.) Based on the actual receipt, the amount cash paid was \$54.42 (after taxes) less than the amount disbursed. The difference has not been refunded to the City of Detroit. Per DHWP management, the Department has no plans to use the computer and has subsequently returned it to the City's Finance Department.

Purchases/Disbursements from DSH Stated for IPH Purposes

To summarize, the following purchases/disbursements were specifically stated for the Institute of Population Health (IPH) purposes:

<u>Date</u>	<u>General Ledger Category</u>	<u>Transacion Description</u>	<u>Amount</u>	<u>Comments</u>	<u>*Repaid to the City? Y/N</u>
4/2012-9/2012	Contract Services	Contractural Payment	\$ 25,120.41	Consultant to IPH	N
				Transtion IT services primarily for IPH including the installation of 250 phone liness for IPH	
7/2012-9/2012	Contract Services	Contractural Payment	19,950.00		N
		Subtotal Contractors Costs	\$ 45,070.41		
6/5/2012	Other Operating Expense	Startup Costs*	\$ 26.00	IPH Startup Costs	Y
6/26/2012	Other Operating Expense General/Professional	Form 1023 Fees*	850.00	IPH Startup Costs	Y
6/5/20102	Liability Insurance General/Professional	Insurance Expense*	3,000.00	IPH Startup Costs	Y
6/15/2012	Liability Insurance	Balance Due on Directors and Office Insurance*	7,410.00	IPH Startup Costs	Y
7/31/2012	Contract Services	Startup Cost for Board Meeting*	868.48	IPH Startup Costs	Y
	Computer Maintenance & Software			IPH Accounting	
7/31/2012	Software	SAGE 100 Fund Accounting Software*	11,507.00	Software	Y
7/11/2012	Other Personnel Costs	INV DHWP03001	25,000.00	Attorneys for IPH	N
8/7/2012	Other Personnel Costs	Job Posting*	30.00	Job Posting	Y
		Subtotal Other Costs	\$ 48,691.48		
		Total Costs Paid for IPH Purposes from the DSH Grant	\$ 93,761.89		

* Note: Of the \$93,761.89, persons on behalf of IPH have reimbursed the City \$23,691.48, leaving a balance of \$70,070.41.

DHWP did not comply with the following key finance directives related to the City's disbursement and contracting activities:

- Finance Directive 104 (Purchasing Procedures) requires competitive bidding for the purchase of all goods and non-professional services, regardless of dollar value. This Directive also prohibits the use of confirming requisitions - those that are requested after the purchase of goods and services has been made;
- Finance Directive 123, Personal Service Contracts requires that all personal services contracts must include in the compensation section a statement declaring that the contractor shall not receive any fringe benefits, including but not limited to overtime pay, holiday pay, sick pay, or vacation pay, in addition to retirement, pension or insurance benefits;
- Finance Directive 145 requires that the purchase and serving of food and beverages for a City function may only be approved if the expenditure is authorized by law and is for a "public purpose" and the request must contain a statement of the public purpose to be served;
- Finance Directive 146 requires that criteria be applied to the evaluation of proposals for professional services contracts;
- The Imprest Cash Manual requires that all memberships be approved by the budget department.

Strong internal controls are required for procurement activities which are subject to various forms of abuse resulting from corrupt practices of government employees and/or actions by suppliers of goods and services. Policies and procedures should be closely followed and contract files should be complete and properly maintained. Actions contrary to established City directives increase the Division's exposure to litigation and open to audit findings.

The use of grant funds for purposes other than the intent of the grant can result in disallowed costs and monies that may require reimbursement to the grantor.

A DHWP staff person in the Administration stated that one of the most important challenges to the department was "adhering to budgets because management always changes the budget to match actuals which affects reporting." Comments from the other staff members relative to grant administration include:

- Variances between the budget and actual expenditures are not routinely analyzed (which has also been a finding in DHWP's single audits);
- There is a lack of personnel, FTE's and there is a lack of leadership;
- Many documents have to be processed;
- The Finance Department does not effectively communicate finance directives.

A staff person reported that during the transition, the position was eliminated from DHWP's fiscal year 2013-2014 amended budget. The employee was immediately

rehired as a contractor, because DHWP management realized the position was critical for the continued oversight of federal grants. However, there was no funding in the budget to pay the contractor when the personal services contract was executed. The contractor was subsequently paid with funds from the DHS grant to perform administrative financial activities. Similarly, from July 2012 through September 2012, DHWP used DHS grant funds to pay a different contractor for work on IPH's systems and information technology infrastructure.

Other reasons were given for making disbursements from the DSH fund:

- The City does not have a software support contract with the proprietary owners of the Vital Records cashing system. The company owns passwords to the system, and they are the only ones that can troubleshoot the system or bring it back on line when the system crashes, so disbursements are handled as separate standalone purchase orders. In this case, grants funds were authorized by DHWP management to pay for the software services.
- The Mac laptop computer was purchased by the previous management of DHWP just prior to the transition of services to the non-profit; however, current management has stated that they have no plans to use the computer.

Recommendations

We recommend the Department of Health and Wellness Promotion:

- Ensure disbursements are in full compliance with grant requirements and only allowable costs are expended;
- Require fiduciaries to monitor grant expenditures to comply with actual grant terms and conditions for expenditures;
- Fully comply with the City's Procurement Ordinance and finance directives governing purchases of goods and services;
- Ensure that purchase orders and contract files are maintained and well-documented;
- Implement contract monitoring procedures for major professional contacts and expenditures;
- Ensure that purchases of computer equipment follow city policy and procedures, which include authorization and approval by ITSD, Budget, and other City departments;
- Request reimbursement from IPH for remaining amounts paid by the City on its behalf.

6. The Public Health Officer Did Not Comply With the City's Building Code

The Department of Health and Wellness Promotion (DHWP) violated the City's Building Code by not conducting an annual inspection of the Herman Keifer Health Complex after receiving complaints about its unsanitary conditions. DHWP did not make the facility accessible to the Buildings Safety Engineering and Environmental Department (BSEED) to conduct a full inspection on the agreed scheduled inspection date. DHWP did not comply with requirements of the Building Code and permitted another entity to occupy a building, which is not maintained in a habitable, sanitary, and safe condition.

The facility is located at 1151 Taylor Street, Detroit, MI, (Parcel ID #06004348.001), and according to assessments records, the complex is identified as a hospital.

Building Conditions at the Herman Keifer Health Complex

The auditor observed the following unsafe and unsanitary conditions at the complex:

- Water running constantly in a bathroom; the Office of the Auditor General estimated an annual waste of approximately 73,000 gallons of water;
- No hot water in bathrooms or sinks throughout the entire complex;
- Dead roaches and maggots were in the bathroom (TB Clinic);
- Standing water in an office sink (TB Clinic);
- Evidence of other animal or rodent feces in an office sink (TB Clinic);
- Peeling paint on walls and ceilings (TB Clinic);
- Birth and Death records not accessible because they are in stored in rooms labeled "biohazards";
- Inadequate fire protection of persons and property in Vital Records;
- Lack of heat for five consecutive days in Vital Records during the fall/winter of 2012.



Rental Space Contract/Lease Agreement

Effective, May 1, 2012, DHWP entered into a lease agreement with a vendor to rent space at the Herman Kiefer Health Complex. The contractor opened a snack shop and offered the following items:

- Pre-packaged foods (candy, chips, cookies, ice cream bars, beverages and other packaged non potentially hazardous foods);
- Potentially hazardous/exposed foods (meat based sandwiches, hot soup, cheese sauce for nachos, and self serve coffee).

According to the City's Building Code, Chapter 9, Article 1, the public health director shall conduct inspections to obtain compliance with this article based upon, at least, one (1) of the following¹:

- The receipt of a complaint or other notice of a possible violation of this article;
- An observation by the public health director, or his or her authorized local official or designee, of a possible violation of this article;
- Pursuant to a request for inspections by the owner, or authorized agent of the owner, of the building, premises, or structure;
- To provide the health, safety, and welfare of the public.

An inspector with Buildings, Safety Engineering and Environmental Department (BSSSED), confirmed that the lack of hot water is not a building issue; it is an unsanitary condition that should be handled by the Health Department.

The Building Code states that it shall be unlawfully for a person to occupy as owner-occupant, or permit another person to occupy, a building, premises or structure which is not maintained in a habitable, sanitary, and safe condition in accordance with the requirements of this article².

The intent of the Detroit Property Maintenance Code is to ensure the public health, safety, and welfare insofar as they are affected by the continued occupancy and maintenance of buildings, premises, and structures within the City³. Failure to comply with the code or lack of enforcing the code jeopardizes the minimum level of health, safety, and welfare of the citizens of Detroit who visit the Herman Keifer Health Complex.

¹ Chapter 9 Buildings and Building Regulations, Article 1: Detroit Property Maintenance, Division 2: Administrations and Enforcement, Section 9-1-35: Enforcement; Inspections.

² Chapter 9 Buildings and Building Regulations, Article 1: Detroit Property Maintenance, Division 1: In General, Section 9-1-12: Responsibility for Maintenance Violations.

³ Chapter 9 Buildings and Building Regulations, Article 1: Detroit Property Maintenance, Division 1: In General, Section 9-1-5: Intent of Code

Continuing to remain in the building and allowing other tenants to occupy the Herman Keifer Health Complex, DHWP puts the City at risk for lawsuits due to potential injuries sustained by visitors to the facility and workers at the site.

A staff member reported that the water has been running for at least the past two years. Two years ago, DHWP's maintenance person retired. The staff person admitted that they tried to get the problem fixed and that the Administration and the Detroit Water and Sewerage Department are aware of the problem. Other staff reported that the water running in this bathroom is not an isolated incident, and there are other locations throughout the building. Several staff members reported that they advised management of the conditions in the TB clinic on several different occasions. A member of management acknowledged that they were aware of the running water, and had put in several repair requests to the General Services Division (GSD) "over the years."

According to City records, GSD is the "owner" of the Herman Keifer Complex and ultimately responsible for this City property. BSEED inspects and informs, and the Fire Department may be interested in certain violations, but they perform separate inspections. In addition, state inspectors are responsible for hospitals in Michigan.

After DHWP contacted BSEED, an inspection was scheduled for October 31, 2012 but for unknown reasons, it did not occur. Later, DHWP made another appointment for BSEED to meet with a representative from DHWP Building Maintenance on November 8, 2012 and conduct a full inspection. However, the BSEED inspector that went out to the site, reported back that "no was there from DHWP to meet him and grant access to the building."

With respect to the lack of hot water, the BSEED stated that there was no hot water because of the theft of cooper wire and pipe in an adjacent building where the equipment is located to produce and circulate the hot water. After the first break-in, the estimated cost to replace just the electrical (not the plumbing) was \$28,000. There were four more break-ins after that, and the plumbing repairs would be an additional \$20,000.

We recommend that the City's public health officer take action commensurate with their level of responsibility specifically outlined in each division of the Detroit Property Maintenance Code - General, Administration, and Enforcement, Requirements for Rental Property, and Property Maintenance Requirements.

We also recommend that DHWP work with GSD and provide in its response to this audit report, a complete project status regarding the relocation of DWHP and all other tenants from the Herman Keifer Health Complex.

7. Inadequate Safeguarding of Original Records and Specialty Paper Stock

The vital records system in the United States refers to the preparation, filing, preservation, and tabulation of information on birth, fetal death, marriage, divorce, and death. The Department of Health and Wellness Promotion (DHWP) does not:

- Adequately protect the City's vital records (birth and death records.) They are not safe from environmental risks such as fire damage, deterioration due to exposure to air, water, and other natural or man-made disasters;
- Safeguard its specialty paper stock (used for birth and death certificates) from theft or misuse and used and unused paper is not accounted;
- Adequately account for the birth and death authentication seals.

Original Birth and Death Records

The Office of Auditor General (OAG) observed original (hardcopy) birth and death records stored in six locations on the first floor of the Herman Kiefer Health Complex. We found the following conditions:

- One of the locations is an old laboratory that is contaminated and there are "Bio Hazard" signs inside the room; the room is locked and an employee reported that only a retired doctor has the key to the laboratory;
- A mixture of birth and death records in another room was in total disarray, strewn all over the room, and not in any order. According to an employee, the records were "thrown" into the room after they were moved from another room which was being converted to a snack shop;
- Older records are in books that are deteriorating;
- Some records are on microfiche; however, the microfiche machine is not working;
- Other records are located on shelves behind doors and in a break room;
- There is only one smoke detector in the Vital Records Division over the main records area;
- There is only one fire-alarm in the Vital Records Division, which is located in an office in the main records area;
- There is only one fire-extinguisher in the Vital Records Division, which has not been serviced in years;
- None of the rooms are temperature controlled and the air conditioner does not work in Vital Records' main office. The computer room, which houses the Vital Records Division's computer system, is not automatically temperature controlled; according to staff, the temperature has to be manually controlled and on occasion, fans are required to keep the room cool so the computers will not overheat
- None of the rooms have sprinklers or a chemical suppression system.

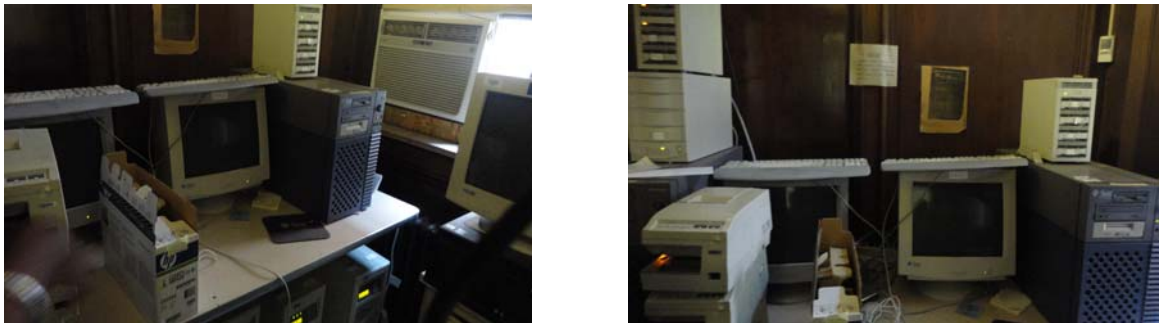
Vital Records Storage Room



Birth/Death Records in Bio-Hazard Laboratory



Vital Records Computer Room



Vital Records Safety Paper Stock

The Vital Records Division uses special safety paper for birth and death certificates. Birth certificates are highly confidential and issued only to eligible applicants as defined by the State Registrar's Eligibility Standards for Release of Birth Record Information. Death certificates are public record and can be obtained by anyone who pays the appropriate fees.

The safety paper used for birth certificates is a special paper whose specifications are regulated by and must be ordered from the Michigan Department of Community Health (MDCH) Division of Vital Records and Health Statistics. The paper has special features, imbedded wording, and watermarks designed to prevent it from being counterfeited. The paper is sequentially numbered. The birth certificate paper is stored in the vault except for small quantities, which are left out in the supervisor's office and available for daily use.

DHWP's Vital Records Division does not account for the quantities of birth or death paper used or voided; nor do they reconcile the amount of used paper to services performed and fees collected. In addition, the death certificate paper is not controlled or securely stored.

Birth/Death Authentication Seals

Birth and Death certificates are void without the City Registrar's raised seal. DHWP Vital Records Division does not adequately control its stock of Birth-Death Authentication Seal(s) based on the OAG's audit of the seal inventory:

- 4 of the 18 (or 22.2%) of the seals listed in the City's Capital Asset System (CAS) were not found;
- One seal in the office was not listed in the CAS.

According to the Government Accounting Office (GAO), "an agency must establish physical control to secure and safeguard vulnerable assets."

Appendix C of the City's Finance Directive 99 and the Michigan Historical Center notes that extreme environmental conditions like heat, cold, and dampness will destroy records very quickly; it stated that the most important environmental consideration is to protect against daily fluctuations in temperature and relative humidity. Facilities used to preserve valuable records should be designed to ensure an environment that will promote the preservation of the media of the information therein. The following environmental conditions should be addressed when selecting or designing a storage facility for records:

- Size (can it hold the volume of records, including future accumulations);
- Location (ease of retrieval);
- Security (how is access granted to the records, what locks or guards protect the records);
- Fire prevention/suppression system (what fire alarms exist, is there a emergency plan, is there a water sprinkler or chemical suppression system, etc.);
- Temperature/humidity controls (what system is in place to create and monitor ideal environmental conditions, can the facility accommodate the needs of the records);
- Pests (has the facility had trouble with bugs and rodents, what precautions are in place to prevent infestation, how is infestations treated).

The US Department of Health and Human Services noted that although the issuance of birth certificates is a State function, local registrar's offices also issue certificates, as in the case of the City of Detroit. These local offices are even more vulnerable and all issuing offices need to ensure the physical security of original vital records, certified copy blanks, and seals against theft, and they must maintain a system of strict accountability of all certified copy blanks. Further, The MDCH Division for Vital Records and Health Statistics states that it is imperative that blank safety paper is securely stored and appropriately used and makes several recommendations regarding safety paper storage and security of blank and death forms.

The US Department of Health and Human Services states that birth certificates are increasingly the target of fraud:

“A birth certificate issued in the States is the key to opening many doors in our society from citizenship privileges to Social Security benefits. Such certificates can then be used as “breeder” documents to obtain driver's licenses, passports, Social Security cards or other documents with which to create a false identify.”

Blank safety paper is akin to blank checks; a criminal with a single copy of safety paper can easily create a false document that would appear to be authentic to a third party. Lack of control of the specialized birth certificate paper increases the risk of misuse, appropriation, and fraud, and undermines the efforts to protect the integrity of the certified copies issues.

The loss of these birth and death records would require the citizens of Detroit to rely solely on the records maintained in the State of Michigan's Vital Records Office. According to a staff person, “the State has records going back to the 1940's (or prior to 1950), however, they don't have all of the records because many times they contact the City for copies of records.”

Recommendations

With respect to the physical vital records, we recommend DHWP should investigate ways to protect the birth and death records from fire and/or water damage. This may include active or passive fire protection systems such as:

- Fireproofing ceiling beams with sprayed-on fireproof material;
- Pre-action sprinkler systems, which are specialized for use in locations where accidental activation is undesired, such as in museums with rare art works, manuscripts, or books; and Data Centers, for protection of computer equipment from accidental water discharge.

We strongly recommend that DHWP review and incorporate the recommendations from the Michigan Historical Center as set forth in Finance Directive 99, during the planning phase of relocating the Vital Records Division to another physical location.

In an effort to prevent fraud, DHWP's Vital Records Division should follow the recommendations of the MDCH Division for Vital Records and Health Statistics:

- Store all safety paper (birth and death paper) in the vault during non-business hours;
- During business hours, limit the quantity of safety paper taken out of the vault to daily production needs;
- Develop an office procedure to document the removal of safety paper such as a dual sign-out sheet. Two employees verify the number and type of safety paper removed from the vault and two employees verify the number and type of safety paper put back into the vault. The sign out sheet should list the starting and ending numbers by date;
- A procedure should be developed to track the numeric serial numbers on blank safety paper and to whom the blank forms were distributed; this type of inventory system would quickly reveal if blank birth or death forms were missing;
- Ensure that the safety paper is not accessible by non-vital records staff;
- Develop and implement tight procedures for handling seals.

8. Non-Compliance With Policies And Procedures For Capital Assets

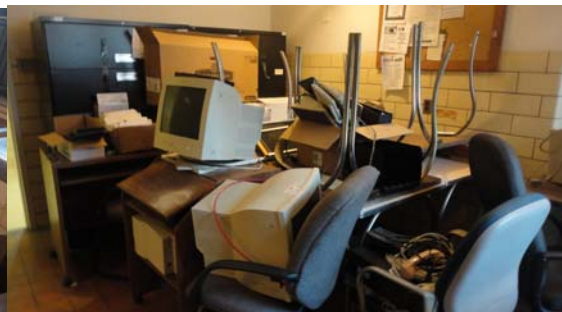
There are significant weaknesses in the internal controls surrounding the accounting for capital assets acquired by the Department of Health and Wellness Promotion (DHWP).

We discovered that assets are not tagged when received or within three days of receipt;

- A Mac book laptop computer valued at \$3,348.90 was purchased by DHWP's administration, but was not tagged;
- None of twelve new personal computer systems, five laser jet printers, and five cashier drawers purchased in 2011 for Vital Records were tagged;
- Some of the Vital Records Birth/Death Authentication Seals were not tagged.

In addition, DHWP does not reconcile its physical inventory listings to the Oracle Capital Asset System (CAS); No assets have been retired or physically disposed in CAS even though there are many unused, damaged, and obsolete equipment physically in the Department:

- Surplus equipment was thrown into several rooms;
- Computer equipment junked and moved to the basement for disposal, no inventory list of equipment to be disposed was generated;
- None of twelve new personal computer systems, five laser jet printers, and five cashier drawers purchased in 2011 for Vital Records were recorded in the capital asset system.



The Department did not comply with the City's Capital Asset Physical Inventory for Fiscal Year 2012 and they did not take an actual physical inventory. In addition, they submitted inaccurate capital asset listings to the Finance Department:

- None of twelve new personal computer systems, five laser jet printers, and five cashier drawers purchased in 2011 for Vital Records were included in DHWP's capital asset physical inventory at fiscal year end 2012;
- Four of the eighteen (or 22.2%) of the Vital Records Birth/Death Authentication Seals in the capital asset listing submitted to Finance were not found;
- One Vital Records Birth/Death Authentication Seal and two scanners were found, but they were not listed in the year-end capital asset inventory.

The City's Capital Asset Policy Guide and Procedures, and Reporting Requirements (Revised Finance Directive 95), establishes the following policies for capital assets:

- City-owned taggable capital and controlled assets shall be affixed with the City of Detroit property tags within three business days of physical receipt of the asset by the City Department;
- Computer workstations and laptops should be tagged and tracked even if their total cost is below \$1,000.00;
- Certain equipment such as a computer system (workstation that consists of separate integrated components (CPU box, monitor, keyboard and mouse) shall be considered as one unit and only one tag should be affixed to the major component (i.e. the CPU box);
- All capital assets shall be recorded in the City's Capital Asset System (CAS) and reported to the Finance Capital Asset Section (FCAS) within three business days from the physical receipt of the assets by the recipient department;
- All City Departments shall utilize the Oracle Asset module to record, track, maintain and report their capital assets;
- To maintain accurate capital asset records, City Departments shall conduct periodic physical inventory of their capital assets, run capital asset reports, reconcile to General Ledger and Oracle Asset and forward to the FCAS necessary documents regarding capital asset additions, transfers, retirements, and adjustments.

The Finance Department's Capital Asset Physical Inventory requirements for fiscal year ended 2012 state that to close the City of Detroit's books for the fiscal year ending June 30, 2012, all City departments and agencies are required to conduct a physical inventory of their capital and controlled assets no later than June 30, 2012. Each department is responsible for the accuracy and completeness of their capital asset inventory and of their capital asset records in the DRMS Capital Asset Module and they shall perform an inventory update of their capital assets at least annually before the end of each fiscal year and reconcile to the Oracle capital asset Inventory report.

The State of Michigan, Department of Treasury Accounting Procedures Manual for Local Units of Governments in Michigan also state that once capital assets are recorded in the general ledger, subsidiary records must be maintained for each item. The total cost of the individual costs must equal the amount recorded in the general ledger, and reconciliation must be made periodically (at least annually).

Failure to follow the City's Capital Asset Policy Guide and Procedures inhibits the City's ability to maintain reliable records and documentation of its capital assets in compliance with the proper accounting procedures. The current guidelines makes it clear that failing to record capital assets makes it impossible to provide for protective custody and to fix responsibility for property use and custody of such assets. It also impedes complete and proper disclosure of capital assets in the financial statements.

At least two members of DHWP Administration were aware that assets were not tagged, but did not give a reason for not tagging equipment. Another DHWP staff person admitted that a physical inventory of Vital Records was not performed at fiscal year end 2012, and that they submitted the same asset records from the previous year to the Finance Department. This was corroborated by another staff person who admitted that DHWP "does not do a good job" of notifying Finance of additions, transfers, and retirements to CAS. They also stated and that they do not update the system based on periodic physical inventories.

According to DHWP, their Finance Department's Capital Asset Liaison was laid off from the city; the liaison was responsible for reviewing and posting asset additions, retirements, adjustments, and running the depreciation process.

Recommendations

We recommend that DHWP conduct a thorough physical inventory utilizing the guidelines in the Capital Asset Policy Guide such as:

- Utilizing inventory teams of two persons;
- Identifying and segregating damaged, obsolete, and scrapped assets before counting begins;
- Tagging and processing all taggable assets that are found that do not have a City of Detroit Property Tag;
- Reconciling the signed, approved, inventory sheets to the CAS Inventory Report;
- Documenting all changes arising from the results of the physical inventory on Acquisition, and/or Disposal and Transfer Forms and then entering the information into Oracle CAS;
- Maintaining all inventory forms and inventory reports in the Department for audit purposes;
- Reviewing CAS Inventory reports on a regular basis and conduct periodic reconciliations to physical inventory;

- Developing a method to more accurately track and specify where assets are located (e.g. – add names, identify exact locations within a room, etc.).

9. Lack of Sufficient Technology for the Vital Records Division

The Department of Health and Wellness Promotion (DHWP) Vital Records Division operations are inefficient due partially to a lack of sufficient technology.

The Vital Records cashiering and document imaging system is a standalone, self-contained, proprietary software that was purchased by DHWP to convert hardcopy vital records to document images. The planned conversion project, which also included implementing a point-of-sale (POS) process, began in January 1999 and was completed in December 2002. Along with the conversion to document imaging, the contract included installing “point of sale” cash registers to handle collection and reporting of fees for vital records services.

However, there are several issues related to the proprietary software, such as:

- The system is not supported by the City’s Information Technology Services Department (ITSD);
- The software/system is not covered under any support contract;
- According to staff, the company owns the software and no one in the DHWP has passwords to the access the system or its database; the owners of the software system maintained passwords and had sole access to the system. It was reported that on more than one occasion, crises occurred when the system crashed and City personnel were not able to access the system because DHWP does not have passwords to access to the database;
- The imaging/scanning system is not connected to the State of Michigan Vital Records system;
- There is no indication that the contract was approved by the ITSD as required by policy.

Further, the Division is dealing with issues relating to its hardware:

- There are two scanners needed to support efficient operations in Vital Records imaging/scanning system and process; however, one is broken;
- Currently there are five teller windows, five tellers, but only three working cash registers;
- A cash drawer sits atop a desk, and cash receipts are clearly visible to customers through a glass window; this increases the risk of the Department being robbed;
- Microfiche machine does not work;
- Only one of the two copy machines is working;
- New cashiering equipment was purchased in June 2003, to upgrade the POS system at a total cost of \$25,127; however, the equipment was never installed or used. The computers were purchased but they were not compatible with the Vital Records Division proprietary software.

We also noted that the Vital Records Division staff persons do not have access to the City's automated personnel timekeeping system (Workbrain), and they do not track employees work time to support payroll. The Vital Records Division management does not have access to the City's financial system, (Detroit Resource Management System), which is an unresolved Prior Audit Finding. DHWP's Vital Records Division has only one computer that can access the Internet and the City's email system.

According to the proprietary rights contained in the professional services contract for the development of the Vital Records cashing and imaging system, the City has:

- Unrestricted and exclusive authority to publish, disclose, distribute, and otherwise use in whole or in part, any of the work product materials;
- The right to take possession of, all work product produced by the contractor, and the City shall have the right to use the same for public purposes without further compensation to the Contractor or to any other person;
- The rights to request prompt deliver of all finished and unfinished work product prepared by the contractor under the contract.

The contract specifies that upon completion of the project, all finished and unfinished work product shall become the City's sole and exclusive property; and such property shall be free from any claim or retention of the rights thereto on the part of the contractor.

DHWP did not comply with the City's Finance Directives 39 (effective 7/1977, and re-released 7/1984), which requires any department wishing to purchase data processing equipment and services to obtain clearance in writing from the Detroit Data Processing Department [ITSD] ...and this approval should accompany the submission of requisitions, or contracts.

Detroit Resource Management System (DRMS) is the state-of-the-art, user friendly, computer based systems in support of the City of Detroit's Finance and Human Resources functions.

Due to DHWP's purchasing software outside of the City's policies, neither DHWP nor ITSD have the capability to fix the system when a problem occurs with the software or hardware. In fact, when the system crashes and shutdowns, DHWP's management requests staff to create "month-to-month" purchases for less than \$2,000 each, in clear violation of the imprest cash purchasing policy.

Although the Division is up to-date with scanning birth records, they are severally backlogged with scanning death records (back to June 2012 certificates), due to the lack of adequate working scanning equipment. Moreover, the system is antiquated and older records were scanned but are not legible; therefore, when a document cannot be read, the Vital Records staff have to manually retrieve the actual original document.

DHWP's Vital Records scanning system is a standalone system and not connected to the State of Michigan's vital records systems. Therefore, the process of integrating the City's records into the state records is inefficient and results in dual scanning of hardcopy records. On a monthly basis, original birth and death records are transported by car to Lansing, where they are then scanned into the State archives.

Purchases of data processing equipment and services that are made by departments without the involvement and approval of ITSD, can lead equipment that is redundant, incompatible with existing configurations or excessive cost.

According to a staff person in Vital Records the lack of adequate technology is the result of:

- A system that was inherited;
- The cash registers were programmed incorrectly (by the vendor) and the City does not have a support or maintenance contract with the software vendor;
- The system is antiquated.

Prior to the transition of health and wellness services to a non-profit agency, DHWP used independent contractors for its information technology support needs versus the City's information technology department. And, according to the ITSD, and in the past, they were not involved in the RFP process because it was always based on the department's needs.

Recommendations

We recommend the Department of Health and Wellness Promotion:

- Exercise their rights under the completed professional services contract with the vendor who created and installed Vital Records System by requesting and receiving all finished and unfinished work product from the contractor, including all passwords necessary to access the software and database, and without further compensation to the contractor;
- Replace the current system and cash receipting equipment in favor of a non-proprietary industry solution;
- Utilize the services of the City's Information Technology Services Division for:
 - Data Security Services – to assist in the protection of the City of Detroit's informational resources from accidental or intentional unauthorized access, maintaining information accuracy and insuring information is available when needed. The protection is also preserving the ability to use the information for serving our constituents and allowing employees and third party partners the ability to make timely and accurate business decisions.
 - Record Retention Assistance - to investigate and develop a project plan to upgrade the Vital Records scanning and imaging technology. The

imaging solution should be compatible with and able to interface with the State's vital records system

- Business Impact Analysis - A management level analysis that allows City of Detroit to determine the impact to the sudden loss of applications data or the sudden loss of business functions within Vital Records;
- Business Continuity Planning.
- Provide staff with direct access to Workbrain, and where appropriate access to DRMS, and the City's email systems;
- Overall, develop and implement processes focused on eliminating redundancies, increasing efficiencies, and improving the effectiveness of the operations through technological upgrades.

10. Does Not Comply With the Policies and Procedures for the Pre-Paid Credit Card

The Department of Health and Wellness Promotion (DHWP) does not comply with the policies and procedures for a City of Detroit Pre-Paid Credit Card (PCARD).

DHWP's original Imprest Cash balance was \$5,000, consisting of \$1,000 Petty Cash (Vital Records Change Fund), and another \$4,000 Imprest Cash. According to the Finance Department, the Department had a pending reimbursement of \$1,339.17 since June 2011, which was added to their Pre-Paid Credit Card. The new total authorized amount is \$5,339.17.

The following issues of non-compliance were found during the audit of the:

- The Department used the card to renew professional licenses;
- The PCARD was in a safe in the office of a volunteer who is not a City employee, and the volunteer is the only one that knows the combination to the safe;
- The PCARD is not signed by the current Director, but is signed by a former Director who is no longer a City employee;
- Monthly reconciliations are not submitted to Finance by the 10th of each month as January through May 2012 reconciliations were submitted in May 2012;
- The PCARD is not replenished on a timely basis as an expenditure that took place in June 2011 was requested to be replenished in May 2012;
- The card has not been used since June 2011 and we question the need for the credit limit of \$5,339.17;
- The Adjusted balance per DHWP reconciliation as of (\$5,339.06) did not match the authorized amount (\$5339.17), a difference of \$0.11.

According to the City's Pre-Paid Credit Card Policy and Procedures Manual, a PCARD is a credit card that is issued by the City's Finance Department to authorized employees for making purchases of routine supply and services. The manual sets forth the following policies and procedures:

- Preparation of and submission of monthly credit card reconciliations, signed by the Department Director;
- Use of the PCARD to pay for commercially available goods and supplies under;
- Prohibition against paying for goods or services that require payment only with discretionary funds;
- Restricted use (commodity) against paying for dues and memberships;
- The PCARD should be signed by the department director.

Circumventing the City's Pre-Paid Credit Card Policy and Procedures Manual prevents purchasing goods and services in a manner that obtains the highest value for the lowest

possible cost(s). In addition, procurement activities are subject to various forms of abuse resulting from corrupt practices of government employees and/or actions by suppliers of goods and services such as circumventing competitive bidding requirements and using sole source when competition is available.

DHWP management stated that they want to keep the PCARD “primarily...in case of a public health emergency when they might have a need for emergency supplies.”

Recommendation

We recommend DHWP return the Pre-paid procurement card to the Finance Department due to non-use of the card, the uncertainty of the purchases the card will be used for, and ultimately, whether the City or the non-profit health organization will be responsible for disbursements on the card.

FINDING RELATED TO THE BUILDINGS SAFETY ENGINEERING AND ENVIRONMENTAL DEPARTMENT

1. Non-Compliance with Sections of the City's Building Code

The Buildings, Safety Engineering, and Environmental Department (BSEED) violated the City's Building Code by failing to:

- Inspect hospitals annually;
- Obtain or issue a Certificate of Compliance or Temporary Certificate of Compliance;
- Insure that the public health facility, Herman Keifer Health Complex, was properly maintained and safe for the public.

The Department of Health and Wellness Promotion (DHWP) is located at the Herman Keifer Health Complex, 1151 Taylor Street, Detroit, MI, (Parcel ID #06004348.001), and according to assessments records, the complex is identified as a City-owned, hospital. The General Services Division (GSD) is responsible for the maintenance and operations of all city-owned buildings.

Building Conditions At The Herman Keifer Health Complex

We observed or were made aware of the following unsafe and unsanitary conditions at the complex;

- Water running in the Women's Bathroom Room 341C, estimated to waste approximately 73,000 gallons of water yearly;
- No hot water in bathrooms or sinks throughout the complex;
- Live roaches (approximately 2 inches in length) ultimately killed by a member of DHWP administration;
- Dead roaches in the bathroom; and per an employee, recently maggots were in the bathroom (TB Clinic);
- Standing water in an office sink (TB Clinic);
- Evidence of other animal or rodent feces in an office sink (TB Clinic);
- Peeling paint on walls and ceilings (TB Clinic);
- Birth and Death records not accessible because they are in stored in rooms labeled "biohazards";
- Inadequate fire protection of persons and property in Vital Records;
- Lack of heat for five consecutive days in Vital Records in Nov. 2012.

According to a BSEED representative, they perform the inspections as close as possible to one year and when they receive a complaint. BSEED invoiced GSD on 10/8/2012 for \$1,202 for delinquent fees associated with the last annual inspection

performed on 6/16/2009. Prompted by complaints received, BSEED's Property Maintenance Division, which is responsible for inspections of buildings and their structure, conducted inspections in Jan, May, and October 2012. GSD was cited for a wide range of violations including:

- Non or poor-working illuminated exit signs;
- Un safe clearance heights on doors;
- Use of cloth duct tape on dryer vents;
- Missing electrical cover plates; missing electrical knockouts;
- Lack of unobstructed unlocked doors;
- Broken glass at a stairway;
- Fire and smoke stop doors not operable and/or blocked, or equipped with mechanical devises that impede their designed functions;
- Unapproved space heating equipment in offices;
- Unapproved/defective wiring in a duplication room ceiling;
- Plumbing drain pipes in disrepair or needing replacement so as to eliminate leaking water onto the ceilings;
- Water damage to the original plaster ceiling;
- Defective and soiled drop ceiling tiles;
- Standing water in ceiling light fixtures lenses; light fixture not in safe operable condition;
- Debris on floor and shelving units; surfaces not in a clean sanitary condition;

According to the inspection report, GSD was ordered to:

- Submit an approved engineering report confirming the structural integrity of the exterior;
- Restore hot running to all required fixtures throughout, and stipulated that this must be complied by 10-12-2012;
- Arrange for an interior inspection of the entire building;
- Obtain a Certificate of Compliance or under certain conditions, request a temporary certificate of compliance while corrections are in progress.

However, an inspector for BSEED acknowledged that GSD has not restored hot running water to all required fixtures, and stated that they would have to hire an outside firm to do the structural integrity report, as well as the Certificate of Compliance.

According to the City's Code, Chapter 9 Buildings and Building Regulations, Sec. 9-1-35 Enforcement; Inspections, the director of the Buildings and Safety Engineering Department and the public health director, or their authorized local officials or

designees, shall make the required inspections and reinspections under this article, or shall accept reports of inspections from any authorized city departments or agencies, or persons. And they shall conduct inspections to obtain compliance with this article based upon at least one (1) of the following:

- From time to time, and as close as possible to once a year;
- The receipt of a complaint or other notice of a possible violation of this article;
- To project the health, safety, and welfare of the public.

BSEED confirmed that they are in fact responsible for routinely inspecting City properties, including health clinics and other.

The intent of the Detroit Property Maintenance Code is to ensure the public health, safety, and welfare insofar as they are affected by the continued occupancy and maintenance of buildings, premises, and structures within the City. Failure to comply with the code or lack of enforcing the code jeopardizes the minimum level of health, safety, and welfare of the citizens of Detroit who visit the Herman Keifer Health Complex.

According to City records, GSD is the “owner” of the Herman Keifer Complex and ultimately responsible for this City property. BSEED inspects and informs, and the Fire Department may be interested in certain violations, but they perform separate inspections. In addition, state inspectors are responsible for hospitals in Michigan. BSEED acknowledged that because this is a city owned property, they normally deal directly with GSD to have the issues corrected and would additionally issue a correction order. However, according to an inspector in BSEED the “unwritten policy” in the City is that they do not issue tickets to other and they were instructed not to issue [blight] tickets to City agencies or any government-owned property - city or state. Federal-owned properties are not inspected by, and there are other policies and processes in governing the inspection of private businesses.

It was also stated that the process has changed several times over the years, with each new administration; and they are not sure what the policy is under the new administration relative to enforcement of corrections to City-owned properties.

According to a department representative, the last inspection was 10/9/2012. The building failed inspection because they were not able to get access to parts of the building and “someone” in DHWP told them that they did not have keys. With respect to the lack of hot water, the BSEED stated that “there is no hot water because of the theft of cooper wire and pipe in Building #5 and that is where the equipment is located to produce the hot water and to circulate the water. The price to replace just the electrical (not the plumbing), from the first break-in \$28,000 (there were four more break-ins after that) the plumbing repairs would be another \$20,000 or more.”

Recommendations

We recommend that BSEED comply with the City's Building Code and take immediate steps to comply with the all articles in the Detroit Property Maintenance Code or apply remedies as set forth in the Division 2 of the Code: Administration and Enforcement, including but not limited to suspension of certificate of compliance (Sec 9-1-37) or closing or condemnation (Sec 9-1-41) for City-owned properties. BSEED and GSD should jointly develop processes and procedures that enable them to comply with the Building Code for City-owned buildings. The procedures must address annual inspections, complaints, correction orders, violations, ticketing, and compliance.

FINDING RELATED TO THE GENERAL SERVICES DIVISION

1. Non-Compliance with Sections of the City's Building Code

The General Services Department (GSD) violated several sections of the City's Property Maintenance Code by failing to comply with:

- The general requirements for interior maintenance;
- The proper installation and maintenance of plumbing fixtures;
- Adequate plumbing system drainage;
- Providing an adequate water supply system for plumbing facilities and fixtures;
- Proper installation and maintenance of adequate water heating facilities;
- Buildings and structures to be free from infestation; and prompt and approved action required to prevent infestation and reinfestation;
- The owner's responsibility for extermination prior to renting or leasing;
- Posting or distributing information concerning infestation and extermination;
- Failing to obtain or issue a Certificate of Compliance or Temporary Certificate of Compliance;
- Failing to insure that the public health facility, Herman Keifer Health Complex, was properly maintained and safe for the public.

In addition, GSD violated City Code by knowingly entering into a lease agreement with The Institute for Population Health (IPH) in a building that has outstanding Correction Orders.

The Department of Health and Wellness Promotion (DHWP) is located at the Herman Keifer Health Complex, 1151 Taylor Street, Detroit, MI, (Parcel ID #06004348.001), and according to assessments records, the complex is identified as a City-owned, hospital. GSD is responsible for the maintenance and operations of all city-owned buildings.

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- Peeling paint on walls and ceilings (TB Clinic);
- Birth and Death records not accessible because they are in stored in rooms labeled “biohazards”;
- Inadequate fire protection of persons and property in Vital Records;
- Lack of heat for five consecutive days in Vital Records in Nov. 2012.

Prompted by complaints received, BSEED’s Property Maintenance Division, which is responsible for inspections of buildings and their structure, conducted inspections in Jan, May, and October 2012. GSD was cited for a wide range of violations including:

- Non or poor-working illuminated exit signs;
- Unsafe clearance heights on doors;
- Use of cloth duct tape on dryer vents;
- Missing electrical cover plates; missing electrical knockouts;
- Lack of unobstructed unlocked doors;
- Broken glass at a stairway;
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- Water damage to the original plaster ceiling;
- Defective and soiled drop ceiling tiles;
- Standing water in ceiling light fixtures lenses; light fixture not in safe operable condition;
- Debris on floor and shelving units; surfaces not in a clean sanitary condition;

According to the inspection report, GSD was ordered to:

- Submit an approved engineering report confirming the structural integrity of the exterior;
- Restore hot running to all required fixtures throughout, and stipulated that this must be complied by 10/12/2012;
- Arrange for an interior inspection of the entire building;

- A. Obtain a Certificate of Compliance or under certain conditions, request a temporary certificate of compliance while corrections are in progress.

However, an inspector for BSEED acknowledged that GSD has not restored hot running water to all required fixtures, and stated that they would have to hire an outside firm to do the structural integrity report, as well as the Certificate of Compliance.

In addition to the code violations stipulated in the Corrections Order, dated October 12, 2012 issued by BSEED, we find that GSD violated City Code by failing to:

- Obtain or issue a Certificate of Compliance or Temporary Certificate of Compliance;
- Comply with general requirements for interior maintenance (i.e. maintaining interior of a building or structure, and equipment within, in good repair, be structurally sound, in a sanitary condition, and be free from solid waste);
- Comply with general requirements for installation and maintenance of plumbing fixtures (i.e. insure that all drains for the plumbing system were maintained, free of obstructions, and allowed for proper drainage into the public sewer system);
- Insure that all bathtubs, kitchen sinks, laundry facilities, lavatories, and showers were supplied with hot or tempered and cold running water;
- Insure that the water supply system for the building or structure functioned properly, safely, and was free from defects and leaks;
- Insure that the buildings and structures were free from infestation;
- Be responsible for extermination prior to renting or leasing;

In addition, according to the Building Code, GSD unlawfully entered into the lease of a building that had been issued blight violation notices which required action by the owner.

The intent of the Detroit Property Maintenance Code is to ensure the public health, safety, and welfare insofar as they are affected by the continued occupancy and maintenance of buildings, premises, and structures within the City. Failure to comply with the code or lack of enforcing the code jeopardizes the minimum level of health, safety, and welfare of the citizens of Detroit who visit the Herman Keifer Health Complex.

In March 2013, the Director of GSD acknowledged that they are in the process of shutting down the building completely and it is expected to be vacated by October 1, 2013.

Recommendations

We recommend that the GSD provide in its response to this audit report, a complete project overview and status relating to the relocation of DWHP and all other tenants from the Herman Keifer Health Complex, and the complete shutdown of the facility. The response should indicate if and when the facility is planned for demolition.

Going forward, we also recommend that GSD work with BSEED to develop jointly processes and procedures that enable them to comply with the Building Code for City-owned buildings. The procedures must address annual inspections, complaints, correction orders, violations, ticketing, and compliance.

FINDING RELATED TO THE FINANCE DEPARTMENT

1. Non-Compliance With Finance Directives In Contracting and Procurement

The Finance Department did not comply with the City's finance directives regarding administration of personal and professional services contracts, and purchases of other goods and services; and approved some disbursements that did not comply with the purpose, and intent of a state awarded health grant.

In addition, the Finance Department did not verify that that the reported imprest cash fund amount on year-end Imprest Cash Fund exhibits (forms) agreed with the authorized fund amount; and there was an unreported shortage of \$98.50 from the authorized amount of DHWP's Vital Records Division Change Fund of \$1,000.

Disproportionate Share Hospital Fund Grant Disbursements

The Disproportionate Share Hospital Fund (DSH) fund was established by the Michigan Department of Community Health (MDCH) to provide funding for inpatient hospitals that serve a disproportionate share of low-income patients with special needs and was awarded to the City in or around 2006. Per a Department of Health and Wellness Promotion (DHWP) staff person, the intent of the grant was to help pay for services for the uninsured or underinsured residents.

A review of all disbursements from the DSH grant from October 1, 2011 to September 30, 2012 revealed that DHWP spent \$595,402 from the DSH fund, however only \$215,632 or 36.2% of the dollars were used to pay for hospital services in compliance with the intent of the grant:

<u>Category</u>	<u>Total DSH Payments</u>	<u>%</u>
All Other Non-Hospital Payments	\$ 351,418	59.0%
Payments to Hospitals	\$ 215,632	36.2%
SEMHA Administration Fee	\$ 28,352	4.8%
Total DSH Grant Payments 10/2011-9/2012	<u>\$ 595,402</u>	<u>100.0%</u>

The following table and chart summarizes payments from the DSH grant:

<u>Category</u>	<u>Contract Services</u>	<u>Other Payments</u>	<u>Total DSH Payments</u>
Disbursements for City	\$ 140,857	\$ 360,783	\$ 501,640
Identifiable Disbursements for IPH	45,070	48,962	93,762
Total DSH Grant Payments 10/2011-9/2012	<u>\$ 185,927</u>	<u>\$ 409,475</u>	<u>\$ 595,402</u>

Contractual Services - Personal Services Contracts

We requested detail of all ten personal services contracts associated with expenses paid from the DSH from Oct. 2011-Sept 2012, which totaled \$185,927. The personal services contracts were executed between SEMHA and DHWP on behalf of the independent contractor(s) providing the service. The Finance Department approved all the contracts and directly signed the contract, or approved timesheets and the subsequent check disbursement:

- 70% (seven out of ten) of the services provided through these personal services contracts did not comply with the intent of the grant;
- Only 30% (three out of ten) services may comply with the services intended by the grant even though they are not directly for hospitals.

Analysis of All Other Purchases/Disbursements from DSH (Non-Contractual Services)
 The following table summarizes other disbursements made from the DSH fund from Oct 2011 to Sept 2012:

<u>Description</u>	<u>Amount</u>
Reimbursement to SOM for unallowed clothing expenditures from 9/2010 to 11/2011 (Labeled as Office Supplies on FSR)	\$ 12,650.23
Reimbursement to SOM for OPHEP Audit for 2009-10	9,772.66
Biohazard Waste Removal	8,750.00
Fabricate & Install walkway canopy awning	6,700.94
Animal Control Pet Disposal	6,321.00
Office Supplies, Printing & Software Services	6,105.45
Membership Dues	5,000.00
Troubleshoot Vital Records Cashiering System	4,000.00
Cell Phone Bills	3,872.69
17 in Macbook Pro for DHWP Director	3,348.90
Food & Refreshments for Activity with Children of Detroit	2,465.00
Lease Payments for 2 copiers for 2 months	1,011.00
Legal Notices	873.60
Move Desk & Cab 3rd Floor	408.00
Detail Not Provided	200.48
Culligan Bottled Water	120.48
Subtotal Detailed Other DSH Disbursements	<u>\$ 71,600.43</u>
All other	<u>\$ 1,919.57</u>
Total Other DSH Disbursements - City Related	<u><u>\$ 73,520.00</u></u>

The analysis of non-contractual services disbursements revealed that 59% of the disbursements did not comply with the intended purpose of the grant but were approved by the Finance Department. Notable exceptions are:

- DHWP repaid the State for disallowed costs with its own funds (\$12K) and these costs were inappropriately classified on previous prior year FSR's;
- \$6,700 was paid for awning covers for the Herman Keifer Health Complex walkways.
- \$5,000 membership dues were paid to a non-profit organization that merely provides resource information to the un & under-insured populations of Detroit. The organization is not a hospital and the membership was not approved by the Budget Department. The Director of DHWP is on the Executive Committee and the Mayor is on the Board of Directors;
- \$4,000 was paid to the software company that owns Vital Records cashing software (a proprietary system) that is no longer under contract.
- DHWP paid \$3,348 for a 17" Mac Book Laptop computer for the Director. The purchase was not approved by ITSD.

According to the city's charter, the Finance Director shall direct and coordinate the financial activities of the Accounts Division, Assessment Division, Treasury Division, and the Purchasing Division. The Finance Director shall also secure and maintain compliance with all laws pertaining to the financial controls for the protection of public funds.

Good internal controls dictate that change funds be audited periodically by supervisors or accounting personnel. The audits should be unannounced and performed no less than quarterly. Unresolved discrepancies should be reported and considered grounds for disciplinary action.

Procurement activities are subject to various forms of abuse resulting from corrupt practices of government employees and/or actions by suppliers of goods and services. And using grant funds for purposes other than the intent of the grant can result in disallowed costs and monies that may require reimbursement to the grantor.

Finance Directives provide guidance to all City departments regarding the appropriate or required action to be taken. The effect of the Finance Department not following their own policies significantly weakens the control environment, and may set a "tone from the top" that the not following the City's policies and procedures is an acceptable practice.

In May 2011, a representative from the Finance Department was sent to DHWP to monitor purchases that were being made. The approval process was modified to include the Finance Department's approval to insure that DHWP's expenditures were appropriate:

- Program Manager
- General Manager
- DHWP Director

- Finance representative

Recommendations

We recommend the Finance Department comply with its own procedures to insure that disbursements are in full compliance with the City's Finance Directives, policies, and procedures. In addition, we recommend the establishment of a Citywide grant administration department to insure that disbursements comply with the terms of the grant.

The Finance Department should perform random audits, surprise cash counts, and reconciliations often enough to insure that the process is working and all receipts are deposited.

Grant Administration and Flowchart

The Department of Health and Wellness Promotion (DHWP) receives grants from federal and state sources, and is appropriated monies from the General Fund appropriations. Most of the state funding is lumped together and administered through the State of Michigan’s Department of Community Health (MDCH) Comprehensive Agreement with DHWP

The Department uses two fiduciaries to manage procurement and payment of public health services and providers:

Fiduciaries such as the Southeastern Michigan Health Association (SEMHA) and Clark Associates provide its member health departments, and serve as financial management agents for a multitude of programs and activities. They have been innovative mechanisms for facilitating the delivery of health services, particularly for programs which operate in more than one jurisdiction; also, they are major forums for sharing and discussing public health issues that are of mutual concern to the member health officers.

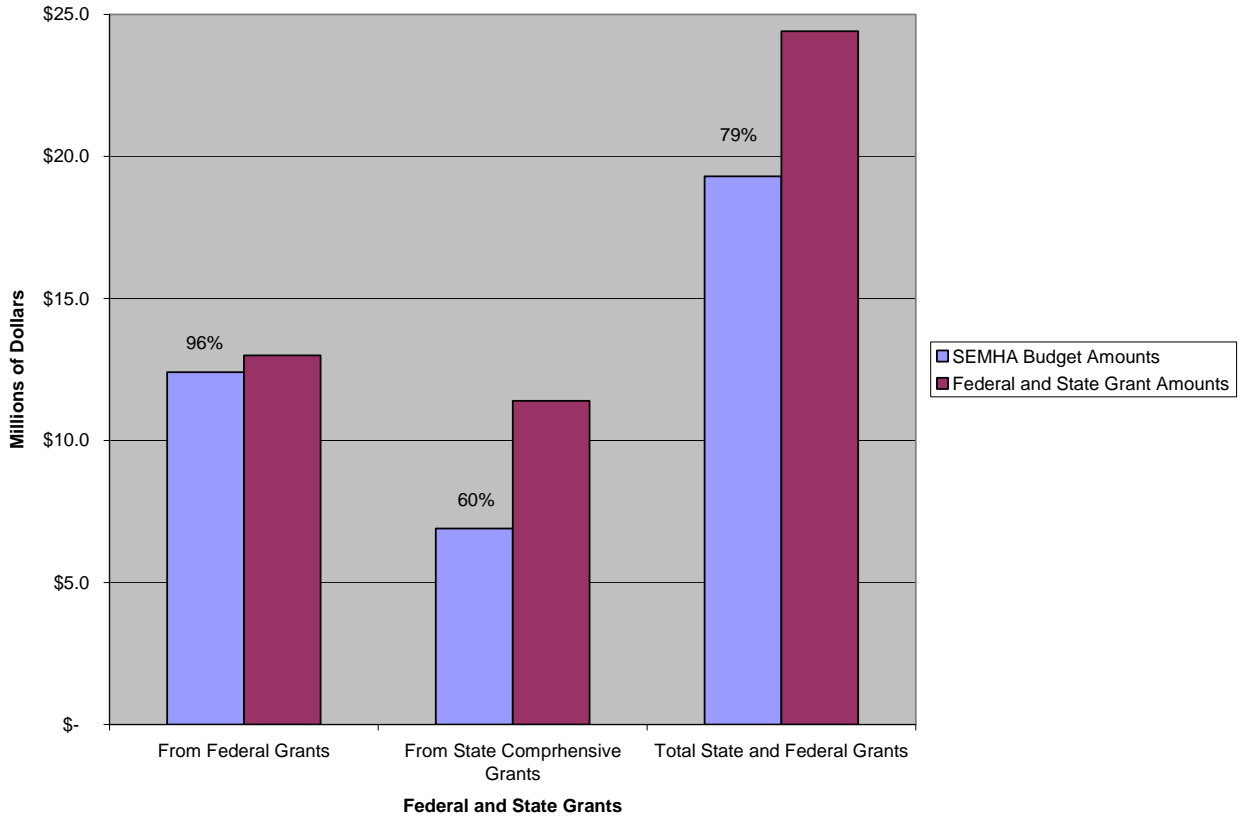
The following is an overview of the grants processed by each fiduciary:

DESCRIPTION/FIDUCIARY		SEMHA	CLARK
Grant Dollars	Federal Grants	100%	0%
	State Grants	~23%	~77%
Employees	Federal Grants	0% City employees 100% Contractors	0% City employees 0% Contractors
	State Grants	20% City employees 80% Contractors	0% City employees 100% Contractors
Reporting System	Federal Grants	Financial Statements Report (FSR’s)	Internal System
	State Grants	Financial Statements Report (FSR’s)	Internal System

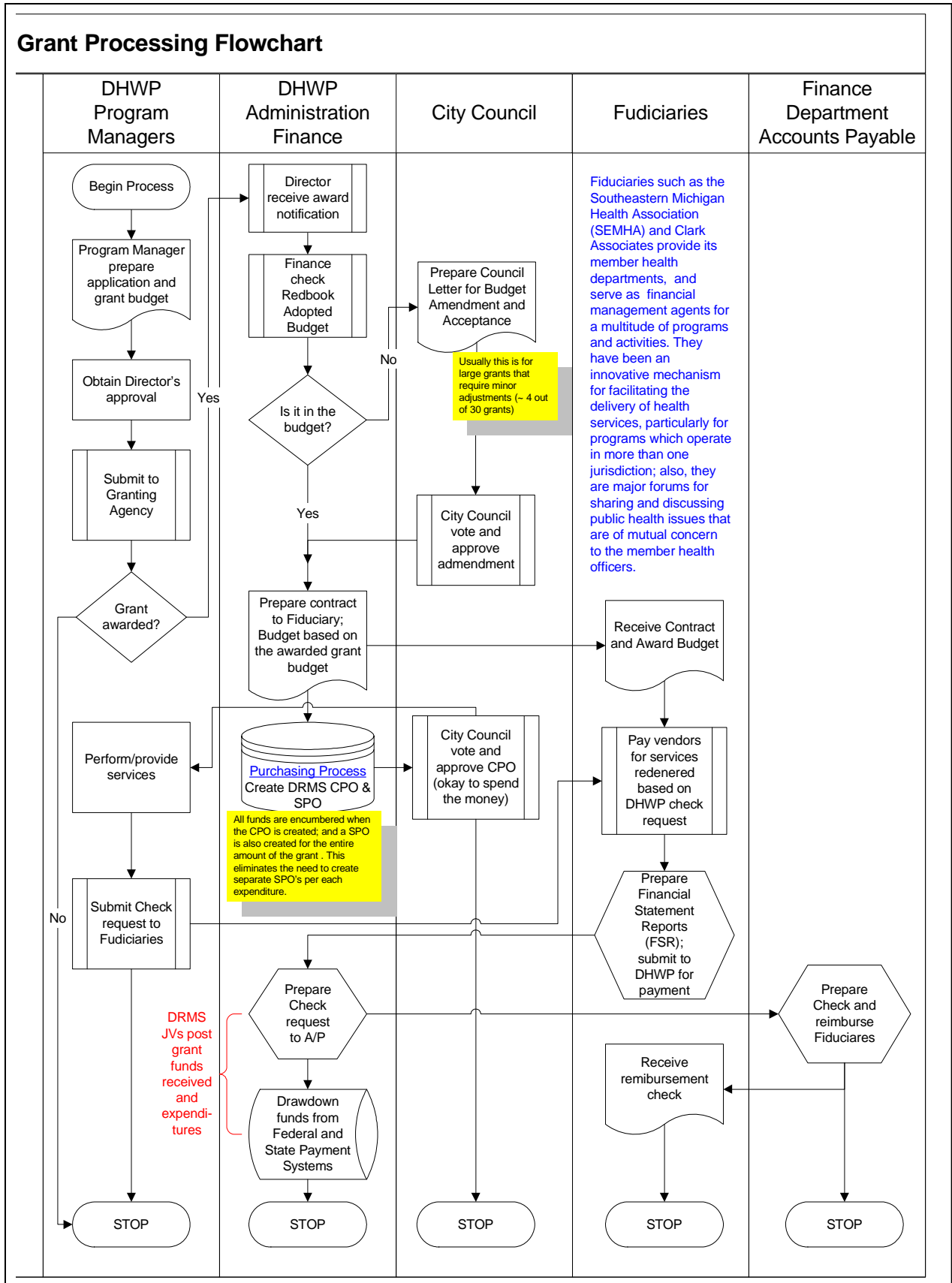
An analysis of SEHMA’s funding (budgeted amounts from federal and the state comprehensive grants) revealed the following breakdown in amounts for grant fiscal year October 2011 to Sept 2012:

Program	SEMHA Budget Amounts	Federal and State Grant Amounts	% of Funding to SEMHA
From Federal Grants	\$ 12.4	\$ 13.0	96%
From State Comprehensive Grants	\$ 6.9	\$ 11.4	60%
Total State and Federal Grants	\$ 19.3	\$ 24.4	79%

SUPPLEMENTAL INFORMATION



A review of Clark Associates, another fiduciary, was outside the scope of this audit.





CASH RECEIPTS AUDIT ATTACHMENT A

November 21, 2013

Mark Lockridge, Auditor General
Office of the Auditor General
2 Woodward Avenue, Room 216
Detroit, Michigan 48226

Dear Mr. Lockridge:

The following presents the Department of Health and Wellness Promotion's response for the indicated findings and related recommendations in the August 2013 Cash Receipts Audit of the Department of Health and Wellness Promotion, as prepared by the Office of the Auditor General.

Finding 1 – Lack of Effective Management Over Cash Received At The Customer Service Counter

Department Response: We concur with the findings of the Auditor General.

Finding 2 – Lack of Effective Management Over Cash Received Via Incoming Mail

Department Response: We concur with the findings of the Auditor General.

Finding 3 – Lack of Segregation of Duties in the Handling of Cash Receipts

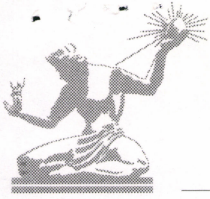
Department Response: We concur with the findings of the Auditor General.

Finding 4 – Lack of Sufficient Internal Controls over Purchases and Effective Contract Monitoring

Department Response: We concur with the findings of the Auditor General.

Finding 5 – Improper Disbursements in the Administration of a State Grant

Department Response: We concur with the findings of the Auditor General.



Finding 6 – The Public Health Officer Did Not Comply With the City's Building Code

Department Response: We concur with the findings of the Auditor General.

Finding 7 – Inadequate Safeguarding of Original Records and Specialty Paper Stock

Department Response: We concur with the findings of the Auditor General.

Finding 8 – Non-Compliance With Policies and Procedures For Capital Assets

Department Response: We concur with the findings of the Auditor General.

Finding 9 – Lack of Sufficient Technology for the Vital Records Division

Department Response: We concur with the findings of the Auditor General.

Finding 10 – Does Not Comply With the Policies and Procedures for the Pre-Paid Credit Card

Department Response: We concur with the findings of the Auditor General.

Sincerely,

A handwritten signature in cursive script, reading "Vernice D. Anthony".

Vernice D. Anthony
Director/Public Health Officer



CITY OF DETROIT
DEPARTMENT OF HEALTH AND WELLNESS PROMOTION
1600 W. LAFAYETTE, SUITE 200
DETROIT, MI 48216-1928
WWW.DETROITMI.GOV

PERFORMANCE AUDIT ATTACHMENT A

November 21, 2013

Mark Lockridge, Auditor General
Office of the Auditor General
2 Woodward Avenue, Room 216
Detroit, Michigan 48226

Dear Mr. Lockridge:

The following presents the Department of Health and Wellness Promotion's response for the indicated findings and related recommendations in the August 2013 Performance Audit of the Department of Health and Wellness Promotion, as prepared by the Office of the Auditor General.

Finding Related To the Buildings Safety Engineering and Environmental Department

Finding 1 – Non-Compliance with Sections of City's Building Code

Department Response: We concur with the findings of the Auditor General.

Finding Related To the General Services Division

Finding 1 – Non-Compliance with Sections of City's Building Code

Department Response: We concur with the findings of the Auditor General.

Finding Related To the Finance Department

Finding 1 – Non-Compliance with Finance Directives In Contracting and Procurement

Department Response: We concur with the findings of the Auditor General.

Sincerely,

A handwritten signature in black ink, appearing to read "Vernice D. Anthony".

Vernice D. Anthony
Director/Public Health Officer