



CITY OF DETROIT
OFFICE OF THE CHIEF FINANCIAL OFFICER

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CFO DIRECTIVE
No. 2018-101-042

SUBJECT: Internal Controls
ISSUANCE DATE: December 21, 2018
EFFECTIVE DATE: December 21, 2018

1. AUTHORITY

- 1.1. State of Michigan Public Act 279 of 1909, Section 4s(2), as amended by Public Act 182 of 2014, states the chief financial officer shall supervise all financial and budget activities of the city and coordinate the city's activities relating to budgets, financial plans, financial management, financial reporting, financial analysis, and compliance with the budget and financial plan of the city.

2. BACKGROUND

- 2.1. Internal control is necessary to provide the City a reasonable basis for believing and asserting that it is meeting its operational (effectiveness, efficiency, safeguarding of assets), reporting and compliance objectives. Since 1993, the most widely recognized source of guidance on internal control has been the Committee of Sponsoring Organizations (COSO) which released its *Internal Control-Integrated Framework* in 1992. The City has elected to adopt the COSO framework on internal control.
- 2.2. Internal control helps ensure that assets of the City are not exposed to unauthorized access and use, transactions are properly recorded in the financial records and that relevant financial information is reliable. The City has a responsibility to its taxpayers, ratepayers and constituents to be a good steward of public monies and property. City resources are dependent upon an effective system of internal control. Auditors are required to report on the adequacy of the City's Internal Control Over Financial Reporting (ICOFR) and compliance.
- 2.3. The system of internal control is intended to keep the City on course towards meeting its objectives and to reduce the risk, to an acceptable level, that an objective will not be met. The system promotes efficiency, minimizes risk of asset loss, helps ensure the reliability of financial information, and compliance with applicable laws, rules, and regulations.
- 2.4. An effective system of internal control must include the following five components: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication and (5) monitoring activities.

3. OBJECTIVES

- 3.1. This Directive shall be used to establish a framework for the City to implement an effective system of internal control in order to achieve the objectives of effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations.

- 3.2. The Directive shall guide the development of an effective system of internal control that will strengthen the City's operations, financial reporting and compliance with all applicable laws, rules and regulations. It shall be used as a reference point when developing, implementing and updating policies and procedures for the City.
- 3.3. A system of internal control shall be implemented across all City departments and followed by all City staff.

4. PURPOSE

- 4.1. The purpose of this Directive is to communicate the internal control objectives for the City and to assist with the design, documentation, implementation and evaluation of internal controls.

5. RESPONSIBILITIES

- 5.1. The Deputy CFO-Controller/Chief Accounting Officer shall be responsible for the administration and oversight of this Directive.
- 5.2. All City staff with delegated approval authority (Deputy CFO's, directors, department heads, etc.) shall be responsible for establishing, maintaining and supporting a system of internal controls within their areas of responsibility and for creating the control environment that encourages compliance with applicable laws, regulations, and internal policies and procedures.
- 5.3. All levels of management and supervision shall be responsible for strengthening internal controls when weaknesses are detected. Periodic review of procedures shall be performed to ensure internal controls are being adhered to and continue to be effective.
- 5.4. City employees in leadership positions shall be responsible for ensuring that those who report to them have the requisite knowledge, skills and abilities to function within, and contribute to, an effective internal control environment (including appropriate training).

6. POLICY

6.1. Authorization and Approval:

- 6.1.1. All transactions shall be authorized where appropriate and shall be consistent with City policy and departmental objectives.
- 6.1.2. Transactions shall only be approved by City employees with delegated approval authority.
- 6.1.3. City employees approving transactions shall be separate from employees charged with initiating such transactions.

6.2. Segregation of Duties:

- 6.2.1. No one person shall exercise complete control over more than one key function or activity (i.e. authorizing, approving, certifying, disbursing, receiving, or reconciling). Duties shall be separated such that one person's work serves as a check and balance to another person's work.

6.3. Custody and Security Arrangements:

6.3.1. City employees responsible for security/custody of City assets are separated from record keeping/accounting for those assets. Unauthorized access to City assets and data is strictly prohibited.

6.4. Timely and Accurate Review and Reconciliation:

6.4.1. Accounting records and documents are reviewed by employees who have sufficient understanding of the City's accounting and financial systems to verify that recorded transactions actually took place and were made in accordance with City policies and procedures.

6.4.2. Departmental accounting records and documentation are compared to financial reports to verify their reasonableness, accuracy and completeness.

7. DEFINITIONS

7.1. *Control Activities*: the actions established through policies and procedures that help ensure management's directives mitigate risks to the achievement of objectives are carries out Control activities are performed at all levels of the City, at various stages within business processes, and over the technology environment. They may be preventive or detective in nature and may encompass a range of manual and automated activities such as authorizations and approvals, verifications, reconciliations and business performance reviews.

7.2. *Control Environment*: the set of standards, processes and structures that provide the basis for carrying out internal control across the City. It creates the discipline that supports internal control and guides people at all levels in carrying out their responsibilities.

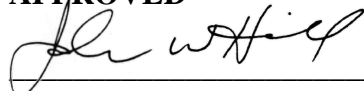
7.3. *Information and Communication*: information is the data that is combined and summarized based on relevance of information requirements to support the functioning of all components of internal control.

7.4. *Internal Control*: refers to a process and a system of checks and balances designed to provide reasonable assurance that City assets are not lost, stolen or otherwise misappropriated.

7.5. *Monitoring Activities*: monitoring activities are selected, developed and performed to assess whether each of the five components of internal control and related principles are present and functioning or if changes is required.

7.6. *Risk Assessment*: the process of evaluating the adverse effects caused by an activity.

APPROVED



John W. Hill

Chief Financial Officer, City of Detroit