

City of Detroit

OFFICE OF THE AUDITOR GENERAL



**Audit of Civil Rights, Inclusion, and
Opportunity Department**

**Interim Report
On Compliance Fee Dollars
Financial Operations**

December 2020



Office of the Auditor General

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MEMORANDUM

DATE: January 14, 2021

TO: Honorable City Council

FROM: Mark Lockridge, CPA *MWL*
Auditor General

RE: Audit Of The Civil Rights, Inclusion, And Opportunity Department Interim Report On Compliance Fee Dollars - Financial Operations

CC: Mayor Mike Duggan
Charity Dean, Director, Civil Rights, Inclusion, and Opportunity Department
Regina Greear, Deputy CFO, Office of the Chief Financial Officer, Office of Departmental Financial Services
Eric Higgs, Deputy CFO/Chief Accounting Officer, Office of the Chief Financial Officer, Office of the Controller
Jeanet Kulcsar, Director of Strategy, Office of the Chief Financial Officer
Christa McLellan, Deputy CFO/Treasurer, Office of the Chief Financial Officer, Office of the Treasury
John Naglick, Chief Deputy CFO/Finance Director, Office of the Chief Financial Officer
Jay Rising, Acting Chief Financial Officer, Office of the Chief Financial Officer

Attached for your review is our Interim Report on financial operations in conjunction with our ongoing audit of the Civil Rights, Inclusion, and Opportunity Department Compliance Fee Dollars. This report contains our audit purpose, scope, objectives, approach and methodology, and conclusions; background; our audit findings and recommendations; and the responses from the Civil Rights, Inclusion, and Opportunity Department, the Office of the Chief Financial Officer's Office of the Controller, Office of the Treasury, and the Office of Departmental Financial Services Divisions.

We would like to thank the employees of the above named organizations for their cooperation and assistance extended to us during this phase of the audit.

Copies of all of the Office of the Auditor General reports can be found on the City's Website: <https://www.detroitmi.gov/government/auditor-general>.

**AUDIT OF CIVIL RIGHTS, INCLUSION, AND OPPORTUNITY
INTERIM REPORT ON COMPLIANCE FEE DOLLARS
FINANCIAL OPERATIONS
DECEMBER 2020**

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Agency/Department Legend*

- * Civil Rights, Inclusion, and Opportunity Department (CRIO)
- * Office of the Chief Financial Officer (OCFO)
- * Office of the Chief Financial Officer, Office of the Controller (Controller)
- * Office of the Chief Financial Officer, Office of Departmental Financial Service (ODFS)
- * Office of the Chief Financial Officer, Office of the Treasury (Treasury)

**AUDIT OF CIVIL RIGHTS, INCLUSION, AND OPPORTUNITY
INTERIM REPORT ON COMPLIANCE FEE DOLLARS
FINANCIAL OPERATIONS
DECEMBER 2020**

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EXECUTIVE OVERVIEW

In September 2018, the Office of the Auditor General (OAG) was requested by City Council to conduct an audit of the Department of Civil Rights, Inclusion, and Opportunity (CRIO) compliance fee dollars and to specify when dollars were transferred to the Detroit Employment Solutions Corporation (DESC), and how DESC utilized those dollars. This is the first interim report published during the audit and focuses on the City's financial operations related to CRIO's compliance fees.

A key component of an internal audit is not only to meet the specific objectives as requested by the governing body, but also to determine if the operations are effective and efficient. As stated, this report focuses on the City's financial operations and the conditions reported herein relate to the centralized operations within the Office of Chief Financial Officer (OCFO).

Background on Centralized Financial Operations

Prior to the City entering into financial bankruptcy financial operations were decentralized. Some financial activity and financial accountants were located within the departments. Other financial activities, such as procurement, budgeting, and treasury functions were conducted within separate autonomous departments. This meant that CRIO was responsible for collecting, billing/invoicing, depositing, reconciling, and maintaining its own accounts receivables.

On March 28, 2013, the Michigan Public Act 436 of 2012 ("PA 436") became effective and Kevyn D. Orr became the Emergency Manager (the "EM") for the City of Detroit (the "City") with all the powers and duties provided under PA 436. Commonly referred to as the "Emergency Manager Act," also, under:

- Section 9(2) of PA 436 "Grants the EM broad powers in receivership to rectify the financial emergency and assure the fiscal accountability of the [City] and the [City's] capacity to provide or cause to be provided necessary governmental services essential to the public health, safety and welfare;"
- Section 12(l)(n) of PA 436 authorizes the EM, "notwithstanding any charter provision to the contrary" to "consolidate or eliminate departments; of the local government or transfer functions from one department to another and appoint, supervise, and, at his or her discretion, remove administrators, including heads of departments other than elected officials."

On September 25, 2014, the Emergency Manager (EM) signed into law "Emergency Manager Order No. 41 - Order Establishing Centralized Financial Management Organizational Structure." The following are the excerpts from the order relating to centralization of financial functions:

- A. The EM, in consultation with the Mayor, has determined that it is appropriate, in light of PA 181 to ensure the financial well-being of the operations of the government of the City and to assist in rectifying its financial emergency, that a

centralized financial management organization, under the direction of the Chief Financial Officer (CFO), be established.

- B. The CFO is directed to establish a centralized financial management organizational structure, to be called the Office of the Chief Financial Officer ("Office of the CFO", "OCFO"). The Office of the CFO will provide management oversight, control, and direction to the existing Budget Department, Finance Department and all their subordinate components, and all finance, budget, and grant related components of other City departments, divisions, and agencies. The Office of the CFO shall oversee, control, direct, and coordinate the City's activities relating to budgets, financial plans, financial management, grants management, financial reporting, financial analysis, and compliance with the budget and financial plan of the City.
- C. The Office of the CFO will be comprised of the following organizational components which shall be considered to be "Divisions" of the Office of the CFO:
 - 1. Office of the Assessor (Assessments Division);
 - 2. Office of the Treasury (Treasury Division);
 - 3. Office of the Controller (Accounts Division);
 - 4. Office of Contracting and Procurement (Purchasing Division);
 - 5. Office of Grants Management (Grants Management Department);
 - 6. Office of Budget (Budget Department); and
 - 7. Office of Financial Planning & Analysis.

The OCFO later established an 8th Division known as the "Office of Departmental Financial Services (ODFS)" whose mission is to:

Serve as a strategic financial partner to City agencies, and assure the effective management and financial integrity of agency operations by developing, implementing, and monitoring citywide and department-wide plans, policies, and systems in the areas of budget administration, program analysis/evaluation, finance and accounting, internal controls, financial systems, grants management, strategic planning, and performance metrics. Agency Chief Financial Officers ("Agency CFOs") will develop, track, and provide actionable data to assess the performance of City operations.

Impact of Centralized Financial Operations of OAG Audits

It should be noted that prior to the centralization of financial operations in the City, the Office of the Auditor General reported conditions against "other" departments or agencies outside of the primary audited department. We would typically label those conditions as "Findings Against Other Department(s)." In this interim audit report, all of the conditions are against divisions within the Office of the Chief Financial Officer. They are primarily responsible for the receipt, deposit, and reconciliation of CRIO's compliance fees.

Future interim audit reports will focus on CRIO and DESC's operations related to other compliance fee activities.

As independent internal auditors, we approach our audits with an unbiased focus on "adding value and improving an organization's operations." Responsibility for monitoring the implementation of recommendations is set forth in Section 7.5-105(4) of the City Charter, which states in part that:

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

AUDIT PURPOSE, SCOPE, OBJECTIVES, APPROACH AND METHODOLOGY, AND CONCLUSIONS

Audit Purpose

The audit of the Civil Rights, Inclusion, and Opportunity Department Compliance Fee Dollars is being performed in accordance with the Office of the Auditor General's charter mandate as noted in Section 7.5-105(1) which states:

Make 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

This is a limited scope performance audit conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) as compiled by the United States Government Accountability Office except for a Peer Review (See **"Appendix A: Generally Accepted Government Auditing Standards"** for more information on GAGAS" on page 29 of this report.)

This audit focuses on the operations of the Civil Rights, Inclusion, and Opportunity (CRIO) for the period December 1, 2016 through June 30, 2019, specifically relating to CRIO's compliance fee dollars. This first interim audit report focuses on the City's financial operations relating to the collection, deposit, and reconciliation of CRIO's compliance fee dollars.

Audit Objectives

The objectives of the audit of CRIO's Compliance Fee Dollars related to the City's financial operations are:

- To determine if CRIO complies with the collection of compliance fees in accordance with applicable state and local laws, Office of the Chief Financial Officer (OCFO) directives, departmental policies and procedures, and any other applicable policies and procedures;
- To determine if there are any other cash-related areas that should be included as a part of the audit;
- To determine the status of prior audit findings, if any, related to cash.

Note: To meet our audit objectives, and due to the centralization of financial activities within the City, our audit work focused on activities within the Office of the Chief Financial Officer.

We are issuing a report that includes findings and recommendations resulting from our audit, and responses from the relevant department's management related to our findings.

Audit Approach and Methodology

To accomplish our objectives, our audit approach and methodology included:

- Reading relative prior audit reports;
- Reviewing prior audit work papers, the City Charter, Executive Orders, financial reports, budget reports, the City's Comprehensive Annual Financial Report, organization charts, Finance Directives, Chief Financial Officer Directives, and any other reports or directives pertinent to CRIO operations;
- Gathering policies and procedures of core operations and other similar data;
- Conducting audit-planning meetings to determine the scope and audit objectives, and to determine the financial transactions and/or areas to audit;
- Developing questions regarding transactions, processes and procedures, controls, functions, records, and personnel;
- Interviewing relevant personnel of entities directly involved in CRIO's affairs and other relevant City personnel;
- Observing, documenting and testing of relevant processes, procedures, contracts and agreements;
- Conducting any necessary additional testing, and completing any other audit steps necessary to draw conclusions to the relevant objectives;
- Developing recommendations for all findings.

*Note: See "**Appendix A: Generally Accepted Government Auditing Standards**" for more information on Fieldwork, Developing Findings, Reporting Conclusions and Recommendations in a Performance Audit on page 30 of this report.*

Conclusions

Based upon the results of our audit, we have concluded that the Office of the Chief Financial Officer:

- Did not follow its own directives, departmental policies and procedures, as it relates to the collection and deposit of CRIO's Compliance Fee dollars;
- Did not follow its own directives, departmental policies and procedures governing the posting of CRIO's cash receipts (i.e. - manual journal entries) to the City's financial ledgers;
- Did not reconcile the financial activity for CRIO's compliance fees accurately nor timely;

- Does not have adequate segregation of duties between employees in its divisions when they perform jobs relating to cash receipts and bank reconciliations.

We also found an unresolved prior audit finding for the Office of the Chief Financial Officer relating to the deficiencies in the bank reconciliation process.

BACKGROUND

Often lost in Detroit's history is the 1943 riots, a racially charged melee that led to thirty-four deaths and hundreds of injuries. In response, City of Detroit officials created a municipal department focused on civil rights. Throughout the years, the department would undergo many names changes. In 1953, the Committee would become the Commission on Community Relations. In 1974, under a new city charter, the Commission became the Human Rights Department. After 75 years, the department runs and operates as the Civil Rights, Inclusion, and Opportunity (CRIO) Department.

The mission of CRIO is to remove discriminatory barriers through innovative and high quality customer-driven programs that foster economic opportunity and empowerment, which will benefit Detroit residents, visitors, and the entrepreneurial sector of the local economy.

One of the department's duties include monitoring the inclusion of Detroit-based contractors and Detroit residents on many development projects happening throughout the City. The agency goals relating to the Inclusion function are:

- Produce a monthly City of Detroit Certified Business Registry to be used as a procurement reference for city departments, businesses, public and non-profit organizations;
- Monitor vendor workforces' for companies seeking contract awards for tax abatement relief to ensure equitable representation of minorities and females consistent with local, state and federal equal employment opportunity policies;
- Monitor economic development and diversity goals between the City and private developers and those developers that receive tax abatements to ensure inclusion;
- Increase mutual understanding among the residents of the community, promote good will, and work cooperatively with other agencies of government, community groups, and organizations to eliminate discrimination and future problems.

The following table shows budgeted appropriations and revenues of CRIO for fiscal years 2016 through 2019:

Budget Item	Fiscal Years Ending June 30,			
	2016	2017	2018	2019
Revenues	\$ 514,526	\$ 400,000	\$ 750,000	\$3,300,000 (A)
Appropriations	\$1,104,701	\$1,299,630	\$1,850,079	\$4,012,824
Net Tax Cost	\$ 590,175	\$ 99,630	\$1,100,079	\$ 712,824

Note (A): Fiscal Year 2019 Budgeted Revenues includes a Budget Amendment of \$3,000,000 to capture actual compliance fee revenues collected in prior years.

The following table shows budgeted staffing for fiscal years 2016 through 2019:

Budget Item	Fiscal Years Ending June 30,			
	2016	2017	2018	2019
Budgeted Staff	5	7	8	18

Overview of Executive Orders for CRIO's Compliance Fees

The City of Detroit has issued two Executive Orders aimed at helping with the employment of Detroit residents:

1. **Executive Order 2014-4 (EO2014-4)** was enacted on August 22, 2014 to encourage and maximize the utilization of Detroit Residents on publicly funded construction projects. It directed specific residency requirements on all construction projects funded by the City, by state or federal funds and stated "All City of Detroit project construction contracts shall provide that at least 51% of the workforce must be bona-fide Detroit residents. Failure to meet the Detroit resident workforce requirement will result in monthly financial penalties."
2. **Executive Order 2016-1 (EO2016-1)** entitled "Utilization of Detroit Residents on Publicly-Funded Constructions Projects" was issued to supersede EO2014-4 on December 16, 2016. Accordingly, any entity entering into a publicly funded construction project are subject to implement specific residency targets for its workforce. Consistent to EO2014-4, the developers and contractors contracting with the City are all required to have at least 51% of bona-fide Detroit residents to meet the "Workforce Target."
 - The Workforce Target is measured by the hours worked by bona-fide Detroit residents on the publicly-funded construction project;
 - Developers or contractors are required either to meet the Workforce Target, or make the required contribution to the City's Workforce Training Fund, as specified in the executive order;
 - The City's Workforce Training Fund is used to support development-related job training and placement efforts. All collected compliance fees from the noncompliant developers and contractors is the primary source of the City's Workforce Training Fund.

CRIO's Responsibilities under Executive Order 2016-1

According to EO2016-1, CRIO's responsibilities are to:

- A. Prepare administrative guidelines related to the Executive Order (EO);
- B. Monitor the inclusion of the contractors or developers entering into a publicly-funded construction project;
- C. Enforce the provisions of the EO;

- D. Upon execution of a publicly funded construction contract, CRIO shall determine the measurement period. For the duration of the construction project, CRIO shall collect the reports submitted by the contractors, determine if a contractor complies with the EO, and calculate the financial penalties in accordance with EO provisions.

Change in Accounting for Compliance Fees

According to EO2016-1, the developers and contractors who are subject to the executive orders will be assessed financial penalties because of failure to meet local hiring commitments specified in the executive order. During the beginning of the audit scope period, the money received from the penalties assessed against noncompliant developers and other contractors was recorded in the City's General Fund (Fund 1000). However, in October 2017, a special revenue fund (Fund 3217 Non-compliance Fees) was established to account for all collections, disbursements, and other transactions related to fees associated with EO2016-1.

A special revenue fund is a separate account established by a government to collect money that must be used for a specific project. Special revenue funds provide an extra level of accountability and transparency to taxpayers that their tax dollars will go toward an intended purpose.

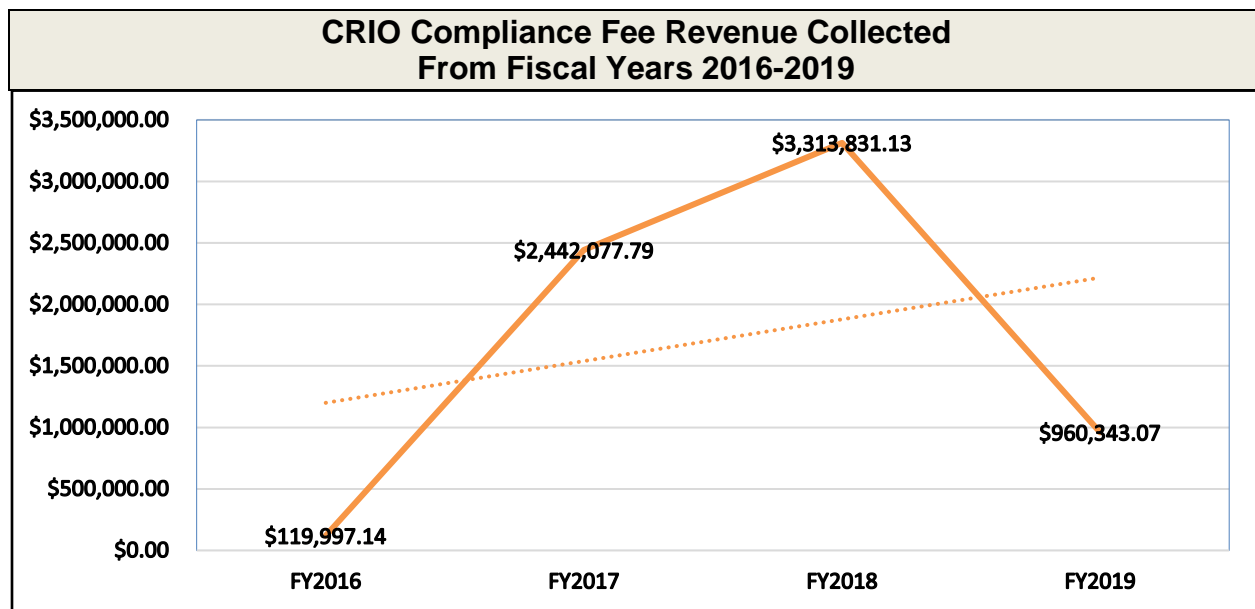
Overview of Compliance Fee Revenues and Special Revenue Fund Balance

The following table presents an overview and breakdown of CRIO's compliance fee revenue from fiscal years 2016 through 2019. Over 77% percent of compliance fee revenue is collected from non-compliant developers or contractors per Executive Order 2016-1.

Total Compliance Fee Revenue						
Account	FY2016	FY2017	FY2018	FY2019	Total	Percent Of Total Revenues
Revenue Collected Per The EO	\$119,997	\$2,442,078	\$3,313,831	\$960,343	\$6,836,249	77.4%
Additional Amounts Allocated To CRIO Through Budget Actions ^(A)	-0-	500,000	1,500,000	-0-	2,000,000	22.6%
Total Compliance Fee Revenues	<u>\$119,997</u>	<u>\$2,942,078</u>	<u>\$4,813,831</u>	<u>\$960,343</u>	<u>\$8,836,249</u>	<u>100.0%</u>

Note (A): These are additional dollars allocated to CRIO through budget actions. They do not represent compliance fee collections.

For fiscal years 2016 through 2019, the average of the compliance fee revenues collected from noncompliant developers or contractors was approximately \$1.7 million per year. The trend of compliance fees collected per EO2016-1 is depicted on the graph on the following page:



The “Non-compliance Fees Fund” is one of the City’s special revenue funds. This fund was established to account for the proceeds of fees (revenue) resulting from non-compliance with Executive Order 2016-1. Laws and administration actions restrict the use of the fees to ‘specific purposes.’ The following table illustrates the “Non-compliance Fees Fund” financial condition and fund balances for fiscal years 2018 and 2019:

Non-Compliance Fees Special Revenue Fund Activity and Fund Balance		
Description	Fiscal Year Ending June 30, 2018	Fiscal Year Ending June 30, 2019
Revenues:		
Revenue From Sales Or Charges	\$4,813,831	\$ 960,343
Investment Earnings	5,848	15,416
Subtotal	\$4,819,679	\$ 975,759
Expenditures:		
Economic Development	\$4,400,000	\$ 5,952,347
Subtotal	\$4,400,000	\$ 5,952,347
Net of Revenue over Expenditure	<u>\$ 419,679</u>	<u>(\$4,976,588)</u>
Fund Balance		
Beginning Balance	0	\$ 419,679
Net Change In Fund Balance	\$ 419,679	(4,976,588)
Transfer In		5,942,078
Ending Balance	\$ 419,679	\$ 1,385,169

Data Source: City of Detroit Comprehensive Annual Financial Reports Ending June 30, 2018 and June 30, 2019.

CRIO's Governance, Leadership, and Strategic Partners

CRIO is governed by an eleven (11) member **“Human [Civil] Rights Commission”** established under Section 7-702 of the City Charter. The Commission shall be representative of the total community and members are appointed by the Mayor and approved by the City Council. A member must be a resident of the City. Seven (7) members shall be appointed from the non at-large districts. The Commission determines CRIO's initiatives and policies.

The current Director of CRIO is Charity Dean who was appointed to the position on August 27, 2018. Before her appointment, Portia Roberson led the Department.

CRIO collaborates with several organizations and City departments to deliver training and employment services to Detroit residents. Strategic partners include (but are not limited to) the following organizations:

- **City of Detroit “Mayor’s Workforce Development Board”**
The Mayor’s Workforce Development Board (MWDB) is accountable to the Mayor’s office for the successful delivery of workforce programs across the City. To accomplish this, the MWDB is providing career pathways and entry points for Detroiters of all skills levels within five high-growth, high-demand industries: Construction, Healthcare, Information Technology, Manufacturing, and Retail Hospitality & Entertainment.
- **Detroit Employment Solutions Corporation**
Detroit Employment Solutions Corporation (DESC) is the fiscal and administrative agent of the Mayor’s Workforce Development Board, a body appointed by the Mayor. DESC is overseen by the MWDB and reports to the MWDB.
- **City of Detroit “Detroit At Work”**
“Detroit at Work” is a City agency that was created in February 2017 to provide one entry point into the workforce system for jobseekers and employers. “Detroit at Work” provides job placement search, training, career advisement, and other supportive services. The City launched “Detroit at Work” to build Detroit’s talent pool, create opportunities for Detroiters, and give employers access to a demand-driven talent pipeline.

STATUS OF PRIOR AUDIT FINDINGS

Listed below are prior audit findings relating to financial operations (only), and the status of each finding. The date listed is reflective of the last audit report in which the finding was published. The status of all other prior audit findings for CRIO will be disclosed in future interim reports.

PRIOR AUDIT FINDINGS ON CIVIL RIGHTS, INCLUSION, AND OPPORTUNITY DEPARTMENT (Formerly known as the “Human Rights Department” (MARCH 2011)

1. Control Deficiencies In The Cash Receipts Process (July 2006 – March 2011)

The prior audit identified the control weakness over cash receipts process, as the Cash Receipts Journal Entry batches did not have adequate supporting documents. This finding has not been resolved and is discussed in Finding 2 on page 20 of this report.

PRIOR AUDIT FINDINGS ON THE CITY’S SINGLE AUDIT (Fiscal Year Ending June 30, 2019)

1. The City Did Not Have Procedures In Place To Ensure All Reconciling Items Identified During The Preparation Of Bank Reconciliations Were Resolved And Posted Timely (Finding Number 2019-002)

This is a repeat finding over the City’s bank account reconciliations. The finding is relevant to the City’s bank account reconciliations for CRIO’s Compliance Fee Dollars and is discussed in Finding 1 on page 13 of this report.

AUDIT FINDINGS AND RECOMMENDATIONS

1. Monthly Bank Reconciliations Are Neither Accurate Nor Timely

The Office of the Chief Financial Officer (OCFO), Office of the Controller, did not reconcile the financial activity for Civil Rights, Inclusion, and Opportunity Department's (CRIO) compliance fees accurately nor timely. Some bank account reconciling items were not posted, resolved, and/or cleared on a timely basis.

Conditions Relating To CRIO Only Bank Reconciliations

We requested OCFO to provide us with bank reconciliations related to CRIO only. Our review of the OCFO's monthly bank reconciliations for CRIO's compliance fees for the period from December 2016 through June 2019 revealed the following conditions:

A. (CRIO Only) Monthly Bank Reconciliations Are Not Accurate

1. Two deposits totaling \$6,986.46 were cleared in the prior period, but were included in error as reconciling items in a subsequent period;
2. Two bank transactions were not recorded in the general ledger, and they were not listed as reconciling items in the monthly reconciliation:

Reconciling Items Not Recorded				
Accounting Period	Date of Bank Deposit	Amount of Deposit	General Ledger Journal Entry (Yes/No)	Reconciled the Item (Yes/No)
April 2019	4/26/2019	\$200,000	No	No
May 2019	5/28/2019	(\$200,000)	No	No

3. In the October 2017 bank reconciliation, seven (7) deposits into the bank account totaling \$13,795.86 were incorrectly recorded as "deposits-in-transit" for \$20,782.32.

B. Reconciling Items Were Not Resolved Timely

1. Reconciling items totaling over two million dollars (\$2,000,000) were not handled on a timely basis. In one instance, we found an unrecorded cash receipt that was not cleared for 164 days. We also found an intracompany transfer ("Unwired Fund") that was not cleared for 122 days. The table below details the reconciling items that were not cleared timely:

Reconciling Items Not Cleared Timely					
Type of Reconciling Item	Transaction Date	Date Item Should Have Cleared Bank Reconciliation	Actual Date Item Cleared in Bank Reconciliation	Amount (Dollars)	Number of Days Late
Unrecorded Deposit	11/3/2016	1/29/2017	7/12/2017	\$ 5,507.85	164
Unrecorded Deposit	3/6/2017	5/30/2017	7/12/2017	90,546.00	43

Reconciling Items Not Cleared Timely					
Type of Reconciling Item	Transaction Date	Date Item Should Have Cleared Bank Reconciliation	Actual Date Item Cleared in Bank Reconciliation	Amount (Dollars)	Number of Days Late
Unrecorded Deposit	3/6/2017	5/30/2017	7/12/2017	\$ 81,047.00	43
Unrecorded Deposit	3/6/2017	5/30/2017	7/12/2017	44,445.00	43
Unrecorded Deposit	3/6/2017	5/30/2017	7/12/2017	43,025.00	43
Unrecorded Deposit	3/22/2017	5/30/2017	7/12/2017	330,911.11	43
Unrecorded Deposit	3/27/2017	5/30/2017	7/12/2017	3,323.32	43
Unwired Fund	10/27/2017	12/30/2017	5/1/2018	500,000.00	122
Unwired Fund	12/08/2017	3/1/2018	5/1/2018	1,000,000.00	61
Error Correction	4/11/2019	6/29/2019	8/1/2019	0.60	33
Total Reconciling Items Cleared Late				<u>\$2,098,805.88</u>	

2. In addition, five unrecorded “returned checks” totaling \$7,079.65 (dating back to November 2016) and a deposit variance totaling \$112,917.49 (dating back to July 2017) were not resolved until we met with the OCFO in May 2020.

Conditions Relating To Citywide Fund Level Bank Reconciliations

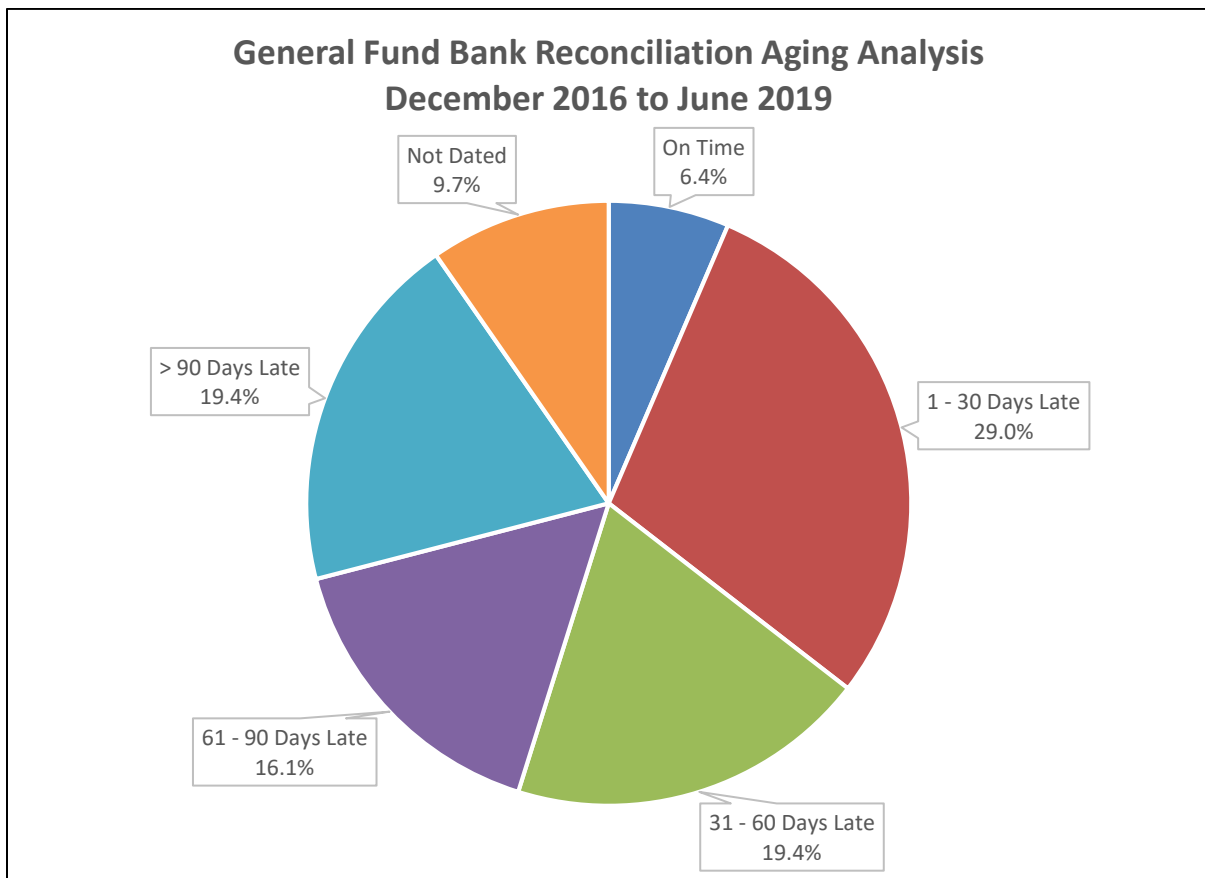
We reviewed thirty-one (or 100%) of the City’s monthly bank reconciliations applicable during the audit period related to CRIO compliance fee dollars. We found that the bank reconciliations at the fund level (General Fund) had a commingling of multiple funds, multiple bank accounts, which related to various departments and agencies. As a result, reconciling items and variances were not identified at the agency or department level. Consequently, CRIO’s cash balance in the General Fund was not fully transferred to CRIO’s Special Revenue Fund on a timely basis. As a result of our audit work, the residual balance in the General Fund relating to CRIO Compliance Fees of \$119,997.14 was cleared in June 2020.

On the other hand, our test of controls on the General Fund reconciliations centered on the timeliness of the reconciliations. We found that twenty-six (26) of the thirty-one (31), or 83.9% of the bank reconciliations were performed late as detailed in the table below:

Detailed Aging of the General Fund Bank Reconciliations December 2016 - June 2019			
Accounting Period	Required Reconciliation Date	Actual Date of Reconciliation	Days Elapsed
Dec-16	1/30/2017	5/3/2017	93
Jan-17	3/2/2017	Missing Date	Cannot Determine
Feb-17	3/30/2017	5/31/2017	62
Mar-17	4/30/2017	6/16/2017	47
Apr-17	5/30/2017	6/28/2017	29
May-17	6/30/2017	7/17/2017	17
Jun-17	7/30/2017	7/27/2017	0
Jul-17	8/30/2017	1/16/2018	139
Aug-17	9/30/2017	1/17/2018	109
Sep-17	10/30/2017	2/8/2018	101
Oct-17	11/30/2017	5/24/2018	175
Nov-17	12/30/2017	Missing Date	Cannot Determine
Dec-17	1/30/2018	5/24/2018	114
Jan-18	3/2/2018	5/24/2018	83
Feb-18	3/30/2018	5/25/2018	56
Mar-18	4/30/2018	4/27/2018	0
Apr-18	5/30/2018	7/16/2018	47
May-18	6/30/2018	7/25/2018	25
Jun-18	7/30/2018	10/19/2018	81
Jul-18	8/30/2018	10/16/2018	47
Aug-18	9/30/2018	11/6/2018	37
Sep-18	10/30/2018	1/18/2019	80
Oct-18	11/30/2018	1/14/2019	45
Nov-18	12/30/2018	1/24/2019	25
Dec-18	1/30/2019	2/28/2019	29
Jan-19	3/2/2019	Missing Date	Cannot Determine
Feb-19	3/31/2019	4/12/2019	12
Mar-19	4/30/2019	5/7/2019	7
Apr-19	5/30/2019	6/5/2019	6
May-19	6/30/2019	7/9/2019	9
Jun-19	7/30/2019	10/18/2019	80

The following table and chart shows the aging of the General Fund bank reconciliations (including CRIO's revenues) during the audit period:

Summary Aging of the General Fund Bank Reconciliations December 2016 - June 2019							
Timeliness Criteria	On Time	1-30 Days Late	31-60 Days Late	61-90 Days Late	>90 Days Late	Not Dated	Total
Number Of Bank Reconciliations	2	9	6	5	6	3	31
Percentage Of Timeliness	6.4%	29.0%	19.4%	16.1%	19.4%	9.7%	100.0%



Criteria

The State of Michigan Accounting Procedures Manual for Local Units of Government, Chapter 3 – Bank and Investment Accounts, requires that each local unit must reconcile bank accounts timely.

The City issued its own set of internal controls and policies and procedures relating to bank reconciliations: As part of Administrative Issuance System controls, the City issued the Finance Directive #154 – Procedures For Preparing Monthly Bank Reconciliations and the CFO Directive No. 2018-101-017 – Cash Management to establish procedures of bank reconciliations of the City:

A. CFO Directive No. 2018-101-017 – Cash Management

Established that the OCFO, Office of the Controller is responsible for the City's bank reconciliations to help ensure the accuracy of cash balances. The following subsections of the policy relate specifically to bank reconciliations:

- **Subsection 6.4.1.** - The Office of Controller is responsible for performing all bank reconciliations for all bank accounts.
- **Subsection 6.4.3.** - All bank accounts shall be reconciled to the general ledger no later than 30 days after the month-end.
- **Subsection 6.4.5.** - Each bank reconciliation should be cleared of all variances, no later than 60 days of the month-end, and any outstanding items after that must be escalated to the Deputy CFO- Controller/Chief Accounting Officer and the Treasurer.

B. Finance Directive #154 – Procedures For Preparing Monthly Bank Reconciliations

Finance Directive #154 establishes practical initial and post reconciliation procedures. The Directive requires monthly bank account reconciliation to be completed no later than thirty days (30) after receipt of the monthly bank statement. It also requires that:

1. Differences should be identified, investigated and explained (i.e. - corrective action must be taken ;)
2. Agency deposits not shown on the monthly bank statement must be investigated and a determination made that the deposit was posted to the account in the month immediately following the reconciliation period;
3. Documentation is reviewed for any reconciling item that is outstanding for at least sixty (60) days;
4. If bank reconciliations cannot be completed in this time period, the Chief Accounting Officer must be notified in writing and signed by the Agency Director.

Effect

Bank reconciliations are an essential internal control tool designed to prevent fraudulent transactions and detect errors. Monthly bank account reconciliations contribute to complete, accurate, and timely reporting of cash balances. Failure to comply with the City's administrative directives regarding bank account reconciliations can result in:

- Persistent late reconciliations and a greater increase for inaccuracies;
- Not knowing the actual available cash balances;
- Potential errors in the City's cash flow statements and projections;
- Unauthorized withdrawals;
- Missing deposits and undetected embezzlement of money;

- Missed opportunities to identify and correct book errors timely;
- Missed opportunities to identify and correct errors in the bank statements timely.

Furthermore, all decision makers need to be provided with timely and accurate financial information to use in budgetary controls and resource allocations. Failure to reconcile the City's bank accounts timely and accurately potentially puts the City's decision makers at risk if they rely on data that is inaccurate and unreliable.

Causes

The City's bank reconciliations are currently conducted at the "fund level" and which includes multiple bank accounts covering transactions for multiple agencies/departments. This process is inefficient and ineffective in identifying variances and reconciling items for the responsible agency/department.

Additionally, there are no procedures in place to ensure the timely resolution of variances and reconciling items identified in the bank reconciliations. Moreover, there is no procedure to follow up on outstanding reconciling items.

Recommendations

- Perform monthly bank reconciliations timely. Reconcile all bank accounts to the general ledger no later than thirty (30) days after the month-end;
- Prepare monthly bank reconciliations along with supplemental schedules accurately;
- Investigate reconciling differences between bank balances and general ledger cash accounts regularly. Ensure that the identified variances are resolved timely;
- Monitor and evaluate the aging of outstanding reconciling items, especially items that exist more than one reconciliation period. Outstanding items should be cleared no later than sixty (60) days from the date of the reconciliation;
- Escalate the outstanding reconciling items over sixty (60) days to the Deputy CFO's (Controller, Chief Accounting Office and the Treasurer) as per policy;
- Conduct monthly supervisory reviews of bank reconciliations to ensure the timeliness of bank reconciliations and adjustments, correcting entries are properly authorized. Clearly document the performance of such reviews;
- Monitor the performance and adequacy of supervisory reviews;
- Provide sufficient training to employees who prepare bank reconciliations, so they can, clear reconciling items, make journal entries, or take other corrective actions to ensure a thorough knowledge of the City's accounting and financial systems. Employees must clearly understand the City's policies and procedures relating to bank reconciliations if they are expected to execute them with precision.

Recommendation To Automate Bank Reconciliations

In 2019, the City launched the Audit Finding Corrective Action Plan (AFCAP) project in conjunction with the external auditors, Plante Moran LLC. The project overall objective is to eliminate or reduce the occurrence of repeat findings. We commend the Administration for recognizing this need and formally adopting a program to increase the accuracy and timeliness of financial transactions including bank reconciliations.

We recommend that the OCFO continue to work with Plante Moran and develop action plans and a timeline to fully automate bank reconciliations using the functionality in the City's Oracle Enterprise Resource Planning (ERP) system. The Chief Financial Officer and the appropriate staff should also develop a mechanism whereby bank reconciliations are produced at both the fund level, and for each agency/department that has banking activities. This means enhancing the information in bank statements to identify transactions by the appropriate fund and responsible agency/department.

2. Financial Directives Governing Manual Journal Entries Were Not Followed

Various divisions within the Office of the Chief Financial Officer (OCFO) did not follow its own directives regarding manual journal entries.

Conditions

Our audit revealed the following conditions:

- A. The Office of the Controller did not designate nor compile a list of authorized preparers and approvers for CRIO's manual journal entries as required by the directives. Instead, employees were assigned these responsibilities by personnel in other divisions in the OCFO and not in compliance with the policy;
- B. Manual journal entries in the City's financial system lacked appropriate and sufficient support and documentation. We reviewed eighteen (18) Cash Receipts Journal Entry (CRJE) batches, valued at over \$2.1 million dollars, and found that six (6) or 33.3%, of the batch entries did not have adequate supporting documentation. Some of the CRJE batches:
 1. Did not contain copies of all supporting check documents;
 2. Did not calculate the correct dollar totals for the batches;
 3. Included cases where the same check was counted twice because both the copy of the check and the remittance advice were used as support in different batches.
- C. In addition, a journal entry for \$112,915.49 described as "miscellaneous deposits" did not have appropriate and sufficient supporting documents.

These errors resulted in variances between actual bank deposits and entries into the City's general ledger. Based on our review of a representative sample of journal entry batches during the audit period, we found variances totaling \$87,263.17 as detailed below:

Variances Between Batch Totals, Bank Deposits and Supporting Documentation			
Journal Entry Date	Batch Amount	Amount Deposited And Supported By Documentation	Dollar Variance
10/24/2016	\$ 5,507.85	\$ 3,885.06	\$ 1,622.79
3/2/2017	44,445.00	42,542.00	1,903.00
3/21/2017	330,913.11	342,911.27	(11,998.16)
5/10/2017	350,124.93	353,296.69	(3,171.76)
6/22/2017	13,562.00	27,570.19	(14,008.19)
7/12/2017	\$112,915.49	0.00	112,915.49
Totals	<u>\$857,468.38</u>	<u>\$770,205.21</u>	<u>\$ 87,263.17</u>

Note (A): These amounts represent two checks that were each used (twice) to support two different batch journal entries. Again,

resulting in insufficient documentation to support the amount of the entries.

- D. Bank statements were incomplete. The Office of the Treasury downloads bank statements directly from the banks, and they did not ensure that they received all of the numbered pages indicating that they had a complete document. We reviewed all thirty-one (31), or 100% of CRIO's bank statements during the audit period. Our review revealed that twenty (20), or 64.5% of the bank statements were missing the last numbered page (i.e. - missing page 2 of 2, or missing page 4 of 4.)

Criteria

The following criteria apply to the conditions stated above:

A. CFO Directive No. 2018-105-001 - Manual Journal Entries

This Directive applies to all manual journal entries posted to the City's General Ledger and governs all individuals who prepare, approve, and post the manual entries. This Directive also imposed the oversight and administrative responsibilities to the Deputy CFO - Controller/Chief Accounting Officer within the Office of the Chief Financial Officer.

Section 6 of this Directive states in part that:

- **Subsection 6.1.** The Office of the Controller – General Accounting shall designate the authorized list of Preparers and Approvers of all manual journal entries and, no less than annually, review and update the authorized list.
- **Subsection 6.2.** All manual journal entries shall be promptly reviewed and approved by a designated Approver to ensure accounting transactions are recorded to the proper accounting period (i.e. - the period the accounting event occurred). The designated Approver must be an individual other than the Preparer of the manual journal entry.
- **Subsection 6.6.** All manual journal entries shall have appropriate supporting documentation attached in Oracle Cloud ERP. Appropriate documentation shall explain why the journal entry is required and shall be in enough detail such that an independent party can follow and substantiate the need for the journal entry.
- **Subsection 6.6.** The Office of the Controller shall periodically audit supporting documentation and, if necessary, provide requisite training to ensure supporting documentation meets this standard.
- **Subsection 6.7.** All manual journal entries shall be prepared (including attaching supporting documentation) and sent for approval in a single session. All such journal entries shall be approved by the Authorized Approver within five (5) business days after being sent for approval.

B. CFO Directive No. 2018-101-017 Cash Management

Section 6.2. Bank Account Management and Subsection 6.2.3., states, “only the Office of the Treasury shall be authorized to perform any on-line banking.” Therefore, they are directly responsible for insuring that bank statements are received timely and that they are complete. The Office of Treasury should make the bank statements available to other operations as necessary.

C. Finance Directive #154 – Procedures For Preparing Monthly Bank Reconciliations

The Directive requires the Finance Departments’ General Accounting Section (now the OCFO Office of the Controller) to “review for missing documents.”

Effects

Cash handling activities, including manual journal entries, are considered high-risk transactions, because they can be easily manipulated, prone to inaccuracies, and susceptible to fraud. Failure to comply with the City’s directives, policies, and procedures render internal controls ineffective and can result in:

- Processing unauthorized journal entries;
- The recording of inappropriate transactions;
- Misstated financial reports and account balances;
- Reducing the reliability of accounting and operating data;
- Fraud, waste, misappropriation, and abuse of the City’s cash assets.

Causes

According to staff in the Office of Departmental Financial Services (ODFS) and the Office of the Treasury:

- A. There is no list of “Journal Entry Approvers”;
- B. No procedures exist to ensure that the authorized “Bank Signers” list is accurate and kept current;
- C. Management does not review journal entries to ensure that supporting documentation is accurate and sufficient;
- D. No procedures are in place for the appropriate activity to administer and monitor manual journal entries;
- E. No procedures are in place to ensure the completeness of bank statements.

Recommendations

- A. We recommend that the OCFO Office of the Controller follow the City’s directives, policies, and procedures and strengthen its internal controls by:
 - 1. Creating and maintaining a current list of authorized preparers and approvers of CRIO manual journal entries. Review and update the list of (at least) annually or more frequently if appropriate;

2. Ensuring there is adequate management oversight of all manual journal entries at all times;
3. Arranging for independent reviews of manual journal entries to verify the propriety and validity of transactions;
4. Periodically reviewing journal entries and the supporting documentation to ensure that it is accurate, complete and sufficient;
5. Paying particular attention to journal entries that do not conform to prescribed directives, policies, and procedures. Inspect the overriding of journal entries;
6. Review all documents received and used for reconciliations such as bank statements from the OCFO Office of the Treasury for completeness.

B. We recommend that the OCFO Office of the Treasury:

1. Ensure bank statements and other related documents received or downloaded electronically are reviewed for completeness.

C. We recommend that the OCFO Office of Department Financial Services (ODFS):

1. Record financial transactions, specifically those related to cash, bank accounts, and bank reconciliation activities timely and accurately;
2. Ensure that journal entries are prepared consistent with the City's directives, policies, and procedures. Only persons with the appropriate delegated approval authority should authorize transactions;
3. Ensure that journal entries have appropriate, sufficient, and accurate supporting documentation and that it is maintained in the City's financial system (Oracle);
4. Ensure there is adequate management oversight of all journal entries at all times, and that employees are trained properly to execute their responsibilities as required.

3. Inadequate Segregation Of Duties Within The Office Of The Chief Financial Officer

The Office of the Chief Financial Officer (OCFO) did not follow its own directives. It does not have adequate segregation of duties between employees in its divisions when they perform jobs relating to banking and bank reconciliations. Specifically, employees performed incompatible duties within and outside the Office of Departmental Financial Services (ODFS) and the Office of the Controller.

Conditions

Our audit revealed the following internal control weaknesses:

A. Inadequate Segregation Of Duties Within ODFS

A single employee can receive cash (checks) from CRIO's customers, has access to the accounting records, and can create and enter journal entries into the financial systems.

In one instance, the employee, acting in a supervisory role, directed a subordinate to make a correcting journal entry for a previous journal entry that they had prepared. The correcting entry adjusted the previous and current year's cash account balances. The employee then approved the correcting entry.

B. Two Divisions Within The OCFO Did Not Perform Their Duties As Prescribed

1. ODFS staff inappropriately assumed and performed the responsibilities of the Office of the Controller by making a correcting journal entry to clear prior year bank reconciliation variances;
2. An employee in the Office of the Controller did not perform their responsibilities to investigate CRIO's prior year bank reconciliation variances, and instead allowed the ODFS staff to clear the variances.

Criteria

Effective segregation of duties is a key and primary internal control. The four key functional duties and responsibilities of (1) custody, (2) authorization, (3) record-keeping, and (4) reconciliation, should be properly segregated. The following City of Detroit financial directives are designed to provide adequate segregation of duties, and they apply to the conditions described above:

A. CFO Directive No. 2018-101-042 – Internal Control

Section 6.1 Authorization and Approval states (in part) that:

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

Section 6.2. Segregation of Duties requires that:

- **Subsection 6.2.1.** No one person shall have complete control over more than one key function or activity (i.e. - authorizing, approving, certifying, disbursing, receiving, or reconciling). Duties shall be separate in such a manner that one person's work serves as a check on another's work;

Section 6.3. Custody and Security Arrangements states:

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

B. CFO Directive No. 2018-101-017 – Cash Management

The objective of this directive is to (1) establish responsibilities over the cash management functions of the City, (2) to establish practices to help ensure the accuracy of cash balances and the efficient use of surplus funds, and (3) to minimize cash handling by City employees. Relevant sub-sections of this directive state:

- **Subsection 6.4.1.** The Office of Controller is responsible for performing all bank reconciliations for all bank accounts;
- **Subsection 6.4.2.** Bank accounts shall not be used to track funds in lieu of proper accounting;
- **Subsection 6.4.5.** Each bank reconciliation should be cleared of all variances, no later than 60 days of the month-end, and any outstanding items after that must be escalated to the Deputy CFO-Controller/Chief Accounting Officer and the Treasurer. All variances identified that require a journal entry (JE) must be created and posted by someone other than the preparer or approver of that bank reconciliation.

Effect

Lack of segregation of key duties and responsibilities increases the risk of fraud or errors. Deficiencies in the area of segregation of duties offset and reduce the effectiveness of control systems. Additionally, when the proper segregation of duties is inadequate, the likelihood of fraud and asset misappropriation is more likely to occur, particularly if the duties are cash-related.

Cause

Based on our review and observation, frequent personnel turnover and limited resources made it difficult to segregate duties amongst staff. Insufficient training resulted in staff member's actual work not aligning with department objectives and job functions.

Recommendations

We recommend that the Office of the Chief Financial Officer (OCFO):

- A. Follow its own directives by assigning incompatible duties (i.e. - custody, authorization, record keeping, and reconciliation) to different individuals;
- B. Document roles and responsibilities for all key processes within each division (i.e. – within ODFS and the Office of the Controller, etc.);
- C. Maintain a division workbook documenting the adequacy of the segregation of duties. Periodically review the sufficiency of segregation of duties within the OCFO;
- D. Track changes to key process steps and maintain oversight of the changing processes. Ensure that changes to roles and responsibilities have appropriate authorization and process manuals are updated accordingly;
- E. Periodically rotate key duties among the appropriate level of employees;
- F. Provide appropriate management oversight as required by the directives;
- G. Provide adequate training to employees, including educating employees so that they are aware of where their duties start and stop.

If adequate segregation of duties cannot be achieved, due to limited resources or other reasons, we recommend that the OCFO implement compensating controls. Compensating controls such as additional supervisory reviews, or secondary signatures, can be implemented to reduce the possible risks arising from inadequate segregation of duties.


NOTEWORTHY ACCOMPLISHMENTS

Prior to March 2019, the Civil Rights, Inclusion, and Opportunity Department (CRIO) was totally responsible for assessing, billing/invoicing, and collecting compliance fee dollars from non-compliant contractors. These activities were processed manually within CRIO and outside of the City's centralized financial functions. Beginning March 1, 2019, the entire process (from billing/invoicing to collections) has been centralized in the Office of the Chief Financial Officer (OCFO). Noncompliant developers or contractors are invoiced from the OCFO (as opposed to CRIO directly) and remittances are directed to the OCFO Office of the Treasury.

During the Coronavirus (COVID-19) pandemic, CRIO continues to investigate and report on development projects that fall under the Executive Order 2016-1 for compliance. Non-compliant contractors are assessed and billed/invoiced accordingly. In response to the pandemic, CRIO created an online payment portal. Bills/invoices associated with compliance fees can be paid through the user-friendly online payment portal. The payment portal is easily assessable through CRIO Department's home page, or through the City's website home page under "COVID-19 Detroit Resources to Help, Online Payment Center." Assessed developers or contractors that are required to contribute to workforce training can pay the compliance fee remotely.

We want to commend CRIO and the OCFO for implementing this alternative payment process. This is an excellent example of providing better City services especially during the pandemic crisis.

Civil Rights, Inclusion, and Opportunity Department's Online Payment Portal

**Pay CRIO Invoices Online**

Start over

Civil Rights, Inclusion & Opportunity

How would you like to find your account:

Invoice NumberCustomer Number?

Search by invoice number

Enter your invoice number.

Enter Invoice Number:

* Required

Find account

Help - Account Lookup

This platform is used primarily to pay fees previously invoiced by the City of Detroit. If you have an invoice you may search for your invoice in one of 2 ways:









1. Invoice # – Enter your invoice number exactly as it appears on the invoice.
2. Customer # – Enter your customer number

For additional help or to get more information regarding Executive Order 2016-1 please phone 313-224-3423.

For additional help or to get more information regarding Business Certification questions please phone 313-224-2111.

Close

COVID-19 Detroit Resources to Help, Online Payment Center

 LOOKUP / PAY BLIGHT TICKETS Search by ticket number, address or owner's name	 ACCIDENT REPORT Purchase crash reports online	 PAY AIRPORT FEES ONLINE Pay your airport fee online with Point & Pay	 PAY PARKING TICKETS Pay your tickets online.
 PAY CRIO ONLINE Pay Civil Rights, Inclusion and Opportunity Department invoices online	 PAY BSEED FEE Pay your BSEED fees online	 CITY CLERK'S ARCHIVE AND RECORDS Purchase Archive Records	 DELINQUENT PERSONAL PROPERTY TAX Pay Delinquent Personal Property Tax online

Generally Accepted Government Auditing Standards for Performance Audits

The following excerpt is related to Generally Accepted Government Auditing Standards as compiled by the compiled by the United States Government Accountability Office (GAO) for Performance Audits. According to the GAO and GAGAS¹:

§1.21: Performance audits are defined as audits that provide findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability. The term “program” is used in GAGAS to include government entities, organizations, programs, activities, and functions.

§1.22 Performance audit objectives vary widely and include assessments of program effectiveness, economy, and efficiency; internal control; compliance; and prospective analyses. Audit objectives may also pertain to the current status or condition of a program. These overall objectives are not mutually exclusive. For example, a performance audit with an objective of determining or evaluating program effectiveness may also involve an additional objective of evaluating the program’s internal controls. Key categories of performance audit objectives include the following:

- a. Program effectiveness and results audit objectives. These are frequently interrelated with economy and efficiency objectives. Audit objectives that focus on program effectiveness and results typically measure the extent to which a program is achieving its goals and objectives. Audit objectives that focus on economy and efficiency address the costs and resources used to achieve program results.
- b. Internal control audit objectives. These relate to an assessment of one or more aspects of an entity’s system of internal control that is designed to provide reasonable assurance of achieving effective and efficient operations, reliability of reporting for internal and external use, or compliance with provisions of applicable laws and regulations. Internal control objectives also may be relevant when determining the cause of unsatisfactory program performance. Internal control is a process effected by an entity’s oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved. Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the entity.
- c. Compliance audit objectives. These relate to an assessment of compliance with criteria established by provisions of laws, regulations, contracts, or grant agreements, or other requirements

¹ Government Auditing Standards (Yellow Book) 2018 Revision; www.gao.gov/yellowbook.

Generally Accepted Government Auditing Standards for Performance Audits

that could affect the acquisition, protection, use, and disposition of the entity's resources and the quantity, quality, timeliness, and cost of services the entity produces and delivers. Compliance requirements can be either financial or nonfinancial.

- d. Prospective analysis audit objectives. These provide analysis or conclusions about information that is based on assumptions about events that may occur in the future, along with possible actions that the entity may take in response to the future events.

There are four "Elements of a Finding" in a Performance Audit. The following excerpt(s) from GAGAS describe how auditors develop Findings:

§8.116 As part of a performance audit, when auditors identify findings, they should plan and perform procedures to develop the criteria, condition, cause, and effect of the findings to the extent that these elements are relevant and necessary to achieve the audit objectives.

§8.125 **Condition:** Condition is a situation that exists. The condition is determined and documented during the audit.

§8.124 **Criteria:** To develop findings, criteria may include the laws, regulations, contracts, grant agreements, standards, measures, expected performance, defined business practices, and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation. The term program includes processes, projects, studies, policies, operations, activities, entities, and functions. Criteria provide a context for evaluating evidence and understanding the findings, conclusions, and recommendations in the report.

§8.126 **Cause:** The cause is the factor or factors responsible for the difference between the condition and the criteria, and may also serve as a basis for recommendations for corrective actions. Common factors include poorly designed policies, procedures, or criteria; inconsistent, incomplete, or incorrect implementation; or factors beyond the control of program management. Auditors may assess whether the evidence provides a reasonable and convincing argument for why the stated cause is the key factor contributing to the difference between the condition and the criteria.

§8.127 **Effect** or potential effect: The effect or potential effect is the outcome or consequence resulting from the difference between the condition and the criteria. When the audit objectives include identifying the actual or potential consequences of a condition that varies (either positively or negatively) from the criteria identified in the audit, effect is a measure of those consequences. Effect or potential effect may be used to demonstrate the need for corrective action in response to identified problems or relevant risks.

APPENDIX A

Generally Accepted Government Auditing Standards for Performance Audits

GAGAS, also provides the following “Reporting Standards for Performance Audits”:

§9.27 Conclusions: Report conclusions are logical inferences about the program based on the auditors’ findings, not merely a summary of the findings. The strength of the auditors’ conclusions depends on the persuasiveness of the evidence supporting the findings and the soundness of the logic used to formulate the conclusions. Conclusions are more compelling if they lead to the auditors’ recommendations and convince the knowledgeable user of the report that action is necessary.

§9.23 Recommendations: When feasible, auditors should recommend actions to correct deficiencies and other findings identified during the audit and to improve programs and operations when the potential for improvement in programs, operations, and performance is substantiated by the reported findings and conclusions. Auditors should make recommendations that flow logically from the findings and conclusions, are directed at resolving the cause of identified deficiencies and findings, and clearly state the actions recommended.

§9.28 Effective recommendations encourage improvements in the conduct of government programs and operations. Recommendations are effective when they are addressed to parties that have the authority to act and when the recommended actions are specific, feasible, cost effective, and measurable.

EXECUTIVE ORDER 2016-1

TO: ALL BOARDS, COMMISSIONS, DEPARTMENT DIRECTORS, CITY COUNCIL MEMBERS, CITY CLERK, DEVELOPERS, CONTRACTORS, AND DETROIT ECONOMIC GROWTH CORPORATION (DEGC).

FROM: MICHAEL E. DUGGAN, MAYOR

SUBJECT: UTILIZATION OF DETROIT RESIDENTS ON PUBLICLY-FUNDED CONSTRUCTION PROJECTS

DATE: December 16, 2016

WHEREAS, it is the policy of this Administration to encourage and maximize the utilization of Detroit residents on all City contracts and all projects benefited by City subsidies. An important component of the economic revitalization of Detroit is the employment of Detroit residents. Accordingly, this Executive Order directs any entity entering into a publicly-funded construction project to implement specific residency targets for its workforce, as follows:

1. A “publicly-funded construction project,” for purposes of this Executive Order, means (a) any construction contract for more than \$3,000,000.00 (Three Million Dollars) made by the City with any person or entity; and (b) any construction project for which the City, affiliated public or quasi-public entities of the City, or any of their agents or contractors provides funds or financial assistance via any of the following methods, where total assistance from the City or its affiliated entities is over \$3,000,000.00 (Three Million Dollars):

- (1) The sale or transfer of land below its appraised value;
- (2) Direct monetary support;
- (3) Public contributions originated by the State of Michigan or its agencies, the United States government or its agencies, or any other non-City government entity, and for which City approval is required and obtained; or
- (4) Tax increment financing. For purposes of calculating the total assistance directly provided through tax increment financing, tax revenue that would have accrued to all government entities shall be counted.

Other persons or entities doing business with the City, but not covered by this section, may voluntarily agree to be bound by some or all of the substantive requirements of this Executive Order.

2. A “bona-fide Detroit resident,” for purposes of this Executive order, means an individual who can demonstrate residency in the City of Detroit as of a date at least thirty (30) days prior to the date the person seeks to be employed for work on a publicly-funded construction project. Residency shall be established by the address listed on (a) any one of the following: State of Michigan identification card, State of Michigan driver’s license, or Detroit municipal ID; plus (b) any one of the following: Voter Registration Card, Motor Vehicle Registration, most recent federal, state, or City of Detroit tax returns, Lease/Rental agreement, the most recent utility bill (or utility affidavit signed by a landlord with respect to a leased residence), or most recent municipal water bill. Other forms of proof-of-residence may be accepted under certain circumstances.

3. All publicly-funded construction contracts shall include a provision providing that at least 51% of the workforce on the publicly-funded construction project shall be bona-fide Detroit residents. This requirement shall be referred to as the “Workforce Target.” The Workforce Target shall be measured by the hours worked by bona-fide Detroit residents on the publicly-funded construction project.

4. Developers, general contractors, prime contractors and subcontractors are all required to comply with the terms of this Executive Order. Collectively, these entities are hereinafter referred to as “contractors.” It is, however, the sole responsibility of the person or entity contracting with the City of Detroit to require all of its subcontractors either to (a) meet the Workforce Target; or (b) make the required contribution to the City’s Workforce Training Fund, as provided in Paragraph 6 of this Executive Order. Contractors may utilize local unions, Detroit Employment Solutions Corporation, or other entities to help meet the Workforce Target. Failure to satisfy the requirements of this Executive Order shall constitute a breach of contract and may result in the immediate termination of the contract.

5. Upon execution of a publicly-funded construction contract, the City of Detroit’s Civil Rights, Inclusion and Opportunity Department (“CRIO”) shall determine whether the Workforce Target in the contract shall be measured periodically either (a) monthly or (b) quarterly. This period shall be referred to as the “measurement period.” Thereafter, for the duration of the construction project, the contractor shall, at the end of each measurement period, submit to CRIO a report indicating:

- (1) The total hours worked on the project during the preceding measurement period (“total work-hours”);
- (2) The total hours worked on the project by bona-fide Detroit residents during the preceding measurement period; and
- (3) If applicable, the amount by which the contractor fell short of meeting the Workforce Target. A contractor falling short of the Workforce Target shall report both (a) the raw number of total work-hours by which the contractor fell short of the Workforce Target; and (b) the percentage of total work-hours by which the contractor fell short of the Workforce Target.

APPENDIX B
City of Detroit Executive Order 2016-1

6. A contractor who does not meet the Workforce Target in any measurement period shall help strengthen Detroit's workforce by making a monetary contribution to the City's CRIO-administered Workforce Training Fund, thereby supporting the skill development of Detroit residents. The required contribution for any contractor who does not meet the Workforce Target shall be the sum of the following:

- (1) For each work-hour comprising the first 0-10% of total work-hours by which the contractor fell short of the Workforce Target, 5% of the average hourly wage paid by the contractor on the publicly-funded construction project during the preceding measurement period.
- (2) For each work-hour comprising the second 0-10% of total work-hours by which the contractor fell short of the Workforce Target (if applicable), 10% of the average hourly wage paid by the contractor on the publicly-funded construction project during the preceding measurement period.
- (3) For each work-hour comprising the remaining 0-31% of total work-hours by which the contractor fell short of the Workforce Target (if applicable), 15% of the average hourly wage paid by the contractor on the publicly-funded construction project during the preceding measurement period.¹

7. If a contractor contracts for labor through a union which is meeting the goals set for it under the Detroit Skilled Trades Employment Program, that contractor will be deemed to have met the Workforce Target with respect to the employees for which it contracted through such a union.

Specifically: CRIO will make a periodic determination whether a union participating in the Detroit Skilled Trades Employment Program is meeting its established goals under that Program. For purposes of calculating a contractor's compliance with the Workforce Target, a union which, as of the date a contractor executes its publicly-funded construction contract or subcontract, is meeting its goals under the Program shall be deemed to have no less than 51% of the hours worked by its members on the publicly-funded construction project worked by bona-fide Detroit residents. If bona-fide Detroit residents actually account for more than 51% of the hours worked by union members on a publicly-funded construction project, that actual percentage may be used for purposes of calculating compliance with the Workforce Target.

8. If CRIO determines a contractor is in non-compliance with the requirements of this Order, CRIO will notify the contractor, in writing, of the contractor's non-compliance.

If a contractor wishes to challenge a finding of non-compliance, the contractor may, within fifteen (15) days of the notice of non-compliance, file with CRIO a written notice challenging the finding of non-compliance, and detailing the reasons for that challenge. The challenge will then

¹ Thus, for example, if 25% of the total work-hours performed on a publicly-funded construction project were performed by bona-fide Detroit residents, the contractor will have fallen short of the Workforce Target by 26% of the total work-hours. That contractor's minimum required contribution would be the sum of (1) 5% of the average hourly wage for 10% of the total work-hours; (2) 10% of the average hourly wage for 10% of the total work-hours; and (3) 15% of the average hourly wage for 6% of the total work-hours.

APPENDIX B
City of Detroit Executive Order 2016-1

be forwarded to a panel comprising of (1) the City's Corporation Counsel or his or her designee; (2) the head of the Department of Administrative Hearings or his or her designee; and (3) the Director of the Buildings, Safety, Engineering, and Environment Department, or his or her designee. The panel shall adjudicate the challenge and issue a written decision. The panel may, but need not, schedule an oral hearing on the challenge.

If, following written notice of non-compliance and the adjudication of any challenge, the contractor fails or refuses to take corrective actions within thirty (30) days, the City of Detroit may do any of the following:

- (1) withhold from the contractor all future payments under the construction contract until it is determined that the contractor is in compliance;
- (2) refuse all future bids on city projects or applications for financial assistance in any form from the city or any of its departments, until such time as the contractor demonstrates that it has cured its previous non-compliance;
- (3) debar the contractor from doing business with the City of Detroit for a period of up to one year.

In addition, the City of Detroit reserves the right to re-bid the contract, in whole or in part, or hire its own workforce to complete the work.

9. All applicable construction contracts, construction contract amendments, change orders and extensions shall include the terms of this Executive Order. CRIO shall have the responsibility for preparing administrative guidelines related to this Executive Order, and for monitoring and enforcing the provisions of this Executive Order.

* * *

Pursuant to the powers vested in me by the 1963 Michigan Constitution and by the 2012 Detroit City Charter, I, Michael E. Duggan, Mayor of the City of Detroit, issue this Executive Order. This Executive Order is effective upon its execution and filing with the City Clerk and supersedes Executive Order No. 2014-4 issued by me on August 22, 2014. Provided, however, that this Executive Order shall not supersede the operation of any prior Executive Order with respect to any publicly-funded construction project on which construction activities have commenced as of the date of this Executive Order.


Michael E. Duggan
Mayor, City of Detroit



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2 WOODWARD AVE., SUITE 1126
DETROIT, MICHIGAN 48226
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EXECUTIVE ORDER NO. 2014-4

**TO: ALL BOARDS, COMMISSIONS, DEPARTMENT DIRECTORS,
CITY COUNCIL MEMBERS AND THE CITY CLERK**

FROM: MICHAEL E. DUGGAN, MAYOR

**SUBJECT: UTILIZATION OF DETROIT RESIDENTS ON PUBLICLY-
FUNDED CONSTRUCTION PROJECTS**

DATE: AUGUST 22, 2014

WHEREAS, it is the policy of this Administration to encourage and maximize the utilization of Detroit Residents on publicly-funded construction projects. An important component of the economic revitalization of Detroit is the employment of Detroit residents,

WHEREAS, this Executive Order directs City departments and agencies to implement specific residency requirements on all construction projects funded, in whole or in part, by the City, and applies to those funded by state or federal funds to the extent permitted by law.

WHEREAS, all City of Detroit project construction contracts shall provide that at least **fifty-one percent (51%)** of the workforce must be bona-fide Detroit residents. In addition, Detroit residents shall perform **fifty-one (51%)** of the hours worked on the project. Workforce and project hours shall include work performed by Detroit residents in the various job categories: officials and managers, supervisors and forepersons, professionals, technicians, sales workers, office and clerical, skilled trades, craft workers, operators, laborers, service workers, apprentices, and on-the-job training positions.

WHEREAS, failure to meet the Detroit resident workforce requirement, including project hours, will result in the following monthly financial penalties:

MICHAEL E. DUGGAN, MAYOR

FINANCIAL PENALTIES

Detroit Resident Hours

45% - 50%
40% - 44%
30% - 39%
0% - 29%

Monthly Recruitment Fee

3%
7%
10%
15%

WHEREAS, developers, general contractors, prime contractors and sub-contractors are required to pass the requirements of this Executive Order down to all lower-tier contractors. However, it is the sole responsibility of the entity contracting with the City of Detroit to require all of their contractors to comply with the City of Detroit requirement to utilize fifty-one percent (51%) of Detroit residents on construction projects. In reaching the Detroit residency requirements, local union halls may be utilized. Additionally, Detroit Employment Solutions may be utilized to recruit and hire Detroit residents, where Detroit residents are unavailable through local unions. **Failure to meet the requirements of this Executive Order will constitute a breach of contract and may result in immediate termination of the contract.**

WHEREAS, at the option of the City of Detroit, any developer, general contractor, prime contractor, sub contractor, or lower-tier contractor that is deficient in the utilization of Detroit residents may be barred from doing business with the City of Detroit for one (1) year. In addition, the City of Detroit reserves the right to re-bid the contract, in whole or in part, and /or hire its own workforce to complete the work.

WHEREAS, all construction contracts, construction contract amendments, change orders and extensions shall include the terms of this Executive Order. The Human Rights Department shall have the responsibility for preparing administrative guidelines, monitoring and enforcing the provisions of this Executive Order.

Pursuant to the powers vested in me by the 1963 Michigan Constitution and by the 2012 Detroit City Charter, I, Michael E. Duggan, Mayor of the City of Detroit, issue this Executive Order. This Executive Order is effective upon its execution and filing with the City Clerk and supersedes Executive Order No. 22 issued by Mayor Coleman A. Young on August 29, 1983, and reissued by Mayor Kwame M. Kilpatrick on November 1, 2007.



Michael E. Duggan
Mayor, City of Detroit



Coleman A. Young Municipal Center
2 Woodward Avenue, Suite 1100
Detroit, Michigan 48226

Phone: 313 -628-2535
Fax: 313 -224-2135
www.detroitmi.gov

January 14, 2021

Office of the Chief Financial Officer
2 Woodward Avenue, Suite 1100
Detroit, MI 48226

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

Dear Mr. Lockridge:

The following attachment represents the Office of the Chief Financial Officer's response for the indicated findings and related recommendations in the "Audit of Civil Rights, Inclusion, and Opportunity Department Interim Report on Compliance Fee Dollars Financial Operations (December 2020)" prepared by the Office of the Auditor General. We have provided the response, along with an estimated/projected implementation date, contact person, and contact person number and email address, in the formatted template as requested.

Sincerely,

John Naglick, Jr.
Chief Deputy CFO/Finance Director
Office of the Chief Financial Officer
Administration

**OFFICE OF THE AUDITOR GENERAL
AUDIT OF CIVIL RIGHTS, INCLUSION, AND OPPORTUNITY DEPARTMENT INTERIM REPORT ON COMPLIANCE FEE DOLLARS
FINANCIAL OPERATIONS
December 2020**

Implementation Tracking of Departmental Responses

FINDING #	AUDIT FINDING	RECOMMENDATIONS		RESPONSIBLE DEPARTMENT	DEPARTMENT RESPONSE(S)	ESTIMATED/ PLANNED IMPLEMENTATION DATE	CONTACT PERSON	CONTACT PERSON NUMBER/EMAIL
		REF.	SPECIFIC RECOMMENDATION					
1.	Monthly Bank Reconciliations Are Neither Accurate Nor Timely	A	Perform monthly bank reconciliations timely. Reconcile all bank accounts to the general ledger no later than thirty (30) days after the month-end.	Controller	In 2019, the Office of Chief Financial Officer (OCFO) launched the Audit Finding Corrective Action Plan (AFCAP) project to review and address historical internal control weaknesses (which included issues with bank reconciliations) that led to external audit findings, and provide training/guidance to staff to prevent future audit findings. As a part of this process, the City continues to implement procedures to ensure the timely recording of reconciling items identified during the bank reconciliations process.	July 2021	Eric Higgs	313-224-6957 higgse@detroitmi.gov
		B	Prepare monthly bank reconciliations along with supplemental schedules accurately.	Controller	In 2019, the Office of Chief Financial Officer (OCFO) launched the Audit Finding Corrective Action Plan (AFCAP) project to review and address historical internal control weaknesses (which included issues with bank reconciliations) that led to external audit findings, and provide training/guidance to staff to prevent future audit findings. As a part of this process, the City continues to implement procedures to ensure the timely recording of reconciling items identified during the bank reconciliations process.	July 2021	Eric Higgs	313-224-6957 higgse@detroitmi.gov

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		REF.	SPECIFIC RECOMMENDATION					
		C	Investigate reconciling differences between bank balances and general ledger cash accounts regularly. Ensure that the identified variances are resolved timely.	Controller	In 2019, the Office of Chief Financial Officer (OCFO) launched the Audit Finding Corrective Action Plan (AFCAP) project to review and address historical internal control weaknesses (which included issues with bank reconciliations) that led to external audit findings, and provide training/guidance to staff to prevent future audit findings. As a part of this process, the City continues to implement procedures to ensure the timely recording of reconciling items identified during the bank reconciliations process.	July 2021	Eric Higgs	313-224-6957 higgse@detroitmi.gov
		D	Monitor and evaluate the aging of outstanding reconciling items, especially items that exist more than one reconciliation period. Outstanding items should be cleared no later than sixty (60) days from the date of the reconciliation.	Controller	To facilitate timely resolution of outstanding items, OCFO on boarded additional staff to follow-up on outstanding reconciling items	July 2021	Eric Higgs	313-224-6957 higgse@detroitmi.gov
		E	Escalate the outstanding reconciling items over sixty (60) days to the Deputy CFO's (Controller, Chief Accounting Office and the Treasurer) as per policy.	Controller	To facilitate timely resolution of outstanding items, OCFO on boarded additional staff to follow-up on outstanding reconciling items	July 2021	Eric Higgs	313-224-6957 higgse@detroitmi.gov
		F	Conduct monthly supervisory reviews of bank reconciliations to ensure the timeliness of bank reconciliations and adjustments, correcting entries are properly authorized. Clearly document the performance of such reviews.	Controller	To facilitate timely resolution of outstanding items, OCFO on boarded additional staff to follow-up on outstanding reconciling items	July 2021	Eric Higgs	313-224-6957 higgse@detroitmi.gov

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		REF.	SPECIFIC RECOMMENDATION					
		G	Monitor the performance and adequacy of supervisory reviews.	Controller	As a part of the AFCAP process, we will continue to review our procedures surrounding bank reconciliations and the review process.	July 2021	Eric Higgs	313-224-6957 higgse@detroitmi.gov
		H	Provide sufficient training to employees who prepare bank reconciliations, clear reconciling items, make journal entries, or take other corrective actions to ensure a thorough knowledge of the City's accounting and financial systems. Employees must clearly understand the City's policies and procedures relating to bank reconciliations if they are expected to execute them with precision.	Controller	To facilitate timely resolution of outstanding items, OCFO on boarded additional staff to follow-up on outstanding reconciling items	July 2021	Eric Higgs	313-224-6957 higgse@detroitmi.gov
		Additional.	Automate Bank Reconciliation: continue to work with Plante Moran and develop action plans and a timeline to fully automate bank reconciliations using the functionality in the City's Oracle Enterprise Resource Planning (ERP) system. The Chief Financial Officer and the appropriate staff should develop a mechanism whereby bank reconciliations should be produced at both the fund level and for each agency/department that has banking activities. This means developing a mechanism whereby bank transactions are identified (in the bank statements) at both the fund level and the agency/department.	Controller	OCFO is continually working to optimize the functionality of the Oracle Cloud ERP system to automate the bank reconciliation process.	July 2021	Eric Higgs	313-224-6957 higgse@detroitmi.gov

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		REF.	SPECIFIC RECOMMENDATION					
2.	Financial Directives Governing Manual Journal Entries Were Not Followed	A.1	Create and maintain a current list of authorized preparers and approvers of CRIO manual journal entries. Review and update the list of (at least) annually or more frequently if appropriate.	Controller	As a part of the on-going AFCAP project, the OCFO will continue to review policies surrounding manual journal entries and make any necessary corrections including ensuring adequate documentation is provided with the journal entry submission and updating/distributing the list of authorized prepares and approvers.	July 2021	Eric Higgs	313-224-6957 higgse@detroitmi.gov
		A.2	Ensure there is adequate management oversight of all manual journal entries at all times.	Controller	As a part of the on-going AFCAP project, the OCFO will continue to review policies surrounding manual journal entries and make any necessary corrections including ensuring adequate documentation is provided with the journal entry submission and updating/distributing the list of authorized prepares and approvers.	July 2021	Eric Higgs	313-224-6957 higgse@detroitmi.gov
		A.3	Arrange for independent reviews of manual journal entries to verify the propriety and validity of transactions.	Controller	As a part of the on-going AFCAP project, the OCFO will continue to review policies surrounding manual journal entries and make any necessary corrections including ensuring adequate documentation is provided with the journal entry submission and updating/distributing the list of authorized prepares and approvers. A process change was put in place to eliminate certain manual entries for cash posting.	July 2021	Eric Higgs	313-224-6957 higgse@detroitmi.gov

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		REF.	SPECIFIC RECOMMENDATION					
		A.4	Periodically review journal entries and the supporting documentation to ensure that it is accurate, complete and sufficient.	Controller	As a part of the on-going AFCAP project, the OCFO will continue to review policies surrounding manual journal entries and make any necessary corrections including ensuring adequate documentation is provided with the journal entry submission and updating/distributing the list of authorized prepares and approvers.	July 2021	Eric Higgs	313-224-6957 higgse@detroitmi.gov
		A.5	Pay particular attention to journal entries that do not conform to prescribed directives, policies, and procedures. Inspect the overriding of journal entries.	Controller	A process change was put in place to eliminate certain manual entries for cash posting. The OCFO Treasury team post all invoice cash receipts via the Oracle Cloud A/R Subledger. This process reduces the need for manual journal entries.	July 2021	Eric Higgs	313-224-6957 higgse@detroitmi.gov
		A.6	Review all documents received and used for reconciliations such as bank statements from the OCFO Office of the Treasury for completeness.	Controller	Controller maintain enough bank statement information to support our reconciliations. Treasury ensures completeness of the Bank Statements.	Complete	Eric Higgs	313-224-6957 higgse@detroitmi.gov
		B.1	Ensure bank statements and other related documents that are received (or downloaded electronically) are reviewed for completeness.	Treasury	OCFO-Treasury reviewed the CRIO statements that are downloaded by Treasury employees to the shared drive monthly. Each statement on the drive were complete and contained all pages.	Complete	Christa McLellan	313-224-1717 Mclellanc@detroitmi.gov
		C.1	Record financial transactions, specifically those related to cash, bank accounts and bank reconciliation activities timely and accurately.	ODFS	To address timely recording of cash transactions, OCFO has developed a Cash Accounting and Auditing Unit which is responsible for the daily recording of all cash deposit transactions.	July 2021	Christa McLellan	313-224-1717 Mclellanc@detroitmi.gov

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		REF.	SPECIFIC RECOMMENDATION					
		C.2	Ensure that journal entries are prepared consistent with the City's directives, policies and procedures. Only persons with appropriate delegated approval authority should authorize transactions.	ODFS	As a part of the on-going AFCAP project, the OCFO will continue to review policies surrounding manual journal entries and make any necessary corrections including ensuring adequate documentation is provided with the journal entry submission and updating/distributing the list of authorized prepares and approvers.	July 2021	Regina Greear	313-224-2584 greearr@detroitmi.gov
		C.3	Ensure that journal entries have appropriate, sufficient, and accurate supporting documentation and that it is maintained in the City's financial system (Oracle).	ODFS	As a part of the on-going AFCAP project, the OCFO will continue to review policies surrounding manual journal entries and make any necessary corrections including ensuring adequate documentation is provided with the journal entry submission and updating/distributing the list of authorized prepares and approvers.	July 2021	Regina Greear	313-224-2584 greearr@detroitmi.gov
		C.4	Ensure there is adequate management oversight of all journal entries at all times, and that employees are trained properly to execute their responsibilities as required.	ODFS	As a part of the on-going AFCAP project, the OCFO will continue to review policies surrounding manual journal entries and make any necessary corrections including ensuring adequate documentation is provided with the journal entry submission and updating/distributing the list of authorized prepares and approvers.	July 2021	Regina Greear	313-224-2584 greearr@detroitmi.gov
3.	Inadequate Segregation Of Duties Within The	A	Follow its directives by assigning incompatible duties (i.e. custody, authorization, record keeping, and reconciliation) to different individuals.	OCFO	The OCFO is creating an Internal Audit division that will review, test and monitor the effectiveness of OCFO policies and procedures to ensure adherence.	July 2021	John Naglick	313-224-4153 naglickj@detroitmi.gov

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	Office Of The Chief Financial Officer	B	Document roles and responsibilities for all key processes within each division (i.e. – within ODFS and the Office of the Controller, etc.).	OCFO	As a part of the AFCAP project, the OCFO will continue to review policies and procedures surrounding internal controls, including controls around separation of duties.	July 2021	John Naglick	313-224-4153 naglickj@detroitmi.gov
		C	Maintain a division workbook documenting the adequacy of the segregation of duties. Periodically review the sufficiency of segregation of duties within the OCFO.	OCFO	As a part of the AFCAP project, the OCFO will continue to review policies and procedures surrounding internal controls, including controls around separation of duties. We note that according to CFO directive 2018-101-017, we believe there is an appropriate separation between the team preparing bank reconciliations (Office of the Controller) and the teams responsible for recording transactions (ODFS/Treasury).	July 2021	John Naglick	313-224-4153 naglickj@detroitmi.gov
		D	Track changes to key process steps and maintain oversight of the changing processes. Ensure that changes to roles and responsibilities have appropriate authorization and process manuals are updated accordingly.	OCFO	As a part of the AFCAP project, the OCFO will continue to review policies and procedures surrounding internal controls, including controls around separation of duties.	July 2021	John Naglick	313-224-4153 naglickj@detroitmi.gov
		E	Periodically rotate key duties among the appropriate level of employees.	OCFO	As a part of the AFCAP project, the OCFO will continue to review policies and procedures surrounding internal controls, including controls around separation of duties.	July 2021	John Naglick	313-224-4153 naglickj@detroitmi.gov

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		REF.	SPECIFIC RECOMMENDATION					
		F	Provide appropriate management oversight as required by the directives.	OCFO	As a part of the AFCAP project, the OCFO will continue to review policies and procedures surrounding internal controls, including controls around separation of duties.	July 2021	John Naglick	313-224-4153 naglickj@detroitmi.gov
		G	Provide adequate training to employees, including educating employees so that they are aware of where their duties start and stop.	OCFO	As a part of the AFCAP project, the OCFO will continue to review policies and procedures surrounding internal controls, including controls around separation of duties.	July 2021	John Naglick	313-224-4153 naglickj@detroitmi.gov
		Additi onal.	If adequate segregation of duties can not be achieved, due to limited resources or other reasons, we recommend that the OCFO implement compensating controls. Compensating controls such as additional supervisory reviews, or secondary signatures, can be implemented to reduce the possible risks arising from inadequate segregation of duties.	OCFO	We note that according to CFO directive 2018-101-017, we believe there is an appropriate separation between the team preparing bank reconciliations (Office of the Controller) and the teams responsible for recording transactions (ODFS/Treasury).	July 2021	John Naglick	313-224-4153 naglickj@detroitmi.gov