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MEMORANDUM

DATE : May 1, 2026

TO : Honorable Detroit City Council
Mayor Mary Sheffield, City of Detroit

FROM: Laura Goodspeed, CPA *Lg*
Auditor General

RE : Audit of the Detroit Health Department Food Safety Operations – Early Communication of Audit Observations

C : Ali Abazeed, Chief Public Health Officer, Detroit Health Department
Winnie Liao, Chief Operations Officer, City of Detroit Mayor's Office
Luke Shaefer, Chief Executive, Health, Human Services and Homeless Prevention
Tanya Stoudemire, Chief Financial Officer, Office of the Chief Financial Officer

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The purpose of this Memorandum is to provide and "Early Communication of Audit Observations" relating to the Audit of the Detroit Health Department – Food Safety Operations.

We are providing this report in compliance with Generally Accepted Governmental Auditing Standards (GAGAS) Chapter 8: Fieldwork Standards for Performance Audits[1]:

> §8.25 Communicating with those charged with governance or management may include communicating deficiencies in internal control; fraud; or noncompliance with provisions of laws, regulations, contracts, and grant agreements. Early communication of these matters may be important because of their relative significance and the urgency for corrective follow-up action. Further, early communication is important to allow management to take prompt corrective action to prevent further occurrences when a control deficiency results in noncompliance with provisions of laws, regulations, contracts, and grant agreements or fraud.

[1]Government Auditing Standards 2024 Revision (Supersedes GAO-21-368G)
https://guides.gaoinnovations.gov/yellowbook/2024/chapter-8-fieldwork-standards-for-performance-audits.html

Background

We conducted the entrance conference with members of management on November 20, 2025. The purpose of the entrance conference was to present the audit scope, objectives, the audit approach/methodology, and to gain an overview of the Detroit Health Department (DHD) Food Safety Operations.

The mission of the Detroit Health Department is to address public and population health priorities of Detroiters. The Department assumes responsibility for ensuring that essential local public health services are provided within the City to improve overall health outcomes for citizens. Environmental Health and Food Safety is one of five operating programs and services within the Health Department. It focuses on licensing food service establishments, reducing foodborne illnesses and investigating environmental hazards.

Our audit objectives are to:

- To determine the efficiency and effectiveness of the food safety programs and services core operations.
- To evaluate the adequacy of food safety programs and services internal controls over the major financial reporting processes, noting any control weaknesses.
- To determine whether the food safety programs and services comply with applicable Finance/CFO Directives, City Ordinances, policies, plans, procedures, laws, and regulations.
- To determine the status of audit findings and issues of non-compliance in prior audit reports related to the Health Department – Food Safety Operations.

The Food Safety Division accepts payments in the form of checks, cashier's checks, money orders, and credit cards, which are deposited in the City of Detroit's bank account at Huntington Bank. Establishment owners have three ways to make payments:

1. Sword Solutions Online Payment Portal with a credit card,
2. Mail in payments to the Health Department with a check or money order, or
3. Pay in person, at the Detroit Health Department – Food Safety Division Office, with a credit card or check.

You should note that on May 1, 2026, we reviewed the contents of this Memorandum with the appropriate management representatives from the Detroit Health Department and the Office of the Chief Financial Officer, prior to publication.

Audit Observations

On April 8, 2026, we met informally with Valerie Agolli, Interim Treasurer, Office of the Chief Financial Officer, Office of the Treasury, and subsequently informed Regina Greear, Chief Deputy Chief Financial Officer, Office of the Chief Financial Officer, about our initial observations and concerns relating to cash handling at the DHD Food Safety Division.

Including, but not limited to, the above initial observation, we observed several significant deficiencies in internal controls over cash and cash handling as presented on the following pages of this Memorandum.

Observation #1: Checks/Money Orders Are Not Adequately Safeguarded

On April 7, 2026, we observed ten unprocessed checks totaling $7,064, stored in an unlocked file cabinet

Observation #2 Checks/Money Orders Are Not Endorsed For Deposit Only When Received

On April 8, 2026, we observed sixteen unprocessed checks totaling $10,819, that were not endorsed for deposit only. This total includes the ten checks observed on the previous day.

Observation#3 A Non-Compliant Instrument Was Accepted, Deposited And Subsequently Returned For Insufficient Funds.

We documented a “bank counter check” for $1,100 that was accepted, deposited and subsequently returned for Insufficient funds. Counter checks, also known as blank checks, are essentially temporary checks that can be requested from the account holder’s bank. Unlike pre-printed checks with the account holder’s name and address, counter checks are typically blank, allowing them to fill in details like date, payee and amount.

Observation #4 Checks/Money Orders Are Not Deposited Timely

We observed several checks dated one to two weeks prior to the date of deposit. There is no way to determine the actual date the check was received since items are not date-stamped upon receipt from the mail, they do not maintain a mail receipt log, and checks are not electronically scanned upon receipt.

Observation #5: Deposits Were Made To Bank Branches Outside Of The City Of Detroit.

According to staff, the electronic check scanner has not been operable since October, 2025. This requires division personnel to physically deposit the checks and money orders into the City account at Huntington Bank. We were advised that the deposits were made at Huntington Bank locations outside of the City of Detroit, because they were “near their homes” in Canton, Westland, and other metro Detroit Michigan locations.

The Office of the Treasurer has approved designated managers and supervisors to physically deposit checks at alternative Huntington Bank branches outside the City of Detroit when the scanner is not operational, due to limited parking at the downtown Huntington Bank location. However, the money is not being transported in sealed money bags during transit.

Observation #6: Checks Were Not Made Payable To The Appropriate Entity
We observed that not all checks/money orders were made payable to the City of Detroit-Treasurer.

Observation #7: Electronically Deposited Checks/Money Orders Were Stored In An Unlocked Cabinet And Retained Beyond The Required Retention Period
In another unsecured file cabinet, we found several electronically deposited checks, stored for retention. We observed checks dating back to 2024. According to the Office of the Treasury, checks should be retained for six months to one year and then be shredded. The Food Safety management and staff were not aware of the retention period for processed checks.

Also, the processed checks were stored in an unlocked file cabinet with bank account and other personal information easily assessable.

Observation #8: The 2018 CFO Directive For Cash Handling Is Out Of Date
On April 14, 2026, the Office of the Chief Financial Officer (OCFO), Office of the Treasury held a cash handling training with the Food Safety Division personnel. During the training, the Office of the Treasury representatives stated that "the "2018 CFO Directive for Cash Handling is out of date, and an Office of the Treasury representative will send an updated policy."

Observation #9: Food Safety Operations Does Not Use The Available Cash Room
The Detroit Health Department building has a "cash room" on the first floor however, we observed that the cash room is not in use. The cash room has a "smart safe" along with a computer, and a printer. Outside of the room is a Detroit Health Department – Food Safety drop box, with the hours of operation posted.

During the training on April 14, 2026, the Office of the Treasury recommended the use of the cash room on the first floor of the building. However, as of April 30, 2026, we observed that the cash room is still not in use.

Observation #10: The City Cannot Provide View/Read Only Access To The Operations Software Systems.
The nature of our internal audit work requires that our office has unrestricted access to all sources of information, property, and personnel in the City's government as prescribed by the City's Charter. As part of our audit in the Detroit Health Department Food Service Division (DHD), our office requested but was unable to obtain a "view-only" access to the Sword Solutions system. Division management told us that Sword Solutions does not have view-only access and therefore access would not be granted to us.

Ideally, our view-only access will allow us to view transaction logs, create and run reports, view documents and any other information stored in the software system. The same access should be extended to the Sword Solutions online payment portal listed on the City's website.

On April 28, 2026, we elevated this critical request to Art Thompson, Chief Information Officer, Department of Innovation and Technology.

Observation #11: There Is A Lack Of Segregation Of Duties.
We observed that all administrative staff can accept in-person payments by credit card, check, or money order, and one or more of the same administrative staff members can complete the following actions:

- Maintains custody of unprocessed checks in an unlocked cabinet within their designated workstation.
- Issue food service licenses to establishment owners who make in-person payments for food license renewals.
- Upload processed payments in the Sword Solution system.
- Complete monthly deposit reconciliation reports.

Status Of Prior Audit Findings
During the Entrance Conference, we provided DHD management with a copy of the Office of the Auditor General's prior audit "Audit of the Department of Health and Wellness Promotion (December 2013) and reviewed relevant prior audit findings. Based on our current audit the following prior audit findings remain unresolved:

1. Lack of Effective Management Over Cash Receipts in Vital Records.
2. Lack of Effective Management Over Cash Received Via Incoming Mail.
3. Lack of Segregation of Duties in the Handling of Cash Receipts.

Effects

The conditions identified in the food safety cash-handling process collectively can result in the following control weaknesses and related risks:

A. Delayed deposits can increase the risk of late recognition of food safety revenue, reduce accountability for payments collected from establishments, and increase the risk of uncollectable revenue, loss, or misplacement of receipts prior to deposit. In addition, delays in depositing funds may result in the loss of interest income or investment earnings that could have been generated had the funds been deposited timely.

B. Ineffective segregation of duties, combined with the food payment processing occurring outside of the Office of the Chief Financial Officer (OCFO) department, results in decentralized cash-handling activities that are not fully integrated with established financial controls and oversight. This increases the risk of errors or irregularities in the collection, recording, and reconciliation of inspection and licensing fees, potentially impacting the accuracy and integrity of program revenue records and resulting in the improper, delayed, or unauthorized issuance of food establishment licenses, as well as the acceptance of the completed applications without appropriate review and confirmation of payment.

C. Ineffective storage and retention of financial instruments increase the risk of unauthorized access to sensitive business and financial information.

D. Processing deposits outside of a designated City bank branch, even within the same bank, reduces consistency in established procedures and limits centralized oversight over licensing and inspection fees revenue, increasing the risk of processing delays, reduced transparency, and weakened control over funds.

   Additionally, requiring staff to travel to alternative branch locations may increase exposure to travel-related safety risks, potentially leading to workers' compensation claims.

E. Financial Instruments that are not properly endorsed upon receipt increase the risk that food safety payments cannot be processed or deposited, may be negotiated by unauthorized parties, and could delay the recording of licensing and inspection fee revenue.

F. Financial Instruments that are not made payable to the appropriate entity increase the risk that payments could be redirected, altered, or otherwise processed outside of established City channels, resulting in potential loss of revenue or inaccurate recording of food safety funds.

G. Noncompliance with the established food safety fee schedule payment acceptance for plan review fees increases the risk that the plan review activities may be performed without confirmed receipt of payment, resulting in uncompensated services and reduced cost recovery for the division.

H. Not utilizing the cash room for food safety transactions weakens physical safeguards over inspection and licensing payment, increasing the risk of improper handling or loss of funds.

Conclusion and Recommendation

With significant weaknesses in internal control, the likelihood of cash misappropriation is high, creating a “more than remote” to “probable” chance that fraud or theft will occur undetected. Key risk includes lack of duty segregation (e.g., one person handling and recording cash), poor security over assets and lack of independent and proper reconciliation. Key controls needed to mitigate this include restricting access to cash, implementing segregation of duties, and conducting regular and sufficient independent reconciliation.

We recommend that the Office of the Treasury take immediate steps to take control of the cash and cash handling at the Detroit Health Department until appropriate and adequate processes and procedure can be implemented to reduce the current high risk of misappropriation of the City’s assets.