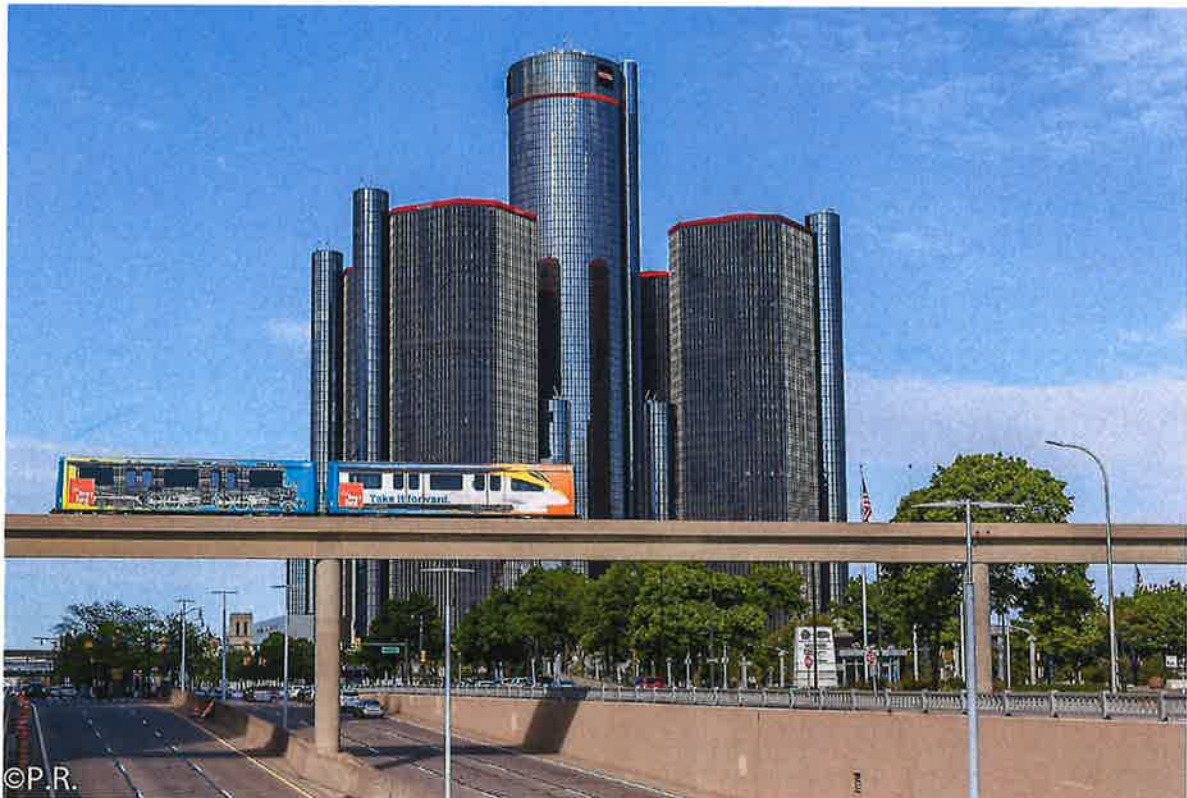


City of Detroit

OFFICE OF THE AUDITOR GENERAL



Audit of the Detroit Transportation Corporation

January 2023



Office of the Auditor General

Mark W. Lockridge, Auditor General

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DATE: January 26, 2023

TO: Honorable City Council
Mayor Michael E. Duggan

FROM: Mark W. Lockridge, CPA *MWL*
Auditor General

RE: Audit Of The Detroit Transportation Corporation

CC: Robert Cramer, General Manager, Detroit Transportation Corporation
Hakim Berry, Group Executive, and Chief Operations Officer
Jeanet Kulcsar, Director of Strategy, Office of the Chief Financial Officer
John Naglick, Chief Deputy Chief Financial Officer/Finance Director, Office of the Chief Financial Officer
Jay Rising, Chief Financial Officer, Office of the Chief Financial Officer

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

We would like to thank the Detroit Transportation Corporation for their cooperation and assistance during this 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 THE DETROIT TRANSPORTATION CORPORATION
DECEMBER 2022**

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- Detroit Transportation Corporation (DTC)

**AUDIT OF THE DETROIT TRANSPORTATION CORPORATION
AUGUST 2022**

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EXECUTIVE OVERVIEW

The Office of the Auditor General (OAG) conducted an audit of the Detroit Transportation Corporation (DTC). Our audit encompasses DTC's activities from July 1, 2015 to June 30, 2021. This section summarizes key findings and recommendations developed during the DTC Performance Audit.

DTC was created in 1985 by the City of Detroit pursuant to Public Act 7 of 1967 as a component unit of the city to acquire, complete, and operate the Downtown People Mover. When DTC was created, the People Mover was already under construction. On July 31, 1987, the People Mover began operating revenue service.

Achieving DTC's goals and objectives relies on an effective internal control system. An internal control system is the policies combined with procedures created by management to protect the integrity of assets and ensure the efficiency of operations. Internal control design provides reasonable assurance that an organization can achieve its objectives. Management cultivates an effective internal control system by maintaining adequate policies and procedures, communicating these policies and procedures, and monitoring compliance with policies and procedures.

Our review of DTC operations found that there were significant deficiencies in accounting, human resources, and information system controls due to management not maintaining, revising, and monitoring the internal control environment. The internal control deficiencies contributed to informal practices and irregularities in the performance of operations, the lack of defined accountability and performance measurement for critical operations, and the potential for DTC operations to become misaligned with business objectives.

By implementing recommendations to develop policies and procedures, a risk management process, and continuous internal control monitoring, DTC will be better prepared to administer and improve operations now and in the future.

As independent internal auditors, we approach our audits with an unbiased focus on "adding value and improving an organization's operations." According to the American Institute of Certified Public Accountants (AICPA), "the concept of accountability for the use of public resources and government authority is key to our nation's governing processes." In addition, Generally Accepted Government Auditing Standards (GAGAS)¹ states that:

Government auditing is essential in providing accountability to legislators, oversight bodies, those charged with governance, and the public. GAGAS engagements provide an independent, objective, nonpartisan assessment of the stewardship, performance, or cost of government policies, programs, or operations, depending upon the type and scope of the engagement.

¹ Generally Accepted Government Auditing Standards (GAGAS) 2018 Revision, Compiled by the Comptroller General of the United States Government Accountability Office, <https://www.gao.gov/yellowbook>.

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

Audit Purpose

The audit of the Detroit Transportation Corporation (DTC) was performed in accordance with the Office of the Auditor General's charter mandate to 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 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 62 of this report.)

The definition of Audit Scope is defined in GAGAS² Section 8.10:

Scope is the boundary of the audit and is directly tied to the audit objectives. The scope defines the subject matter that the auditors will assess and report on, such as a particular program or aspect of a program, the necessary documents or records, the period of time reviewed, and the locations that will be included.

The scope of this audit was from July 1, 2015 through June 30, 2021.

Audit Objectives

The audit objectives were to determine:

1. The adequacy of DTC's system of internal controls over financial transactions.
2. DTC's compliance to applicable policies, plans, procedures, and regulations.
3. The status of prior audit findings and recommendations.

Audit Methodology

The audit objectives were accomplished by performing the following audit work:

- Reviewing prior audit report of the Detroit Transportation Corporation.
- Documenting processes related to procurement/disbursements, fixed assets, payroll, and petty cash.
- Interviewing appropriate personnel and management to understand the internal control system related to financial transactions, including policies and procedures, and to assess the implementation of the prior audit recommendations.

² Generally Accepted Government Auditing Standards (GAGAS) 2018 Revision, Compiled by the Comptroller General of the United States Government Accountability Office, <https://www.gao.gov/yellowbook>.

- Performing testing on a sample basis to obtain sufficient evidential information to achieve the related audit objectives and perform any additional audit procedures necessary to accomplish the audit objectives.
- Preparing an audit report summarizing the findings and recommendations based on the results of sample testing, and all other audit procedures performed.

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 62 of this report.

Conclusions

Based on the results of our audit, we have concluded that:

- There is a lack of effective and efficient internal controls over various financial processes and transactions, resulting in:
 - A lack of segregation of duties over receipts and disbursements.
 - Weaknesses in cash receipts, cash disbursements, and bank reconciliation processes.
- DTC does not have formal documented internal policies and procedures for some of its accounting operations, and some policies and procedures are outdated and inadequate. In addition, DTC does not comply with some of its policies and procedures, resulting in:
 - Informal ad hoc practices and irregularities in the performance of some accounting operations.
 - A lack of defined accountability for critical accounting operations.
 - Increased difficulty in assessing the effectiveness of the control environment.
 - A potential for accounting operations to become misaligned with business objectives.
- There are deficiencies in DTC’s information systems, and human resource operations, evidenced by a lack of:
 - Effective and efficient accounting system information controls over processing and reporting data and information, user access, vacation accruals, and vendor accounts.
 - Compliance with vacation, performance evaluations, salary policies, and procedures.

We also found several issues concerning DTC operations which are highlighted in our “**Note of Concerns**” on page 54 of this report.

BACKGROUND

The Detroit Transportation Corporation (DTC) owns and operates the Detroit People Mover (DPM). DPM is an automated light rail system that runs on an elevated 2.9-mile, single-track loop in Detroit's central business district.

The People Mover transports passengers to destinations (i.e. - station stops) that are connected to or in the vicinity of municipal courts, governmental administrative offices, exhibition centers, hotels, and commercial and financial establishments in the downtown area.

DTC is governed by a Board of Directors comprised of six (6) members, appointed by the Mayor without compensation or set terms. The City Council President also sits on the board. DTC's organizational structure includes twelve (12) divisions: Administration, Executive, Accounting, Field Operations, Homeland, Human Resources, Maintenance, Marketing, Operations Administration, Quality Control, Safety, and System Operations.

Mission³

To provide safe, reliable, efficient, and accessible rail transportation services that will serve to enhance business development and quality of life functions in Detroit by augmenting pedestrian travel and by supporting both private conveyances and other modes of public transportation.

Strategic Goals⁴

- **Usage:** Increase ridership and revenue by providing information and transportation on the DPM system.
- **Awareness:** Increase the visibility of the People Mover among the general public, including current, potential, and non-riders.
- **Service:** Communicate the system's accessibility, economy, and reliability while providing superior customer service effected by helpful, competent staff as well as qualifying for funding streams that will enhance the system.
- **Safety:** Promote a safe transportation environment with public comprehension of the procedures and security measures employed to move people while supporting the City, state, and national Homeland Security Initiatives.

DTC is a component unit of the City for financial statement purposes. Component units are entities for which the government's elected officials are financially accountable and organizations whose exclusion would cause a government's financial statements to be misleading. The City provided DTC with an annual operating subsidy of \$6.5 million for fiscal year 2018, \$7.0 million for fiscal year 2019, \$6.0 million for fiscal year 2020. DTC did not receive a subsidy for fiscal years 2021 and 2022.

³ Detroit Transportation Corporation Employee Handbook – Updated January 2019

⁴ Ibid

From 2005 to date, DTC has experienced the following changes in its leadership:

- Barbara Hansen, General Manager, July 26, 2005, through November 7, 2019.
- Garry Bulluck, Interim General Manager, November 8, 2019 through May 30, 2022.
- Ernest Latham, Interim General Manager, May 30, 2022 through July 11, 2022.
- Robert Cramer, General Manager, July 11, 2022 to present.

The following table shows total operating revenues, operating expenses, operating loss, net capital, and non-operating revenues for fiscal years ending June 30, 2019 through 2022:

Detroit Transportation Corporation Financials				
Category	Fiscal Years Ending June 30,			
	2019	2020	2021*	2022*
Operating Revenues	\$ 1,044,769	\$ 606,864	\$ 660	\$ 0
Operating Expenses	22,087,252	19,378,310	12,549,992	13,885,972
Net Operating Loss (Revenues less Expenses)	(21,042,483)	(18,771,446)	(12,549,332)	(13,885,972)
Net Capital and Non-operating Revenues	\$ 18,102,345	\$ 14,451,684	\$ 9,637,650	\$ 13,738,367

**Note: DTC Total Operating Revenues were severely impacted due to the COVID pandemic and resulting lockdown procedures. The trains were not operating, and no cash receipts were collected during fiscal years ending 2021 and 2022. Limited service began on May 20, 2022.*

Triennial Review Process and Background Summary

The Federal Transit Administration (FTA) Triennial Review looks broadly at recipient management practices and compliance with program and administrative requirements across a broad spectrum of topic areas. Areas of review include financial management and capacity, technical capacity, maintenance, procurement, civil rights, and others.

The last completed review during the audit period was in 2018 and focused on DTC's compliance in twenty areas. Defects were found in the following eight areas:

1. Financial Management and Capacity
2. Technical Capacity
3. Award Management
4. Maintenance

5. Procurement
6. Title VI
7. Americans with Disabilities Act – General
8. Equal Employment Opportunity and Section 5307 Program Requirements.

The eight areas of concern in the FTA Triennial Review are presently being reviewed in DTC's 2022 Triennial Review.

STATUS OF PRIOR AUDIT FINDINGS

Listed below are relative prior audit findings and the status of each finding. The prior audit report on the Detroit Transportation Corporation (DTC) was from July 1, 2006, through June 30, 2008.

A. **Internal Control Weaknesses in the Cash Receipts Process**

A condition in this prior audit finding has not been resolved and is discussed in the finding and page number of this report as follows:

Relevant Condition	Finding #	Page
Personnel in the Field Operations Division do not always record their names or otherwise identify themselves on the Revenue Collection Form when replacing a cash box full of coins and tokens stored in a faregate with an empty cash box.	5	37

Other Conditions in this Prior Audit Finding Not tested

The Office of the Auditor General did not test the following conditions found in the "Internal Control Weaknesses in the Cash Receipts Process" prior audit finding due to the COVID pandemic and resulting lockdown procedures. The trains were not operating, and no cash receipts were collected during the scope of this audit.

- A. Checks and money orders received through the mail are not immediately endorsed for deposit only.
- B. The door to the Pass and Token Sales Office remains unlocked when not occupied by the cashier. Although cash receipts are locked in the safe or in the cash register drawer, some products for sale in the office are not secured.
- C. Types of payment (cash, check, or credit card) received by the Pass and Token Sales Office were not always correctly rung up on the cash register. A test sample of twelve days of sales transactions shows the types of payment that were erroneously selected while ringing up sales on eleven of those days.
- D. Some cash receipts (employees' co-pay fee associated with the YMCA, garnishment processing fee, and subpoena-processing fee) were not recorded in a centralized log. Ten incidents of such were found in March 2008.

B. Incompatible Duties and Access Rights Related to the Cash Disbursements Process

This finding has not been resolved and is discussed in the finding and page number of this report as follows:

Relevant Conditions	Finding #	Page
A. Two employees of the Accounting Administration Division have incompatible duties and/or access rights to the DTC's accounting system, Microsoft Great Plains. One of the employees prepares checks through the accounts payable software and adds new vendors to the system.	6	41
B. The other employee has administrative rights, which is unlimited access, to the accounting system, including rights to add new vendors to the accounts payable system, and the authority to instruct the bank to transfer funds to and from the DTC's accounts at the bank. This employee also prepares checks in the absence of the employee assigned the duty.	2 6	15 41

AUDIT FINDINGS AND RECOMMENDATIONS

Finding #1: There Are Inadequate Policies and Procedures and Design Issues Over Certain Financial Activities

The Detroit Transportation Corporation's (DTC) policies and procedures are inadequate or nonexistent. Specifically, there are internal control deficiencies and design issues relating to bank account administration, bank reconciliations, and cash disbursements (i.e., accounts payable).

Conditions

- A. DTC does not have adequate documented controls for bank account administration.

The accounting department does not have formal written policies or standard operating procedures for bank account administration and reconciliations as detailed below:

Inadequate Policies And Procedures In Bank Account Administration	
Policy and Procedure	Issue
Bank Account Administration	DTC lacks documented policies and procedures for opening, closing, updating, monitoring, and maintaining bank accounts.
Bank Reconciliations	<ol style="list-style-type: none"> 1. DTC lacks a documented policy for ensuring that data integrity between non check withdrawal bank records and internal financial records is monitored timely. DTC only has established procedures for reconciling paper checks in the accounting system. 2. There is not a documented process for reconciling cash and electronic bank transactions to the accounting records.

- B. Bank reconciliation forms have design issues.

Bank reconciliation forms are inadequate and do not capture the preparer or approver. Forms used in the bank reconciliation process do not include an area for the preparer and approver's signature or date. Therefore, we could not determine when they were completed, or who prepared and approved the bank reconciliations reviewed during this audit.

- C. DTC's accounts payable policy is outdated and it is not complete.

The department has not updated the accounts payable procedure since December 20, 2012. The current policy is not complete, and it is missing some key policy components as detailed below:

Inadequate Policies And Procedures Related To Disbursements/Accounts Payable Activities	
Policy	Condition
Prompt Payment	DTC lacks policies to ensure vendor payments are mailed or delivered to the vendor within a designated period.
Vendor Maintenance	DTC lacks the following documented policies and procedures for its accounting system: <ul style="list-style-type: none"> • Review or approval of vendors and vendor information added. • Change management procedures for vendor accounts. • Classification of vendor and employee reimbursement accounts.
Electronic Fund Transfers (EFT)/Electronic Payments	DTC lacks a documented policy and procedures for the disbursement of funds via EFT, including a documented process for vendor authorization of electronic payments. The current process is the same as a paper check for EFT transactions. Paper checks were issued and signed for EFT transactions. Accounting staff marked void or dummy on paper checks used for electronic payments.

D. Accounts payable documentation has design issues.

1. Voucher Package Preparation
Accounts Payable does not have a document that indicates who prepares the voucher packages and the package's preparation completion date.
2. Voucher Package Approval
The accounting department notes voucher package approvals on the check request forms. The accounting manager's signature is required on the form to approve the voucher package. Check request forms did not include an area for the accounting manager to sign or date (see "**Finding #3: DTC Did Not Follow Some Of Its Policies And Procedures Relating to Cash Disbursements**" on page 19 of this report for additional details.)
3. Electronic Fund Transfer (EFT) Approvals
Cash disbursement approval forms did not support internal controls over cash disbursement through EFTs. For example, there was not a form or any notification to disbursement approvers informing them that an electronic payment was being processed instead of a paper check.

Criteria

A. Federal Government Accountability Office (GAO) "Standards for Internal Control in the Federal Government"

The standard states that "control activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, including the entity's information system." This principle requires management to implement control activities through the following two attributes:

1. **Documentation of Responsibilities Through Policies**

This attribute requires management to document the responsibility for an operational process's objectives and related risks and control activity design, implementation, and operating effectiveness for each unit in policies. The established policies need the appropriate level of detail to allow management to monitor the control activity in each unit effectively.

2. **Periodic Review of Control Activities**

This attribute requires management to "periodically review policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity's objectives or addressing related risks." For example, when changes occur in personnel, operational processes, or information technology, management should review the process promptly to determine that they have appropriately designed and implemented control activities. Management also considers these changes in its periodic review.

B. Government Finance Officers Association (GFOA)

The Accounting Procedures Manual strongly encourages each local unit to implement best practices listed in the GFOA including the following:

An accounting policies and procedures documentation system that is well designed and properly maintained enhances accountability and consistency. The Association recommends that documentation of accounting policies and procedures should be evaluated annually and updated periodically, no less than once every three years, according to a predetermined schedule. Documentation should be updated when changes occur to policies and procedures between periodic reviews. A specific employee should oversee this process.

C. City of Detroit Office of the Chief Financial Officer Directives

1. **CFO Directive No. 2018 - 101 – 001 - Administrative Issuance System**

This directive aims to provide a standardized process for preparing, approving, issuing amendments, and administering policies and standard operating procedures. The City's finance directive reflects the following best practices for the creation and updating of policy documentation:

- **Section 6.1** - All authorities, functions, policies, procedures, statements, opinions, and other governance of the OCFO shall be established and disseminated through a Document.

- **Subsection 7.4.2** - Documents shall be reviewed annually by the CFO, Deputy CFO, or other Executive Service employees as identified in the document, indicated by the AIS Chapter, or otherwise determined by the CFO.
2. **CFO Directive No. 2018 - 101 - 017 - Cash Management**

The primary purpose of this directive is to establish the policies regarding bank account management, cash receiving and accounting, bank accounts and reconciliations, and liquidity management.
 3. **CFO Directive No. 2018 - 101 - 018 - Accounts Payable**

The primary purpose of this directive is to establish a process for cash disbursements, including documentation, authorization, and electronic payment requirements.
- D. City of Detroit Ordinance 17 - 5 - (281 - 288) - Prompt Payment of Vendors
The primary purpose of this ordinance is to ensure the satisfactory performance of contracts with vendors is promptly determined and certified and to ensure that payment to a vendor is promptly authorized.
- E. Accounting Procedures Manual for Local Units of Government in Michigan
The Accounting Procedures Manual for Local Units of Government in Michigan states that internal controls rely on the principle of checks and balances in the workplace. It is in the design and implementation of control activities where internal controls are strengthened or weakened. Control activities include, but are not limited to, the following:
1. **Direction and Supervision** - Provide employees with the appropriate training, guidance, and resources necessary to carry out their duties. Management needs to provide an appropriate level of direction and supervision. Employees also need to be aware of the proper channels to report suspected improprieties. Employees need to know that every employee has a responsibility for internal control.
 2. **Cash Disbursements** - Procedures must be implemented to control funds release, including wire transfers and Automatic Clearing House (ACH) authorizations.

Effects

As a result of the control weaknesses identified above, permanent and/or temporary personnel may not be aware of all DTC policies and procedures. They may not understand their relevance to DTC operations, leading them to make decisions and resulting in actions which contradict those policies. Moreover, the lack of formal policies and standard operating procedures resulted in:

- Informal practices and irregularities in the performance of accounting operations. This is also discussed in “**Finding #3: DTC Did Not Follow Some Of Its Policies And Procedures Relating to Cash Disbursements**” and “**Finding #4: Bank Reconciliations Are Inadequate, And They Are Neither Effective Nor Efficient**” on pages 19 and 27, respectively, of this report.

- The lack of defined accountability and performance measurement for critical accounting operations.
- Increased difficulty in assessing the effectiveness of the control environment.
- A potential for accounting operations to become misaligned with business objectives.

Causes

DTC management stated that staffing shortages made it difficult and almost impossible to ensure proper internal control within their department. Based on our observations, we identified that management did not exercise effective and efficient supervisory and strategic management functions and maintain, update, and monitor DTC's accounting internal control system. The department's small size and the team's knowledge and experience contributed to this issue. Accounting management focused the department's priorities on completing its day-to-day operations rather than evaluating its accounting operations.

Recommendations

We recommend that DTC management establish an effective internal control system using the GAO, GFOA, State of Michigan's Department of Treasury's Accounting Procedures Manual for Local Units of Government in Michigan, and City of Detroit ordinances and finance directives as a guide to creating and implementing an adequate and sufficient system of internal controls by:

- A. Creating written policies and standard operating procedures for bank account administration and reconciliation. In addition, management should develop step-by-step guidance for all accounting functions. These procedures should include a plan for:
 - Delegating roles and responsibilities for all accounting functions, including performance expectations, performance metrics, and documentation and reporting requirements.
 - Continuously monitoring relevant changes in the industry, regulations, and control environment that may impact the department and require implementing immediate changes to operations.
 - A process to monitor compliance involving calendars and checklists to track and ensure accounting processes are completed timely.
 - A risk management process to identify, assess, and manage critical risks in the accounting department to ensure that management implements adequate and sufficient internal controls and monitors them.
- B. Updating reconciliation forms to include preparer and approver date and signature lines.
- C. Establishing written policies for accounts payable. Update standard operating procedures to include policies and procedures for vendor maintenance in the accounting system, electronic payments, and prompt payment to vendors.

D. Updating voucher packages forms to include preparer and accounting manager signature lines. Create a separate form for electronic funds transfers approvals.

Finding #2: The Accounting Department Lacks Adequate Segregation Of Duties Over Various Financial Processes

DTC's accounting department lacks adequate segregation of duties that ensure its accounting system and underlying data are reliable and protected from errors and misappropriation.

Background

DTC's sources of cash receipts revenue include wire transfers directly to their bank accounts for Federal Transit Administration drawdowns, the Southeast Michigan Council of Governments grants, City of Detroit, and Michigan Act 51 subsidies, and State of Michigan matching funds. DTC also receives cash receipts from token and pass sales for train operations, paper checks from a contracting company for advertisements, and paper checks for other miscellaneous payments/receipts.

Cash disbursements are primarily made through paper checks, which are mailed to vendors for payment. Some disbursements/payments are made via electronic funds transfers. DTC records the electronic payments as "paper checks" by using the paper check numbers.

Conditions

- A. There is a lack of segregation of duties over cash receipts.
 The Accounting Manager and Controller receive bank statements and documentation concerning cash receipts and prepare and approve journal entries. In addition, the Accounting Manager performs bank reconciliations as detailed in the table below:

Duties That Should Be Segregated	Cash Receipts Activities Related To Segregation Of Duties	Performed By
Custody of Assets	<ul style="list-style-type: none"> • Cash and Checks • Deposits 	Courier Service Revenue Specialist Payroll Accountant (Not a segregation of duty issue)*
Authorization	<ul style="list-style-type: none"> • Approves journal entries 	Accounting Manager Controller
Recordkeeping	<ul style="list-style-type: none"> • Prepares journal entries • Receives bank statements • Receives cash receipt documentation 	Accounting Manager Controller
Reconciliation	<ul style="list-style-type: none"> • Performs bank reconciliations 	Accounting Manager

**Note: A courier service picks up and deposits token sales. Funds collected for sales at the office and through the mail for tokens, passes and ad revenue are deposited by the either the Revenue Specialist or Payroll Accountant.*

- B. There is a lack of segregation of duties over disbursements.
 The Accounting Manager and Controller prepare and approve journal entries, receive bank statements, and have access to create and void checks in the accounting system. The Accounting Manager also has access to blank and voided checks and performs bank reconciliations. The Controller has authority to transfer funds to and from DTC's bank accounts as shown in the table below:

Duties That Should Be Segregated	Disbursements Activities Related to Segregation of Duties	Performed By
Custody of Asset	<ul style="list-style-type: none"> • Has access to blank check stock and voided checks (Accounting Manager only) • Has access to create and void checks in Microsoft Dynamics 	Accounting Manager Controller
	<ul style="list-style-type: none"> • Has authority to instruct the bank to transfer funds to and from the DTC's bank accounts 	Controller
Authorization	<ul style="list-style-type: none"> • Approves journal entries 	Accounting Manager Controller
Recordkeeping	<ul style="list-style-type: none"> • Prepares journal entries • Receives bank statements 	Accounting Manager Controller
Reconciliation	<ul style="list-style-type: none"> • Performs bank reconciliations 	Accounting Manager

Criteria

- A. Accounting Procedures Manual for Local Units of Government in Michigan.
 The Accounting Procedures Manual for Local Units of Government in Michigan asserts the following:

1. Components of Control Activity (Checks and Balances) - Segregation of Duties

"Duties must be segregated among different people to reduce the risk of errors or misappropriation. No one person should have control over all aspects of financial transactions. An individual is not to have responsibility for more than one of the three transaction components: authorization, custody, and recordkeeping. When the work of one employee is checked by another, and when responsibility for the custody of the assets is segregated from the recordkeeping related to that asset, there is appropriate segregation of duties. Duties must also be designed to be consistent with laws and regulations which may assign certain duties to particular elected officials or management."

2. **Cash Receipting Procedures**

"Separation of duties should be considered where possible. For example, collections should be reconciled by an individual not involved in the receipting process. Ideally, cash collection and depositing should be performed by an employee who is independent of general ledger recordkeeping and bank reconciliation."

3. **Cash Disbursement Procedures**

"All functions (i.e., deposit, write checks, issue/send checks, reconcile account) regarding a checking account should not be performed by the same individual."

B. City of Detroit Chief Financial Officer CFO Directive No. 2018 - 101 - 042 Internal Controls - Authorization and Approval; Segregation of Duties and; Custody and Security Arrangements.

This directive aims to establish a framework for the City to implement an effective internal control system to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. The directive reflects the following best practices:

1. **Subsection 6.1.3.** - Employees approving transactions shall be separate from employees charged with initiating such transactions.
2. **Subsection 6.2.1.** - No one person shall exercise complete control over more than one key function or activity (i.e., authorizing, approving, certifying, disbursing, receiving, or reconciling). Duties shall be separated such that one person's work serves as a check and balance to another person's work.
3. **Subsection 6.3.1.** - Employees responsible for security/custody of assets are separated from record keeping/accounting for those assets. Unauthorized access to assets and data is strictly prohibited.

Effect

The lack of internal controls, especially inadequate segregation of duties, increases the risk of undetected errors and irregularities. As a result, it provides the opportunity for multiple cases of abuse, including misappropriation of funds, inappropriate expenditures, inaccurate financial records, and the potential for theft of funds and fraud.

Causes

We determined that the Accounting department experienced staffing shortages and did not monitor and assess its control environment to implement changes needed to sustain an appropriate internal control system.

Recommendations

We recommend that DTC management establish an effective internal control system using the State of Michigan's Department of Treasury's Accounting Procedures Manual for Local Units of Government in Michigan and the City of Detroit finance directives as a guide to creating and implementing an appropriate system of internal controls by:

- A. Segregating cash receipt and cash disbursement responsibilities among various staff and management.
- B. Ensuring that appropriate management oversight is provided through review and updates to accounting policies and procedures to assign the incompatible duties to currently filled positions. Adequate compensating controls should be implemented when staffing vacancies do not allow the performance of normal controls. Vacant accounting positions should be filled as soon as possible.

Finding #3: DTC Did Not Follow Some Of Its Policies And Procedures Relating To Cash Disbursements

DTC did not comply with some of its policies and procedures relating to cash disbursements (i.e., accounts payable), including inconsistent and incomplete voucher payment packages and the lack of proper authorizations on check request forms. We also found irregularities in the cash disbursement process resulting in an improper payment to an employee as a vendor, payments without valid contracts, duplicate payments, and other conditions.

Background – Cash Disbursement Sample Size & Analytical Review

We reviewed DTC's cash disbursements (i.e., accounts payable) practices and selected a sample of checks and the supporting voucher payment packages (which consist of check request forms, invoices, purchase orders, receiving reports, and/or invoice approval forms). The items in the sample covered invoices processed after the DTC board appointed the previous General Manager (November 2019) and are from November 18, 2019 to February 24, 2021.

Our sample of cash disbursements included 227 checks and supporting vouchers totaling \$4,510,281. In addition, we noted that the Accounting staff completed 359 check request forms for the 227 voucher payment packages, as shown below:

Type of Records	Total Documents in Sample	Total Value in Sample
Voucher Payment Packages	227	\$4,510,281
Check Request Forms	359	
Number of Checks	227	

In addition to the cash disbursement review, we completed a cash disbursement analysis to identify any irregularities with invoice entries, the accounting system and cash disbursements. We identified several invoices for further review. Our analysis of cash disbursements included a population of 11,461 invoice payments cleared in the bank from July 1, 2015, to February 25, 2021.

Conditions

A. DTC did not adhere to some cash disbursement/accounts payable policies and procedures.

1. **Voucher payment packages did not contain the required documentation to support the disbursement adequately.**

Based on our review of the 227 voucher packages, we found:

- 53.3% were missing purchase orders.
- 8.8% did not have proof of receipt for goods or services.
- 3.5% did not have invoices to support the disbursement.

Missing Documents in Voucher Packages		
Missing Document	Number Of The Missing Documents	Percentage Of Missing Documents
Purchase Orders	121	53.3%
Receiving Proof	20	8.8%
Invoices	8	3.5%

2. **Managers did not authorize invoices.**

Managers responsible for the goods, services, or contracts did not approve all invoices paid. Based on our review of the 227 voucher packages, we found that 75.3% (or 171) of the invoices in the voucher packages did not have the required approvals.

3. **Accounting Management did not approve the voucher package.**

The accounting manager did not sign any (or 0.0%) of the 359 check request forms supporting the voucher package approval

4. **The General Manager and the Controller did not sign check request forms to support voucher package payments.**

Based on our review of the 359 check request forms which support the voucher payment packages, we found that (overall) 221 (or 61.6%) of the check request forms were missing one or both of the required approver signatures. This accounts for 72.4% of the value of the sample, as noted in the table below:

Missing Check Request Authorizations			
Item	Total Check Request Forms	Total Documents Missing At Least One Signature	Percentage of Missing Signatures
Number of Documents	359	221	61.6%
Total Disbursement Amount in Sample	\$4,510,281	\$3,267,309	72.4%

Further details of the check request forms are:

- a. 42.6% (or 153) of the check request forms were not signed by the Controller as required.
- b. 46.5% (or 167) of the check request forms were not signed by the General Manager (or the DTC alternate during the period when the General Manager did not have the authorization to sign checks) as required.

5. **Checks did not contain the required two signatures.**

DTC's policy requires two signatures on checks \$2,500 and above. Out of a sample of 227 checks, 110 required two signatures. Out of 110 checks requiring two signatures, we found that 33.6% (or 37) did not have the proper signatures. These improperly signed checks accounted for 19.3% of the value of the sample as shown in the table below:

Missing Check Request Authorizations			
Item	Total that Required Dual Signatures	Total Missing Two Signatures	Percentage of Missing Two Signatures
Number of Checks	110	37	33.6%
Total Disbursement Amount in Sample	\$4,412,489	\$852,766	19.3%

B. Irregularities were identified in the cash disbursement process resulting in the following conditions:

1. **DTC paid an employee as a vendor.**

Our review of accounts payable transactions and cash disbursement records revealed that an employee hired in 2005 received a payment from DTC for their company. On July 15, 2016, DTC paid the employee's company \$227 for film video editing consisting of creating a storyline, color correction, adding background music, and special effects. There was no evidence of a purchase order listed or issued for the payment.

2. **DTC paid advertising commissions without an approved contract.**

The advertising company had a five-year contract from June 2008 through June 2013. DTC did not obtain board approval for a new contract which is required when the amount exceeds \$25,000. Instead, DTC continued to pay advertising commissions to the company after the contract expired, totaling \$541,854.90 between 2016-2020.

3. **Duplicate invoice numbers exist in the accounting system.**

A total of 275 invoices were entered into the accounting system under duplicate invoice numbers. We identified a total of 222 invoices that did not have an invoice number. In lieu of an invoice number, DTC entered their customer account number or common description in the accounting system for multiple invoices.

4. **Some invoices were paid twice.**

Upon further analysis of the duplicated invoice numbers, we revealed that 20 invoices were paid twice (for a total of 40),

resulting in \$53,194 of duplicate payments, as shown in the table below:

Duplicate Invoice Payments				
Item Number	Vendor ID	Invoice Number	Invoice Date	Amount Paid
1	FUT	839	11/30/2015	\$ 9,525
2	FUT	839	*11/30/2016	9,525
3	TRA11	33555	11/21/2016	320
4	FACI	33555	11/21/2016	320
5	PARS	771749	2/2/2018	6,618
6	PARS	771749	2/23/2018	6,618
7	PARS	869202	5/28/2019	20,945
8	PARS	869202	5/17/2019	20,945
9	ESD	2200936	11/12/2014	295
10	BOX	2200936	11/12/2014	295
11	PLU	10748070	1/16/2020	1,800
12	PLU	10748070	1/16/2020	1,800
13	PLU	10748072	1/16/2020	1,488
14	PLU	10748072	1/16/2020	1,488
15	TOS	14064108	11/2/2017	448
16	TOS1	14064108	11/2/2017	448
17	GEE	30022828	6/28/2017	1,505
18	GEE	30022828	6/28/2017	1,505
19	URS 1	37619175	8/31/2015	8,583
20	URS	37619175	8/31/2015	8,583
21	COR5	711586901	7/13/2017	228
22	COR	711586901	7/11/2017	228
23	COR	712416615	11/15/2018	97
24	COR5	712416615	11/15/2018	97
25	COR5	712465548	12/25/2018	223
26	COR	712465548	12/19/2018	223
27	COR5	712474295	12/26/2018	193
28	COR	712474295	12/26/2018	193
29	GRAI	9175123380	5/14/2019	25
30	GRAI	9175123380	5/14/2019	25
31	GRAI	9197927479	6/7/2019	307
32	GRAI	9197927479	6/7/2019	307
33	GRAI	9552107139	9/11/2017	24
34	GRAI	9552107139	9/11/2017	24
35	GRAI	9556293976	9/14/2017	26
36	GRAI	9556293976	9/14/2017	26
37	UPS	0000A06965296	7/16/2016	266
38	UPS	0000A06965296	7/16/2016	266
39	FED	1 - 634 - 88568	11/30/2017	278
40	FED	1 - 634 - 88568	11/30/2017	278
Total Value of Duplicate Invoices				\$106,388
Total Amount of Duplicate Payments				\$ 53,194

**Note: The invoice was paid a year later on the same date.*

5. **Some invoices were incorrectly entered into the accounting system.**

We identified four invoices that were entered into the accounting system incorrectly under the wrong invoice numbers.

6. **Some invoices could not be found.**

Supporting documentation could not be found for two invoices, and we could not verify if a duplicate payment occurred.

Criteria

A. DTC Accounting Procedure 001 - Accounts Payable Procedures

Accounts Payable is responsible for accurate and timely payment of all invoices for DTC in accordance with generally accepted accounting principles. This includes all payments on contracts, purchase orders, blanket purchase orders, check requests, travel advances and travel expense vouchers, petty cash, and freight bills. DTC's accounts payable procedures stipulate the following:

1. The Accounts Payable Clerk is responsible for preparing the voucher packages, which consist of a check request, invoice, purchase order, receiving report, and/or invoice approval form (3-way match).
2. The manager responsible for the goods, services, or contract must review and approve the invoice. The DTC staff will return the invoice to the Accounts Payables Clerk indicating payment approval or the need to withhold payment for any specific reason.
3. The Accounting Manager is required to review and approve the voucher package and the check. Their signature must be affixed to the check request to approve the voucher package. DTC management is responsible for the approval of invoice payments.
4. The General Manager and the Controller are required to approve the voucher package before the Accounts Payable Clerk processes the voucher package for payment.
5. Checks of \$2,500 and above must be prepared with the electronic signature and countersigned manually by the General Manager of the Corporation or one of the authorized officers of the DTC Board of Directors as an alternate.

B. City of Detroit Chief Financial Officer CFO Directive No. 2018 - 101 - 018 Accounts Payable - Disbursement

The City's accounts payable finance directive reflects the following best practice:

Subsection 6.3.1. - All payment requests shall be supported by proper documentation, authorization/approval, and general ledger account coding prior to processing, as confirmed by Accounts Payable.

C. DTC's 2008 Purchasing Policy

DTC's 2008 purchasing policy requires that:

1. The Corporation does not enter any contract involving services or property with a member of its organization, its employees, any officials (elected or appointed) of Federal, State, or Local governments, or a business in which any of the above have a significant interest or secure any benefit.
2. No employee or agent shall in any way use his position or office to obtain financial gain for himself or any member of his household, or for any business with which the employee or agent or a member of the employee or agent's household is associated, other than an honorarium or the employee or agent's official salary or reimbursement of expense. Any employee or agent who violates or attempts to violate these rules shall be subject to all penalties, sanctions, and disciplinary action, including, where appropriate, suspension and dismissal, permitted by applicable law.

D. City of Detroit Chief Financial Officer CFO Directive No. 2018 - 101 - 020 Contracting and Procurement - Authorized and Unauthorized Purchases

The City's contract and procurement finance directive reflect the following best practice:

Subsection 6.2.1. - All purchases shall be made under a valid, legal agreement.

E. The Accounting Procedures Manual for Local Units of Government in Michigan

The Accounting Procedures Manual for Local Units of Government in Michigan recommends the following control activities:

1. **Authorization Procedures** - Authorization procedures need to include a thorough review of supporting documentation to verify the propriety and validity of transactions.
2. **Authority** - If someone is to be held accountable for a certain responsibility, be sure to give them the necessary authority to complete that task. This will require that separate departments work together to achieve objectives for the local unit as a whole.
3. **Direction and Supervision** - Employees need "the appropriate training, guidance, and resources necessary to carry out their duties. Management needs to provide an appropriate level of direction and supervision. Every employee has a responsibility for internal control."
4. **Monitoring** - "Internal control systems should be monitored. Monitoring is a process that assesses the quality of the system's performance over time. Ongoing monitoring occurs in the ordinary course of business and includes regular management and

supervisory activities, and other actions personnel take in performing their duties. Internal control systems change over time, and the way controls are applied may evolve. Procedures can become ineffective due to new personnel, the effectiveness of training and Supervision, time and resource constraints, and other external pressures. Also, the circumstances for which procedures were originally designed may change, making procedures obsolete.”

Effects

As a result of not adhering to DTC Accounting Procedures and State of Michigan best practices:

- Management did not adequately safeguard funds. DTC paid \$3,267,309 (or 72.4%) of the sampled \$4,510,281 in invoices, without proper authorization.
- A sufficient audit trail was not maintained for invoice approvals.
- Unapproved purchases were placed with vendors and paid.
- Duplicate payments were not detected or prevented, resulting in overpayments totaling \$53,194.

Causes

We determined that the deficiencies that occurred throughout the accounts payable internal control system were due to:

- **Document design issues** – As stated in “**Finding #1: There Are Inadequate Policies And Procedures And Design Issues Over Certain Financial Activities**” on page 9 of this report, procedural documentation did not exist or were not designed to support effective accounts payable internal controls:
 - Forms requiring the preparer’s signature were not available.
 - Check request forms did not include a signature line for the accounting manager’s approval.
- **A delay in the authorization of authority to perform assigned duties** – DTC’s board did not give the General Manager authorization to sign checks until a month after their appointment. The General Manager did not receive the authorization from the bank to sign checks until three months after their appointment.
- **Purchasing internal control issues** – According to the DTC Controller, *“Purchase Orders at DTC were meaningless and incomplete. Most purchases were made on the fly, long after an item was bought and received.”* We determined that purchases were made without an approved purchase order.
- **A lack of thorough review and monitoring of accounts payable control activities.**

Recommendations

We recommend that DTC management:

- A. Ensure that individuals perform and are held accountable for all required accounts payable internal control responsibilities by:
 1. Setting the tone at the top by following policies and procedures.
 2. Training individuals and ensuring that they understand control responsibilities.
 3. Requiring signed acknowledgment statements for policies.
 4. Implement a compliance monitoring process to track and ensure accounting processes are complete and effectively implemented.
 5. Issuing disciplinary actions when internal controls are not followed.
 6. Granting and obtaining the necessary authority to perform all duties required timely, preferably at the start of employment.
 7. Ensuring that an authorized check signer other than the chairperson is assigned as the alternate and performs check approval and signing responsibilities when the General Manager cannot perform them. Ensure that alternates are trained and understand control responsibilities.
- B. Continuously monitor changes in the control environment that may impact the department and implement needed changes timely. Review and update the accounts payable internal control processes and supporting control documents to ensure that control objectives are achieved, assets are safeguarded, and controls are performed effectively and efficiently. Processes should include the following:
 1. A standard invoice numbering guideline within the policies and procedures manual.
 2. Reinforcement of a thorough review of previous invoice payments and nonpayment of invoices from expired contracts and services from prohibited vendors.
- C. Consider hiring additional staff or incorporating electronic software solutions to improve process efficiencies, reduce risk and strengthen controls.

Finding #4: Bank Reconciliations Are Inadequate, And They Are Neither Effective Nor Efficient

We found that bank reconciliations are not prepared or approved timely and included old outstanding checks that were not cleared or resolved timely, mismatched identification of paper versus electronic checks, and other reconciliation and general ledger entry irregularities.

Note that DTC does not have adequate policies or procedures regarding bank reconciliations, as stated in “**Finding #1: There Are Inadequate Policies and Procedures and Design Issues Over Certain Financial Activities**” on page 9 of this report.

Background

Bank and Check Reconciliations

We requested to review DTC's bank reconciliations and supporting documentation for July 2019-March 2021 to assess the bank reconciliation process. DTC's accounting department provided only eight bank reconciliations as listed in the chart below:

Bank Reconciliation Audit Sample July 1, 2019-March 31, 2021		
Bank Reconciliation Status	Total Reconciliations	Percentage
Requested	21	100.0%
Not Received	13	61.9%
Received	8	38.1%

This is also discussed in “**Note of Concerns - Item E: The Accounting Department Did Not Provide Documentation Timely**” on page 58 of this report.

General Ledger and Bank Account Analytical Review

In addition to the bank reconciliation review, we completed an analysis to identify any inaccuracies with transactions entered in the accounting system. The analysis included a comparison of the cash disbursement records in the general ledger to the bank account transactions that occurred during the audit period (July 2015-March 2021). Several transactions were identified for further review. Our analysis included the following population:

General Ledger and Bank Account Audit Sample July 1, 2015-March 31, 2021		
Transaction Type	Total Transactions	Amount
Bank Account Transactions	6,573	\$ 65,516,608
General Ledger Cash Disbursement Transactions	7,298	\$ 65,457,097

Conditions

We reviewed eight bank reconciliations for the general banking account and found the following conditions:

A. Bank reconciliations were not prepared or approved timely.

- Three of eight (or 37.5%) reconciliations were not completed within 30 days after the statement date.
- One of eight (or 12.5%) reconciliation was approved 363 days after it was prepared.
- Five of eight (or 62.5%) reconciliations did not include the name of the preparer, the signature of the reviewer or approver, or the approval date.

The following table details the reconciliations that were not prepared or approved timely:

Detail Of Bank Reconciliation Review					
Reconciliation Month	Required Reconciliation Date	Actual Bank Reconciliation Date	Approval Date	Number of Days Late (Preparation)	Number of Days Late (Approval)
July 2019	08/30/2019	10/29/2019	7/28/2020	90	363
August 2019	09/30/2019	Unknown	Unknown	Unknown	Unknown
September 2019	10/30/2019	Unknown	Unknown	Unknown	Unknown
October 2019	11/30/2019	Unknown	Unknown	Unknown	Unknown
November 2019	12/30/2019	Unknown	Unknown	Unknown	Unknown
December 2019	01/30/2020	Unknown	Unknown	Unknown	Unknown
January 2020	02/29/2020	03/24/2020	03/24/2020	53	53
July 2020	08/30/2020	09/17/2020	09/17/2020	48	48

B. Outstanding checks were not resolved and cleared promptly.

Seven of eight (or 87.5%) reconciliations we reviewed had old outstanding checks that had not been cleared or resolved. The checks ranged in age from 182 days to 939 days (over 2½ years) outstanding.

C. Wrong check numbers on the bank reconciliations.

Three of eight (or 37.5%) bank reconciliations had wrong check numbers listed for checks cashed in the bank. In addition, nine checks were improperly listed as cleared in the three reconciliations.

1. Two checks matched an electronic payment on the bank statement. The following table details the information entered in the accounting records versus the actual bank transaction that occurred:

Electronic Payments Recorded as Paper Checks						
Check Reconciliation Transaction			Bank Statement Transaction			
Check Date	Check Number	Check Amount	Transaction Date	Transaction Type	Transaction Number	Transaction Amount
6/30/2020	60511	\$ 44,666	7/29/2020	Electronic Payment	200729	*\$89,347
7/27/2020	60528	\$ 44,666				

**Note: The bank transaction of \$89,347.00 includes an additional \$15 transaction fee which DTC accounted for on a separate manual journal entry.*

- Five checks matched the amounts cashed on the bank statement under different check numbers. The following table details the information entered in the accounting records (and reconciliations) versus the actual bank transaction that occurred:

Checks Recorded In General Ledger With Inaccurate Checks Numbers					
Transactions On Check Reconciliation			Bank Statement Transaction		
Check Date	Check Number	Check Amount	Transaction Date	Check Number	Check Amount
7/15/2020	60545	\$ 17,862	7/31/2020	60513	\$ 17,862
7/15/2020	60546	\$ 3,095	7/30/2020	60514	\$ 3,095
7/15/2020	60549	\$ 5,000	7/27/2020	60517	\$ 5,000
7/15/2020	60553	\$ 14,800	7/30/2020	60521	\$ 14,800
7/15/2020	60557	\$ 321	7/31/2020	60525	\$ 321

- Two checks were issued with duplicate check numbers. The reconciler covered the duplicate issued check number with a false uncashed one. The following table displays the information entered in the accounting records (and reconciliations) versus the actual bank transaction that occurred:

Duplicate Check Number Issued But Not Recorded						
Transactions On Check Reconciliation and General Ledger				Bank Statement Transaction		
Reconciliation Month	Check Date	Check Number Cleared	Check Amount	Transaction Date	Check Number	Check Amount
Aug-19	8/22/2019	59561	\$ 25,841	8/28/2019	59561	\$ 89
Sep-19	Not Listed on Reconciliation			9/4/2019	59561	\$ 25,841
Oct-19	10/30/2019	59791	\$ 89	Check Was Never Cashed		

D. Discrepancies in general ledger entries versus bank transactions.

- Mismatched identification of electronic payments recorded as paper checks in the general ledger.**

There were thirty-three payments were listed as (issued) paper checks on the general ledger. However, they were actually electronic payments per the bank reconciliations and bank statements. The following table displays the information entered in the accounting records versus the actual bank transaction that occurred:

Electronic Payments Recorded as Paper Checks					
General Ledger Transactions			Matching Bank Statement Electronic Payments		
Check Date	Check Number	Check Amount	Transaction Date	Amount	Notes
6/29/2018	57839	\$ 24,855	5/31/2018	\$ 24,855	
6/26/2018	57816	\$ 20,181	6/15/2018	\$ 20,181	
7/30/2018	57950	\$ 355	6/25/2018	\$ 355	
8/20/2018	58096	\$ 490	7/16/2018	\$ 490	
7/25/2018	57916	\$ 223	7/31/2018	\$ 223	
7/30/2018	57949	\$ 194	7/31/2018	\$ 194	
8/20/2018	58095	\$ 823	8/14/2018	\$ 823	
9/26/2018	58287	\$ 8,925	10/9/2018	\$ 8,925	
10/16/2018	58420	\$ 185	10/25/2018	\$ 185	
12/11/2018	58605	\$ 5,950	12/14/2018	\$ 5,950	
1/17/2019	58676	\$ 168	1/9/2019	\$ 345	
1/17/2019	58677	\$ 178			
4/26/2019	59150	\$ 1,941	3/20/2019	\$ 40,785	(A)
3/13/2019	58880	\$ 38,829			
4/9/2019	59057	\$ 24,041	3/25/2019	\$ 24,041	
3/22/2019	58895	\$ 357	3/27/2019	\$ 357	
4/9/2019	59056	\$ 21,703	4/5/2019	\$ 21,703	
4/11/2019	59092	\$ 38,829	4/10/2019	\$ 38,829	
6/7/2019	59332	\$ 38,844	6/7/2019	\$ 38,844	
4/7/2020	60241	\$ 31,834	4/9/2020	\$ 31,834	
4/8/2020	60268	\$ 44,666	4/9/2020	\$ 40,681	(B)
4/22/2020	60302	\$ 696	5/1/2020	\$ 367	
			5/1/2020	\$ 328	
6/3/2020	60403	\$ 62,809	6/11/2020	\$ 62,809	
6/30/2020	60511	\$ 44,666	7/29/2020	\$ 89,347	(C)
7/27/2020	60528	\$ 44,666			
8/12/2020	60583	\$ 29,272	8/13/2020	\$ 29,272	
10/21/2020	60770	\$ 330	10/8/2020	\$ 59,467	
10/21/2020	60736	\$ 593			
6/30/2020	60510	\$ 29,272			
10/1/2020	999998	\$ 29,272			
11/16/2020	100003	\$ 428	11/16/2020	\$ 428	
11/19/2020	100004	\$ 239	11/19/2020	\$ 239	
12/29/2020	999969	\$ 182	1/11/2021	\$ 182	
Total Electronic Payments Recorded as Paper Checks		\$ 545,966			

- Notes: (A) The bank transaction of \$40,785 includes an additional \$15 transaction fee which DTC accounted for on a separate manual journal entry.
- (B) The bank transaction of \$40,681 includes an additional \$15 transaction fee which DTC accounted for on a separate manual journal entry.
- (C) The bank transaction of \$89,347.00 includes an additional \$15 transaction fee which DTC accounted for on a separate manual journal entry.

2. Manual check numbers were entered in the general ledger to record unrecorded checks.

Seven previously unrecorded checks were entered in the general ledger using manual check numbers. DTC staff recorded the entries in the general ledger only after the checks were cashed by the payee. The following table details the information entered in the accounting records versus the actual bank transaction:

Manual Check Numbers Used To Record Previously Unrecorded Checks					
General Ledger Transactions			Matching Bank Statement Transactions		
Check Date	Check Number	Check Amount	Transaction Date	Check Number	Amount
3/1/2018	99992	\$ 156	2/12/2018	57272	\$ 156
3/1/2018	99993	\$ 968	2/9/2018	57273	\$ 968
3/1/2018	99994	\$ 114,036	2/9/2018	57274	\$ 114,036
3/1/2018	99995	\$ 4,271	2/8/2018	57275	\$ 4,271
3/1/2018	99996	\$ 795	2/15/2018	57276	\$ 795
3/1/2018	99997	\$ 73	2/9/2018	57277	\$ 73
3/1/2018	99998	\$ 9,949	2/14/2018	57278	\$ 9,949
Total of Previously Unrecorded Checks					\$ 130,248

3. Unused checks/check numbers were used to record check numbers that had been voided but were actually cleared by the bank.

DTC voided thirteen checks/check numbers in the general ledger that were actually cashed by the bank. They then used other (unused) check numbers to record the transaction. The table below details the transaction:

Unused Check Numbers Used To Record Checks That Cleared The Bank					
General Ledger Transactions			Matching Bank Statement Transactions		
Check Date	Voided Check Number	Check Amount	Transaction Date	Check Number	Amount
7/15/2020	60549	\$ 5,000	7/27/2020	60517	\$ 5,000
7/15/2020	60546	\$ 3,095	7/30/2020	60514	\$ 3,095
7/15/2020	60553	\$ 14,800	7/30/2020	60521	\$ 14,800
7/15/2020	60545	\$ 17,862	7/31/2020	60513	\$ 17,862
7/15/2020	60557	\$ 321	7/31/2020	60525	\$ 321
7/15/2020	60550	\$ 2,625	8/3/2020	60518	\$ 2,625
7/15/2020	60551	\$ 903	8/3/2020	60519	\$ 903
7/15/2020	60554	\$ 149	8/4/2020	60522	\$ 149
7/15/2020	60547	\$ 1,085	8/4/2020	60515	\$ 1,085
7/15/2020	60548	\$ 1,104	8/4/2020	60516	\$ 1,104
7/15/2020	60555	\$ 404,486	8/5/2020	60523	\$ 404,486
7/15/2020	60556	\$ 328	8/6/2020	60524	\$ 328
7/15/2020	60552	\$ 440	8/24/2020	60520	\$ 440
Total Uncashed Check Amount		\$ 452,198			\$ 452,198

4. Some payments were not recorded in the General Ledger timely.

There were twenty-four checks recorded in the general ledger that occurred after vendors cashed the checks. The following table displays the information entered in the general ledger, versus the actual bank transaction that occurred, and the total days the transactions were missing from the general ledger (GL).

Transactions Recorded In General Ledger After Payment							
Bank Statement Transactions			General Ledger Transactions				
Bank Transaction Date	Check Number/ EFT	Transaction Amount	Date Recorded In General Ledger	Check Number	Amount	Days Missing From GL	Notes
8/28/2019	59561	\$ 89	10/30/2019	59791	\$ 89	63	
3/20/2019	EFT	\$ 40,785	4/26/2019	59150	\$ 1,941	37	(A)
6/25/2018	EFT	\$ 355	7/30/2018	57950	\$ 355	35	
7/16/2018	EFT	\$ 503	8/20/2018	58096	\$ 490	35	(B)
5/31/2018	EFT	\$ 24,855	6/29/2018	57839	\$ 24,855	29	
2/8/2018	57275	\$ 4,271	3/1/2018	99995	\$ 4,271	21	
2/9/2018	57273	\$ 968	3/1/2018	99993	\$ 968	20	
2/9/2018	57274	\$ 114,036	3/1/2018	99994	\$ 114,036	20	
2/9/2018	57277	\$ 73	3/1/2018	99997	\$ 73	20	
2/12/2018	57272	\$ 156	3/1/2018	99992	\$ 156	17	
2/14/2018	57278	\$ 9,949	3/1/2018	99998	\$ 9,949	15	
3/25/2019	EFT	\$ 24,041	4/9/2019	59057	\$ 24,041	15	
2/15/2018	57276	\$ 795	3/1/2018	99996	\$ 795	14	
10/8/2020	EFT	\$ 59,466	10/21/2020	60770	\$ 330	13	(C)
10/8/2020	EFT	\$ 59,466	10/21/2020	60736	\$ 593	13	(C)
6/15/2018	EFT	\$ 20,181	6/26/2018	57816	\$ 20,181	11	
1/9/2019	EFT	\$ 346	1/17/2019	58676	\$ 168	8	(D)
1/9/2019	EFT	\$ 346	1/17/2019	58677	\$ 178	8	(D)
2/21/2018	EFT	\$ 21,193	2/28/2018	57374	\$ 21,193	7	
8/14/2018	EFT	\$ 823	8/20/2018	58095	\$ 823	6	
10/18/2019	58783	\$ 1,875	10/24/2019	59783	\$ 1,875	6	
4/5/2019	EFT	\$ 21,703	4/9/2019	59056	\$ 21,703	4	
3/9/2020	60188	\$ 13,740	3/13/2020	60217	\$ 13,740	4	
4/10/2019	EFT	\$ 38,829	4/11/2019	59092	\$ 38,829	1	
Total Cash Disbursements Not Recorded Timely					\$ 301,632		

Notes: (A) The balance for bank transactions totaling \$40,785 is accounted for in multiple journal entries.

(B) The balance for bank transactions totaling \$503 is accounted for in multiple journal entries.

(C) & (D) The balance for bank transactions of \$59,466 and \$346 are accounted for in multiple journal entries.

Criteria

A. The Accounting Procedures Manual for Local Units of Government in Michigan

The State of Michigan Accounting Manual states that checks and balances are an essential part of internal controls in the workplace. They are strengthened or weakened based on the design and implementation of control activities. A few of the control activities include the following:

1. **Bank reconciliations** - Bank reconciliations must be timely. All cash accounts should be reconciled with their respective bank statements monthly. An authorized individual not responsible for cash handling should reconcile bank statements to the general ledger when possible and these documents should be kept for audit purposes. An individual must keep track of the total cash and investments allocated to each fund and reconcile these amounts to monthly bank statements.
2. **Monitoring** - Internal control systems should be monitored. Monitoring is a process that assesses the quality of the system's performance over time. Ongoing monitoring occurs in the ordinary course of business and includes regular management and supervisory activities, and other actions personnel take in performing their duties. Internal control systems change over time, and the way controls are applied may evolve over time.

B. City of Detroit Chief Financial Officer CFO Directive No. 2018 - 101 - 018
Accounts Payable - Payment Voids

Along with the guidance presented above, the City of Detroit also has best practices for voiding transactions and checks, which include:

1. The responsibility of reviewing and approving all supplier payment voids is separate from the cancellation of supplier payments in the Accounts Payable subledger module.
2. Voiding checks when they have not cleared in the bank after 180 days from the date of issuance.

C. City of Detroit Chief Financial Officer CFO Directive No. 2018 - 101 - 017
Cash Management

The City's cash management finance directive reflects the following best practices for bank reconciliations:

1. **Subsection 6.4.2.** - Bank accounts shall not be used to track funds in lieu of proper accounting.
2. **Subsection 6.4.3.** - All bank accounts shall be reconciled to the general ledger no later than 30 days after the month-end.
3. **Subsection 6.4.4.** - Each bank reconciliation is required to have a preparer and approver. All bank reconciliations should be prepared and approved by different staff at the appropriate level.
4. **Subsection 6.4.5.** - Each bank reconciliation should be cleared of all variances no later than 60 days after 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.

D. City of Detroit Chief Financial Officer CFO Directive No. 2018 - 101 - 042
Internal Controls - Timely and Accurate Review and Reconciliation

The City's internal controls finance directive reflects the following best practices:

1. **Subsection 6.4.1.** - Accounting records and documents are reviewed by employees who have sufficient understanding of the accounting and financial systems to verify that recorded transactions actually took place and were made in accordance with policies and procedures.
2. **Subsection 6.4.2.** - Departmental accounting records and documentation are compared to financial reports to verify their reasonableness, accuracy, and completeness.

Effects

The lack of an effective bank account reconciliation procedure resulted in:

- Decreased managerial oversight and accountability in preparation and thorough review of reconciliations and supporting documentation.
- Undetected journal entry and transaction errors.
- Increased risk of fraudulent, unauthorized, and inappropriate transactions occurring without detection.

Causes

Staffing shortages, and time consuming manual accounting processes, combined with a lack of policies and/or standard operating procedures, resulted in bank account reconciliations and general ledger procedures occurring on an ad-hoc and untimely basis. Informal procedures and documentation were created and implemented over time without being formally documented or reviewed. In addition, documents used in the process were not designed to support internal controls. Date and/or signature lines were not present on the forms.

Recommendations

We recommend that DTC management:

- A. Establish an effective internal control system using the State of Michigan's Department of Treasury's Accounting Procedures Manual for Local Units of Government in Michigan, and the City of Detroit finance directives as a guide to creating and implementing an adequate and sufficient system of internal controls by:
 1. Overseeing the creation of a formal policy that identifies the areas of accounting's responsibility for internal controls, including bank account administration.
 2. Continuously monitoring changes in the control environment that may impact the department and implement needed changes timely.

3. Implementing a compliance monitoring process to track and ensure completeness of accounting processes.
 4. Ensuring that all bank accounts are reconciled to source documentation monthly.
 5. Updating bank reconciliation forms to include signer/approver signature and date lines.
- B. Take appropriate action to resolve or clear aged outstanding checks by stopping payment of the check if DTC does not have physical possession of the check. Also, appropriate corresponding entries should be made in the general ledger to void the check, clear it from the list of outstanding checks, and restore the funds to the cash book balance.
- C. Ensure that reconciling items are documented, researched, and resolved on a timely basis.
- D. Ensure that transactions are recorded accurately and timely within the general ledger. Consider hiring additional staff or incorporating electronic software solutions to improve process efficiencies, reduce risk and strengthen controls.

Finding #5: There Are Internal Control Weaknesses In The Cash Receipts Process

We reviewed DTC's cash receipts process and determined there were internal control weaknesses in the process.

Background

DTC generates revenue through pass and token sales in the following ways:

- Token sales (faregate) at machines located at thirteen stations.
- Sales office at the Buhl Building.
- Web sales of People Mover (PM) passes.
- Consignment of passes to be sold at events.
- Direct pass sales to entities (companies and organizations.)

We were unable to review the sales office, web sales, and consignment of passes because DTC had ceased these services and the operation of the trains in April 2020 due to COVID. As of February 3, 2022, they have not resumed operations of the trains.

DTC also generates revenue from advertising. They contract with a company to sell advertising space on the trains and in the stations, including wrapping the exterior of the trains with advertisements.

Our sample selection was limited to fourteen journal entries containing documentation concerning cash receipts. We did not receive the requested items for testing the cash receipts from DTC. Our sample of cash receipts is derived from the journal entries we received, which was also used for testing in other areas of our audit fieldwork. We tested all supporting documentation contained in the fourteen journal entries which included seventy-six tear-off slips from tamper proof bags from sixty cash collections at various faregate machines.

Conditions

We reviewed DTC's internal control over the revenue collection process for token sales, direct pass sales, and advertising revenue. We determined that:

A. DTC did not complete documentation used in the revenue collection process.

1. Token revenue slips were not initialed, and some signatures were not legible.

Token revenue is collected by a contractor and a DTC employee and placed in a tamper proof bag. DTC uses the tear off portion of the bag to confirm the contractor's collection of the funds. We reviewed 76 tear-off slips to determine if both the DTC and the contractor signed the tear off portion of the tamper proof bag. We found that DTC and the contractor did not sign some slips, and others were illegible. The following chart details the number and percentage of revenue slips with missing and/or illegible signatures:

Token Revenue Slips Not Initialed Or Illegible			
Revenue Slips By Type	Total Slips	Total Sampled Slips	Percentage of Missing Signatures or Illegible Slips
Slips Not Signed	51	76	67.1%
Illegible Slips	25	76	32.9%

2. Signatures on token collection forms were illegible.

The token collection form identifies the collection date, the station serviced, the person who collected and observed the removal of tokens from the machine, the machine number, and the number of tokens and cash removed from the machine. We reviewed 13 token collection forms for appropriate signatures during January 2019. All cards were signed. However, we could not read the initials/signatures of the individuals.

B. Faregate revenue was not entered timely.

The faregate revenue transactions for January 2020 were not entered into DTC's financial records until March 19, 2020. The following chart shows the amount and total revenue that accounting staff recorded late from one journal entry:

Faregate Revenue Not Recorded Timely				
Faregate Revenue Date	Date Recorded In GL	Days Missing From GL	Total Faregate Collections	Total Amount
01/03/2020	03/19/2020	76	15	\$ 6,948
01/10/2020	03/19/2020	69	13	4,111
01/17/2020	03/19/2020	62	16	5,085
01/24/2020	03/19/2020	55	16	8,821
Total Collections and Revenue Recorded Late			60	\$24,965

C. DTC did not maintain complete revenue journal records and supporting documentation.

1. Accounting staff did not maintain revenue source documentation.

We reviewed 23 cash receipt journal vouchers relating to cash receipts (token, pass, and advertising sales). The 23 vouchers contained 55 entries relating to cash receipts revenue. We reviewed the entries to determine if the entries had proper documentation to support the journal voucher entries posted to DTC's accounting system. We determined that the following cash receipts journal entries from related vouchers did not have adequate documentation to support the journal entry:

- a. One of three advertisement revenue supporting documentation, or 33.3% of entries for advertising revenue had no invoice.

- b. Two of eight faregate revenue supporting documentation, or 25.0% of faregate entries missed a batch acceptance report and brink's coin transfer sheet.
- c. Nine of 44 pass/token sales revenue supporting documentation, or 20.1% of pass and/or token sales entries were missing transaction summary/sales sheet, invoice, pass sales reports, and deposit activity summaries.

The following chart displays the number of missing documents from the samples reviewed:

Missing Supporting Documentation			
Supporting Documentation By Revenue Type	Total Missing Supporting Documentation	Total Sample Documents	Percentage of Missing Supporting Documentation
Advertisement	1	3	33.3%
Faregate	2	8	25.0%
Pass/Token Sales	9	44	20.1%
Total Documents	12	55	

2. Cash receipt journal entries were missing preparer and approval signatures.

We reviewed 18 cash receipt journal entries to determine if the entries contained a preparer and approver signature. We determined that the preparer and approver did not sign 15 (or 83.4%) of the journal entries as detailed below:

Cash Receipt Journals With Missing Signatures		
Missing Signature by Type of Signer	Number of Missing Signatures	Percentage of Missing Signatures (Out of 18 Cash Receipts Journals)
Approver	9	50.0%
Preparer	3	16.7%
Preparer and Approver	3	16.7%
Total Cash Receipts Journal With Missing Signatures	15	83.4%

Criteria

A. The Accounting Procedures Manual for Local Units of Government in Michigan

The State of Michigan Accounting Manual states under Documentation and Records ensure that records are reviewed and reconciled routinely by someone other than the preparer to verify that transactions are properly

processed. Documentation and record retention requirements should be structured to provide reasonable assurance that all information and transactions of value are accurately recorded and retained.

B. CFO Directive No. 2018 - 101 - 017 Cash Management - Cash Receiving and Accounting

The City's cash management finance directive reflects the following best practices:

Subsection 6.3.2. - All banking transactions shall be recorded in the cash management system daily.

C. The Accounting Procedures Manual for Local Units of Government in Michigan

Documentation and record retention requirements should be structured to provide reasonable assurance that all information and transactions of value are accurately recorded and retained.

Effects

The lack of proper internal controls in the cash receipts process may lead to:

- The lack of employee accountability if there are any discrepancies or missing funds collected by those employees.
- Inaccurate financial records, missing funds, and management making decisions without complete financial information.
- Insufficient documentation to support the cash receipts journal entries in their accounting system.

Cause

We determined that management did not monitor the documents involved in the cash receipts process to ensure compliance with industry best practices.

Recommendations

We recommend that DTC:

- A. Review and monitor all documents within the cash receipts process to ensure that appropriate signatures and documents exist to support cash receipts transactions.
- B. Record cash receipts received promptly, i.e., within 30 days.
- C. Provide adequate and sufficient supporting document for all journal entries including obtaining and recording all necessary authorizations.

Finding #6: There Are Several Deficiencies In Information Systems Controls

Our review of the accounting system information controls revealed several deficiencies, including inadequate controls over (a) processing and reporting data and information, (b) user access, (c) vacation accruals, and (d) vendor accounts.

Background

DTC utilizes the following three major information technology software products in its operations:

1. **NOVAtime and Paychex Payroll Systems**

DTC uses NOVAtime and Paychex systems for the timekeeping and processing of payroll. Payroll data is imported from NOVAtime into and paid via the Paychex system. In addition, Human Resources has access to the payroll web program with a separate interface to set up new employees and delete terminated employees.

2. **Microsoft Dynamics**

DTC utilizes an enterprise resource planning (ERP) system called Microsoft Dynamics, designed to meet the needs of project-driven small and medium-sized businesses. The software aids with project management, finance, project accounting, manufacturing, field services, work order and inventory management, payroll, supply chain management, analytics, and electronic commerce.

3. **Preventive Maintenance Control (PMC)**

PMC is a computerized maintenance management system (CMMS) designed to simplify work order management, reduce parts inventory, and extend asset life. DTC uses this software for work orders, maintenance, inventory, and purchasing goods and services.

Conditions

A. **DTC did not leverage available technology to increase the efficiency of its processes**

Our information system review revealed that management did not take advantage of available resources to improve the performance of operations and distribute information timelier amongst divisions. DTC continued to use manual processes in place of computerized methods. We identified the following conditions:

1. **Manual processes are executed within computerized payroll processes.**

Hourly employees submit an electronic timecard weekly in NOVAtime. Managers print timecards sheets, and both the employee and manager sign the timecards for approval. In contrast, salaried employees submit an Excel spreadsheet bi-weekly to report their time to the General Manager. Salaried employees' time is submitted to the payroll accountant for entry into NOVAtime.

2. **Accounting staff monitored contract spending and budget to actuals using Excel spreadsheets.**

Contract award amounts and budget information are not entered into the ERP system instead, they are maintained outside the system. The Accounting division monitors funds available on contracts and budgets using an Excel spreadsheet. The software can automate these processes.

3. **Accounting staff processed bank reconciliation manually in place of available automatic processing.**

Bank reconciliations are completed manually outside of the financial software. The bank reconciliation module within DTC's financial system is active and not currently configured for use. The software can automate the reconciliation process.

B. There is a lack of control over user access in information systems.

1. **NOVAtime and Paychex**

The payroll accountant has access to administrative controls within the NOVAtime and Paychex payroll systems. The administrative rights within these systems allow the payroll accountant to create, delete, and modify user accounts, payroll, reports, and settings.

2. **Microsoft Dynamics**

The payroll accountant has the same user access rights in Microsoft Dynamics as the Controller and Accounting Manager. The payroll accountant has access to create, post, delete, and modify information within the system. The Controller and Accounting Manager have administrative access to the accounting system. The administrative rights within this system allows users to create, delete, and modify user accounts, checks, financial transactions and reports, and settings.

The following table details the types of access granted to the Controller, Accounting Manager, and payroll accountant in each financial system:

Information System Access Controls Review			
System	Users	System Access Rights	System Access Rights Description
NOVAtime	Controller, Accounting Manager, and Payroll Accountant	System Administrator	The users have administrative access. Can make changes to employee information (employee's additions, deletions, and compensation changes), reports, and system settings.
Paychex	Payroll Accountant	System Administrator	The employees have administrative access. Can make changes to employee information (employee additions, deletions, and compensation changes), reports, and system settings.
Microsoft Dynamics	Controller and Account Manager	Group Access - Administrators, General Ledger, Accounts Payable, AR and Billing, Max Q and Manual (Bank and Check processing modules), Utilities	The employees have administrative access. Can make changes to financial information (additions, deletions, and edits of budget, chart of accounts, vendors, checks, journal entries, and bank information), reports, and user and system settings.
	Payroll Accountant	Group Access - Accounts Payable and General Ledger	The employee has access to create, post, delete, and modify: <ul style="list-style-type: none"> • Chart of Accounts and Subaccounts • Budgets • Ledgers • General Ledger Account History and Setup • General Ledger Batches • Allocations • Vendor Accounts • Journal Transactions • Closing

C. DTC did not control vacation accruals in the payroll system.

Our system controls review revealed that management did not configure controls within the payroll systems. Paychex and NOVAtime did not limit the amount of vacation time an employee could accrue (see “**Finding #7: DTC Did Not Follow Some Of Its Human Resources Policies And Procedures**” on page 50 of this report for additional details.)

D. Vendor management controls within the accounting software were deficient.

In our evaluation of DTC’s accounting system and accounts payable procedures, we discovered several internal control weaknesses related to Vendor Maintenance in the accounting system. We identified the following issues while reviewing the 1,200 vendor accounts:

1. **Accounting staff recorded an employee's company in the system.**

An analysis of vendor accounts unveiled that one current employee has a vendor account in the accounting system. As a result, the accounting staff paid the employee's company.

2. **Incorrectly labeled vendor accounts.**

An analysis of vendor accounts revealed that 59 employee records were incorrectly labeled as vendor accounts. The following table details the number of actual employee and vendor accounts in the system:

System Accounts Labeled As Vendor Accounts	
Type of Account	Number of Accounts
Actual Employee Records	59
Actual Vendor Accounts	1,141
Total System Accounts Labeled As Vendor Accounts	1,200

3. **Duplicate vendor accounts.**

DTC had a total of 1,141 vendor accounts. Our analysis revealed that there were 140 (or 12.3%) duplicate accounts in the system. Upon further review, we found that 131 (or 93.6%) of the 140 duplicate accounts were active:

Total Vendor Accounts	Total Duplicate Vendor Accounts	Total Active Duplicate Accounts	Percentage of Active Duplicate Accounts
1,141	140	131	93.6%

4. **Vendor account information was incomplete.**

An analysis of vendor accounts revealed that taxpayer identification numbers, phone numbers, and addresses were incomplete in the accounting system. The following table details the incomplete vendor account information:

Incomplete Vendor Account Information			
Empty Field Information	Total Missing Field Information	Total Vendor Accounts	Percentage of Missing Field Information
Taxpayer Identification Number	881		77.2%
Phone Number/Information	412		36.1%
Address	80		7.0%
Total Vendor Account Information		1,141	

Criteria

As stated in “**Finding #1: There Are Inadequate Policies and Procedures and Design Issues Over Some Financial Activities**” on page 9 of this report, management must establish control activities to achieve objectives and respond to risks in the internal control system, including the entity's information system. The following standards reflect practices that organizations should implement for effective control within an information system:

A. Federal Government Accountability Office's (GAO) Standards for Internal Control in the Federal Government - Principle 11 - Design Activities for the Information System

This principle requires management to design the entity's information system and related control activities to achieve objectives and respond to risks. The following attributes contribute to the design, implementation, and operating effectiveness of this principle:

1. **Design of the Entity's Information System**

This attribute states that "an information system is the people, processes, data, and technology that management organizes to obtain, communicate, or dispose of information. An information system represents the life cycle of information used for the entity's operational processes that enable the entity to obtain, store, and process quality information. Information technology enables information related to operational processes to become available to the entity on a timelier basis."

Management designs the entity's information system and information technology "to obtain and process information to meet each operational process's information requirements and to respond to the entity's objectives and risks." The design is completed by considering the defined information requirements for each entity's operational processes.

"Management also evaluates information processing objectives to meet the defined information requirements. Information processing objectives may include the following:

- **Completeness** - Transactions that occur are recorded and not understated.
- **Accuracy** - Transactions are recorded at the correct amount in the right account (and on a timely basis) at each stage of processing.
- **Validity** - Recorded transactions represent economic events that actually occurred and were executed according to prescribed procedures.

2. **Design of Appropriate Types of Control Activities**

This principle requires management to design appropriate control activities in the entity's information system to cover information processing objectives for operational processes. Two types of controls in an information system are general and application controls:

- a. Information system general controls (at the entity-wide, system, and application levels) are the policies and procedures that apply to all or a large segment of an entity's information systems. General controls facilitate the proper operation of information systems by creating the environment for the proper operation of application controls. These controls include security management, logical and physical access, configuration management, segregation of duties, and contingency planning.
- b. Application controls are incorporated directly into computer applications to achieve validity, completeness, accuracy, and confidentiality of transactions and data during application processing. Application controls include input, processing, output, master file, interface, and data management system controls.

B. COBIT 5 DDS05 - Manage Security Services - DSS05.04 - Manage User Identity And Logical Access.

This standard states that "user identity and logical access should be managed on business need-to-know and least-privilege bases. A good practice is strengthening controls around authentication (i.e., user ID, password) and authorization to sensitive resources. In addition, one must ensure that privileged or administrator access (e.g., "keys to the kingdom") is especially well-controlled and monitored."

C. City of Detroit Identity Management Policy

This policy prohibits unauthorized access, disclosure, duplication, modification, diversion, destruction, loss, misuse, or theft of any data and information owned by or entrusted to the City. The information technology policy reflects the following best practices:

1. **Principles**

Access to information systems and networks must be controlled by using individual user access accounts; the use of generic or group accounts is strictly prohibited.

2. **Privileges**

The criteria used for granting access to information systems and the network must be based on the principle of "least privilege," whereby authorized users will only be granted access to information systems, services, and networks necessary to carry out the responsibilities of their role or function. Care must be taken to ensure that access privileges granted to users do not unknowingly or unnecessarily undermine essential segregation of duties. The creation of user access accounts with special privileges such as administrators must be rigorously controlled and restricted to only those users who are responsible for the management or maintenance of the information system or network.

D. Accounting Procedures Manual for Local Units of Government in Michigan

The State of Michigan Accounting Procedures Manual for Local Units of Government requires that the internal control framework ensure that the accounting system and its underlying data are reliable. Checks and balances are an essential part of internal controls in the workplace. They are strengthened or weakened based on the design and implementation of control activities. A few of the control activities include the following:

1. Structuring documentation and record retention requirements to provide reasonable assurance that all information and transactions of value are accurately recorded and retained.
2. Monitoring internal control systems. Monitoring is a process that assesses the quality of the system's performance over time. Ongoing monitoring occurs in the ordinary course of business and includes regular management and supervisory activities, and other actions personnel take in performing their duties. Internal control systems change over time, and the way controls are applied may evolve. Procedures can become ineffective due to new personnel, the effectiveness of training and Supervision, time and resource constraints, and other external pressures. Also, the circumstances for which procedures were originally designed may change, making procedures obsolete.

E. DTC Accounting Procedure 001 - Accounts Payable Procedures

- F. DTC procedures require all vendors to provide their taxpayer identification number (TIN) to accounts payable.

Effects

Continuing to perform manual, time-consuming processes while not leveraging the available technology reduces the availability and timeliness of information for decision making. Without timely essential information, managers cannot monitor performance and adjust operational practices to achieve financial and operational goals. In addition, when data is decentralized, it can cause a decrease in employee productivity. For example, employees could waste time searching and finding documents, coding the same information twice, or checking that one functionality is consistent. This could increase the risk of human error, reduce the data's integrity, and take up time and resources that management could dedicate to more critical operational areas.

When management does not effectively control information systems, there is an increased risk to the confidentiality, integrity, and availability of the system's information. In the case of ineffective system administrative access, users can gain access to confidential organizational information, control its accessibility to other users and modify data. In addition, the administrative user could grant access to unauthorized personnel, alter documents and information to hide errors, omit information, and commit fraud. No one would know that the administrative user made changes to the system.

When management does not effectively configure the controls within information systems, there is an increased risk of the organization making financial and operational decisions with inaccurate data.

When management does not effectively implement and monitor information system input controls, there is an increased risk of inaccurate data input and output. For example, in the case of DTC's financial system, inaccurate data was not prevented or detected, and the data output provided inaccurate vendor information. The errors in data input resulted in:

- Duplicate invoices being entered under duplicate vendor accounts, causing duplicate payments to go undetected.
- DTC accounting system reports containing incomplete and inaccurate data.
- An increased risk that DTC may not be able to report tax information to vendors effectively and may not accurately report vendor tax information to the Federal Government.

Causes

We determined that:

- Management did not continuously monitor its control environment and implement changes needed to perform processes timelier and more efficiently.
- DTC does not have formal IT identity and access management policies and procedures. The lack of formal policies and procedures allowed the accounting management to request and receive administrative rights to the accounting software from the vendor. The IT contractor stated that they provided the requested access as the service provider to DTC. The accounting management wanted administrative rights to circumvent internal controls and standard business practices to complete their work with minimum staff.
- The Accounting department did not establish an appropriate payroll process that included their current payroll systems.
- The Accounting department did not establish an appropriate internal control system for vendor management processes that included their current accounting system.

Recommendations

We recommend that DTC Management establish an effective internal control system using the GAO, COBIT, State of Michigan's Department of Treasury's Accounting Procedures Manual for Local Units of Government in Michigan, and the City of Detroit finance directives and IT policies as a guide to creating and implementing an appropriate system of internal controls. Some components of an effective system include, but are not limited to:

- A. Continuously monitor changes in the control environment that may impact the department and implement needed changes timely.
- B. Reviewing current operational processes, collaborating with DTC departments, and exploring available and future technology opportunities to improve information sharing, monitoring, and effectiveness and efficiency of operations within DTC.
- C. Reviewing and restructuring administrative rights from the accounting department staff and delegating some rights to the IT contractor (only).
- D. Restricting who controls information on applications. Different individuals and often separate departments should perform the initiation, authorization, input, processing, and validation of data.
- E. Implementing an "Identity and Access Management (IAM)" policy which allows access only if the job function requires it. Management should develop IAM policies and procedures that define and address proper provisioning, administration, segregation of duties, and enforcement.
- F. Working with the IT contractor and vendor to configure the payroll system to accrue vacation time according to DTC policy.
- G. Implementing policies and standard operating procedures relating to vendor files and maintenance including (but not limited to:)
 - 1. Removing inappropriate user access to vendor system master files.
 - 2. Creating procedures for vendor additions and changes, vendor naming conventions, and periodic review of vendor information in the accounting system.
 - 3. Reviewing vendor system records and deactivating duplicate and inactive vendor accounts.
 - 4. Establishing different class identifications for vendor and employee reimbursement accounts.
 - 5. Identifying when and who enters vendor tax identification information into the accounting system.

Finding #7: DTC Did Not Follow Some Of Its Human Resources Policies And Procedures

DTC does not follow its human resource policies and procedures relating to vacations, performance evaluations, and salaries.

Conditions

- A. DTC did not adhere to its vacation policy for union and salary employees.
Employees accrue vacation time upon each year of full service. We reviewed the total employee bank report for fiscal year 2021. We found three employees who had vacation time over the amount allowed per DTC's policy.

The following table displays the vacation bank totals versus the maximum allowed per policy for salaried employees and per the labor agreement for union employees:

DTC Employees With Vacation Over Maximum Allowed						
Employee	Salary or Union Employee	Years of Service	Maximum Banked Vacation Hours Allowed	Actual Banked Vacation Hours	Excess Banked Vacation Hours	Excess in Dollars
Employee A	Salary	5	108	412	304	\$13,885
Employee B	Salary	19	168	499	331	11,482
Employee C	Union	20	180	724	544	14,965
Total Hours			456	1,635	1,179	\$40,332

- B. DTC did not comply with its performance evaluation policies.
DTC policy requires that a performance evaluation and approval occur before an employee receives a salary increases. In our review of pay rate changes made in 2018, we found that thirteen non-union employees were given raises in 2018 without documented evaluations and approvals. In addition, ten of these individuals received multiple raises. The following table displays the pay rate and salary increases that the thirteen non-union employees received in 2018:

Non-Union Employees With Undocumented Approvals For Pay Rate Change 2018						
Employee	Previous Pay Rate	Previous Salary^(A)	Current Pay Rate	Current Salary^(A)	Increase Percent	Change In Salary
Employee A	\$28.37	\$ 59,010	\$45.67	\$ 94,994	61.0%	\$ 35,984
Employee B	\$31.65	65,832	\$45.67	94,994	44.3%	29,162
Employee C	\$24.60	51,168	\$28.48	59,239	15.8%	8,071
Employee D	\$28.37	59,010	\$32.72	68,058	15.3%	9,048
Employee E	\$47.98	99,798	\$53.97	112,258	12.5%	12,460
Employee F	\$50.43	104,894	\$56.72	117,978	12.5%	13,084
Employee G	\$42.07	87,506	\$47.12	98,010	12.0%	10,504
Employee H	\$38.00	79,040	\$41.80	86,944	10.0%	7,904
Employee I	\$38.67	80,434	\$42.23	87,838	9.2%	7,404
Employee J	\$22.26	46,301	\$24.09	50,107	8.2%	3,806
Employee K	\$32.07	66,706	\$34.69	72,155	8.2%	5,449
Employee L	\$49.52	103,002	\$52.53	109,262	6.1%	6,260
Employee M	\$36.08	75,046	\$37.16	77,293	3.0%	2,247
Totals		\$977,747		\$1,129,130		\$151,383

Note (A): Salaries are calculated based on the pay rate x 2,080 standard annual payroll hours.

C. DTC did not adhere to its salary guide policy.

We compared DTC employees' current salaries with the salary guide received from the human resources department. We determined that an employee was paid above the wage stated in their salary guide. The following table shows the employee's salary range versus their current salary:

Employees Paid Above Maximum Salary Range				
Employee	Salary Minimum	Salary Maximum	Current Salary	Variance
Employee F	\$90,000	\$110,000	\$117,978	\$7,978

Criteria

A. DTC Employee Handbook Section 7.1 - 7.2 Vacation and Vacation Eligibility Procedure

According to the DTC Employee Handbook, Non-Union/Salary employees are allotted the following:

1. **7.1 Vacations**

Vacation allowances must be used each year and cannot be accumulated from year to year.

2. 7.2 Eligibility

Newly hired employees will be eligible for 84 hours of vacation upon completion of one (1) full year of service. Upon approval, forty hours (40) may be taken after the completion of six (6) months of service.

DTC and Teamsters Local 214 Union Contract, Article 20 - Vacation Leave
According to the contract between DTC and Teamsters Local 214, Article 20 Vacation Leave reads in part:

The amount of earned vacation leave hours are as follows:

- a. Fifteen years or more 14.00 Monthly/Annual Accrual Maximum
Vacation 168 hours.
- b. Vacation time can be carried over from one period to the next and then combined with the next year's vacation to provide a longer vacation period. However, no employee may carry more than one hundred sixty (160) hours beyond the July 1 fiscal year. All excess hours will be forfeited.

Vacation time can be carried over from one period to the next and then combined with the next year's vacation to provide a longer vacation period. However, no employee may carry more than one hundred sixty (160) hours beyond the July 1 fiscal year. All excess hours will be forfeited.

B. DTC Employee Handbook Section 10.3 Merit Increases

Employees will receive an annual performance evaluation by their Supervisor, Manager, or Director. Any employee's pay increase will be dependent on provisions in Collective Bargaining Agreements, performance evaluation, and the Corporation's financial ability to increase pay. Factors which will be considered in evaluating performance include job-related skills, general attitude, initiative, reliability, dependability, cooperation, quality, and quantity of work. The mere fact that an employee has continued to be employed by DTC is not justification for salary adjustment. Performance is the key factor, not length of service.

C. DTC Employee Handbook Section 10.1 Salary Procedure

DTC operates under a Salary Administration plan which has a job description and pay scale for every position. Performance reviews and job classification regulate salaries:

Salary classification and pay grades are based on current duties and responsibilities. Other factors include experience, educational requirements, and supervisory considerations. The description of each position will be reviewed periodically. Any changes in duties or responsibilities will be incorporated in a revised job description to determine whether a change in job classification and/or salary grade is required.

Effects

DTC's lack of appropriately documenting the vacation accrual for employees, allowed employees to bank more vacation time than the DTC vacation policy permitted.

The DTC employees that accumulated vacation time over the DTC policy will eventually be compensated for vacation time that should have been forfeited.

When DTC does not follow its merit increase policy and document supporting evaluations and approvals, it removes transparency from the process, and potentially creates an appearance of impropriety or favoritism. The appearance of impropriety or favoritism creates public distrust of the agency, board, and employees. DTC's lack of complying with their salary guide poses a significant risk that staff could award unjustified compensation and raises to management and other staff.

Cause

- A. The Accounting department did not establish an appropriate internal control system for processes that included their payroll systems. DTC did not put limits in the system for vacation time. In addition, a DTC Human Resource employee stated that:
 - Employee C was allowed to carry over those hours even though it violated the DTC vacation policy and union contract.
 - Employees A and B were also allowed to carry excess vacation banks. The employee handbook states that "Managers can carry 320 hours of vacation time from year-to-year", however, there is no written policy on how managers earn and/or use their vacation banks.
- B. According to DTC Controller, the DTC did not provide any documentation supporting the rationale for merit or other salary and wage increases.
- C. We determined that DTC management did not comply with salary policies.

Recommendations

We recommend that DTC management:

- A. Work with the IT contractor and vendor to configure the payroll system to accrue vacation time according to DTC policy.
- B. Update its employee handbook to include a vacation time accrual policy which identifies the amount of carryover and maximum vacation bank hours that an employee is allowed to accrue.
- C. Monitor and enforce the DTC vacation time policy.
- D. Follow their merit increase policy when granting employees raises. Include supporting documentation in an employee's personnel file that includes the reason for the raise.
- E. Monitor and enforce DTC salary policy.

NOTE OF CONCERNS

The following is our “Note of Concerns” relating to the operations and other matters of the Detroit Transportation Corporation:

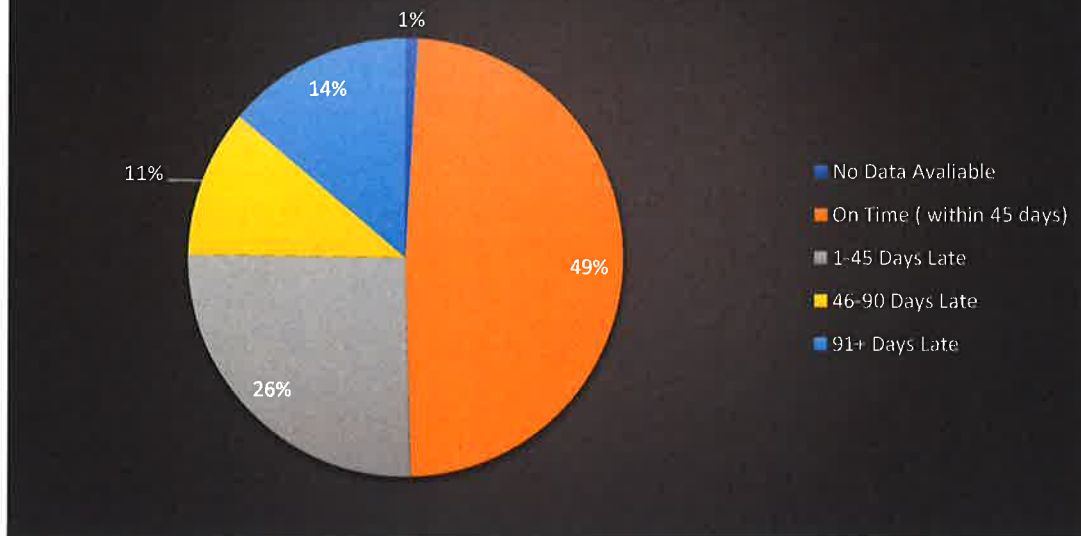
A. The Accounting Department Did Not Pay Invoices Timely

During our review of the Detroit Transportation Corporation (DTC) accounts payable, we identified several invoices the accounting staff did not pay timely. As a result, 230 invoices were sampled for review to evaluate the accounting payment practices. The sample included transactions paid after the appointment of the new General Manager in November 2019. In place of performance metrics for timely invoice payments, we evaluated DTC's timely payment of invoices based on the City of Detroit's ordinance, which requires the City to issue invoice payments within forty-five days of receipt.

Our testing revealed that DTC did not pay its invoices timely or within 45 days of receipt. Of the 230 transactions reviewed we found 118 (or 51%) were paid between 46 days to two years and three months late. The table and graph below are an overview of the results of our testing summarized by the aging band:

Invoice Received Date to Print Check Date 45 Days Aging		
Aging band	Number of Invoices	% Of Total Invoices
No Data Available	2	0.9%
On Time (within 45 days)	112	48.7%
1-45 Days Late	59	25.7%
46-90 Days Late	25	10.9%
91+ Days Late	32	13.9%
Grand Total	230	100.0%

Invoice Received Date to Print Check Date 45 Days Aging % Of Total Invoices



The City of Detroit's Prompt Payment Ordinance reflects the best practices for timely payments to vendors. The ordinance requires that city departments and agencies take all necessary steps to ensure that payment for the vendor is mailed or delivered to the vendor within 45 business days after the vendor's delivery to the responsible person of an invoice or other written request for payment issued pursuant to the terms of the contract or purchase order.

Delays in making timely payments to vendors could result in:

- Strained relationships with vendors due to continuous late payments.
- Low small business vendor participation due to cash flow constraints caused by delayed invoice payments of 45 days or more..

As stated in **"Finding #1: There Are Inadequate Policies and Procedures and Design Issues Over Some Financial Activities"** on page 9 of this report, DTC does not have a policy to ensure vendor payments are mailed or delivered to the vendor within a designated period.

We recommend DTC accounting management establish written policies, procedures, and performance metrics for prompt vendor payments to resolve this concern. In addition, DTC should continuously monitor the developed performance metrics to ensure that payments are mailed or delivered to vendors timely.

B. DTC Does Not Have an Official Salary Guide For Non-Union Employees

DTC operates under a Salary Administration plan with a job description and pay scale for every position. During our review of payroll, we wanted to determine if DTC paid salaried employees within their salary range. We found that DTC does not have an official salary document that lists the salary of non-union employees. We asked DTC to provide a copy of their official salary guide for non-union employees. The following information was provided in an email and serves as their "official guide:"

POSITION	MIN SALARY	MAX SALARY
Position A	\$55,000	\$75,000
Position B	\$75,000	\$95,000
Position C	\$80,000	\$100,000
Position D	\$100,000	\$120,000
Position E	\$100,000	\$120,000
Position F	No listed	\$156,000
Position G	\$65,000	\$85,000
Position H	\$90,000	\$110,000
Position I	\$55,000	\$75,000
Position J	\$75,000	\$95,000
Position K	\$100,000	\$120,000

According to best business practices from the Society for Human Resource Management, salary ranges help employers control their pay expenses and ensure pay equity among employees. Employers must have rational explanations for why they pay their employees a specific rate, and defined salary ranges help accomplish that.

We recommend that DTC management perform a professional salary study to create an official salary guide for all positions not included in a union contract to remedy this situation. In addition, DTC's board should review and adopt the salary guide via a resolution.

C. The Accounting Department Did Not Fill Budgeted Accounting Positions

An organization should ensure that its workforce has current and future access to the human capital needed to perform operations effectively. Workplace planning involves identifying current and future personnel needs and exploring the most appropriate and cost-effective methods to recruit and retain these individuals.

Accounting Staff Levels and Vacancies

The Accounting Department has a budget for six positions. There is only one permanent employee currently working in the department: the Payroll Accountant. The following table provides an overview of the vacancies within the accounting department as of November 2021:

Accounting Department Vacancies as of November 2021		
Position	Vacancy Status	Vacant Since
Payroll Accountant	Filled	N/A
Staff Accountant	Vacant	2010
Accounting Payable Clerk (Accounting Technician)	Vacant	2017
Revenue Agent	Vacant	February 17, 2021
Accounting Manager	Vacant	September 2, 2021

There were only three permanent employees in the Accounting Department during our review: The Controller, Accounting Manager, and Payroll Accountant. In addition, DTC employs temporary staff to perform accounts payable clerk duties. When DTC does not have temporary accounting staff available, the only employees who can input financial transactions are the Controller and Accounting Manager.

The Accounting department continuously hires temporary staff to fill vacant positions on a permanent basis. As a result, there is frequent turnover of temporary staff. In addition, due to limited staff, there was no segregation of incompatible duties. As a result, employees routinely performed conflicting responsibilities.

When talent gaps persist within a department, existing employees will be forced to pick up the slack, resulting in employee burnout, stress, and turnover. The inability to effectively plan for and manage further turnover stunts organizational growth since it costs both time and money to hire and replace employees. When workforce planning is lacking, human resources staff and managers will spend more time and money addressing talent gaps and recruiting replacements for positions. This results in DTC management having less time to focus on activities that increase operational efficiencies and enhance organizational growth, such as improving existing staff through training and development.

We recommend the Accounting Department management create a workforce plan and hire permanent staff to fill all vacant positions in the budget. Other creative staffing ideas include:

- Reviewing the budget to add more permanent positions.
- Offering internships to college students majoring in accounting and/or finance.
- Hosting job/college fairs to recruit new hires instead of using temporary staff.

In addition, DTC should ask the Office of the Chief Financial Officer for assistance with accounting work from the assigned Agency CFO and their staff until DTC hires permanent staff.

D. DTC Did Not Provide Evidence of Contract Monitoring

DTC lacked internal controls that ensured vendor contractual services were continuously monitored and utilized. DTC does not have an in-house Information Technology (IT) department. Instead, they have outsourced all IT functions to an IT contractor. The IT contractor is responsible for managing, maintaining, and securing DTC's IT infrastructure, systems, and data resources. The contractor provides all services at the discretion of DTC Management. Contract monitoring procedures were requested but not provided (see "**Note of Concern - Item E: The Accounting Department Did Not Provide Documentation Timely**" on page 58 of this report for more details). We could not determine if management ensured that the contractor performed the required services within their scope of work. DTC management is the owner of its organizational risk and as such, they must identify, assess, manage, and monitor the risk associated with each third-party service provider on an ongoing basis. Management should also appoint an individual knowledgeable of the process to monitor service providers. The responsible individual should ensure that contract deliverables are obtained, and services continue to meet their organizational needs.

E. The Accounting Department Did Not Provide Documentation Timely

The Office of the Auditor General requested copies of documents related to the audit of DTC through their designated contact person, the Controller. The Controller is responsible for areas concerning financial transactions for DTC. We submitted multiple requests from September 15, 2020, through our final email on November 19, 2021, updating DTC on documents not received to no avail. DTC did not provide the following requested items:

Items Requested And Not Received From DTC	
Policy And/Or Procedures	Dates Requested
1. Policy or procedure for performing the bank reconciliation	9/15/2020 10/23/2020 12/21/2020 1/20/2021 3/4/2021
2. DTC policies/procedures and standard operating procedures for the period July 1, 2019, through the date of this report.	10/23/2020 12/21/2020 1/20/2022 3/4/2021
3. Contract monitoring procedures	10/23/2020 12/21/2020 1/20/2021 3/4/2021
Financial Documents	
4. Budget and actual figures for 2018, 2019 and 2020	10/23/2020
5. Financial report for 6/30/2019 and 6/30/2020	12/21/2020 1/20/2021 3/4/2021
Bank Reconciliations	
6. Bank reconciliations February 2020-March 2021	9/15/2020 10/23/2020 12/21/2020 1/20/2021 3/4/2021
7. Monthly cash reconciliation report and support for January and December 2019; January and April 2020	10/23/2020 12/21/2020 1/20/2021 3/4/2021

Items Requested And Not Received From DTC	
Policy And/Or Procedures	Dates Requested
Payroll Documents	
8. Payroll Beginning 07/13/2020 ending 07/26/2020	10/23/2020
9. All documents created and sent to payroll (If not listed below)	12/21/2020 1/20/2021 3/4/2021
10. The timesheet report (clock-in/clock-out and edit report) from NOVATime	
11. Report showing any edits or changes to employee time in NOVATime	
12. The signed NOVATime reports from each department.	
13. Excel spreadsheets from salary employees	
14. All excused/OT report forms for the pay period	
15. The timesheet that the Executive Assistant signs after the Payroll Accountant enters/reviews hourly/salary time.	
16. Copy and approval of the preliminary pay register	
17. Payroll time reviews that the Executive Assistant approves.	
18. Blank copies of payroll forms.	
19. Copies of all procedures for payroll, formal or informal.	
20. List and supporting documents (forms) for any sick, vacation, bonuses, and severance paid to employees for 2016, 2017, 2018, 2019, and 2020 including the employee names, amount, and reason for the payout.	
Cash Receipts Documents	
21. List of cash boxes that needed to be emptied by Transit Officers for the period July 2019 – June 2020	10/23/2020 12/21/2020
22. Daily Cash Collection Sheets completed by transit officers and DTC personnel for August 2019 and February 2020	1/20/2020 3/4/2021
23. Monthly report for daily cash collection revenue	
24. List of Brinks cash deposits for 2019 and 2020	

In our June 10, 2021, email, we reminded DTC that the OAG, per the Charter, could "request and shall be given necessary assistance and information by each agency." DTC still did not comply with our request. In our audit update dated November 19, 2021, we informed DTC that we would include in the audit report that DTC failed to comply with our request to provide documents for our review in compliance with the audit.

The Operations and Transit Security Agreement between the City of Detroit and the Detroit Transportation Corporation, Article VI: Reports and Recordkeeping, Section 6.03 reads in part that "The Auditor General of the City of Detroit may perform an annual audit of the Operating funds and Security funds."

Communication between the auditee and auditors is vital throughout the auditing process. If auditors do not receive records or information when expected, the auditors may not be able to proceed with the best information available and provide thorough assessments where needed.

Management stated that the accounting division was short-staffed and, therefore, they could not accommodate our request.

We recommend that DTC comply with all requests for documents per the Operations and Transit Security Agreement and that requested documents are made available timely as requested.

APPENDIX A

Generally Accepted Government Auditing Standards

The following excerpt is related to Generally Accepted Government Auditing Standards as compiled by the United States Government Accountability Office (GAO) for Performance Audits. According to the GAO and GAGAS⁵:

§1.21: Performance audits provide objective analysis, findings, and conclusions to assist management and those charged with governance and oversight with, among other things, improving program performance and operations, reducing costs, facilitating decision making by parties responsible for overseeing or initiating corrective actions, and contributing to public accountability.

§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 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 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.

⁵ Government Auditing Standards (Yellow Book) 2018 Revision; www.gao.gov/yellowbook.

APPENDIX A
Generally Accepted Government Auditing Standards

- 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.

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

APPENDIX A
Generally Accepted Government Auditing Standards

§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.

§5.84 Requirement: Peer Review Intervals. An audit organization not already subject to a peer review requirement should obtain an external peer review at least once every 3 years. The audit organization should obtain its first peer review covering a review period ending no later than 3 years from the date an audit organization begins its first engagement in accordance with GAGAS.

OFFICE OF THE AUDITOR GENERAL
AUDIT OF THE DETROIT TRANSPORTATION CORPORATION
 January 2023

Implementation Tracking of Departmental Responses

FINDING #	AUDIT FINDING	RECOMMENDATIONS		RESPONSIBLE DEPARTMENT	DEPARTMENT RESPONSE(S)	ESTIMATED/ PLANNED IMPLEMENTATION DATE	CONTACT PERSON	CONTACT PERSON NUMBER/ EMAIL ADDRESS
		REF.	SPECIFIC RECOMMENDATION					
1.	There Are Inadequate Policies and Procedures and Design Issues Over Certain Financial Activities	A.	<p>Creating written policies and standard operating procedures for bank account administration and reconciliation. In addition, management should develop step-by-step guidance for all accounting functions. These procedures should include a plan for:</p> <ul style="list-style-type: none"> Delegating roles and responsibilities for all accounting functions, including performance expectations, documentation and reporting requirements. Continuously monitoring relevant changes in the industry, regulations, and control environment that may impact the department and require implementing immediate changes to operations. A process to monitor compliance involving calendars and checklists to track and ensure accounting processes are completed timely. A risk management process to identify, assess, and manage critical risks in the accounting department to ensure that management implements adequate and sufficient internal controls and monitors them. 	Detroit Transportation Corporation (DTC)				

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AUDIT OF THE DETROIT TRANSPORTATION CORPORATION
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Implementation Tracking of Departmental Responses

FINDING #	AUDIT FINDING	RECOMMENDATIONS		RESPONSIBLE DEPARTMENT	DEPARTMENT RESPONSE(S)	ESTIMATED/ PLANNED IMPLEMENTATION DATE	CONTACT PERSON	CONTACT PERSON NUMBER/ EMAIL ADDRESS
		REF.	SPECIFIC RECOMMENDATION					
		B.	Update reconciliation forms to include preparer and approver date and signature lines.	DTC				
		C.	Establish written policies for accounts payable. Update standard operating procedures to include policies and procedures for vendor maintenance in the accounting system, electronic payments, and prompt payment to vendors.	DTC				
		D.	Update voucher packages forms to include preparer and accounting manager signature lines. Create a separate form for EFT approvals.	DTC				
2.	The Accounting Department Lacks Adequate Segregation of Duties Over Various Financial Processes	A.	Segregate cash receipt and cash disbursement responsibilities among various staff and management.	DTC				
		B.	Ensure that appropriate management oversight is provided through review and updates to accounting policies and procedures to assign the incompatible duties to currently filled positions. Adequate compensating controls should be implemented when staffing vacancies do not allow the performance of normal controls. Vacant accounting positions should be filled as soon as possible.	DTC				

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Implementation Tracking of Departmental Responses

FINDING #	AUDIT FINDING	RECOMMENDATIONS		RESPONSIBLE DEPARTMENT	DEPARTMENT RESPONSE(S)	ESTIMATED/ PLANNED IMPLEMENTATION DATE	CONTACT PERSON	CONTACT PERSON NUMBER/ EMAIL ADDRESS
		REF.	SPECIFIC RECOMMENDATION					
3.	DTC Did Not Follow Some Of Its Policies And Procedures Relating to Cash Disbursements	A.	<p>Ensure that individuals perform and are held accountable for all required accounts payable internal control responsibilities by:</p> <ol style="list-style-type: none"> 1. Setting the tone at the top by following policies and procedures. 2. Training individuals and ensuring that they understand control responsibilities. 3. Requiring signed acknowledgment statements for policies. 4. Implement a compliance monitoring process to track and ensure accounting processes are complete and effectively implemented. 5. Issuing disciplinary actions when internal controls are not followed. 6. Granting and obtaining the necessary authority to perform all duties required timely, preferably at the start of employment. 7. Ensuring that an authorized check signer other than the chairperson is assigned as the alternate and performs check approval and signing responsibilities when the General Manager cannot perform them. Ensure that alternates are trained and understand control responsibilities. 	DTC				

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Implementation Tracking of Departmental Responses

FINDING #	AUDIT FINDING	RECOMMENDATIONS		RESPONSIBLE DEPARTMENT	DEPARTMENT RESPONSE(S)	ESTIMATED/ PLANNED IMPLEMENTATION DATE	CONTACT PERSON	CONTACT PERSON NUMBER/ EMAIL ADDRESS
		REF.	SPECIFIC RECOMMENDATION					
		B.	Continuously monitor changes in the control environment that may impact the department and implement needed changes timely. Review and update the accounts payable internal control processes and supporting control documents to ensure that control objectives are achieved, assets are safeguarded, and controls are performed effectively and efficiently. Processes should include the following: 1. A standard invoice numbering guideline within the policies and procedures manual. 2. Reinforcement of a thorough review of previous invoice payments and nonpayment of invoices from expired contracts and services from prohibited vendors.	DTC				
		C.	Consider hiring additional staff or incorporating electronic software solutions to improve process efficiencies, reduce risk and strengthen controls.	DTC				

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Implementation Tracking of Departmental Responses

FINDING #	AUDIT FINDING	RECOMMENDATIONS		RESPONSIBLE DEPARTMENT	DEPARTMENT RESPONSE(S)	ESTIMATED/ PLANNED IMPLEMENTATION DATE	CONTACT PERSON	CONTACT PERSON NUMBER/ EMAIL ADDRESS
		REF.	SPECIFIC RECOMMENDATION					
4.	Bank Reconciliations Are Inadequate, And They Are Neither Effective Nor Efficient	A.	<p>Establish an effective internal control system using the State of Michigan's Department of Treasury's Accounting Procedures Manual for Local Units of Government in Michigan, and the City of Detroit finance directives as a guide to creating and implementing an adequate and sufficient system of internal controls by:</p> <ol style="list-style-type: none"> 1. Overseeing the creation of a formal policy that identifies the areas of accounting's responsibility for internal controls, including bank account administration. 2. Continuously monitoring changes in the control environment that may impact the department and implement needed changes timely. 3. Implementing a compliance monitoring process to track and ensure completeness of accounting processes. 4. Ensuring that all bank accounts are reconciled to source documentation monthly on time and. 5. Updating bank reconciliation forms to include signer/approver signature lines and dates. 	DTC				

OFFICE OF THE AUDITOR GENERAL
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Implementation Tracking of Departmental Responses

FINDING #	AUDIT FINDING	RECOMMENDATIONS		RESPONSIBLE DEPARTMENT	DEPARTMENT RESPONSE(S)	ESTIMATED/ PLANNED IMPLEMENTATION DATE	CONTACT PERSON	CONTACT PERSON NUMBER/ EMAIL ADDRESS
		REF.	SPECIFIC RECOMMENDATION					
		B.	Take appropriate action to resolve or clear aged outstanding checks by stopping payment of the check if DTC does not have physical possession of the check. Also, appropriate corresponding entries should be made in the General Ledger to void the check, clear it from the list of outstanding checks, and restore the funds to the cash book balance.	DTC				
		C.	Ensure that reconciling items are documented, researched, and resolved on a timely basis.	DTC				
		D.	Ensure that transactions are recorded accurately and timely within the General Ledger. Consider hiring additional staff or incorporating electronic software solutions to improve process efficiencies, reduce risk and strengthen controls.	DTC				
5.	There Are Internal Control Weaknesses In The Cash Receipts Process	A.	Review and monitor all documents within the cash receipts process to ensure that appropriate signatures and documents exist to support cash receipts transactions.	DTC				
		B.	Record cash receipts received promptly, i.e., within 30 days.	DTC				
		C.	Provide adequate and sufficient supporting document for all journal entries including obtaining and recording all necessary authorizations.	DTC				

OFFICE OF THE AUDITOR GENERAL
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Implementation Tracking of Departmental Responses

FINDING #	AUDIT FINDING	RECOMMENDATIONS		RESPONSIBLE DEPARTMENT	DEPARTMENT RESPONSE(S)	ESTIMATED/ PLANNED IMPLEMENTATION DATE	CONTACT PERSON	CONTACT PERSON NUMBER/ EMAIL ADDRESS
		REF.	SPECIFIC RECOMMENDATION					
6.	There Are Several Deficiencies In Information Systems Controls	A.	Continuously monitor changes in the control environment that may impact the department and implement needed changes timely.	DTC				
		B.	Review current operational processes, collaborate with DTC departments, and explore available and future technology opportunities to improve information sharing, monitoring, and effectiveness and efficiency of operations within DTC.	DTC				
		C.	Review and restructure administrative rights from the accounting department staff and delegating some rights to the IT contractor (only.)	DTC				
		D.	Restrict who controls information on applications. Different individuals and often separate departments should perform the initiation, authorization, input, processing, and validation of data.	DTC				
		E.	Implement an "Identity and Access Management (IAM)" policy which allows access only if the job function requires it. Management should develop IAM policies and procedures that define and address proper provisioning, administration, segregation of duties, and enforcement.	DTC				
		F.	Work with the IT contractor and vendor to configure the payroll system to accrue vacation time according to DTC policy.	DTC				

OFFICE OF THE AUDITOR GENERAL
AUDIT OF THE DETROIT TRANSPORTATION CORPORATION
 January 2023

Implementation Tracking of Departmental Responses

FINDING #	AUDIT FINDING	RECOMMENDATIONS		RESPONSIBLE DEPARTMENT	DEPARTMENT RESPONSE(S)	ESTIMATED/ PLANNED IMPLEMENTATION DATE	CONTACT PERSON	CONTACT PERSON NUMBER/ EMAIL ADDRESS
		REF.	SPECIFIC RECOMMENDATION					
		G.	Implement policies and standard operating procedures relating to vendor files and maintenance including (but not limited to:) 1. Removing inappropriate user access to vendor system master files. 2. Creating procedures for vendor additions and changes, vendor naming conventions, and periodic review of vendor information in the accounting system. 3. Reviewing vendor system records and deactivating duplicate and inactive vendor accounts. 4. Establishing different class identifications for vendor and employee reimbursement accounts. 5. Identifying when and who enters vendor tax identification information into the accounting system.	DTC				
7.	DTC Did Not Follow Some Of Its Human Resources Policies And Procedures	A.	Work with the IT contractor and vendor to configure the payroll system to accrue vacation time according to DTC policy.	DTC				
		B.	Update its employee handbook to include a vacation time accrual policy which identifies the amount of carryover and maximum vacation bank hours that an employee is allowed to accrue.	DTC				

OFFICE OF THE AUDITOR GENERAL
AUDIT OF THE DETROIT TRANSPORTATION CORPORATION
January 2023

Implementation Tracking of Departmental Responses

FINDING #	AUDIT FINDING	RECOMMENDATIONS		RESPONSIBLE DEPARTMENT	DEPARTMENT RESPONSE(S)	ESTIMATED/ PLANNED IMPLEMENTATION DATE	CONTACT PERSON	CONTACT PERSON NUMBER/ EMAIL ADDRESS
		REF.	SPECIFIC RECOMMENDATION					
		C.	Monitor and enforce the DTC vacation time policy.	DTC				
		D.	Follow their merit increase policy when granting employees raises. Include supporting documentation in an employee's personnel file that includes the reason for the raise.	DTC				
		E.	Monitor and enforce DTC salary policy.	DTC				

Detroit Transportation Corporation

Owner and Operator of the Detroit People Mover



January 27, 2023

Detroit Transportation Corporation
535 Griswold Street
Suite 400
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 Detroit Transportation Corporation's response for the indicated findings and related recommendations in the "Audit of the Detroit Transportation Corporation (January 2023)" 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,

A handwritten signature in black ink, appearing to read "Karen Foster".

Karen Foster, Controller
on behalf of and in partnership with
Robert Cramer, General Manager

OFFICE OF THE AUDITOR GENERAL
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Implementation Tracking of DTC's Responses

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		REF.	SPECIFIC RECOMMENDATION					
1.	There Are Inadequate Policies and Procedures and Design Issues Over Certain Financial Activities	A.	<p>Creating written policies and standard operating procedures for bank account administration and reconciliation. In addition, management should develop step-by-step guidance for all accounting functions. These procedures should include a plan for:</p> <ul style="list-style-type: none"> Delegating roles and responsibilities for all accounting functions, including performance expectations, performance metrics, and documentation and reporting requirements. Continuously monitoring relevant changes in the industry, regulations, and control environment that may impact the department and require implementing immediate changes to operations. A process to monitor compliance involving calendars and checklists to track and ensure accounting processes are completed timely. A risk management process to identify, assess, and manage critical risks in the accounting department to ensure that management implements adequate and sufficient internal controls and monitors them. 	Detroit Transportation Corporation (DTC)	<p>DTC's key management roles were changed in the second half of 2022:</p> <p>General Manager, July 2022; Controller, August 2022; Human Resources Manager, October 2022</p> <p>Multiple financial policies and procedures continue to be reviewed by new management for updating & re-issuing or developing new policies and procedures where needed.</p> <p>DTC's Accounting: Accounts Payable Policy & Procedure was issued and current staff trained in December 2022. Written position responsibility guidebooks and procedures are continuously being created. As the above documents are updated/created, all accounting staff shall be trained both formally and informally.</p>	Ongoing through June 30, 2023 (revised)	<p>Karen Foster, Controller</p> <p>Robert Cramer, General Manager (GM)</p>	<p>kfoster@thepeoplemover.com</p> <p>rcramer@thepeoplemover.com</p>
		B.	Update reconciliation forms to include preparer and approver date and signature lines.	DTC	Expect to develop and implement updated form to address finding.	February 1, 2023	Karen Foster, Controller	kfoster@thepeoplemover.com

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		C.	Establish written policies for accounts payable. Update standard operating procedures to include policies and procedures for vendor maintenance in the accounting system, electronic payments, and prompt payment to vendors.	DTC	Expect to develop and implement updated policies & procedures to address finding.	Ongoing through June 30, 2023	Karen Foster, Controller	kfoster@thepeoplemover.com
		D.	Update voucher packages forms to include preparer and accounting manager signature lines. Create a separate form for EFT approvals.	DTC	Updated Check Request Form (voucher) issued and in use effective October 2022, which includes preparer's name and accounting manager signature lines. EFT approval form to be developed and issued.	Check Request Form- completed October 2022 EFT Request Form- implement February 1, 2023	Karen Foster, Controller	kfoster@thepeoplemover.com
2.	The Accounting Department Lacks Adequate	A.	Segregate cash receipt and cash disbursement responsibilities among various staff and management.	DTC	Expect to fully implement upon full time permanent positions filled.	Ongoing through June 30, 2023	Karen Foster, Controller	kfoster@thepeoplemover.com

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Implementation Tracking of DTC's Responses

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	Segregation of Duties Over Various Financial Processes	B.	Ensure that appropriate management oversight is provided through review and updates to accounting policies and procedures to assign the incompatible duties to currently filled positions. Adequate compensating controls should be implemented when staffing vacancies do not allow the performance of normal controls. Vacant accounting positions should be filled as soon as possible.	DTC	Expect to develop and implement updated policies & procedures to address finding. Accounts Payable Specialist position temporarily filled August 2022; Accounting Manager position temporarily filled September 2022; Revenue Agent position permanently filled October 2022; Financial Analyst position permanently filled November 2022; permanent fill expected in FY23.	Ongoing through June 30, 2023	Karen Foster, Controller Robert Cramer, GM Leeya Suttler, Human Resources Manager	kfoster@thepeoplemover.com rcramer@thepeoplemover.com lsuttler@thepeoplemover.com

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3.	DTC Did Not Follow Some Of Its Policies And Procedures Relating to Cash Disbursements	A.	<p>Ensure that individuals perform and are held accountable for all required accounts payable internal control responsibilities by:</p> <ol style="list-style-type: none"> 1. Setting the tone at the top by following policies and procedures. 2. Training individuals and ensuring that they understand control responsibilities. 3. Requiring signed acknowledgment statements for policies. 4. Implement a compliance monitoring process to track and ensure accounting processes are complete and effectively implemented. 5. Issuing disciplinary actions when internal controls are not followed. 6. Granting and obtaining the necessary authority to perform all duties required timely, preferably at the start of employment. 7. Ensuring that an authorized check signer other than the chairperson is assigned as the alternate and performs check approval and signing responsibilities when the General Manager cannot perform them. Ensure that alternates are trained and understand control responsibilities. 	DTC	<p>DTC's Accounting: Accounts Payable Policy & Procedure was issued and current staff trained in December 2022. Formal training occurred, staff individually signed in to acknowledge attending the training and receiving hand-outs. As new staff are hired similar training will occur. Routine formal and informal reviews completed in new processes to address finding and mitigate repeat non-compliance. Additional policies and procedures related to Cash Disbursements will be developed and implemented to address finding.</p>	Ongoing through June 30, 2023	Karen Foster, Controller	kfoster@thepeoplemover.com

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		B.	<p>Continuously monitor changes in the control environment that may impact the department and implement needed changes timely. Review and update the accounts payable internal control processes and supporting control documents to ensure that control objectives are achieved, assets are safeguarded, and controls are performed effectively and efficiently. Processes should include the following:</p> <ol style="list-style-type: none"> 1. A standard invoice numbering guideline within the policies and procedures manual. 2. Reinforcement of a thorough review of previous invoice payments and nonpayment of invoices from expired contracts and services from prohibited vendors. 	DTC	Expect to develop and implement updated policies & procedures to address finding in FY23.	Ongoing through June 30, 2023	Karen Foster, Controller	kfoster@thepeoplemover.com

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		C.	Consider hiring additional staff or incorporating electronic software solutions to improve process efficiencies, reduce risk and strengthen controls.	DTC	Expect to develop and implement updated policies & procedures to address finding. Accounts Payable Specialist position temporarily filled August 2022; Accounting Manager position temporarily filled September 2022; Revenue Agent position permanently filled October 2022; Financial Analyst position permanently filled November 2022; permanent fill expected in FY23.	Ongoing through June 30, 2023	Karen Foster, Controller Leeya Suttler, Human Resources Manage	kfoster@thepeoplemover.com lsutter@thepeoplemover.com

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4.	Bank Reconciliations Are Inadequate, And They Are Neither Effective Nor Efficient	A.	<p>Establish an effective internal control system using the State of Michigan's Department of Treasury's Accounting Procedures Manual for Local Units of Government in Michigan, and the City of Detroit finance directives as a guide to creating and implementing an adequate and sufficient system of internal controls by:</p> <ol style="list-style-type: none"> 1. Overseeing the creation of a formal policy that identifies the areas of accounting's responsibility for internal controls, including bank account administration. 2. Continuously monitoring changes in the control environment that may impact the department and implement needed changes timely. 3. Implementing a compliance monitoring process to track and ensure completeness of accounting processes. 4. Ensuring that all bank accounts are reconciled to source documentation monthly on time and. 5. Updating bank reconciliation forms to include signer/approver signature lines and dates. 	DTC	Expect to develop and implement updated policies & procedures to address finding related to bank reconciliations in FY23.	Ongoing through June 30, 2023	Karen Foster, Controller	kfoster@thepeoplemover.com

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		B.	Take appropriate action to resolve or clear aged outstanding checks by stopping payment of the check if DTC does not have physical possession of the check. Also, appropriate corresponding entries should be made in the General Ledger to void the check, clear it from the list of outstanding checks, and restore the funds to the cash book balance.	DTC	Expect to develop and implement updated policies & procedures to address finding related to bank reconciliations in FY23.	Ongoing through June 30, 2023	Karen Foster, Controller	kfoster@thepeoplemover.com
		C.	Ensure that reconciling items are documented, researched, and resolved on a timely basis.	DTC	Expect to develop and implement updated policies & procedures to address finding related to bank reconciliations in FY23.	Ongoing through June 30, 2023	Karen Foster, Controller	kfoster@thepeoplemover.com
		D.	Ensure that transactions are recorded accurately and timely within the General Ledger. Consider hiring additional staff or incorporating electronic software solutions to improve process efficiencies, reduce risk and strengthen controls.	DTC	Bi-weekly and monthly review of bank transactions via Comerica Business Connect performed to ensure timely recording of transactions in the General Ledger effective September 2022. Written procedures forthcoming in FY23.	Periodic bank transaction review- September 2022 Written policy/procedure- Ongoing through June 30, 2023	Karen Foster, Controller	kfoster@thepeoplemover.com
5.	There Are Internal Control Weaknesses in The Cash	A.	Review and monitor all documents within the cash receipts process to ensure that appropriate signatures and documents exist to support cash receipts transactions.	DTC	Expect to develop and implement updated policies & procedures to address finding in FY23.	Ongoing through June 30, 2023	Karen Foster, Controller	kfoster@thepeoplemover.com

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	Receipts Process	B.	Record cash receipts received promptly, i.e., within 30 days.	DTC	Bi-weekly and monthly review of bank transactions via Comerica Business Connect performed to ensure timely recording of transactions in the General Ledger effective September 2022. Written procedures forthcoming in FY23.	Periodic bank transaction review- September 2022 Written policy/procedure- Ongoing through June 30, 2023	Karen Foster, Controller	kfoster@thepeoplemover.com
		C.	Provide adequate and sufficient supporting document for all journal entries including obtaining and recording all necessary authorizations.	DTC	Journal Voucher form updated October 2022. Updated procedures for review, support, approval prior to posting to general ledger. Written policy/procedure forthcoming in FY23.	Updated journal voucher form- October 2022 Written policy/procedure- Ongoing through June 30, 2023	Karen Foster, Controller	kfoster@thepeoplemover.com
6.	There Are Several Deficiencies In Information Systems Controls	A.	Continuously monitor changes in the control environment that may impact the department and implement needed changes timely.	DTC	Expect to develop and implement updated policies & procedures to address finding in FY23.	Ongoing through June 30, 2023	Robert Cramer, GM	rcramer@thepeoplemover.com
		B.	Review current operational processes, collaborate with DTC departments, and explore available and future technology opportunities to improve information sharing, monitoring, and effectiveness and efficiency of operations within DTC.	DTC	DTC is actively seeking information share technologies. Presentation of TransitTrack system occurred October 2022 for consideration.	Ongoing through June 30, 2023	Robert Cramer, GM	rcramer@thepeoplemover.com
		C.	Review and restructure administrative rights from the accounting department staff and delegating some rights to the IT contractor (only.)	DTC	DTC has plans to seek consulting assistance to	Ongoing through June 30, 2023	Robert Cramer, GM	rcramer@thepeoplemover.com

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		D.	Restrict who controls information on applications. Different individuals and often separate departments should perform the initiation, authorization, input, processing, and validation of data.	DTC	develop a DTC Responsibility Matrix to itemize whom are responsible for work tasks across the organization. Such matrix shall be a tool to inform access needs.	Ongoing through June 30, 2023	Robert Cramer, GM	rcramer@thepeoplemover.com
		E.	Implement an "Identity and Access Management (IAM)" policy which allows access only if the job function requires it. Management should develop IAM policies and procedures that define and address proper provisioning, administration, segregation of duties, and enforcement. Work with the IT contractor and vendor to configure the payroll system to accrue vacation time according to DTC policy.	DTC	IT vendor set to possibly change soon and AG recommendations are considered as part of choosing a qualified IT vendor.	Ongoing through June 30, 2023	Robert Cramer, GM	rcramer@thepeoplemover.com
		F.		DTC		Ongoing through June 30, 2023	Robert Cramer, GM	rcramer@thepeoplemover.com

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		REF.	SPECIFIC RECOMMENDATION					
		G.	<p>Implement policies and standard operating procedures relating to vendor files and maintenance including (but not limited to:)</p> <ol style="list-style-type: none"> 1. Removing inappropriate user access to vendor system master files. 2. Creating procedures for vendor additions and changes, vendor naming conventions, and periodic review of vendor information in the accounting system. 3. Reviewing vendor system records and deactivating duplicate and inactive vendor accounts. 4. Establishing different class identifications for vendor and employee reimbursement accounts. 5. Identifying when and who enters vendor tax identification information into the accounting system. 	DTC	<p>New Vendor Addition/Adjustment form developed and to be implemented February 2023.</p> <p>Several vendor classes created and continuously being added.</p> <p>Expect to develop and implement updated policies & procedures to address finding in FY23.</p>	Ongoing through June 30, 2023	Karen Foster, Controller	kfoster@thepeoplemover.com
7.	DTC Did Not Follow Some Of Its Human Resources Policies And Procedures	A.	Work with the IT contractor and vendor to configure the payroll system to accrue vacation time according to DTC policy.	DTC	<p>Multi-departmental team, including but not limited to HR Manager, Controller, Payroll Accountant, Payroll vendor, are working to audit accuracy and resolve any miscalculations in FY23.</p>	Ongoing through June 30, 2023	Leeya Suttler, Human Resources Manager Karen Foster, Controller	lsutter@thepeoplemover.com kfoster@thepeoplemover.com

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		B.	Update its employee handbook to include a vacation time accrual policy which identifies the amount of carryover and maximum vacation bank hours that an employee is allowed to accrue.	DTC	Expect to develop and implement updated policies & procedures to address finding in FY23.	Ongoing through June 30, 2023	Leeya Sutter, Human Resources Manager	lsutter@thepeoplemover.com
		C.	Monitor and enforce the DTC vacation time policy.	DTC	Expect to develop and implement updated policies & procedures to address finding in FY23.	Ongoing through June 30, 2023	Leeya Sutter, Human Resources Manager	lsutter@thepeoplemover.com
		D.	Follow their merit increase policy when granting employees raises. Include supporting documentation in an employee's personnel file that includes the reason for the raise.	DTC	Expect to develop and implement updated policies & procedures to address finding in FY23.	Ongoing through June 30, 2023	Leeya Sutter, Human Resources Manager	lsutter@thepeoplemover.com
		E.	Monitor and enforce DTC salary policy.	DTC	Expect to develop and implement updated policies & procedures to address finding in FY23. Procurement for a compensation study is underway to help inform the development of position & compensation policies.	Ongoing through June 30, 2023	Leeya Sutter, Human Resources Manager	lsutter@thepeoplemover.com
							Robert Cramer, GM	rcramer@thepeoplemover.com
							Robert Cramer, GM	rcramer@thepeoplemover.com