City of Detroit

OFFICE OF THE AUDITOR GENERAL

Audit Of
The Detroit Police Department's
Bank Accounts and Cash Receipts
September 2005

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Auditor General
City of Detroit

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MEMORANDUM

DATE: July 6, 2006

TO: Honorable City Council

FROM: Loren E. Monroe, CPA
Auditor General

RE: Audit of the Detroit Police Department's Bank Accounts and Cash Receipts

CC: Mayor Kwame M. Kilpatrick
Chief Ella M. Bully-Cummings

Attached for your review is our report on the audit of the Detroit Police Department's bank accounts and cash receipts.

This report contains our audit purpose, scope, objectives, and methodology; background; status of prior audit findings; findings and recommendations; and the Detroit Police Department's response.

We appreciate the cooperation and assistance that we received from the employees of the Police Department.

This audit report and all other Auditor General's reports can be found on our website at www.ci.detroit.mi.us/legislative/CharterAppointments/AuditorGeneral.

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AUDIT PURPOSE, SCOPE, OBJECTIVES, AND METHODOLOGY

Audit Purpose

The audit of the Detroit Police Department was performed under the Office of the Auditor General's (OAG) Charter mandate to audit financial transactions of all City agencies. The OAG performed the audit to test the adequacy of the Police Department's control procedures over cash receipts and bank accounts.

Audit Scope

The scope of our audit was limited to the period between July 1, 2000 and September 30, 2005. We focused our audit on cash receipt and bank account transactions; and the status of the prior audit findings.

The OAG's audit was conducted in accordance with Government Auditing Standards (GAS) issued by the Comptroller General of the United States, except for the completion of an external peer review of the Office of the Auditor General within the last three years.

Audit Objectives

Our audit of the Police Department had the following objectives:

1. To assess the Department's internal controls relating to:
    a. Financial operations, and
    b. Compliance with policies, procedures, laws and regulations.
2. To determine whether the Department had addressed the prior audit findings.

Audit Methodology

To accomplish our audit objectives, our audit work included the following:

- Conducted a risk assessment of control procedures.
- Conducted interviews, observations, inspections; made calculations; and reviewed and examined documentation.
- Evaluated internal accounting controls.
- Examined a judgmental sample of transactions that we considered satisfactory to achieve our objectives.
- Reviewed City directives, policies and procedures, and interviewed personnel to gain an understanding of the Department's internal control structure.

BACKGROUND

As specified in the City of Detroit's Charter, the Police Department's charge is to preserve the public peace, prevent crime, arrest offenders, protect the rights of persons and property, guard the public health, preserve order, and enforce laws of the state, the nation and the ordinances of the City.

A five-member Board of Police Commissioners heads the Detroit Police Department. The Mayor appoints the board members, subject to the approval of City Council, and the police chief. The police chief is the chief executive officer of the Department and administers the Department under policies, rules, and regulations established by the Board of Police Commissioners.

The Police Department's mission is to set new standards of excellence in policing through integrity, innovation, and training.

The Police Department's Administrative Portfolio consists of four bureaus:

- Fiscal Management Bureau;
- Risk Management Bureau;
- Science and Technology Bureau; and
- Human Resources Bureau.

The Fiscal Management Bureau is responsible for the Police Department's financial transactions, business administration and maintenance of police buildings and facilities.

One of the sections under the Fiscal Management Bureau is Fiscal Operations, which is responsible for the department's financial transactions, including managing the business affairs of the Police Department, preparing the budget, processing contracts and purchase orders, and recording revenues.

The Records and Identification Section is a component of the Science and Technology Bureau. The Records and Identification Section is comprised of the following:

- The Report Unit maintains traffic accident reports and official complaint or police reports.
- The Gun Licensing Unit processes applications for permits to purchase firearms and concealed weapons.
- The Identification Unit provides letters of clearance and fingerprinting.

The Public Vehicle Unit issues public vehicle driver's licenses, taxicab licenses, parking lot attendant identification and licenses, and cabaret licenses.

The Police Department collects various types of general fund cash receipts: taxicab inspection fees, towing and storage fees, jury duty fees, sting-operation monies, parking lot attendant license fees, public vehicle driver's license fees, police clearance fees, fingerprint fees, cabaret license fees, orders of discovery fees, bicycle license fees, fees for replacement of uniformed officers' property, press pass fees, crime and accident reports fees, and permit-to-purchase-gun fees.

The Records and the Identification Units use cash registers; all others use official receipts.

During the course of our audit fieldwork the Police Department resolved some of the conditions identified at the beginning of the audit.

At the end of fieldwork the Police Department had several bank accounts assigned to various units. The accounts are used for various purposes, such as imprest cash, covert operations, maintenance of vehicles forfeited to the Department through the narcotics forfeiture process, large amounts of cash, or "flash rolls", to show for narcotics buys, and transfer of posted bond money to authorizing courts.

STATUS OF PRIOR AUDIT FINDINGS

A previous audit of the Police Department by the Office of the Auditor General included findings and recommendations related to internal controls over cash handling and safeguarding practices, and compliance with Finance Directives regarding cash matters. Those findings were:

1. Internal Control Weaknesses – Cash Receipts (April 8, 1998)
    a. The Fiscal Section's cash receipt functions are not adequately segregated.
    b. The Fiscal Section cannot effectively account for the license revenues received by the Public Vehicle Unit.
2. Untimely Deposits of Cash Receipts (April 8, 1998)

We have reviewed the status of these findings and determined that:

- Finding 1a has been resolved.
- Finding 2 has been resolved.
- Finding 1b was not resolved, and has been carried forward as finding 4 in this report.

FINDINGS AND RECOMMENDATIONS

Findings marked with an asterisk (*) indicate that the finding and related recommendation appeared in the previous Auditor General's report.

1. Comply with Policies and Procedures to Ensure Management's Control of Bank Accounts

The Police Department did not maintain adequate segregation of duties over its bank accounts to ensure proper controls to safeguard funds. Our examination disclosed:

- The Department allows one signature on checks for the Homicide Section Imprest Cash account. The Homicide Unit has not written checks since November 2004, and has not replaced the single signature line checks with double signature checks. Allowing only one employee to sign checks to validate them may result in misuse and/or unauthorized use of the related funds. We noted that other units have single signature line checks, however two authorized persons must sign each check.
- There is an unresolved balance difference between the checkbooks and bank statements for the Fiscal Management Bureau's Imprest Cash. An unresolved difference between the checkbook balance and the bank statement balance exposes the account to improprieties.

The Police Department's directive requires an appointed person to maintain the checkbook and to prepare checks for the required two signatures.

Recommendations
We recommend that the Police Department comply with its policies and procedures to ensure that:

- All checks are signed by two authorized persons; and
- Differences between checkbooks and bank statements are resolved.

2. Require Employees to Use Identification Codes to Operate Cash Registers and Record Transactions

The Identification Unit employees' identification is not recorded on the cash register tapes for transactions and other cash register operations they perform. Accountability for transactions cannot be established when employees are not assigned individual codes to operate the cash register and when the employees' codes are not recorded on cash register tapes for transactions and other cash register operations they perform.

Internal controls include procedures that provide security for cash collections.

The Identification Unit's cash register is antiquated, and does not have the capability to assign codes to transactions.

Recommendations
We recommend that:

- The Police Department purchase a new cash register that has the capability to assign codes to persons operating it; imprint codes for employees' identification on cash register tapes for the sales transactions and other cash register operations they perform; and record the time and date of each transaction or operation on the cash register tapes, and that
- Manual procedures be established to effect the necessary controls until cash registers with the desired capabilities are acquired.

3. Comply with Policies and Procedures to Ensure That the Duties of Maintaining Custody of Checkbooks and Reconciling Checking Accounts Are Separated

The Police Department does not adequately segregate custodial duties for some checking accounts. The checkbook custodians for the Homicide Section's imprest cash account, Violent Crimes Task Force's account, Gang Enforcement's account, Investigative Operations Division's account, Internal Controls Division's account, Junior Police Cadet's account and the Gaming Division's imprest cash account also performed bank reconciliations of their accounts.

An adequate internal control system includes a plan of organization that provides segregation of duties to protect an entity's checking accounts from improprieties. The Police Department's directive requires that bank statements and canceled checks be sent to a designated person other than the fiscal officer, custodian, or signer, who shall be responsible for reconciling the account against the bank statement on a monthly basis.

To provide adequate segregation of duties, one employee should not be assigned the responsibilities for maintaining custody of the checkbook, signing the checks, and reconciling the account. Each responsibility should be assigned to an employee not performing the other two duties. An employee performing two or all three of these functions exposes the checking account to improprieties.

Recommendations
We recommend the Police Department comply with established policies and procedures to ensure that the duties of maintaining custody of checkbooks, signing checks and reconciling checking accounts are separated. One employee should not perform or be assigned two or all three of these duties.

*4. Account for and Control Monies Collected by the Public Vehicle Unit

Fiscal Operations lacks accountability and control to ensure that all money collected by the Public Vehicle Unit is submitted to Fiscal Operations for deposit. The Public Vehicle Unit receives shipments of pre-numbered parking lot attendant identification licenses, public vehicle drivers' licenses, and cabaret licenses. The licenses are then sold by the Public Vehicles Unit, and money collected and a copy of the license is turned in to the Fiscal Operations teller for deposit. These fees totaled $542,601 from January 1, 2005 to June 30, 2005.

Effective internal control includes methods and measures implemented to safeguard cash collections from improprieties. Issuing pre-numbered licenses allows Fiscal Operations oversight of each license issued, and the ability to monitor and reconcile cash received by the Unit to the license inventory.

Without accountability and control over the sales of these licenses, the Fiscal Operations lacks the ability to ensure that all money collected from the sales is turned over to the Fiscal Operations' teller for deposit.

It is not a priority for Fiscal Operations to issue pre-numbered licenses to the Public Vehicles Unit.

Recommendations
We recommend the following:

- Fiscal Operations receive shipments and prepare logs of the pre-numbered forms ordered by the Public Vehicle Unit.
- Fiscal Operations account for each form to ensure money collected from customers by the Public Vehicle Unit for sales of licenses is turned over to the Fiscal Operations teller for deposit.
- Police Department administration adopt a policy requiring the Public Vehicle Unit to sell licenses in pre-numbered sequence, maintain all three copies of void license forms for inspection by Fiscal Operations, and for audit by the Office of the Auditor General.

5. Establish a Fee Schedule for Goods and Services

Fiscal Operations lacks an authorized fee schedule for goods and services that Police Department units sell.

Internal control includes all methods and measures to ensure all monies of an entity are deposited into a bank and to ensure correct prices are charged to customers for sales of services. Without a fee schedule, management and the Fiscal Operations teller are unable to determine if Police Department units are turning over the correct amounts for deposit, and are charging customers the correct amounts for goods and services provided.

The Police Department has never had a comprehensive fee schedule for the services it sells.

Recommendations
We recommend that Fiscal Operations:

- Develop a fee schedule for all services that are sold by the Police Department's units;
- Verify that the units are charging customers correct amounts; and
- Use the fee schedule to verify that the units are turning over correct amounts for deposit.

ATTACHMENT A

DETROIT POLICE DEPARTMENT
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July 3, 2006

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Dear Mr. Monroe:

The following represents the Detroit Police Department's response to the findings and related recommendations from the Office of the Auditor General concerning the September 2005 Audit of the Detroit Police Department's Bank Accounts and Cash Receipts.

Finding 1 – Develop Policies and Procedures to Ensure Management's Control of Bank Accounts

Response 1 – Although two signature lines are not represented on Homicide's bank accounts checks for their Imprest Cash Account, the requirement for two signatures on each check distributed is our policy. Detroit Police Department Policy Manual, Directive 103.1, clearly outlines the procedures for the management of the Department's confidential fund accounts and other related fiscal matters. All Department entities with confidential fund accounts have been reminded of the aforementioned directive and notified via electronic mail on the proper handling of such funds. Nonetheless, within 90 to 120 days, new checks will be ordered with double signature lines.

In November 2003, your office audited the Fiscal Management Bureau's Imprest Cash Account referenced with the same finding. As a result, the (then) Fiscal Section researched account records and determined that the amount of the discrepancy was $1,958.88; a letter was submitted to then Finance Director Sean Werdlow signed by (then) Deputy Chief Brenda Goss Andrews of the Management Services Bureau, dated January 16, 2004 (enclosed) requesting that the account be replenished with the aforementioned amount to bring the account to its maximum funding of $10,000. An explanation for the shortage is outlined in the enclosed letter. Mr. Werdlow did not authorize replenishment of the account. Consequently, the account discrepancy remained. Within the next 15 days, Fiscal Operations will make the same request for replenishment of the account to the current Finance Director.

To ensure proper controls in safeguarding funds, the Detroit Police Department (DPD) has segregated the duties concerning its Imprest Cash Accounts. Currently, the Principal Governmental Analyst (PGA) issues checks from the Imprest Cash Account and maintains the checkbook. Two authorized signatures are required on each check issued. Each week, the PGA forwards all original supporting documentation to the Senior Clerk to process a Check Request to the Finance Department in order to replenish account funds.

The Senior Accountant is responsible for reconciling the Imprest Cash Account. Reconciliation must be completed and forwarded to the Finance Manager for review by the 15th of each month.

Finding 2 – Require Employees to Use Identification Codes to Operate Cash Registers and Record Transactions

Response 2 – In order to account for employees conducting monetary transactions, the Detroit Police Department will purchase a new cash register capable of imprinting codes for employees' identification. The new cash register will be purchased within 90 to 120 days. During the interim, a new procedure has been established within the Identification Unit whereby only the cashier will complete Requests for Letters of Record Clearance (DPD 24 forms) by initialing and indicating the date and time of each financial transaction.

Finding 3 – Establish Policies and Procedures to Ensure That the Duties of Maintaining Custody of Checkbooks and Reconciling Checking Accounts Are Separated

Response 3 – Concerning the Imprest Cash checking accounts held by Homicide, Violent Crimes Task Force, Gang Enforcement, Investigative Operations, Internal Affairs, Gaming and Junior Police Cadets, the Detroit Police Department Policy Manual, Directive 103.1, clearly outlines the procedures for the management of the Department's confidential funds accounts and other related fiscal matters. All Department entities with confidential fund accounts have been reminded of the aforementioned directive and notified via electronic mail on the proper handling of such funds. (Please see Response 1)

Finding 4 – Account For and Control Monies Collected by the Public Vehicle Unit

Response 4 – In order to better account for and control monies collected by the Public Vehicle Unit, Fiscal Operations will:

- Order, receive shipments, distribute, and maintain a log of the pre-numbered licenses utilized by the Public Vehicle Unit

- Conduct a quarterly audit of license forms to ensure money collected from customers by the Public Vehicle Unit for sales of licenses is delivered to Fiscal Operations

- Adopt a policy requiring the Public Vehicle Unit sell licenses in pre-numbered sequence and maintain all three copies of void license forms for inspection by Fiscal Operations and for audits by the Office of the Auditor General

Finding 5 – Establish a Fee Schedule for Goods and Services

Response 5 – Fiscal Operations has a fee schedule. Further, Fiscal Operations has submitted recommendations to City Council for additional fees and to increase fees on the current schedule. Still, to ensure proper fees are being collected for goods and services, Fiscal Operations will:

- Verify that commands are charging correct fees

- Post fee schedules at each command for customer information

- Supply a fee schedule to the teller to enable him/her to verify that commands are delivering correct amounts for deposit