

UNAUTHORIZED PURCHASES/ CONFIRMING CONTRACTS AUDIT

OIG File No. 21-0002-AUD



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Ellen Ha, Esq., CIG
Inspector General

EXECUTIVE SUMMARY

Between July 1, 2018¹, and June 30, 2020, 18 City of Detroit departments, offices and/or agencies initiated 45 unauthorized purchases (aka confirming contracts) totaling \$1,209,467.07. To conduct this audit, the Office of Inspector General (OIG) selected 30 transactions based on professional judgement of possible waste, fraud, abuse, or corruption, totaling \$1,071,013.53. Based on our audit, there is evidence of risk that unauthorized purchases may result in waste, fraud, abuse, or corruption which can be preventable.

A. Findings

Based on the OIG's review, the risk of waste, fraud, abuse, and corruption is increased when:






1. The OCFO is not provided sufficient descriptions of the goods and services for which the department is requesting payment.
2. Departments make purchases through the unauthorized purchase process when it is not necessary to do so or without proper justification (i.e., non-emergency purchases).
3. Departments purchases goods and services without the oversight of the formal procurement process.
4. The OCP authorizes payments through the unauthorized purchases process that are for items that OCP would otherwise prohibit.

B. Recommendations

To reduce the risk of waste, fraud, abuse, and corruption resulting from unauthorized purchases and further prevent such risk, the OIG recommends the Office of the Chief Financial Officer (OCFO):

1. Enforce the requirement that departments submit invoices with detailed descriptions of all goods and services received as well as proof of receipt signed by the individual who received the goods and/or services. In addition, all unauthorized purchases should include pictures of goods and services (i.e., printed material) for which payment is being requested. This will allow ODFS and OCP to ensure all purchases were made for governmental purposes.
2. Require department directors and all departmental personnel who have the authority to initiate purchases of goods and services sign a statement attesting that they understand their roles and responsibilities related to the procurement process each year.

¹ The OIG initially had the audit period as July 1, 2019. However, based on OCFO's Response, the OIG corrected 2018 to 2019 as pointed by the OCFO.

3. Subject departmental personnel who abuse the Unauthorized Purchase process to the penalties outlined in the City of Detroit Universal Work Rules². This will encourage departmental personnel to comply with the procurement process. 
4. Ensure that departments do not operate with vendors whose contracts have expired in compliance with the OCP SOP 
5. Hold vendors, with whom the City had previous contractual relationships, accountable for providing goods and services without an approved contract. 
6. Consult the Law Department to determine whether it is appropriate to inform vendors that if they receive a request to provide goods and services without an approved contract or a purchase order, they should contact and notify the OCP. This will encourage contractors to only provide goods and services through approved purchase orders and contracts. 
7. Coordinate with the Law Department and the Board of Ethics to determine what, if any, items that include the names or likenesses of elected officials can be included or what images or words are prohibited from being imprinted on goods purchased using government funds. 

² City of Detroit Universal Work Rules, Group Offense IV Misrepresentation or falsification of official applications, time records or any other documents while conducting City of Detroit business. First Office: Thirty (30 Calendar Day Suspension, with Recommendation for Discharge.

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³ City of Detroit Universal Work Rules, Group Offense IV Misrepresentation or falsification of official applications, time records or any other documents in the course of conducting City of Detroit business. First Office: Thirty (30) Calendar Day Suspension, with Recommendation for Discharge.

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I. Audit Purpose

A. Objective

The objective of this Office of Inspector General (OIG)'s audit was to determine whether there is potential waste, fraud, abuse or corruption involving transactions that were initiated as unauthorized purchases.

B. Scope

The scope of this audit focused on transactions completed through the unauthorized purchase process that various City departments initiated between July 1, 2018, and June 30, 2020.

C. Methodology

To fulfill the objectives of the audit, the OIG used the following methodology:

1. Requested and reviewed a list of transactions provided by the Office of Contracting and Procurement (OCP).
2. Selected a sample of transactions based on the criteria set by the OIG.
3. Requested supporting documentation, from the Office of Departmental Financial Services (ODFS) for select sample transactions.
4. Requested additional supporting documentation, directly from departments, as necessary.
5. Determined the risk of waste, fraud, abuse and corruption related to the sample transactions based on criteria set by the OIG.

D. Standards

This audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States. The GAGAS standards require that we plan and perform the audit to obtain sufficient and appropriate evidence in support of the findings and conclusions, as identified in our audit objectives.

E. Authority and Role

The OIG's authority to perform this audit is established in Section 7.5-306 of the 2012 Charter of the City of Detroit,⁴ which states in part:

The Inspector General shall investigate any public servant, city agency, program or official act, contractor and subcontractor providing goods and services to the City, business entity seeking contracts or certification of eligibility for City contracts and person seeking certification of eligibility for participation in any city program, either in response to a complaint or on the Inspector General's own initiative in order to detect and prevent waste, abuse, fraud and corruption.

This audit is therefore limited to reviewing unauthorized purchases initiated by City of Detroit (City) departments to ensure honesty and integrity in the procurement of goods and services by rooting out waste, abuse, fraud, and corruption.

Likewise, each City department, agency, board, office, and commission is responsible for establishing and maintaining its purposes as required by the Charter to ensure it operates economically, efficiently, effectively and with integrity.

II. Background

A. Unauthorized Purchase Policies and Procedures

As described by the OCP SOP, "The OCP is the only entity authorized to make purchases greater than \$2,000 or to enter into contracts on the City's behalf."⁵ "If an unauthorized purchase occurs, the individuals, both the City employee and supplier, are acting without the protection of the City's authorized formal processes, procedures, or support."⁶ Since all 30 transactions reviewed by the OIG exceeded \$2,000, under the SOP, the departments should have requisitioned the goods and services prior to the purchase. The requisition processes would then have triggered the competitive bid process.

An "Unauthorized Purchase" is defined as "An invalid agreement for goods and/or services made by an individual who does not have the express written delegation of procurement authority to bind both parties."⁷ The objective of the OCFO directive is to "ensure the City disburses funds for valid business reasons after receiving the proper documentation and required authorization."⁸ Pursuant to the City of Detroit Charter, the Procurement Director (i.e., Deputy Chief Financial Officer - Contracting and Procurement) is responsible for procure[ing] all property and all services of

⁴ As adopted by a vote of the People November 8, 2011, effective January 1, 2012, Article 7.5 Independent Department's and Offices Chapter 3. Office of Inspector General.

⁵ Office of Contracting and Procurement Standard Operating Procedure Manual pg., 12.

⁶ Id, pg. 40 Policy

⁷ City of Detroit CFO Directive No. 2018-101-020 (Contracting and Procurement Directive)

⁸ Ibid

independent contractors...”⁹ However, sometimes departments make purchases outside of the City’s approved procurement process and subsequently submit invoices/receipts to the ODFS for payment. Therefore, OCFO Standard Operating Procedure Manual (SOP) documents policies and procedures related to “Unauthorized Purchases”, also known as confirming purchases.¹⁰ The policy requires City departments to provide, in writing.

1. The City employee who requested the Unauthorized Purchase; name, classification and immediate supervisor’s name and contact information.
2. The supplier’s name, address, phone number, and individual who accepted the request without an authorized contract.
3. The specific description of the goods and/or services provided. The unit price and total value of the delivered goods and/or services.
4. The date, time, and location where the delivery or work was performed.
5. The City employee’s name and contact information that can verify the delivery of the goods or services.

B. Unauthorized purchases July 1, 2018, through June 30, 2020

According to the list OCP Supervisory Auditor provided the OIG, 18 departments submitted 45 unauthorized purchases for the period July 1, 2018, through June 30, 2020, totaling \$1,209,467.07. The following is a summary of the unauthorized purchases broken down by department:

⁹ Charter of the City of Detroit January 1, 2012, Article 6. The Executive Branch: Staff Departments Chapter 3. Finance Department Sec. 6-306. Purchasing Division

¹⁰ City of Detroit, Office of Contracting and Procurement, Standard Operating Procedures Manual, Section 6.3: Unauthorized Purchases.

Table A: Numbers of Unauthorized Purchases by Department ¹¹

Department	Unauthorized Purchases	
	Number	Dollar Value
Detroit Department of Transportation	6	\$ 68,516.89
City Council – Council Member (CM) Spivey	5	\$ 28,451.43
Elections	5	\$ 149,642.95
General Services Department/Recreation	4	\$ 48,803.88
Municipal Parking	4	\$ 25,930.80
Fire	3	\$ 44,617.20
Police	3	\$ 36,174.00
City Council – CM Raquel Castaneda-Lopez	2	\$ 8,033.78
City Council – CM Roy McCalister	2	\$ 11,040.00
Civil Rights Inclusion & Opportunity	2	\$ 11,732.90
Housing and Revitalization Department	2	\$ 5,376.00
City Clerk	1	\$ 7,951.50
Department of Public Works	1	\$ 12,400.00
Health	1	\$ 5,922.12
Office of the Chief Financial Officer	1	\$ 89,380.78
Office of the Chief Financial Officer – Treasury	1	\$ 2,450.84
Office of the Chief Financial Officer – Office of Contracting and Procurement	1	\$ 650,000.00
Planning and Development Department	1	\$ 3,042.00
Grand Total	45	\$1,209,467.07

The OCP provided information about each transaction, including the following:

1. The date OCP approved payment for the transactions.
2. The department that submitted the request.
3. The date the department submitted the request for payment.
4. The departmental employee who approved the transaction.
5. The departmental employee who requested the transaction.
6. The month and year in which the transaction occurred.
7. The supplier of the goods and/or services related to the transaction.
8. The description/reason for the request.
9. The dollar amount of the payment transaction.
10. The Agency CFO who processed the transaction.

According to the OCP SOP¹², departments should submit:

1. a written letter explaining: the specific description of the goods and/or services provided,
2. the unit price and total value of the delivered goods and/or services,
3. and the date, time, and location where the delivery or work was performed.

Therefore, the OCP developed a form for all departments to document the specific description of the goods and serviced for which they are requesting payment through the Unauthorized Purchases process.

III. Audit Analysis

A. Documentation Related to Transactions

OIG selected and reviewed 30 transactions, based on professional judgment, for evidence of any actual and potential waste, fraud, abuse or corruption. To do so, the OIG had to request additional information for each purchase from the Agency CFO responsible for the department as well as information directly from the individual department. After having reviewed all the documents provided to the OIG, we question whether the goods and/or services purchased through the unauthorized purchases were for a “governmental purpose” (i.e., Generally, a public purpose has for its objective the promotion of the public health, safety, morals, general welfare, security, prosperity, and contentment of all the inhabitants or residents within the municipal corporation, the sovereign powers of which are used to promote such public purpose. The phrase 'municipal purpose,' used in the broader sense, is generally accepted as meaning public or governmental purpose as distinguished from private¹³.)

¹² City of Detroit, Office of Contracting and Procurement, Standard Operating Procedures Manual, Section 6.3: Unauthorized Purchases

¹³ Hays v. City of Kalamazoo, 316 Mich. 443, 454 (1947)

The OIG selected a sample of 30 items based on the auditor's professional judgement using the following criteria:

1. Departments with the most payment requests pursuant to the Unauthorized Purchases process.
2. Transactions departments submitted for payment a week or more after the date of the invoice.
3. Transactions for department that did not provide specific detailed description for the goods and services received through unauthorized purchases.


Based on our review of the sample, the risk of fraud, waste, abuse and corruption exists as a result of:

- 58% (18 of 30) payments were processed based on invoices that did not include a sufficiently detailed description of the invoiced goods and services.
- 35% (11 of 30) transactions were supported by statements listing multiple invoices, without copies of the actual individual invoices.
- 39% (12 of 30) vendors did not appear to qualify as sole source for the goods and services.


Finding # 1

The risk of waste, fraud, abuse and corruption is increased when the OCFO is not provided sufficient descriptions of the goods and services for which the department is requesting payment.

Condition

Payments were initiated without sufficient documentation of the goods and services received by the department. 


Cause

The OIG noted some departments did not provide detailed descriptions on the Unauthorized Purchase forms. Furthermore, OCP was only able to provide the OIG with the unauthorized purchase forms (i.e., OCP could not provide any supporting documentation) for each transaction. In addition, the ODFS employees responsible for the forwarding the Unauthorized Purchase forms to OCP could not provide detailed invoices for 58% (18 of 30) of unauthorized purchases. 

For example, 15 transactions were related to printed materials (i.e., t-shirts, banners, newsletters, billboards, bag clips, newspaper articles, etc.). However, the invoices did not provide specific information about the graphics that were printed on the items or information in the periodicals. The absence of sufficient information about goods and services for which departments submit Unauthorized Purchase payment requests increases the risk of the City paying for items that OCP may not have allowed through the traditional procurement process.

In addition, 11 transitions were based on statements listing multiple invoices rather than the copies of actual invoices. The lists of invoices also did not itemize or contain specific descriptions of the invoiced goods or services. Therefore, neither ODFS nor OCP staff can assess the nature or determine whether the purchases were for government purpose solely based on a list of invoices.

Effect

As such, there is a risk that one or more invoices on a statement may be for goods and services that were not made for the benefit of the City or for governmental purpose. 


Criteria

The Procurement Policy¹⁴ requires that, “requesting department initiates the requisition process through the Office of Departmental Financial Services (ODFS).” Either the Agency CFO or the Deputy CFO must submit the requisition. The requesting department prepares and submits a written letter explaining the following, which must be attached to the requisition:

- a. The name of the City employee who requested the unauthorized purchase, classification, and name and contact information of the immediate supervisor,
- b. The supplier’s name, address, phone number, and individual who accepted the request without an authorized contract,
- c. The specific description of the goods and/or services provided to the department,
- d. The unit price and total value of the delivered goods and/or services
- e. The date, time, and location where items were delivered, or the specific nature and scope of the work performed
- f. The City employee’s name and contact information that can verify the delivery of the goods or services rendered

¹⁴ OCP SOP pg. 40, Section 6.3: Unauthorized Purchases Procedures 1. C and E

Recommendation # 1



OCFO/ODFS should enforce the requirement that departments submit invoices with detailed descriptions of all goods and services received as well as proof of receipt signed by the individual who received the goods and/or services. In addition, all unauthorized purchases should include pictures of goods and services (i.e., printed material) for which payment is being requested. This will allow ODFS and OCP to ensure all purchases were made for governmental purposes 

B. Risk of Abuse Resulting from the Unauthorized Purchase Process


Based on the list provided by the OCP, the Department of Transportation had the highest number of unauthorized purchases. However, our review of the documents suggests these transactions were emergency in nature.

The second highest number of unauthorized purchases, five (5) each, were initiated by the offices of former Council Members Spivey and McCalister,¹⁵ and the Department of Election. They are:

Table B: Departments that Made Unauthorized Purchases during OIG Audit 

Department/Vendor	Description of Items	Amount
Former Council Member Spivey 		
Avima Graphics & Printing	T-shirts for volunteers – District 4 Fun Day	\$3,750.00
	Food and Beverage for District 4 Annual Fun Day	\$4,051.43
	Newsletter Design Services	\$14,000.00
	District 4 Fun Day Flyers, Passports, posters and banners	\$3,150.00
	Design template services Brochures	\$3,500.00
Former Council Member McCalister 		
Avima Graphics & Printing	Buttons, letterhead and envelopes	\$2,125.00
	Hand sanitizer and note cards	1,830.00
	Wall Map (2)	\$1,450.00
	Flyers, posters, and banners	\$2,000.00
	Pens and tablecloths	\$1,595.00

¹⁵ Five individual requests for payment were processed on one form.

Department/Vendor	Description of Items	Amount
Department of Election 		
Detroit Legal News	A statement listing 89 invoices dated between July 27, 2018 and January 31, 2019	\$121,240.75
Tamaco Graphics	Banners, bookmarks, invitations, sign-in cover and social media cards – Open House	\$4,090.00
One America d/b/a The Shot	Election article to “reach a unique and broad audience	\$4,000.00
Michigan Chronicle	A statement listing 6 articles between October 17th and 31st of 2018	\$11,464.00
Tamaco Graphics	16 Election billboard graphics	\$8,848.20

Based on our review of the above-referenced unauthorized purchases, we note the expenditures did not appear to be of an emergency nature. Our review of the records suggests the purchases were made for planned events (i.e., community meetings, newspaper articles and election advertising). As these transactions were all related to planned annual events, we find there is no justifiable reason that the departments could not have obtained the goods and services through the City’s normal procurement process. The OIG also notes the flyers, passports, posters, banners, buttons, hand sanitizers, pens, tablecloths, bookmarks, and sign-in cover includes the cost of imprinting of the names and/or likenesses of elected officials. These items serve as outreach to the citizens of the City of Detroit. However, they can also serve as advertisement for elected officials’ campaigns. Therefore, it is important that the OCFO have all the information necessary to determine whether such unauthorized purchases were for governmental purposes.

Finding #2

The risk of waste, fraud, abuse and corruption is increased when departments make purchases through the unauthorized purchase process when it is not necessary to do so or without proper justification (i.e., non-emergency purchases).

Condition

Of the 30 unauthorized purchases OIG reviewed, 12 were for goods and services that were undoubtedly available from other vendors (i.e., printing services). Two of the departments with the most unauthorized purchases during the audit period were the offices of Former Council Members Spivey and McCalister. Combined, the departments requested payments for one vendor, Avima Design and Printing, totaling \$33,400.00. Similarly, the Department of Election requested two payments for printing services by Tamaco Graphics totaling \$12,938.20. Since there was no competitive bidding process for these goods and services, we do not know if they could have obtained the same goods and services at a lower price. The purpose of the competitive bid process is to ensure the City purchases goods and services from the

most responsive and responsible bidder, which frequently includes obtaining goods and services for the best price.

Cause

More importantly, our review of the records suggests the OCFO did not hold these departments accountable for making these purchases that would have otherwise been subjected to a competitive bidding process.

Criteria

The Procurement Policy states, “All purchases must be made using the optimal purchasing tool and process, as outlined in this section. The City must prioritize the use of P-Cards, existing Contract Purchase Agreements (CPAs) and Blanket Purchase Agreements (BPAs), Cooperative Purchasing Agreements, and GSA Schedules over original solicitations when possible. Requesting departments are not permitted to separate a larger purchase into smaller purchases in order to evade more strict or competitive purchasing requirements... The Contracting and Procurement Specialist (CPS) reviews all requisitions greater than \$1,999.99 to determine the optimal purchasing tool, using the information outlined in this section.”¹⁶

Effect

When purchases are not subjected to the competitive bidding process, there is a risk that the City could waste money by not paying the best price for goods and services.

Recommendation #2

The OCFO should

- A. Require department directors and all departmental personnel who have the authority to initiate purchases of goods and services to sign a statement attesting that they understand their roles and responsibilities related to the procurement process each year.¹⁷
- B. Subject departmental personnel who abuse the Unauthorized Purchase process to the penalties outlined in the City of Detroit Universal Work Rules¹⁸.

This will encourage departmental personnel to comply with the procurement process.

¹⁶ OCP SOP pgs. 24 and 25 Considerations for selecting the Optimal Purchasing Tool

¹⁷ The OIG initially recommended that OCFO require departmental personnel read the OCP SOP annually. However, OCFO responded that the SOP includes far more information than departmental staff needs to understand their roles and responsibilities related to procurement process. Therefore, the OIG removed the recommendation for departmental staff to read the OCP SOP and included that the confirmation of the departmental staff’s understanding of the process by attesting to the same via their respective signatures.

¹⁸ City of Detroit Universal Work Rules, Group Offense IV Misrepresentation or falsification of official applications, time records or any other documents while conducting City of Detroit business. First Office: Thirty (30) Calendar Day Suspension, with Recommendation for Discharge.

C. Risk Resulting from Multiple Transactions with Individual Vendors Outside of an Approved Contract

OIG also noted that departments submitted multiple invoices from individual vendors. As documented in Table B above, the Offices of former Council Members Spivey and McCalister each requested five payments to Avima Graphics and Printing. In addition, the Department of Election submitted two payment requests for Tamaco Graphics. Each indicated the vendors had previously provided services to the departments. However, this should not excuse the absence of a bidding process for the department to possibly acquire same goods and services at a lower cost. Furthermore, purchase orders issued to these vendors included the following statement:

“Start of Work

No Contract shall become effective until the Contract has been approved by the required City Departments, signed by the Detroit Chief Procurement Officer, and approved by City Council. Prior the completion of this approval process, the Supplier, will have no authority to begin work on this Contract. The Chief Procurement Officer shall not authorize any payments to the Supplier prior to such approvals, or shall the City incur any liability to reimburse the Supplier regarding any expenditure for the purchase of materials or the payment of services.”¹⁹

Since the vendors previously provided services for the departments, they were or should have been aware of this clause on the purchase order. Therefore, the departments and the vendors knew or should have known these transactions were not in compliance with City purchasing policies.

In addition, the Municipal Parking Department (MPD) had 4 unauthorized purchases totaling \$25,930.80. Three of the transactions, totaling \$21,680.80, appear to be of an emergency nature. However, the request for payment to Bobby’s Towing, totaling \$5,670.00, documents the explanation as “supplier was immediately available, when other contracted towing companies would not [respond] or were not available.” But, our review of records suggest that prior to the dates payment was requested, the department had a contract²⁰ with Bobby’s Towing. This contract was also amended on February 9, 2017, for an additional \$51,000.00²¹. The statements submitted with the Unauthorized Purchase request for payment lists 35 “receipts,” dated between July 2, 2018, and October 9, 2018. Based on our review of the records pertaining to unauthorized purchases of services rendered by Bobby’s Towing for the MPD, the services were provided to the MPD after MPD’s contract with Bobby’s Towing

¹⁹ Purchase Order – General Conditions Last Updated April 7, 2017, #20.

²⁰ Contract Number 6000128 dated June 7, 2016, for \$112,500.00 expired July 30, 2019

²¹ Amendment 2892161-A1 and expired June 29, 2018

expired. Subsequently, the City awarded a contract to “Bobby’s TBC Towing”²². Both contracts state:

“This contract shall be approved by the required City departments, and approved by the City Council, and signed by the City’s Chief Procurement Officer. The effective date of this Contract shall be the date upon which the contract has been authorized by resolution of the City Council. The term of this contract shall terminate three (3) years after the City Council approval. Prior to the approvals set forth in Section 4.01m the contractor shall have not authority to begin work on this contract. The Chief Procurement Office shall not authorize any payments to the Contractor, nor shall the City incur any liability to pay for services rendered or to reimburse the Contractor for any expenditure prior to such award and approval.”²³”

Therefore, the contractor and the department knew or should have known these transactions were outside of the previous contractual agreement. We note however the amounts the vendor charged for each service were in line with the contracts. However, based on our review of records, we also note MPD had contracts with 9 other contractors who could have provided the same towing services for the MPD prior to July 2018.

Finding # 3

The risk of waste, fraud, abuse and corruption increases when departments operate outside of a formal contract or purchase order

Condition

The MPD and Bobby’s /Bobby’s TBC Towing conducted business outside the scope of their contractual agreement. The department and contractor had a previous contractual relationship. Both were aware or should have been aware that this was inappropriate.

Cause

The ODFS and OCFO allowed the MPD to process this unauthorized purchase during the lapsing of a contractual agreement with the vendor, when other vendors were available during that time period.

Criteria

The OCP is responsible for monitoring contracts for upcoming expirations and working with the requesting department (including the Department Performance

²² Contract Number 6001377 which is signed by Denise Boyce-Hardison, who also signed the P for Bobby’s Towing, with an effective date of June 30, 2018. However, the contract was signed on March 20, 2019

²³ Contract Numbers 6000128 and 6001377 Sections 4.01 and 4.02

Manager and other staff as necessary) to determine whether the contract should be renewed or allowed to expire. The requesting department must initiate the requisition process 150 days prior to contract expiration if the department seeks to continue the contract. In the event that the requesting department does not submit a requisition to continue the contract 120 days prior to the contract expiration, the OCP must verify the requesting department's intention to renew or allow the contract to expire. The OCP must ensure that contract lapses are avoided.²⁴

Effect

The risk of waste, fraud and abuse is increased when vendors have a history of doing business with the City of Detroit knowingly disregard the Procurement Process.

Recommendation # 3

The OCP should ensure that departments do not operate with vendors whose contracts have expired in compliance with the OCP SOP. Furthermore, the OCP should hold vendors, with whom the City has previous contractual relationships, accountable for providing goods and services without an approved contract.

The OCP should consult the Law Department to determine whether it is appropriate to inform vendors that if they receive a request to provide goods and services without an approved contract or a purchase order, they should contact and notify the OCP. This will encourage contractors to only provide goods and services through approved purchase orders and contracts

D. Question of Prohibited Items

The OCP Policies and procedures states, "City of Detroit funds are only permitted to be spent on goods and services that benefit the City and its taxpayers. There are certain items that are categorically always prohibited from being purchased using government funds.²⁵" City funds cannot be used to make the following types of purchases:

1. Goods or services that are not necessary while conducting City's business,
2. Alcohol or illegal substances,
3. Personal goods or services, donations, or contributions to politically affiliated organizations, or
4. Any other good or service that is not in support of the goals and mission of the City of Detroit."²⁶

²⁴ OCP SOP pg. 29 Expiring Contract Policy

²⁵ OCP SOP pg. 37 Section 6.1: Restricted Items for Purchase, Section Summary

²⁶ OCP SOP pg. 37 Section 6.1: Restricted Items for Purchase, Policy

The OIG notes the Offices of former City Council members submitted payment requests for unauthorized purchases of items such as T-shirts, hand sanitizer, chip clips and tablecloths bearing the council members' names. They also submitted unauthorized purchases for food and other items for community events. In addition, the Department of Election purchased banners, a sign-in booklet and other items for an open house with the City Clerk's picture on the banner.

Finding # 4

The risk of waste, fraud, abuse, and corruption is increased when the OCP makes payments through the unauthorized purchases process that are for items that OCP would otherwise prohibit.

Condition

Some of the unauthorized purchases the OIG reviewed, such as T-shirts, hand sanitizer, chip clips and tablecloths bearing the council members names as well as the banners and sign-in book with the names and/or pictures of an elected official may serve a dual purpose, with one of the purposes being used as an advertisement for re-election. In that regard, we note the Charter prohibits use of City property for campaign purposes. Submitting requests for the payment to the OCFO for campaign related items would constitute conducting campaign activity with City funds.

Cause

The OCFO was not provided an opportunity to review and to determine whether the goods and services purchased were proper or whether they support the missions of the City of Detroit. To our best knowledge, the OCFO was not provided with any draft images imprinted on various items.

Criteria

City funds cannot not be used to make the following types of purchases:

1. Goods or services that are not necessary while conducting City's business,
2. Alcohol or illegal substances,
3. Personal goods or services,
4. Donations or contributions to politically affiliated organizations, or
5. Any other good or service that is not in support of the goals and mission of the City of Detroit.

This is not an exhaustive list of restricted items for purchase but provides an indication and overview of services that are strictly prohibited.

Effect

The risk of waste, fraud and abuse are increased when departments are allowed to initiate unauthorized purchases for prohibited goods and services.

Recommendation # 4

The OCFO and OCP should coordinate with the Law Department and the Board of Ethics to determine what, if any, items that include the names or likenesses of elected officials can be included or what images or words are prohibited from being imprinted on goods purchased using City funds.

ATTACHMENT A

IV. OCFO Response Dated June 10, 2022




**OFFICE OF THE
CHIEF FINANCIAL OFFICER**

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

Phone 313•628•2535
Fax 313•224•2135
OCFO@detroitmi.gov
www.detroitmi.gov

MEMORANDUM

TO: Ellen Ha, Office of the Inspector General
FROM: Jay B. Rising, CFO 
DATE: June 10, 2022
RE: Investigative Audit of Unauthorized Purchases/Confirming Contracts (OIG File No. 21-0002-AUD)

I have received your letter and the draft of the Investigative Audit of Unauthorized Purchases/Confirming Contracts (OIG File No. 21-0002-AUD) dated May 26, 2022 (the “OIG Audit”). It is my understanding that your office had communicated previously with the Office of Contracting and Procurement (OCP) to obtain a list of procurements made by various City departments, agencies and officials between July 1, 2018 and June 30, 2020, a period encompassing City’s 2019 and 2020 fiscal years.

As an initial point of clarification, it is my assumption that the information referenced and reported by the OIG Audit related to that period between July 1, 2018 and June 30, 2020, notwithstanding the fact that the OIG Audit identified the audit period as July 1, 2019 to June 30, 2020. If this assumption is correct, I wanted to bring that difference to your attention so the references in OIG Audit could be corrected.

During the City’s 2019 and 2020 fiscal years, approximately 17,300 procurements were executed. On average, the City has 1,500 contracts active at any time. Our expectation, like that of the OIG, is that each procurement be executed in accordance with state law, city ordinance, and the policies and procedures of the City. As the OIG Audit reports, that expectation is occasionally unfulfilled. There are numerous reasons for these exceptions, including mistakes of fact, ignorance of the rules and requirements governing procurements, emergencies, and process failures.

The Office of the Chief Financial Officer (OCFO), through OCP and the Office of Departmental Financial Services (ODFS), consistently strive to educate and identify City employees engaged in the procurement and contract management process of the rules and regulations governing procurement and conditions for payment for procurement goods and services. A similar effort is made with potential and existing contractors who may do, or are currently doing, business with the City. That effort has been, by and large, extremely successful. As the OIG Audit identifies, however, this effort must continue and expand to address evolving risks.

The following are responses to each particular finding cited in the OIG Audit, offered with the intent to inform the OIG and readers of the OIG Audit of what existing procedures exist relative to the finding and then offer any comments.

Finding		Recommendation	Response
1	<p>The risk of waste, fraud, abuse, and corruption is increased when the OCFO is not provided sufficient descriptions of the goods and services for which the department is requesting payment.</p>	<p>CFO/ODFS should enforce the requirement that departments submit invoices with detailed descriptions of all goods and services received as well as proof of receipt signed by the individual who received the goods and/or services. In addition, all unauthorized purchases should include pictures of goods and services (i.e., printed material) for which payment is being requested. This will allow ODFS and OCP to ensure all purchases are for governmental purposes.</p>	<p>ODFS requires support from the department for all Oracle system receipts that are processed. ODFS is responsible for reviewing the submitted documentation from the department that acknowledges goods were delivered or service performed as required. Receipt of goods typically include a copy of the receipt, packing slip/shipper that detail the goods that were delivered. Service work typically include work orders summarizing the work that was performed as agreed. The department is responsible for submitting the required supporting documents and appropriate approvals. Absent of packing slips the department signs a copy of the invoice to confirm approval and acknowledgment of goods and services.</p>
2	<p>The risk of waste, fraud, abuse and corruption is increased when departments make purchases through the unauthorized purchase process when it is not necessary to do so or without proper justification (i.e., non-emergency purchases).</p>	<p>1. Require department directors and all departmental personnel who have the authority to initiate purchases of goods and services read and review OCP’s “Procurement Standard Operating Procedures” manual on an annual basis; and sign a statement attesting that they have done so each year.</p> <p>2. Subject departmental personnel who abuse the Unauthorized Purchase process to the penalties outlined in the City of Detroit Universal Work Rules. This will encourage departmental personnel to comply with the procurement process.</p>	<p>The manual is an internal document and provides more detail than needed for the departments (it is currently 147 pages). To ensure departments understand their role in the procurement process, OCFO meets as needed to discuss procurement processes. In addition, the OCP and Lean Team recently (2021) launched the Procurement Hub for Departments which helps provide guides and references for departments on how to properly procure goods and services.</p> <p>This is already stated in our policy, but will have targeted conversations with HR and managers to implement and enforce.</p>

Finding		Recommendation	Response
3	The risk of waste, fraud, abuse, and corruption increases when operating outside of a formal contract or purchase order.	1. Ensure that departments do not operate with vendors whose contracts have expired in compliance with the OCP SOP.	In the rare instance a contract lapses, OCFO does demand the department and vendor to stop working, but sometimes it is a challenge due to the fact in some cases goods/services are needed by the department to continue critical operations, e.g., operating fire trucks, bus operations, etc.
		2. Hold vendors, with whom the City had previous contractual relationships, accountable for providing goods and services without an approved contract.	<p>The OCFO – OCP, informs vendors:</p> <ul style="list-style-type: none"> - Cannot begin work unless they have a signed contract or PO from the City - If violate this policy, they may not be paid - Any invoices submitted with dates before a contract or PO is approved/ signed may not be honored <p>This language is included in the General Terms and Conditions of Pos/ Agreements. This is also messaged on the City of Detroit’s website in several places, including http://www.detroitmi.gov/purchasing, as well as messaged at various bid conferences and outreaches done every month. We will seek to identify additional ways to communicate to vendors and potential vendors.</p>
		3. Monitor departmental activities and remind departmental staff to submit requisitions for recurring purchases and expiring contracts.	<p>Section 4.8 in the SOP Manual on Expiring Contracts Long term contracts support vital City operations and, if the contracts are still needed by the requesting department, must be maintained without interruption. As a contract approaches expiration, the Contracting and Procurement Specialist (CPS) will work with the requesting department to determine whether a contract renewal, extension, or expiration is appropriate. In determining whether a contract will be allowed to expire, the following factors are considered:</p> <ul style="list-style-type: none"> • Is this the most cost-effective way to procure these

			<p>goods or services?</p> <ul style="list-style-type: none"> • Will negotiations achieve a better price with this supplier or with a different supplier? • Is the current contract providing the quality and quantity of goods or services the City needs? • Is this contractor in good standing? • What are the opportunity costs of renewing this contract versus using the funds a different way? <p>If a contract renewal is appropriate, all efforts are made to ensure the renewal be processed before the contract expires.</p> <p>The Office of Contracting and Procurement (OCP) is responsible for monitoring contracts for upcoming expirations and working with the requesting department (including the Department Performance Manager and other staff as necessary) to determine whether the contract should be renewed or allowed to expire. The requesting department must initiate the requisition process 150 days prior to contract expiration if the department seeks to continue the contract. In the event that the requesting department does not submit a requisition to continue the contract 120 days prior to the contract expiration, the OCP must verify the requesting department's intention to renew or allow the contract to expire. The OCP must ensure that contract lapses are avoided. Furthermore, OCP is proactive in trying to prevent any lapse in contracts: 1) OCP provides a list of upcoming expiring contracts to ODFS on a monthly basis to provide awareness of contracts set to expire. 2) OCP send email notifications to Department Directors regarding upcoming contracts set to expire.</p>
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		<p>4. Consult the Law Department to determine whether it is appropriate to inform vendors that if they receive a request to provide goods and services without an approved contract or a purchase order, they should contact and notify the OCP. This will encourage contractors to only provide goods and services through approved purchase orders and contracts.</p>	<p>The OCFO – OCP, informs vendors:</p> <ul style="list-style-type: none">- Cannot begin work unless they have a signed contract or PO from the City- If violate this policy, they will not be paid- Any invoices submitted with dates before a contract or PO is approved/ signed will not be honored <p>This language is included in the General Terms and Conditions of POs/ Agreements. This is also messaged on the City of Detroit’s website in several places, including http://www.detroitmi.gov/purchasing, as well as messaged at various bid conferences and outreaches done every month.</p> <p>We will work to identify additional ways to communicate to vendors and potential vendors, including providing the notice suggested by this recommendation.</p>
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Finding		Recommendation	Response
4	<p>The risk of waste, fraud, abuse and corruption is increased when the OCP makes payments through the unauthorized purchases process that are for items that OCP would otherwise prohibit</p>	<p>The OCFO and OCP should coordinate with the Law Department and the Board of Ethics to determine what, if any, items that include the names or likenesses of elected officials can be included or what images or words are prohibited from being imprinted on goods purchased using government funds.</p>	<p>Per our policy, City funds shall not be used for, (1) goods or services that are not necessary in the course of doing the City’s business, (2) alcohol or illegal substances, (3) personal goods or services, and (4) donations or contributions to politically affiliated organizations.</p> <p>Communication of this policy is specifically made when a procurement request is received that raises questions about whether the procurement will comply with these standards. OCP will continue these discussions about what is allowable and prohibited regarding campaigns and ensure enforcement.</p> <p>When a question arises with regard to the legality of a procurement, OCP regularly seeks guidance from the Law Department. When appropriate and in coordination with the Law Department, OCP will seek direction from the Board of Ethics or refer to the OIG.</p>

ATTACHMENT B

V. OIG's Reply to OCFO's Responses to OIG Recommendations

The Office of Inspector General (OIG) appreciates the timely response of the Office of the Chief Financial Officer (OCFO). Furthermore, the OIG acknowledges the corrective action the OCFO administration plans to or has already implemented during the completion of the OIG audit.

However, the OIG reviewed the OCFO's responses to the recommendations and offers the following clarification as follows:

OIG's Reply to OCFO's Response to OIG Recommendation #1

- The OCFO response to recommendation # 1 states the Office of Contracting and procurement (OCP) policy requires "support from the department for all Oracle system receipts that are processed" However, Unauthorized Purchases are not processed through Oracle. As a result, neither ODFS nor OCP could provide adequate supporting documentation for 58% of the unauthorized purchases OIG reviewed. As such, the absence of adequate supporting documentation increases the risk that OCFO will process payments for goods/services that result in waste, fraud, abuse or corruption.

OIG's Reply to OCFO's Response to OIG Recommendation #2.1

- The OCFO response to the OIG's recommendation # 2.1 states that the OCP manual is an "internal document and provides more detail than needed for the departments." The response goes on to describe OCFO's efforts to ensure departments are aware of their role in the procurement process. The OIG recommends that OCFO require departmental personnel to sign and submit attestation statements confirming their understanding of their role in the procurement annually. We believe requiring departmental personnel to sign such document would serve as a reminder to them the importance of their respective responsibility in the procurement process.

OIG's Reply to OCFO's Response to OIG Recommendation #3.1

- The OCFO's response to the OIG's recommendation # 3.1 refers to "challenge due to the fact in some cases goods/services are needed by the department to continue critical operations." The OIG acknowledged this during the audit. Specifically, the report states that, "Three of the [Municipal Parking Department (MPD)] transactions, totaling \$21,680.80, appear to be of an emergency nature." However, MPD had 9 other vendors

under contract to provide towing services when they contacted Bobby's Towing (Bobby's) 35 times over a three-month period, during which the contract with Bobby's had lapsed. MPD had also previously amended the contract with Bobby's to add funds, an amendment for time on the contract could have been added while the new contract was being drafted. As stated in the finding, allowing departments to use unauthorized purchases process to circumvent the procurement process increases the risk of waste, fraud, abuse and corruption.

OIG's Reply to OCFO's Response to OIG Recommendation #3.2

- The OCFO's response to OIG recommendation # 3.2 indicates the OCFO "will seek to identify additional ways to communicate to vendors and potential vendors." This recommendation was made to hold vendors accountable. The risks of waste, fraud, abuse and corruption increase when vendors suffer no repercussion for providing goods and services outside of a contractual agreement. This is especially true for those vendors who have previously and continually provided goods and services to City departments outside of contractual agreements.

OIG's Reply to OCFO's Response to OIG Recommendation #3.3

- The OCFO's response to the OIG's recommendation # 3.3 refers to the renewal of long-term contracts. However, it does not address reoccurring purchases. OIG therefore recommends that ODFS staff treat purchases related to annual or periodic events (e.g., election billboards or legal news articles, city council community events, etc.), for which funding is required, like the long-term contracts to which OCFO referenced in this response. This will reduce the risk of the OCFO paying for goods and services that may result in waste, fraud, abuse or corruption.

Reporting of the Follow-up Status to OIG's Recommendations in OIG End-of-the Year Report

In conclusion, the OIG appreciates the cooperation of the OCFO, OCP and ODFS administration and employees in performing this audit.

Notice of OIG's Intent to Conduct Follow-up Audit

In our continued effort to work with the OCFO to prevent waste, abuse, fraud and corruption in the unauthorized purchasing process, the OIG will assess the effectiveness of any corrective actions made by OCFO to reduce the risk of waste, abuse, fraud, and corruption resulting from unauthorized purchases. To do so, it is our intent to conduct a follow-up audit. We hope our follow-up audit will reveal that OCFO's effort to minimize waste, abuse, fraud and corruption in the unauthorized purchases will yield in positive results.