



500 West Big Beaver  
Troy, MI 48084  
troymi.gov

P-02a

## FROM THE OFFICE OF THE CITY MANAGER

Date: August 5, 2019  
To: Troy City Council Members  
From: Mark F. Miller, City Manager  
Subject: Forensic Accounting Investigation Corrective Action Plan

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### **Background**

Plante & Moran, PLLC (Plante Moran) presented the findings of their forensic accounting investigation to City Council in a public meeting on July 17, 2019. The City Council authorized release of the report and directed City staff to post it on the City's website and include it in the July 22, 2019 regular City Council meeting agenda packet. These steps ensured the final report became a public record.

This investigation was initiated in August 2018 after federal bribery charges were filed against former City Manager Brian Kischnick in July 2018. Request for Quotes were sent to accounting firms in August 2018 but only three responded. The City issued a Request for Proposals in October 2018. Nine proposals were received and evaluated by a Selection Committee including City Manager Mark Miller, City Attorney Lori Grigg Bluhm, and Grosse Pointe Shores City Manager Mark Wollenweber. The Selection Committee interviewed Plante & Moran and Baker Tilly in November 2018. Based on the selection and scoring criteria, the Committee unanimously recommended Plante Moran and the City Council authorized City Administration to enter into an agreement with Plante Moran in December 2018.

The City also separated employment with former Financial Services Director Tom Darling in July. Former Assistant City Manager for Finance and Administrative Services John Lamerato is serving as Interim Financial Services Director until a new Director is hired. John worked for the City between 1994 and 2011. In 2011 he became the City Controller of Grosse Pointe Farms and retired in 2017. John recently served as Interim Finance Director of Mount Clemens and we are grateful he has agreed to assist Troy in this transition period.

### **Next Steps**

Plante Moran's report included an Internal Control Recommendation Log ("Control Log") with seventeen recommendations to strengthen the City's internal controls. A copy is attached. Internal controls are systematic measures instituted by an organization for many purposes. Some of those purposes include: to detect and deter errors, fraud and theft, to safeguard its assets and resources, and to ensure adherence to its policies and plans.

### **Corrective Action Plan**

The recommendations are listed below in the same order as the Control Log and have been grouped by process as they are in the Control Log. Each recommendation has been given a brief title. Please see the attached Control Log for details about each recommendation.

A team of senior City staff was assigned to evaluate each recommendation. These teams are included below. The Interim Financial Services Director was intentionally omitted from these teams because the



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position is currently filled on a temporary and part-time basis. However, the Interim Director will participate as necessary. Senior staff will also include subordinates as necessary.

### *Expense Reimbursement*

1. Reimbursement Methods
2. Reimbursement Approval

Senior Staff: Accounting Manager; City Manager; and City Treasurer

### *General*

3. City Council Agenda Memos

Senior Staff: Assistant City Manager; City Attorney; City Clerk; IT Director and Purchasing Manager

### *Payroll*

4. New Hire Documentation

Senior Staff: Accounting Manager; City Manager; and Human Resources Director

### *Policies and Procedures*

5. Whistleblower Procedure
6. Whistleblower Training
7. Policy & Procedure Enforcement & Consequences
8. Meal Reimbursement Policy
9. Employee Use of City Amenities

Senior Staff: Accounting Manager; Assistant City Manager; Purchasing Manager; and Recreation Director

### *Purchasing*

10. Emergency Purchases
11. Receipt Review
12. Vendor Due Diligence
13. Receipt Itemization
14. Expense Documentation
15. Policy & Procedure Enforcement & Consequences
16. Excessive Tipping
17. Bid-splitting

Senior Staff: Accounting Manager; Assistant City Manager; City Attorney; City Treasurer; and Purchasing Manager

All teams met during the week of July 29 to begin reviewing the recommendations. City Management will provide progress reports on a regular basis.

●	High Priority
●	Medium Priority
●	Low Priority

#	Process	Priority	Observations	Possible Risk	Recommendations
1	Expense Reimbursement	●	The City currently has multiple methods to reimburse employee expenses. Employees can seek reimbursement through the accounts payable ("AP") process (Finance Department), through the petty cash process (Treasurers' office) and payroll.	<p>*A scheming employee could submit copies of the same receipt multiple times, through the different processes and receive multiple reimbursements without detection. For example, an employee could spend their own funds on behalf of the City and submit copies of the same receipt for reimbursement from the Finance office and the Treasurer's office.</p> <p>*Alternatively, an employee could make a purchase using a City purchasing card (i.e., without spending any of their personal funds). They could provide the receipt to AP to support their charge (per policy) and provide a copy of the receipt to the Treasurer's office for reimbursement through the petty cash process.</p> <p>It is unlikely either scheme would be detected, as different individuals are responsible for approving transactions occurring through the different processes and no reconciliations are performed.</p>	<p>The City should consider the cost/benefit of continuing to utilize the petty cash reimbursement process through the Treasurer's office. If retained, at a minimum, the City should reconcile petty cash activity to the expense reimbursement process to ensure purchases are not being submitted multiple times. Additionally, Treasury staff should compare purchases made by purchase cards to the petty cash reimbursements to ensure the City has not already incurred the expense.</p> <p>Alternatively, all expenses could be reimbursed using only one method. This will reduce the opportunity for duplication and possibly provide the City with electronic data to periodically perform analytics, which can identify anomalies such as duplicate purchases and abnormal spending activity.</p>
2	Expense Reimbursement	●	Treasury requires an approval signature for all petty cash reimbursements; however, the Office Coordinator frequently approved the petty cash requests made by the City Manager (the "supervisor").	An inherent subordinate relationship exists between the Office Coordinator and the City Manager positions. The City Manager could, therefore, exercise influence and pressure the Office Coordinator to approve purchases.	<p>Someone separate from the City Manager's office, such as the Council, should review purchases made by the City Manager for appropriateness. It may not be feasible for someone not in a subordinate position to approve petty cash reimbursements, given the timing of such reimbursements; however, the frequent review by Council will help ensure any inappropriate reimbursements are identified in a timely matter and will create a level of oversight.</p> <p>Alternatively, remove the petty cash reimbursement process, having all expense reimbursements go through payroll.</p>
3	General	●	The former City Manager modified at least one memorandum prepared by a Department Head prior to providing to Council.	As happened, these edits by the former City Manager misled the City's leadership.	When memorandum communications are sent by Department Heads, a copy should be routed by the Department Head to a Council designee, such as the City attorney. This process provides for a secondary set of eyes to review.
4	Payroll	●	Sufficient documentation for the new hire process is not always maintained, specifically when exceptions are allowed to the standard hiring procedures.	The City may inadvertently hire employees that have a history that would normally disqualify them from consideration. Those involved in the hiring process are also at risk, should an issue surface subsequent to hire and the City lack the adequate documentation regarding the decision making process at the time of hire.	As discussed with the Director of Human Resources, the City now uses a checklist for new hire candidates; however, it does not contain all details pertinent to the decision making process. This checklist should be updated to include specific hiring procedures such as background/conflict of interest checks. It should also include approvals and narratives to document exceptions (i.e., when items that traditionally preclude a candidate from being hired are overwritten/ignored). This checklist should be maintained as supporting documentation.

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●	Low Priority

#	Process	Priority	Observations	Possible Risk	Recommendations
5	Policies and Procedures	●	The City lacked a process where employees could report policy and legal breaches without fear of retaliation.	City employees were discouraged from reporting potential violations and inappropriate behavior of individuals in positions of authority. This can/did create a "toxic" environment that is highly susceptible to abuse at all levels.	The City amended the Whistleblower policy in August of 2017 thereby allowing complaints to be made to the City Manager, City Attorney, or directly to City Council as appropriate.  We highly encourage the City to review the tone at the top to ensure all members of management and oversight uphold values of honesty, integrity, and ethics, which will encourage employees to uphold the same values.
6	Policies and Procedures	●	The overall tone at the top encouraged individuals in positions of authority to influence subordinates.	Management could/did use their position to adversely influence behavior that was not in the best interest of the City.	Training, combined with appropriate mechanisms to report issues, is ideal to promote awareness. We highly encourage the City to review the tone at the top to ensure all members of management and oversight uphold the same values of honesty, integrity, and ethics, which will encourage employees to uphold the same values.
7	Policies and Procedures	●	The City's response to poor behavior/choices when they were made known often reinforced the wrongdoer's actions, from the employee perspective, since sufficient corrective action was seldom taken.	Given the response, behaviors continued that were not in the best interest of the City.	We highly encourage the City to review the tone at the top to ensure all members of management and oversight uphold values of honesty, integrity, and ethics which will encourage employees to uphold the same values. Further, a zero tolerance policy should be established, involving (enforced) consequences for non-compliance.
8	Policies and Procedures	●	We identified numerous meal purchases to upscale restaurants within petty cash receipts and purchase card activity. No policies currently exist documenting the appropriate use of City funds for meal reimbursements, outside of the travel policy (i.e., there is no policy regarding "local" meals).	Occasional meal purchases may be an acceptable use of City funds; however, without proper policies in place, meal reimbursements are susceptible to abuse by employees, potentially leading to the personal use of City funds and an inappropriate use of tax dollars.	The City should update policies to clearly define the acceptable use, threshold limitations, and supporting documentation requirements for purchase cards and petty cash.
9	Policies and Procedures	●	Free access to golf and the community center were provided to the City Manager.	A sense of entitlement by leadership can be pervasive in an organization.	A policy should be implemented that outlines permissions for personnel to use City assets.
10	Purchasing	●	We identified a purchase that circumvented the Council approval process by being inappropriately classified as an emergency purchase.	Employees could continue to inappropriately label purchases as emergency purchases as a method to circumvent the Council approval process.	We encourage the City to enforce City policies, requiring all emergency purchases to go before Council in the subsequent meeting of the purchase for affirmation.  *Additionally, Council should consider reviewing the check registers for payments exceeding \$10,000. Supporting documentation should be requested for unfamiliar payments to ensure they weren't improperly excluded from Council's oversight/approval.
11	Purchasing	●	We identified multiple instances of approved receipts which were either altered (e.g., white out, etc.) or contained mathematical errors (e.g., the check amount plus the tip amount did not equal the total).	Conceivably, an employee could alter, forge, manipulate, etc. receipts to receive reimbursements for fictitious purchases or for amounts in excess of what they actually paid. Approving receipts with these characteristics could indicate the current review process is not thorough enough.	The City should ensure that questions are asked of unusual receipts. Answers should be obtained and consequences should be established for non-responsive answers.
12	Purchasing	●	A new vendor "vetting" process/checklist does not exist. The Department Heads can select vendors to be utilized without additional authorization.  Our analytics identified multiple instances of companies sharing an address with an employee being utilized as a vendor.	The Department Heads' vendor selections could be influenced by vendors who provide gifts and/or kickbacks. This influence could cause the City to overpay for items/services.	A vendor "vetting" policy should be established, including a conflict of interest review by someone other than the Department Head. New vendors should be periodically reviewed.

●	High Priority
●	Medium Priority
●	Low Priority

#	Process	Priority	Observations	Possible Risk	Recommendations
13	Purchasing	●	We identified numerous purchases on purchase cards and petty cash that lacked <b>itemized</b> supporting documentation. Summary receipts were provided, but these did not show the detail of the purchase.	Without itemized receipts, the reviewer of the purchases cannot distinguish between inappropriate and appropriate charges.	The City has a policy in place requiring itemized receipts. Consequences for not providing itemized receipts should be communicated and enforced. Consequences could include, loss of purchasing card authorization/use, personal liability for the charges, etc. However, we encourage the City to discuss options with their legal counsel.
14	Purchasing	●	We identified numerous purchases using purchase cards and petty cash that lacked <b>any</b> supporting documentation. Further, Affidavits did not exist to support the transactions with missing receipts.	Without receipts, the reviewer of the purchases cannot distinguish between inappropriate and appropriate charges.	The City has a policy in place requiring itemized receipts. Consequences for not providing itemized receipts should be communicated and enforced. Consequences could include, loss of purchasing card authorization/use, personal liability for the charges, etc. However, we encourage the City to discuss options with their legal counsel.
15	Purchasing	●	We identified instances whereby the former City Manager's receipts for meals during travel exceeded the policy thresholds. It is our understanding there were no consequences for this policy violation.	A lack of accountability is established if consequences are not enforced when policies are violated, thus facilitating the employee's willingness to commit additional violations.	Consequences for not following policy should be established, communicated and enforced. Consequences could include, loss of purchasing card authorization/use, personal liability for the charges, etc. However, we encourage the City to discuss options with their legal counsel.
16	Purchasing	●	We identified numerous purchases using purchase cards and petty cash with excessive tips (over 25%+).	The lack of guidelines, policies and procedures can lead to behaviors that are not in the best interest of the City.	The City should consider updating the policy to include the allowable tip percentages. Variances should be investigated for reasonableness.
17	Purchasing	●	Our analysis identified multiple transactions with characteristics indicative of bid-splitting (threshold avoidance) to keep transactions under the \$10,000 threshold.	Our analysis did not "verify" this occurred; however, conceivably some of these purchases could have been intentionally split to avoid Council approval.	While these characteristics can commonly occur in the normal course of business, the City should consider implementing a periodic process (including analytics) to review for intentional threshold avoidance activity.