



Office of the Auditor General

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DATE: November 2, 2021

TO : Honorable City Council

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

RE : Detroit Land Bank Limited Scope Forensic Audit Supplemental Report

CC : Mayor Mike Duggan
David Bell, Director,
Buildings, Safety Engineering, and Environmental Department
Tyrone Clifton, Director, Detroit Building Authority
LaJuan Counts, Director, Detroit Demolition Department
Brad Dick, Group Executive for Infrastructure
Boysie Jackson, Chief Procurement Officer, Office of the
Chief Financial Officer, Office of Contracting and Procurement
John Naglick, Chief Deputy CFO/Finance Director, Office of the
Chief Financial Officer
Jay Rising, Chief Financial Officer, Office of the Chief Financial Officer
Donald Rencher, Group Executive of Housing, Planning and Development
Julie Schneider, Director, Housing and Revitalization Department
Saskia Thompson, Executive Director, Detroit Land Bank Authority
Mary Townley, Director, Homeownership, Michigan State Housing
Development Authority (MSHDA)
David Whitaker, Director, City Council Legislative Policy Division

Attached for your review is the Detroit Land Bank Authority Limited Scope Forensic Audit. The audit was performed by Stout Risius Ross, LLC, and the report contained herein is the product of Stout Risius Ross, LLC.

We would like to thank the employees of the Detroit Land Bank Authority for their cooperation and assistance extended to Raymond Roth, III, the employees of Stout Risius Ross, LLC, and to the Office of the Auditor General during this audit.

Copies of all of the Office of the Auditor General reports can be found on the City's Website: <https://detroitmi.gov/government/office-auditor-general>.

**DETROIT LAND BANK AUTHORITY LIMITED SCOPE FORENSIC AUDIT
SUPPLEMENTAL REPORT**

TABLE OF CONTENTS

	Page
DETROIT LAND BANK AUTHORITY LIMITED SCOPE FORENSIC AUDIT SUPPLEMENTAL REPORT Supplemental Report Of Raymond A. Roth III, CPA, CFE Stout Risius Ross, LLC	1

ATTACHMENT A: Detroit Land Bank Authority Agency Response

Detroit Land Bank Authority Limited Scope Forensic Audit

**Supplemental Report Of
Raymond A. Roth III, CPA, CFE**

October 15, 2021



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**Detroit Land Bank
Authority Limited
Scope Forensic Audit**

**Prepared by:
Raymond A. Roth III,
CPA, CFE**

October 15, 2021

Table of Contents

I.	Scope of Opinion and Disclosures	3
II.	Observations	4
III.	Conclusion / Recommendations	26
IV.	Assumptions and Limiting Conditions	27



**Detroit Land Bank
Authority Limited
Scope Forensic Audit**

**Prepared by:
Raymond A. Roth III,
CPA, CFE**

October 15, 2021

Exhibits

**Exhibit 5 (Revised) – Reconciliation of Audited Financial Statements to the
General Ledger**



Detroit Land Bank
Authority Limited
Scope Forensic Audit

Prepared by:
Raymond A. Roth III,
CPA, CFE

October 15, 2021

I. Scope of Opinion and Disclosures

1. Stout Risius Ross, LLC (“Stout”) has been retained by the City of Detroit’s Office of the Auditor General (“OAG”) to conduct a limited scope forensic audit of funds received by the Detroit Land Bank Authority (“DLBA”) from the City of Detroit (“City”). This engagement was to include the determination of the usage, status, and balance of funds provided by the City to the DLBA as well as a review of internal controls in place over the period January 1, 2014 through June 30, 2019 (“Review Period”).
2. I issued a preliminary report on July 27, 2020 (“Interim Report”). This report was labeled as preliminary as it was issued to summarize the documents and information that had been provided to me at that time but I was not directed by the OAG that my engagement was complete. Instead, the Interim Report was meant to demonstrate the progress of my engagement through the report date. It is my understanding that this type of report is typically labeled as “interim” within the City as opposed to “preliminary.” The observations contained in the Interim Report were fully formed based on the sources of information that were documented throughout the Interim Report in its footnotes and exhibits.
3. This report (referred to herein as the “Supplemental Report”) summarizes my observations from the Interim Report as well as supplements certain observations based on new information received, primarily the August 10, 2020 response from the DLBA (“DLBA August Response”).



Detroit Land Bank
Authority Limited
Scope Forensic Audit

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October 15, 2021

II. Observations

4. The Interim Report contained observations regarding funding provided by the City to the DLBA, a review of the DLBA's general ledger and bank accounts, payroll analyses, a review of bank reconciliations, the Demolition Advance Fund, and a review of DLBA Policies and Procedures and Internal Control. The following observations summarize and supplement the information contained in the Interim Report for each of these categories. I have also included relevant items from the DLBA August Response. The formal recommendations included at the end of the Interim Report are included inline with the topical discussion in which they relate as well as summarized at the end of this report.

Funding Provided by the City to the DLBA

5. The Interim Report identified \$114,198,727 in funding provided by the City to the DLBA. This amount was comprised of \$61,134,972 in subsidy payments, \$30,000,000 in Demolition Advance Funds, \$3,661,579 in demolition reimbursements for amounts not covered under the Hardest Hit Fund ("HHF") program ("Supplemental HHF Funds") and \$19,402,176 in proceeds from fire insurance and escrow proceeds ("FIE").
6. It is my understanding that the Demolition Advance Fund has now been repaid in full and no balance remains.
7. I recently was informed that the \$19.4 million in FIE proceeds, as provided to me by OAG, represented the full amount of FIE proceeds used for all citywide demolitions during the Review Period, including It is my understanding from the OAG that this amount supported demolitions performed by both DLBA and those performed by other City contractors. OAG provided me with this figure and has since realized that it does not represent FIE proceeds received by DLBA. The DLBA has stated that it received \$920,295 in FIE proceeds from the City. Below is a summary of the amounts included in my Interim Report, the DLBA August Response and the Supplemental Report.



Detroit Land Bank
 Authority Limited
 Scope Forensic Audit

Prepared by:
 Raymond A. Roth III,
 CPA, CFE

October 15, 2021

Overview of Funding Provided by the City to the DLBA			
Description	Interim Report	DLBA Response	Supplemental Report
Subsidy Payments For Administrative Expenses	\$61,134,972	\$61,134,972	\$61,134,972
Demolition Advance Funds	\$30,000,000	\$30,000,000	\$30,000,000
Non-Reimbursable Demolition Activities	\$3,661,579	\$3,661,579	\$3,661,579
FIE Proceeds ^(A)	\$19,402,176	\$920,295	\$0
Total	\$114,198,727	\$95,716,846	\$94,796,551

(A) FIE proceeds/ payments classification was included in the Interim Report (only) to present a full list of the types of funding believed to have been provided to the DLBA by the City. OAG instructed that these payments were out of the scope of this audit because they were covered under a separate audit. I do not have, nor did I ever, express any opinions or observations related to FIE amounts and I have removed that reference in its entirety in this report. With the removal of the FIE amount, I have received support for \$94.8 million in funding provided by the City to the DLBA.

8. Of the \$94.8 million in funding provided by the City to the DLBA, \$86.6 million in City funds were identified as deposited into the DLBA’s Fifth Third Bank Account #9707 referred to as the “Main Operating Account”. An additional \$6.1 million was identified as deposited into the DLBA’s Fifth Third Bank Account #1709, referred to as the “Demolition Account”. My analysis of the DLBA’s deposits is presented in Exhibits 6 and 7 of the Interim Report. These deposit analyses were meant to identify the source of funds into the DLBA’s bank accounts and also to reconcile the amounts that the City claimed were paid to what could be verified as received by DLBA. The Interim Report noted there were some deposits into the DLBA’s bank accounts where the source was not able to be verified with available records. These amounts were identified on Exhibit 6 as lines 12 (Wire Transfer In) in the amount of \$42 million and Line 19 (Deposit) in the amount of \$2.8 million. In Exhibit 7, line 4 is labeled as Not Identified in line 4 in the amount of \$314,446.

9. In the Interim Report, I noted that not all funds provided by the City could be verified as received by the DLBA in its bank statements and accounting records. I offer three possible scenarios that might explain the discrepancy between the City’s records and the amounts verified as received through the DLBA’s bank and accounting records. First, the funds may have not been actually provided by the City, similar to the \$19.4 million in FIE payments previously discussed. Second, as noted in the Interim Report and Exhibits, the DLBA sometimes batched its deposits, which is a common practice, and that may be the reason certain



Detroit Land Bank
 Authority Limited
 Scope Forensic Audit

Prepared by:
 Raymond A. Roth III,
 CPA, CFE

October 15, 2021

amounts deposited into its bank accounts are from unknown sources and may encompass the unverified funds. Additional source documentation, such as deposit slips or wire transfer receipts, would need to be reviewed to further understand the source of these deposits. Third, there could be a timing difference between the Review Period and when funds were actually received. For example, I was not able to verify the receipt by the DLBA of the \$ Supplemental HHF funds. However, the DLBA August Response indicated that these funds were received in June, July and August 2019. The Review Period ended in June 2019 so therefore it would not have reviewed documentation past that date.¹

10. After the removal of all FIE amounts, I have been provided with support for \$94.8 million advanced by the City to the DLBA and identified \$92.7 as received by the DLBA, resulting in a difference of approximately \$2.1 million as presented in the table below. I believe these amounts can be fully verified through further review of additional supporting documentation from the City and the DLBA. At this time I have not been directed, nor have I been provided the necessary documentation, to further pursue this analysis. As such, I do not have any further observations related to these amounts.

City Documented Advances to DLBA	\$ 94,796,551	
Verified Deposits Into DLBA Main Operating Account from City		\$ 86,633,176
Verified Deposits into DLBA Demolition Account from City		<u>\$ 6,058,673</u>
Total Verified DLBA Deposits From City Funds	<u>\$ 92,691,849</u>	
Difference	<u><u>\$ 2,104,702</u></u>	

General Ledger Analysis

11. The Interim Report presented my review of the DLBA’s general ledger which was divided into three main sections; General Ledger to Audited Financial Statement Reconciliation; General Ledger to Bank Statement Transaction Differences; and Vendor Payments and Approval.

General Ledger to Audited Financial Statement Reconciliation

12. In the Interim Report I explained that the copy of the DLBA’s general ledger provided to me did not reconcile to the DLBA’s audited financial

¹ In June 2019, I identified approximately \$2.5 million received by the DLBA into its Main Operating Account in the form of wire transfers where the source of those funds was not able to be identified with the information available to me at the time of the Interim Report.



Detroit Land Bank
Authority Limited
Scope Forensic Audit

Prepared by:
Raymond A. Roth III,
CPA, CFE

October 15, 2021

statements. My reconciliation between the DLBA's general ledger and audited financial statements was presented in Exhibit 5 of the Interim Report. The DLBA offered the following four critiques to this analysis:

- a. "Exhibit 5 Schedule 3: Source is listed as 2017 general ledger, however the information I presented is for fiscal year 2016."
 - i. The source referenced for Exhibit 5, Schedule 3 was intended to note that the 2017 audited financial statements contained restated amounts for 2016. Therefore, the source of my analysis for the year 2016 is the 2017 audited financial statements because they contain the 2016 restated amounts.
 - ii. I revised this footnote for clarity in the amended Exhibit 5 attached to this report.
- b. "Exhibit 5 Schedule 3: Reports that DLBA does not have accounts for depreciation or for loss on sale of asset. Both accounts are, in fact, present in the DLBA general ledger."
 - i. I acknowledge this was an error and have made a correction in the amended Exhibit 5 attached to this report.
- c. "Exhibit 5 Schedule 4: Line 18 is missing a description and is also missing four of the DLBA's general ledger account balances."
 - i. I acknowledge this was an error and have made a correction in the amended Exhibit 5 attached to this report.
- d. "Exhibit 5 Schedules 1-8: Stout neglected to eliminate inter-departmental and inter-company activity."
 - i. I acknowledge that inter-company/departmental amounts should be removed in consolidation and attempted to do so in the analysis. However, I recognize that Exhibit 5, Schedule 4 did not remove for Intercompany Revenue or Expense in error.
 - ii. I corrected Exhibit 5, Schedule 4 attached in this report but otherwise can confirm that the remaining schedules already removed intercompany / interdepartmental amounts and no other schedule contains these line items and, further, the general ledger balances that state intercompany / interdepartmental do not flow to the reconciliation schedules.

13. After correcting for the items identified by the DLBA, my reconciliation of its general ledgers to audited financial statements still contain many



Detroit Land Bank
Authority Limited
Scope Forensic Audit

Prepared by:
Raymond A. Roth III,
CPA, CFE

October 15, 2021

unreconciled amounts as shown in the Revised Exhibit 5 attached to this report.

General Ledger to Bank Statement Transaction Differences

14. In the Interim Report I identified differences between the DLBA's general ledger and its bank statements, which were presented in Exhibit 9 to the Interim Report. These items are as follows:

a. Transactions in the bank statements were not included in the general ledger (\$5,000,000);

i. The DLBA August Response includes the statement "The \$5 million amount represents a wire transfer that was initiated and returned the same day. Since the wire transfer was not completed, it was not recorded in the ledger."

1. In the Interim Report I noted that \$5 million was recorded as a receipt and \$5 million was recorded as outgoing in the DLBA's bank statements. However, the DLBA August Response is otherwise incorrect as the transaction would not be recorded on the bank statements if the wire transfer was not completed. While this transaction might have been in error through no fault of the DLBA, fully recorded the inflow and outflow would offer the fullest transparency of this transaction.

b. Check numbers that were not always included in the general ledger (\$10);

i. The DLBA August Response acknowledged this statement.

c. Transactions were recorded in different amounts between the general ledger and bank statements (average transaction difference +/- \$450);

i. The DLBA August Response included the statement "Stout neglected to look at bank credit or debit memos. Had Stout looked at remaining portions of the bank statements, Stout would see that the transactions from general ledger and bank statements in question do, in fact, match."

1. The bank statements I received do not contain any debit or credit memos. However, I acknowledge the DLBA's representation that additional documentation relevant to these transactions is available to review and therefore hold any additional



Detroit Land Bank
Authority Limited
Scope Forensic Audit

Prepared by:
Raymond A. Roth III,
CPA, CFE

October 15, 2021

observations on these amounts until that documentation is reviewed.²

- d. Transactions recorded with different check numbers in the general ledger and bank statement (average transaction difference +/- \$30,000); and
 - i. The DLBA August Response included “In two separate instances the check numbers were off one digit between the bank statement and general ledger. Both errors were caught during DLBA bank reconciliations.”
 - 1. The Interim Report’s Exhibit 9, page 3 identifies 27 separate occurrences between April 2018 and February 2019, a ten-month period, where transactions were recorded with incorrect check numbers in the general ledger. The DLBA August Response suggests that not all of the occurrences were identified in the bank reconciliations. Further, given the time period for which these events occurred suggest that either the DLBA did not timely complete its bank reconciliations or did not timely modify its transaction controls to prevent these errors from occurring.
- e. An identification and repayment of a \$4,500 prior fraud.
 - i. The DLBA August Response includes the statement “Current DLBA finance team members do not have first-hand knowledge of this activity. However, based on copies of the checks obtained from the bank and information in the general ledger, it appears that someone outside of the DLBA wrote fraudulent checks. The checks cleared the bank on June 30, 2014, and the money was credited back to the DLBA account on July 1, 2014. Had this been an instance of fraud inside the DLBA, the bank would not have credited the funds back to the DLBA so quickly. There is no evidence presented to suggest the bank fraud involved a DLBA employee.”
 - 1. The DLBA August Response is silent to the Interim Report’s statement that disclosure to the DLBA Board was not identified in my review of meeting minutes.

² I will await further direction from the OAG and/or City Council prior to conducting any additional review and analysis.



Detroit Land Bank
Authority Limited
Scope Forensic Audit

Prepared by:
Raymond A. Roth III,
CPA, CFE

October 15, 2021

15. The Interim Report noted that the DLBA's accounting policies and procedures had many control activities that were both detective and preventive in nature. However, the Interim Report also identified that the occurrence of these transactional processing mistakes and omissions suggest that some of the DLBA's control activities might not be working as designed or implemented as planned.

Vendor Payments and Approval

16. In the Interim Report I observed that the DLBA paid approximately \$315 million of funds to 629 different recipients during the Review Period. However, 79 of these recipients, who received a combined \$50.8 million in funds, were not included on the DLBA's approved vendor list. This does not include payments to 231 other recipients, totaling \$242,637, where the recipient name consisted of only a property addresses. These transactions were excluded from my analysis and were separately noted in the Interim Report. The DLBA August Response included the following statements related to this observation.

- a. "This comment demonstrates that Stout lacks understanding of how the DLBA defines a 'vendor', despite the DLBA's repeated attempts to explain its operations. Stout's conclusion about payments to parties not on the "approved vendor list" is short-sighted and is misleading with its inference to fraud. Exhibit 11 is a misrepresentation of the DLBA's payment activity. Every transaction identified in Exhibit 11 is documented and approved. The DLBA invited Stout to review additional documentation for payments to entities identified as vendors in Financial Force. While Stout opted not to conduct such a review, the DLBA's invitation stands."
- b. "As previously explained to Stout, the Financial Force system requires the creation of a new "vendor", any time a check is issued to a new entity. Many of the vendors listed in Exhibit 11 are individual property purchasers, including Detroit residents, who were eligible for a refund. These individuals are not entities providing services to the DLBA, and payments to such individuals followed all internal approval processes as required. Additionally, the majority of entries listed within Exhibit 11 appear separately due to differences in spelling or naming convention, thereby counting the same entities more than once."
- c. "Simply stated, Stout's lack of understanding of DLBA operations does not equate to a 'red flag of fraudulent activity'."

17. The DLBA August Response is inconsistent with Exhibit 11 to the Interim Report in the DLBA's representation that "Many of the vendors listed in Exhibit 11 are individual property purchasers, including Detroit



Detroit Land Bank
Authority Limited
Scope Forensic Audit

Prepared by:
Raymond A. Roth III,
CPA, CFE

October 15, 2021

residents, who were eligible for a refund. These individuals are not entities providing services to the DLBA, and payments to such individuals followed all internal approval processes as required.”

a. The First 16 entries on Exhibit 11 reflect a combined total of \$50.5 million in payments, 99% of the \$50.8 million total, and are all service entities. Many of which appear to be related to demolition activities and based on the amounts cannot possibly be “individual property purchasers.”

18. More importantly though, it is the DLBA’s representation that “As previously explained to Stout, the Financial Force system requires the creation of a new ‘vendor’, any time a check is issued to a new entity” that gives rise to the observation that payments were made outside of the DLBA’s standard policies and procedures.

a. I received two files from the DLBA which were represented to me as the vendors that were setup in its system. The DLBA stated in its response for an approved vendor list, “Per the DLBA’s accounting software, a “vendor” includes all entities and individuals who have been set up in the system for disbursement processing.”³

b. Exhibit 11 to the Interim Report identifies payments where a vendor was not set up in the Financial Force system based on the documentation provided to me. The DLBA did not include an explanation for how this is possible in the DLBA August Response.

i. Based on its first representation memorialized in Exhibit 1 of the Interim Report, the DLBA provided a list of all vendors setup in its system.

ii. Based on the aforementioned representation that a check cannot be issued to a vendor that is not set up in the system leads me to conclude that payments were made outside of the controls the DLBA has represented.

iii. In addition, if payments are in fact made to the vendor setup in the system, then the name should match exactly. As explained in the Interim Report, even minor deviations in name can represent potentially fraudulent activity. That is because it creates the possibility for a fictitious vendor to be disguised as a real vendor.

19. The DLBA’s accounting policies and procedures contain other authorization/approval controls which were noted in the Review of DLBA Policies and Procedures and Internal Control section. These

³ Exhibit 1, line 7 to Interim Report.



Detroit Land Bank
Authority Limited
Scope Forensic Audit

Prepared by:
Raymond A. Roth III,
CPA, CFE

October 15, 2021

authorizations include the requirement for approval of payments up to \$10,000 by the CFO, payments up to \$25,000 by the Executive Director and payments exceeding \$25,000 by the Executive Director and Board Chair, or Board Vice-Chair or Board Treasurer.

- a. However, the DLBA's practice of issuing payments to any individual or entity that is not set up in its system, per the represented controls, then these authorization / approval requirements are weakened. This is especially true in instances of fraud where a fictitious vendor invoice that looks like a real vendor is sent for payment approval. The approver might inadvertently approve a payment thinking the vendor in question is one in which the DLBA does business and inadvertently approve the fictitious invoice for payment.
- b. I do not have an opinion, nor did I have an opinion in the Interim Report, , that the payments contained in Exhibit 11 are fraudulent. However, the number and amount of payments to individuals and entities made outside of the DLBA's accounting systems represent weak financial control over its cash disbursements.

20. Recommendations. The DLBA should ensure that every disbursement is made through its accounting system and that the recipient of any funds is properly setup within the system. Further, the DLBA should periodically duplicate the analysis I conducted to detect any instances where payments were made to any individual or entity that is not reflected on its master vendor list. Incorporation of these recommendations will strengthen the DLBA's existing payment authorization / approval controls. The adherence to system generated payments will help prevent DLBA funds from being disbursed to unintended recipients or purposes. Periodic review of recipients of funds compared to a master vendor list will help to detect when non-system generated payments were made and allow for further investigation.

Payroll Analysis

21. In the Interim Report I identified Payroll as a significant expense of the DLBA and summarized additional analyses related to the use of City funds by the DLBA. DLBA payroll related expenses comprised between 30% and 100% of City subsidy payments over the Review Period. In most years, payroll comprised approximately 60% of the subsidy payment.
22. The payroll analyses summarized in the Interim Report examined all individuals employed, based on a unique employee number, without differentiating between full-time, part-time or contractor status. The scope of my analysis was not to identify the workforce needs on a full-



Detroit Land Bank
Authority Limited
Scope Forensic Audit

Prepared by:
Raymond A. Roth III,
CPA, CFE

October 15, 2021

time equivalent (“FTE”) basis but rather to identify the usage of City funds. For this purpose, metrics related to the total number of employees that were paid compensation by the DLBA is the most relevant metric for analysis. Further refinement by full-time, part-time or contractor status provide little benefit to the defined scope.

23. The concern over the DLBA’s employee turnover rate was expressed by its board of directors during the July 2018 board meeting as reflected in its meeting minutes. At this meeting, the DLBA’s Executive Director, Saskia Thompson, was recorded as to have “provided a detailed explanation and stated that the increased rate is due to higher salaries being offered at other organizations and the need to re-evaluate key positions.” Based on these statements, I prepared an employee turnover analysis using a unique employee number to identify each employee. My calculation used the number of employee departures, by department, divided by the average number of employees for each year for each department.

24. The DLBA August Response is critical of my analysis.

- a. First, the DLBA is critical of the fact that it assigned more than one employee number to an individual and implied that I should have identified duplicates within its records by employee name. This is not possible as it would require me to be aware of all employee name changes and variations thereof.
 - i. For example, if an employee changes a name for a life event, such as marriage, and is reassigned an employee number, it is impossible for me to identify such changes.
 - ii. Additionally, some DLBA employee name variations are not exact duplicates. For example, the DLBA’s employment records for 2018 contain two separate employee numbers for “Alton R Williams” and “Alton R. Williams II”. It is impossible for me to know whether this is a single individual, two individuals that are father and son, or some other reason for distinction.
- b. Second, The DLBA August Response argues that I should ignore the total number of employees the DLBA paid but instead only focus on the peak number of employees during any given year.
 - i. The Interim Report is clear that I reviewed the total persons employed in a year and does not make any reference to peak employment.
 - ii. For the purposes of identifying how the DLBA used City funds, total employment provides a clearer metric of the total



Detroit Land Bank
Authority Limited
Scope Forensic Audit

Prepared by:
Raymond A. Roth III,
CPA, CFE

October 15, 2021

employees paid. For example, in 2016 there were 116 different employees, based on employee number, who were reported to have received compensation from the DLBA.

- iii. It is irrelevant to the Interim Report's scope that only 94 were employed at one time in 2016 as the DLBA contends. The Interim Report stated both the scope of the report as well as in its Assumptions and Limiting Conditions that its "conclusions are applicable for the stated date and purpose only and may not be appropriate for any other date or purpose." As such, any conclusions or insights drawn from the Interim Report should be taken in consideration of the scope in which they were drawn.
 - c. Third, the DLBA August Response states that my analysis does not account for the impact of the DLBA's departmental reorganization during the Review Period.
 - i. I do not find this comment relevant to my scope.
 - d. Fourth, the DLBA offered an alternative calculation of employee turnover using a stratification of employee tenure.
 - i. The relevance of this comment and analysis is not explained by the DLBA and it is unclear how this relates to my scope.
 - ii. The analysis I completed is consistent with both the concerns documented in meeting minutes by the DLBA Board of Directors and the response from its Executive Director.
25. The Interim Report also identifies compensation inconsistencies for certain employees between the Employee Earnings Reports, Employee/Contractor Summary Reports and Title Classification Grades.
- a. The DLBA August Response includes the statement "In each entry identified by Stout above, the DLBA has documented evidence that Human Resources action and compensation were accurate and approved. The DLBA has invited Stout to its offices to review personnel files; so far Stout has not chosen to conduct such a review. The invitation stands."
 - b. The DLBA August Response for this item is superficial. I could not attach as exhibits in the Interim Report these discrepancies as the payroll reports provided contain personally identifiable information. Thus, the DLBA makes a blanket statement about "each entry" I identified even though there were not in fact specific entries



Detroit Land Bank
Authority Limited
Scope Forensic Audit

Prepared by:
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CPA, CFE

October 15, 2021

provided. The OAG and I have offered to provide further detail to the DLBA on this item, as well as all other observations in the Interim Report, but the DLBA declined.

- c. Further, the analysis contained in the Interim Report are based on DLBA sourced payroll documents and reports and therefore traveling to the DLBA's office to view payroll records is not necessary.

Bank Reconciliations

26. The Interim Report summarized my review of the DLBA's reconciliation of its Main Operating and Demolition bank statements to its general ledger. Three main categories of errors were identified in my review: (1) unexplained reconciling items; (2) instances where the general ledger balance on the bank reconciliation did not equal the actual general ledger balance; and (3) instances where the bank statement balance on the bank reconciliations did not match the actual bank statement balance.

- a. The DLBA August Response mainly acknowledged the reconciling items and provided more information regarding a \$1,220 reconciling item from February through June 2019 in the Main Operating Account. The DLBA, however, disputed a \$1,528 reconciling item I identified on its January and February 2017 reconciliations stating that its records do not show this difference. The DLBA's statement is correct in that the bank reconciliation does not show a reconciling item, but that is only because the math on the bank reconciliation is incorrect. Once the arithmetic is corrected, a reconciling item of \$1,528 remains.
- b. The DLBA August Response in regard to the issue of the incorrect general ledger balance on its Main Operating Account bank reconciliations is non-responsive.
 - i. "Bank reconciliations were provided to Stout showing reconciliations to the bank statement without exception."
- c. For its Demolition Accounts where the bank reconciliations did not agree to general ledger balances, I disagree with the DLBA's response that these items were immaterial.
 - i. "Bank reconciliations are normally prepared and reviewed before the 15th of the following month and such detail was provided to Stout. DLBA recognizes that in the years 2014 and 2015 bank reconciliations may not have been prepared timely. Bank reconciliations tied to the general ledger with a few immaterial exceptions."



Detroit Land Bank
Authority Limited
Scope Forensic Audit

Prepared by:
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CPA, CFE

October 15, 2021

1. Two of these occurrences were for more than \$1 million, one item was nearly \$900,000, another item was for over \$100,000 and the last item was for over \$80,000.
2. Further, the DLBA did not have a Demolition Account in 2014 and 2015. Its representation that these errors occurred during those periods is incorrect. The periods in question were from July through December 2016.

27. **Recommendation:** The Interim Report made a recommendation that “The DLBA has many instances throughout the Review Period of unreconciled balances between its bank statements and general ledger including transactions not recorded in its general ledger. The DLBA should prioritize the completion and review of bank reconciliations.”

- a. In making this recommendation I considered the importance of reconciling bank statements to the general ledger, the numerous occurrences of unreconciled items, and the timing of those occurrences.
- b. In my analysis, the bank reconciling items occurred through the end of the Review Period. However, when the reconciling items for 2019 are removed, which the DLBA August Response explains was the result of a voided check, the next most recent reconciling item occurred in July 2017 and was for \$20.
- c. With the understanding that the 2019 reconciling item was the result of a voided check that could not be timely removed from its system, and all other reconciling items occurring in prior periods, the most recent periods of the Review Period reflect prioritization by the DLBA in reconciling its bank statements and no additional action is recommended.

Demolition Advance Fund

28. In the Interim Report I stated that my review of the Demolition Advance Fund is incomplete because I had not received a per property demolition accounting. It is my understanding that the Demolition Advance Fund has now been repaid in full.
29. However, based on the DLBA’s inability to provide complete and reconcilable reports on a per property basis, it is impossible to determine if the DLBA used its interest free loan from the City for its intended purposes. The repayment of the loan does not in and of itself demonstrate that the outstanding balance of the loan, which ranged



Detroit Land Bank
Authority Limited
Scope Forensic Audit

Prepared by:
Raymond A. Roth III,
CPA, CFE

October 15, 2021

between \$5 million to \$15 million from fiscal years 2015 to 2019, was used for its stated purpose.⁴

30. The DLBA contradicts itself in its formal responses as to whether it provided me with the requested per property demolition reports. The DLBA August Response stated “The DLBA provided multiple reports to Stout reporting HHF demolition activity accounting on a per-property basis. However, Stout fails to understand that **the comprehensive per property report they are requesting cannot be produced until the program is officially closed out, following the final reimbursements from MSHDA.**” Emphasis added.

a. This written response clearly articulates that the requested information was not provided.

31. However, during City Council’s Budget Finance Audit meeting on February 24, 2021 (“BFA”) the DLBA represented that it had provided everything requested but that I failed to understand the information that was provided. Moreover, at the BFA, the DLBA did not respond to a single shortcoming in its reporting that I shared during that meeting, including examples where reporting did not reconcile with each other or was otherwise incomplete. Instead, the DLBA insisted that it had provided everything that was necessary but that I failed to understand this activity where all other auditors had been able to do so. The DLBA referenced its external financial statement auditors, the Special Inspector General for the Troubled Asset Relief Program (“SIGTARP”) and MSHDA as having never questioned the DLBA’s demolition reporting. The DLBA’s position that having passed prior audits renders my analysis useless and incapable of finding error is deeply flawed. Listed below are documented examples where prior auditors either missed DLBA accounting mistakes or expressed concern regarding the DLBA reporting.

a. **External Financial Statement Auditors.** The DLBA received an unqualified audit opinion for its 2016 financial statement audit, meaning the auditors did not find any material financial misrepresentations in the DLBA’s financial statements. However, in 2017, the DLBA restated its 2016 audited financial statements because revenue and corresponding receivables for demolition invoices were incorrect. This exemplifies an instance where the DLBA’s demolition accounting was incorrect, but it was not identified by its external financial statement auditors. I do not suggest that this item should have been identified by the financial

⁴ The purpose of the Demolition Advance Fund was to paying contractors in between the time periods of when work was completed and MSHDA provided a reimbursement.



Detroit Land Bank
Authority Limited
Scope Forensic Audit

Prepared by:
Raymond A. Roth III,
CPA, CFE

October 15, 2021

statement auditors as their scope to audit the financial statements is much different than the scope of my forensic audit in this matter.

- i. In fact, the Association of Certified Fraud Examiners, the leading international anti-fraud organization, finds that less than 5% of fraud annually is discovered by financial statement auditors. This is based on its review of thousands of fraud cases each year.⁵
 - b. **MSHDA.** In January 2017, the DLBA and the Michigan Homeowner Assistance Nonprofit Housing Corporation (“MHA”), the entity created by MSHDA to administer HHF funds, entered into a \$5 million settlement regarding the DLBA’s submission of improper invoices.⁶
 - c. **SIGTARP.** In June 2021, SIGTARP issued a letter stating that \$13 million in backfill costs paid from Troubled Asset Relief Funds (“TARP”) from Demolitions in Detroit were not correctly documented.⁷
32. I do not have any opinions regarding the aforementioned items as my scope is different than these past audits. To that point, I do not believe these items are comparable to my work and do not rely on any of these items to support my observations. I only report these items to demonstrate the misstatements by the DLBA. An overview of the documents and information I reviewed and the shortcomings of the information provided by the DLBA is presented in the following paragraphs.
33. The Interim Report summarized the request I made in November 2019, the DLBA’s representation that compliance with this request would be difficult and meetings in March and April 2020 to discuss my concerns on the reliability of the reports provided by the DLBA.
34. On March 6, 2020, I received two per property demolition reports from the DLBA. One report was represented as a report that was prepared by MSHDA (“MATT Daily Report”) and the other report was represented as the DLBA’s reconciliation to the MATT Daily Report.

⁵ This is not to suggest that there is any indication of fraud in this instance, but to demonstrate that an unqualified (i.e. clean) audit opinion does not mean that financial irregularities are not present.

⁶ MHA, DLBA Reach Settlement Regarding Improper Invoicing for Hardest Hit Fund Demolition Work. MSHDA Press Release June 22, 2017. In this settlement, the DLBA admitted that \$1.3 million of the \$7.3 million claim was improper and disputed any impropriety of the remaining \$6 million allegation.

⁷ <https://www.detroitnews.com/story/news/local/detroit-city/2021/06/28/detroit-home-demolitions-backfill-dirt-unsubstantiated-costs-treasury-department/7783649002/>.



Detroit Land Bank
 Authority Limited
 Scope Forensic Audit

Prepared by:
 Raymond A. Roth III,
 CPA, CFE

October 15, 2021

35. In the very first property that I reviewed on each report, 12611 Wyoming, I identified different invoice amounts recorded for the same property. Further, none of the reported invoice amounts agreed to what was paid.

a. The MATT Daily Report, initiated by MSHDA, identified that one invoice total was \$25,000, the Demo Invoice Amount was \$26,819.29 and \$5,119.29 in additional funds. This report also contained the notation:

- i. “The original demo cost of \$23,719.29 was reduced by \$5,119.29 bringing the new demo cost to \$18,600.00. The overage of \$5,119.29 will be paid for through the quality of life fund.”
- ii. A screen shot of this report is presented below as an example.

Partner Name	Unique ID	Property Address	Invoice Total	Demo Invoice Amount	Additional Funds Source	Additional Funds Amount	Acquisition
Detroit La	D3-07439-	8500 Dexter	\$1,250.70	0		0	C
<p>The original demo cost of \$23,719.29 was reduced by \$5,119.29 bringing the new demo cost to \$18,600.00. The overage of \$5,119.29 will be paid for through the quality of life fund.</p> <p>Submitted: 3/17/2017 12:30:38 PM</p> <p>Author: Paulette Victory</p>							
Detroit La	D3-07450-	12611 Wyoming	\$25,000.00	26,819.29		5,119.29	C
Detroit La	D3-07452-	12611 Sutherland	\$25,000.00	26,819.29	The amount will be paid back	5,119.29	C

b. The DLBA report titled “HHF Recon_All” identified that \$27,802.29 was paid by finance and \$5,119.29 was over \$25k. A screenshot of this report and amounts is presented below.



**Detroit Land Bank
Authority Limited
Scope Forensic Audit**

**Prepared by:
Raymond A. Roth III,
CPA, CFE**

October 15, 2021

				19,645,010.91	224,949.98	89,036.75	19,331,024.18	21,249,169.99	19,417,919.99	(86,895.81)
MATT Status	Address	MATT DE Number	Round Per MATT	Paid per Finance	Over \$25k	FIE	Net of FIE and Over \$2	Total: MATT Invoice	Total: MATT Invoice - Less \$1250	Diff B/N Finance and MATT Reimb
age 7 - Post Funding	5086 Charles	D3-02952-5086 Charles	HHF3	12,080.50	-	-	12,080.50	14,065.50	12,815.50	(735.00)
age 7 - Post Funding	18958 Trinity	D3-05035-18958 TRINITY	HHF3	8,358.40	-	-	8,358.40	9,540.40	8,290.40	68.00
age 7 - Post Funding	21685 Thatcher	D3-05043-21685 THATCHER	HHF3	8,874.40	-	-	8,874.40	10,056.40	8,806.40	68.00
age 7 - Post Funding	21171 Pickford	D3-05051-21171 PICKFORD	HHF3	8,584.40	-	-	8,584.40	9,766.40	8,516.40	68.00
age 7 - Post Funding	12611 Wyoming	D3-07450-12611 Wyoming	HHF3	27,802.29	5,119.29	-	22,683.00	25,000.00	23,750.00	(1,067.00)
age 7 - Post Funding	18641 Schoenherr	D3-07452-18641 Schoenherr	HHF3	37,769.90	13,231.90	-	24,538.00	25,000.00	23,750.00	788.00
age 7 - Post Fundine	14281 Alma	D3-07524-14281 Alma	HHF3	19,671.20	-	-	19,671.20	20,908.20	19,658.20	13.00

c. I asked several questions about these reports so that I could better understand demolition amounts paid to contractors by the DLBA and MSHDA’s reimbursements of those amounts.

- i. First – Why are four separate amounts represented as the total cost: \$25,000.00, \$26,819.29, \$23,719.29 and \$18,600.00?
- ii. Second – Why do none of the amounts represented as total costs agree to the amount paid to contractors of \$27,802.29?
- iii. Third – Why were the costs reduced by \$5,119.29 and paid from Quality of Life Funds?

1. I understand the \$25,000 reimbursement limit by MSHDA / TARP but not how this reduction related to an over \$25,000 limitation.

d. The DLBA was never able to answer these questions and both its CFO and General Counsel acknowledged the shortcomings of the information provided and committed to producing a new per property report that reconciled with the DLBA’s audited financial statements.

- i. After one month of not receiving any communications, updates, or the promised report, I sent a follow-up request on May 27, 2020 which the DLBA never responded to.
- ii. The DLBA did not provide the additional per property demolition reports until July 16, 2020.

e. The reports provided in July were only for 2017 through 2019 and omitted the 2014 through 2016 time periods.

- i. In addition, these reports contained \$39 million in revenue and \$22 million in expenses that could not be attributed to a specific property.
- ii. A screen shot example of this report is presented below.



**Detroit Land Bank
Authority Limited
Scope Forensic Audit**

**Prepared by:
Raymond A. Roth III,
CPA, CFE**

October 15, 2021

Transaction Type	(All)																
Period	(All)																
General Ledger Account: Reporting Code	(Multiple It. - F is)																
Sum of Home Value	Column Lab																
Row Labels	Revenues	HHF Admin	HHF Maint.	NonReimburs	Demolition	Demo -	Other	Demo - Pre	Demo	Abatement	Demo Over	Demo Non-	Demo Non	Demo	Demo Clean		
9983 St Marys	(16,301.20)				10,152.00	897.90	90.00			1,411.30		20.00		11,900.00		92.69	
9983 Stahelin					25.00	1,081.00						25.00					
9986 Sussex					9,921.00	830.30	90.00			3,514.50		20.00			(25.00)		
9989 Plainview			(25.00)		13,343.40	461.00	100.00		2,500.00			25.00					
999 E Brentwood					16,309.00		90.00					90.00					
9990 Carlin	(17,664.00)				9,794.86	458.00	100.00					25.00					
9992 Woodmont			(25.00)		15,149.00		90.00										
9994 Coyle	(16,504.00)				10,538.00	902.00						50.00					
9994 Memorial	(12,705.00)				8,946.486	33,594	161,956		3,500	15,701		6,704,941	(458,000)	237,812	189		
Non Property Specific (blank)	(10,721,457)	(1,384,500)	(2,011,050)	(7,054,675)	8,946,486	33,594	161,956		3,500	15,701		6,704,941	(458,000)	237,812	189		
	(12,358,820)	(1,211,750)	(2,632,650)	(1,676,978)	5,844,538	(1,932,195)					81,790	2,144,929					

\$39 Million in Revenue not Attributed to a Property

\$22 Million in Expenses not Attributed to a Property

- 36. The Interim Report’s statements regarding the DLBA’s inability to report its demolition on a per property basis is based on the inconsistencies in the aforementioned paragraphs. These examples were presented at the BFA on February 24, 2021 but the DLBA has not addressed the inconsistencies in its reporting to date.
- 37. **Recommendation.** The Interim Report offered a recommendation to the DLBA regarding specialized reporting.
 - a. “As the DLBA closes out the HHF program and considers application for programs using other public funds it should consider how reports can be designed at the start of the program that provide granularity of detail but also summarize and integrate into traditional reporting. This type of reporting often requires the architecture of infrastructure prior to beginning a new program. The costs and other resource needs of building such a reporting tool should be considered when making future public fund applications.”
 - b. This recommendation is based on the preceding dialogue regarding the Demolition Advance Fund. The creation of specialized reports at the beginning of programs will allow for greater transparency on the DLBA’s use of specific purpose program funds. The reports will increase the efficiency in audits of those funds and allow for interim and progress reporting so that a program does not need to be “closed out” before reporting can be generated.

Review of DLBA Policies and Procedures and Internal Control

38. The Interim Report summarized my review of the DLBA’s Accounting Policies and Procedure including the identification of improvements in its policies and procedures from 2015 - 2018. The Interim Report stated that the DLBA’s Current Version of accounting policies and procedures showed much evolution and more robust fiscal management from the 2015 Version.



Detroit Land Bank
Authority Limited
Scope Forensic Audit

Prepared by:
Raymond A. Roth III,
CPA, CFE

October 15, 2021

39. I used the Internal Control – Integrated Framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in May 2013 to compare the DLBA’s policies and procedures, DLBA board meeting minutes and observations from my engagement in my discussion of the DLBA’s internal control. The Interim Report explained and defined the five integrated components of internal control: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring Activities.

Control Environment

40. In reviewing the DLBA’s Control Environment, The Interim Report identified that the DLBA’s board of directors met regularly, usually monthly, and meeting minutes demonstrate financial oversight and governance of the DLBA. In nearly all regularly scheduled Board of Director meetings, i.e., excluding special meetings, the minutes reflect updates from the Finance and Audit Standing Committee as well as a Treasurers report where discussion was often noted to follow. In these meetings, the Board commonly requested the need for more robust financial reporting, grant compliance, employee compensation and tighter controls. However, no indications of an annual review of policies and procedures were identified in board of director meeting minutes as required in the Current Version of the DLBA’s accounting policies and procedures.

Risk Assessment

41. The Interim Report noted that the Current Version of the DLBA’s accounting policies and procedures contains an overall objective to ensure that assets are safeguarded, financial statements are in conformity with GAAP and that finances are managed with responsible stewardship. The policies often contain specific procedures in which the objectives are to be executed. However, the Current Version of the DLBA’s accounting policies and procedures do not identify specific risks to its objectives or any policies or procedures in which risk assessments are to be conducted.

42. **Recommendation.** In the Interim Report I made a recommendation for the DLBA to assess the risks of not meeting its stated goals and objectives. The identification of specific risks to the DLBA’s objectives creates the basis for which control activities are created to prevent risk actions from occurring and/or detect them if they do. Conducting a risk assessment could strengthen the DLBA’s existing internal controls as well as find areas where new controls could be valuable.

Control Activities



Detroit Land Bank
Authority Limited
Scope Forensic Audit

Prepared by:
Raymond A. Roth III,
CPA, CFE

October 15, 2021

43. The Interim Report summarized the DLBA's Current Version of its accounting policies and procedures to contain a set of actions that are both preventative and detective in nature. The DLBA's approvals and authorization limits on cash disbursements were given as an example as of a control activity. The control activities also included the identification of the responsible party for each action by position which considered a segregation of duties.
44. It was also noted that the DLBA's Current Version of its accounting policies and procedures can be vague in some of its actions. For example, Section 6 – Demo Advance Fund City of Detroit contains a description of the line of credit, but it does not contain any detail on how these funds are to be used, accounted for and monitored.
45. The Interim Report noted an instance where the DLBA had changed an amount in its system during a live demonstration of Salesforce and the lack of control around changing historical values.
 - a. The DLBA August Response stated “The “historical amount” in Salesforce was not changed. The DLBA currently has 501 active Salesforce users; 81 unique and specific user profiles robustly control security and user access. Only 9 users have profile-based permission allowing the type of changes observed in the January 22, 2020, meeting. In that meeting, a DLBA employee who possesses the appropriate profile-based permission corrected a typo in the “Socrata Reported Price,” a field used to send data to the City-controlled Open Data Portal. At the request of the City, the DLBA makes limited data available to the City’s Open Data Portal (formerly known as Socrata). The DLBA does not manage nor have any ability to modify the City’s Open Data Portal. Limited and specific Salesforce fields link data to the City’s Open Data Portal. The Open Data Portal/Socrata data fields are not reflective of the DLBA’s complete historic record.”
 - b. “There are numerous checks and balances as well as a lengthy reconciliation processes within Salesforce, Financial Force, and the State’s MATT system ensuring cost amounts are accurate. The DLBA’s Salesforce and Financial Force systems are not integrated as characterized by Stout. Accounting records are taken strictly from Financial Force, the Finance department does not use Salesforce for reporting. DLBA retains an audit trail for critical data fields in the system. If a mistake is made, historic information is available, and the source can be identified. Additionally, the DLBA’s inhouse Salesforce architect, developer, and administrators build the database environment with flexibility and reliability per the scope and requirements of each specific program. To ensure data integrity, triggers providing checks and balances are included in each specific



Detroit Land Bank
Authority Limited
Scope Forensic Audit

Prepared by:
Raymond A. Roth III,
CPA, CFE

October 15, 2021

Salesforce program. The system is continually backed up and stored securely.”

- c. “To further ensure no catastrophic loss of data, the DLBA uses OwnBackup, a third-party Salesforce backup and recovery tool. OwnBackup is the most robust database loss and recovery tool on the market, and the only tool of its kind supported by Salesforce. It offers nearly real-time continuous backup of all forms of data, metadata, and attachments. Recovery can be full for catastrophic loss or granular down to the field level for accidental deletion, incorrect overwriting, or user error. Additionally, it protects against corruption and malicious intent by storing encrypted backup copies on a secondary server.”

46. I acknowledge the processes and controls as noted by the DLBA. However, it should not be lost that the DLBA admits that its user changed a historical value in real-time regardless of how or where the specific data was sourced and/or flows. While the effect of this change might be limited to the “Socrata Reported Price,” and used to send data to the City-controlled Open Data Portal, this still demonstrates a situation that can be better controlled. For example, a system requirement that entered lines cannot be modified but instead require a new entry to cancel or adjust any item that requires changes. This control would preserve the original reporting and therefore an audit trail of all changes.

Information and Communication

47. The Interim Report commented on external communications of the DLBA’s Controller in response to my requests regarding representations made regarding the availability of cash receipts journals, trial balances and the DLBA’s reconciliation to the MATT Daily Report.

- a. The DLBA August Response disputes these items but I reiterate these by reference into this Supplemental Report. I also note the following clarifications related to the DLBA August Response.
 - i. A cash receipts journal was never provided to me. The DLBA had represented that this could be derived from its general ledger through filtering on items coded as “CSH”. I agreed with the DLBA this method would identify check transactions but not wire transfers as wire transfers were coded as “journal” in the general ledger along with other non-cash transactions.
 - ii. In reference to the file provided to reconcile the MATT Daily Report, the DLBA is mistaken. I was provided a full



Detroit Land Bank
Authority Limited
Scope Forensic Audit

Prepared by:
Raymond A. Roth III,
CPA, CFE

October 15, 2021

excel version of that report with all tabs and formulas intact and not a .csv file. The DLBA had provided a general ledger file in an excel format that was corrupted which was rectified by sending in a .csv format. However, the general ledgers provided in .csv format are not relevant to the DLBA Controller's representation of the reconciliation file.

Monitoring Activities

48. The Interim Report did not have any material observations to Monitoring Activities.



Detroit Land Bank
Authority Limited
Scope Forensic Audit

Prepared by:
Raymond A. Roth III,
CPA, CFE

October 15, 2021

III. Conclusion / Recommendations

49. I included my formal recommendations to the DLBA inline with the topical area in which they relate but are also restated here for ease of reference.
- a. **Vendor Approval** – The DLBA should ensure that every disbursement is made through its accounting system and that the recipient of those funds is properly setup within the system. Further, the DLBA should periodically duplicate the analysis I conducted to detect any instances where payments were made to any individual or entity that is not reflected on its master vendor list. Incorporation of these recommendations will strengthen the DLBA’s existing payment authorization / approval controls. The adherence to system generated payments will help prevent DLBA funds from being disbursed to unintended recipients. Periodic review of recipients of funds compared to a master vendor list will help to detect when non-system generated payments were made and allow for further investigation.
 - b. **Specialized Reporting** – As the DLBA closes out the HHF program and considers application for programs using other public funds it should consider how reports can be designed at the start of the program that provide granularity of detail but also summarize and integrate into traditional reporting. This type of reporting often requires the architecture of infrastructure prior to beginning a new program. The costs and other resource needs of building such a reporting tool should be considered when making future public fund applications. The creation of specialized reports at the beginning of programs will allow for greater transparency on the DLBA’s use of specific purpose program funds. The reports will increase the efficiency in audits of those funds and allow for interim and progress reporting so that a program does not need to be “closed out” before reporting can be generated.
 - c. **Risk Assessment** – The DLBA should assess the risks of not meeting its stated goals and objectives. The identification of specific risks to the DLBA’s objectives creates the basis for which control activities are created to prevent risk actions from occurring and/or detect them if they do. Conducting a risk assessment could strengthen the DLBA’s existing internal controls as well as find areas where new controls could be valuable.



Detroit Land Bank
Authority Limited
Scope Forensic Audit

Prepared by:
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CPA, CFE

October 15, 2021

IV. Assumptions and Limiting Conditions

50. My conclusions are based on the information received to date. I reserve the right to change those conclusions should additional information be provided.
51. No one that worked on this engagement has any known financial interest in any parties or the outcome of the analysis. Further, Stout Risius Ross, LLC.'s compensation is neither based nor contingent on the results of the analysis.
52. My conclusions are applicable for the stated date and purpose only and may not be appropriate for any other date or purpose. This report is solely for use in the cited dispute, for the purpose stated herein, and is not to be referred to or distributed, in whole or in part, without prior written consent.

A handwritten signature in black ink, appearing to read "Raymond A. Roth III". The signature is written in a cursive style and is positioned above a horizontal line.

Raymond A. Roth, III, CPA, CFE
Director
Stout Risius Ross, LLC

**Detroit Land Bank Authority Limited Scope Forensic Audit
Comparison of General Ledger to Audited Financial Statements - Income Statement
Fiscal Year 2014**

**Exhibit 5
Schedule 1**

	FY 2014		
	Audited Financial Statements	General Ledger	Difference
Revenue			
1 Grant Income - Federal	\$ 1,524,684	\$ 1,524,684	\$ 0
2 Grant Income - Other	2,151,521	2,151,521	(0)
3 Donated Goods and Services	4,830,625	4,830,625	-
4 Gain (Loss) from Sale of Property	(2,359,060)	(2,359,060)	(0)
5 Income - Other	88,418	88,418	(0)
6 Total Operating Revenues	6,236,188	6,236,188	(0)
Expenditures			
7 Salaries and Wages	905,182	905,182	0
8 Employment Taxes	75,236	75,236	0
9 Workman's Comp Insurance	2,044	2,044	(0)
10 Fringe Benefits	79,062	79,062	(0)
11 Vehicle Allowance	600	600	-
12 Rent	81,462	81,462	-
13 Utilities	8,386	8,386	(0)
14 Advertising	8,255	8,255	(0)
15 Telephone	10,826	10,826	(0)
16 Office Supplies	24,616	24,616	(0)
17 Printing	9,606	9,606	0
18 Postage & Delivery	2,779	2,779	0
19 D & O Insurance	7,314	7,314	0
20 Property Liability Insurance	10,954	10,954	(0)
21 Travel and Meeting Expenses	4,826	4,826	0
22 Education & Training	4,375	4,375	0
23 Parking	19,522	19,522	0
24 Membership & Licenses	855	855	-
25 Equipment / Leases	21,666	21,666	1
26 Depreciation	23,686	23,686	(0)
27 Interest Expense	83,771	83,771	(0)
28 Bank Fees	951	951	0
29 Miscellaneous	4,936	4,932	4
30 Professional Services	477,151	477,151	0
31 Legal	144,928	144,928	0
32 General Administrative Cost	2,666	2,666	0
33 Developer Agreement Expenses	1,154,809	1,154,815	(6)
34 Demolition Expenses	1,180,130	1,180,130	0
35 Rental Agreement Expenses	11,566	11,566	0
36 Auction Expenses	246,190	246,190	(0)
37 Nuisances & Abatement	25,068	25,068	(0)
38 Disposition	132,849	132,849	0
39 Total Operating Expenditures	4,766,267	4,766,267	(0)
40 Change in Fund Balance - Net Position	\$ 1,469,921	\$ 1,469,921	\$ 0

Source: 2014 Audited Financial Statements & 2014 General Ledger

**Detroit Land Bank Authority Limited Scope Forensic Audit
 Comparison of General Ledger to Audited Financial Statements - Income Statement
 Fiscal Year 2015**

**Exhibit 5
 Schedule 2**

	FY 2015		
	Audited Financial Statements	General Ledger	Difference
Revenue			
1 Grant Income - Federal	\$ 532,706	\$ 532,706	\$ (0)
2 Grant Income - Other	50,997,941	50,953,671	44,270
3 Donated Properties	15,856,126	15,856,126	-
4 Gain (Loss) from Sale of Property	(4,281,709)	(4,281,709)	(0)
5 Income - Other	2,575,013	2,573,567	1,446
6 Total Operating Revenues	65,680,077	65,634,361	45,716
Expenditures			
7 Salaries and Wages	3,683,451	3,683,450	1
8 Employment Taxes	334,293	334,293	0
9 Workman's Comp Insurance	6,066	6,066	0
10 Fringe Benefits	431,609	432,046	(437)
11 Rent	153,184	153,184	0
12 Utilities	17,864	17,864	0
13 Administrative cost	91	58	33
14 Advertising	1,783	1,783	(0)
15 Telephone	73,945	73,945	0
16 Office Supplies	89,825	89,826	(1)
17 Printing	44,859	44,859	0
18 Postage & Delivery	71,680	71,680	(0)
19 D & O Insurance	12,443	12,443	0
20 Property Liability Insurance	147,665	147,665	-
21 Travel and Meeting Expenses	34,760	34,760	(0)
22 Education & Training	6,744	6,744	0
23 Parking	133,686	133,686	0
24 Membership & Licenses	5,033	5,033	0
25 Equipment/ Leases	209,802	209,802	0
26 Depreciation	70,632	70,632	0
27 Interest Expense	7,045	7,045	0
28 Bank Fees	17,140	17,141	(1)
29 Professional Services	664,431	664,433	(2)
30 Brightmoor Project	371,287	371,287	-
31 Acquisition	987,981	987,981	1
32 Developer Agreement Expenses	146,571	146,571	0
33 Demolition Expenses	44,919,771	43,533,701	1,386,070
34 Rental Agreement Expenses	1,320	1,320	-
35 Auction Expenses	607,683	607,683	0
36 Nuisances & Abatement	1,186,833	1,186,833	(0)
37 Public Affairs	15,034	15,034	(0)
38 Total Operating Expenditures	54,454,511	53,068,846	1,385,665
39 Change in Fund Balance - Net Position	\$ 11,225,566	\$ 12,565,516	\$ (1,339,950)

Source: 2015 Audited Financial Statements and 2015 General Ledger

**Detroit Land Bank Authority Limited Scope Forensic Audit
Comparison of General Ledger to Audited Financial Statements - Income Statement
Fiscal Year 2016**

**Exhibit 5
Schedule 3
AMENDED**

	FY 2016		
	Audited Financial Statements	General Ledger	Difference
Revenue			
1 Hardest Hit Fund grant	\$ 53,115,665	\$ 56,751,354	\$ (3,635,689)
2 Other grants and contracts	19,549,005	16,211,763	3,337,242
3 Donated properties	5,626,425	5,626,425	-
4 Structure sales	4,408,432	4,408,432	(0)
5 Side lot sales	657,748	657,748	0
6 Other revenue	1,798,376	815,664	982,712
7 Gain (loss) on disposition of property held for resale	(3,864,638)	(3,864,638)	-
8 Total Revenue	81,291,013	80,606,749	684,265
Expenditures			
9 Demolition expenses	64,537,078	65,387,078	(850,000)
10 Salaries and wages	4,714,770	4,714,770	0
11 Payroll taxes	418,008	418,008	(0)
12 Employee benefits	655,084	655,084	0
13 Acquisition and maintenance	5,102,674	5,102,674	0
14 Board-ups	3,160,078	3,160,078	0
15 Professional fees	774,485	774,485	-
16 Advertising	592,117	592,117	-
17 Occupancy	415,521	415,521	-
18 Office expenses	303,372	303,372	-
19 Insurance	46,243	46,243	-
20 Other expenses	388,055	388,055	-
21 Depreciation	118,865	118,865	-
22 Capital outlay	-	151,410	(151,410)
23 Total Operating Expenditures	81,226,350	82,227,760	(1,001,410)
24 Excess Revenue over Expenditures	64,663	(1,621,012)	1,685,675
25 Gain (loss) on disposition of capital assets	(32,544)	(32,544)	-
26 Net Position Change	\$ 32,119	\$ (1,653,556)	\$ 1,685,675

Source: 2017 Audited Financial Statements Containing 2016 Restated Amounts & 2016 General Ledger.

**Detroit Land Bank Authority Limited Scope Forensic Audit
Comparison of General Ledger to Audited Financial Statements - Income Statement
Fiscal Years 2017 through 2019**

**Exhibit 5
Schedule 4
AMENDED**

	2017			2018			2019		
	Audited	General Ledger	Difference	Audited	General Ledger	Difference	Audited	General Ledger	Difference
Revenue									
1 Hardest Hit Fund grant	\$ 36,711,066	\$ 36,711,066	\$ 0	\$ 35,369,033	\$ 35,369,033	\$ 0	\$ 60,230,159	\$ 60,230,159	\$ 0
2 Other grants and contracts	23,642,991	23,582,149	60,842	23,602,611	24,001,475	(398,864)	18,364,383	19,029,384	(665,001)
3 Donated properties	3,021,000	3,021,000	-	910,000	910,000	-	335,750	335,750	-
4 Structure sales	6,127,923	6,127,924	(1)	9,025,906	9,025,906	-	8,603,034	8,603,034	0
5 Side lot sales	519,843	519,843	0	797,737	797,737	0	998,801	998,801	(0)
6 Other program revenue	514,638	575,481	(60,843)	1,513,898	1,340,032	173,866	1,174,540	621,969	552,571
7 Intercompany Revenue	-	-	-	-	-	-	-	-	-
8 Gain (loss) on disposition of property held for resale	(3,508,592)	(3,508,592)	(0)	(3,668,750)	(3,668,750)	(0)	(3,454,038)	(3,454,038)	0
9 Total Revenue	67,028,869	67,028,870	(1)	67,550,435	67,775,433	(224,998)	86,252,629	86,365,058	(112,429)
Expenditures									
10 Demolition expenses	43,872,831	43,872,831	1	35,444,680	35,444,680	0	56,897,664	56,897,664	0
11 Salaries and wages	7,247,977	7,247,977	(0)	7,700,231	7,700,231	(0)	9,091,641	9,091,641	0
12 Payroll taxes	571,936	571,936	(0)	674,718	674,718	(0)	778,549	778,549	0
13 Employee benefits	1,122,680	1,122,680	(0)	1,105,985	1,105,985	0	1,412,641	1,412,641	0
14 Acquisition and maintenance	5,361,906	5,361,906	0	5,884,197	5,884,197	(0)	6,324,108	6,324,108	(0)
15 Board-ups, sales preparation, and debris removal	2,598,137	2,598,137	(0)	2,303,224	2,303,224	(0)	2,316,022	2,316,022	0
16 Professional fees	1,243,714	1,243,714	(0)	1,437,834	1,437,834	0	541,254	541,254	0
17 Advertising	296,690	296,690	(0)	472,226	472,226	0	368,702	368,702	(0)
18 Occupancy	809,896	809,896	(0)	1,184,182	1,184,182	-	1,355,129	1,355,129	(0)
19 Office expenses	261,207	261,207	(0)	268,068	268,068	0	344,482	344,482	(0)
20 Insurance	69,484	69,484	(0)	77,272	77,272	(0)	271,090	271,090	(0)
21 Depreciation	155,049	155,049	(0)	182,287	182,287	(0)	238,728	238,728	(0)
22 Intercompany Expenses	-	-	-	-	-	-	-	-	-
23 Other expenses	492,956	492,954	2	611,155	611,155	(0)	679,175	679,174	1
24 Subtotal	64,104,463	64,104,463	(0)	57,346,059	57,346,059	(0)	80,619,185	80,619,185	(0)
25 Excess Revenue over Expenditures	2,924,406	2,924,407	(1)	10,204,376	10,429,374	(224,998)	5,633,444	5,745,873	(112,429)
26 Loss on Disposal of Assets	-	-	-	-	-	-	2,822	2,820	2
27 Net Change in Position	\$ 2,924,406	\$ 2,924,407	\$ (1)	\$ 10,204,376	\$ 10,429,374	\$ (224,998)	\$ 5,630,622	\$ 5,743,053	\$ (112,431)

Source: 2017 - 2019 Audited Financial Statements & General Ledgers

**Detroit Land Bank Authority Limited Scope Forensic Audit
Comparison of General Ledger to Audited Financial Statements - Balance Sheet
Fiscal Year 2014**

**Exhibit 5
Schedule 5**

FY 2014			
	Audited Financial Statements	General Ledger	Difference
Assets			
Current Assets:			
1 Cash & Cash Equivalents	\$ 818,181	817,733	448
2 Accounts Receivable	706,426	706,426	0
3 Prepaid Expenses	44,145	44,145	0
4 Purchases in Progress	135,075	131,819	3,256
5 Property Held For Resale	7,741,606	7,732,451	9,155
6 Total Current Assets	9,445,433	9,432,573	12,860
Capital Assets			
7 Equipment, Net of Depreciation	119,679	119,679	(0)
8 Total Assets	9,565,112	9,552,253	12,859
Liabilities			
9 Accounts Payable	1,213,994	1,201,134	12,860
10 Accrued Payroll	192,614	192,614	0
11 Land Contract	3,069	3,069	-
12 Unearned Revenue	1,364,367	1,364,367	(0)
13 Due to CDC	-	-	-
14 Loan - City of Detroit	-	-	-
15 Line of Credit - City of Detroit	-	-	-
16 Auction Deposits	164,038	164,038	0
17 Security Deposit	1,400	1,400	-
18 Total Liabilities	\$ 2,939,482	\$ 2,926,622	\$ 12,860

Source: 2014 Audited Financial Statements & 2014 General Ledger

**Detroit Land Bank Authority Limited Scope Forensic Audit
Comparison of General Ledger to Audited Financial Statements - Balance Sheet
Fiscal Year 2015**

**Exhibit 5
Schedule 6**

	FY 2015		
	Audited Financial Statements	General Ledger	Difference
Assets			
Current Assets:			
1 Cash & Cash Equivalents	\$ 18,803,135	18,638,204	164,931
2 Accounts Receivable	7,350,305	7,265,552	84,753
3 Prepaid Expenses	27,651	27,651	(0)
4 Purchases in Progress	-	-	-
5 Property Held For Resale	23,904,158	23,904,773	(615)
6 Total Current Assets	50,085,249	49,836,180	249,069
Capital Assets			
7 Equipment, Net of Depreciation	370,082	370,083	(1)
8 Total Assets	50,455,331	50,206,263	249,068
Liabilities			
9 Accounts Payable	2,062,861	2,063,913	(1,052)
10 Accrued Payroll	222,731	222,731	0
11 Land Contract	4,464	4,464	-
12 Unearned Revenue	6,200,252	6,200,252	0
13 Due to CDC	84,753	84,753	0
14 Loan - City of Detroit	6,500,000	6,500,000	-
15 Line of Credit - City of Detroit	15,000,000	15,000,000	-
16 Auction Deposits	938,279	938,279	(0)
17 Security Deposit	725	725	-
18 Total Liabilities	\$ 31,014,065	\$ 31,015,117	\$ (1,052)

Source: 2015 Audited Financial Statements and 2015 General Ledger

**Detroit Land Bank Authority Limited Scope Forensic Audit
Comparison of General Ledger to Audited Financial Statements - Balance Sheet
Fiscal Year 2016**

**Exhibit 5
Schedule 7**

	FY 2016		
	Audited Financial Statements	General Ledger	Difference
Assets			
1 Cash - Unrestricted	\$ 9,218,221	\$ 9,988,752	\$ (770,531)
2 Cash - Restricted	5,329,211	4,558,680	770,531
3 Total Cash	<u>14,547,432</u>	<u>14,547,431</u>	<u>1</u>
4 Accounts receivable	9,406,273	9,406,273	0
5 Prepaid expenditures	141,686	141,686	0
6 Property held for resale	22,790,279	22,790,279	(0)
7 Depreciable Assets - Net	359,467	359,466	1
8 Subtotal	<u>32,697,705</u>	<u>32,697,704</u>	<u>1</u>
9 Total Assets	<u><u>47,245,137</u></u>	<u><u>47,245,136</u></u>	<u><u>1</u></u>
Liabilities			
10 Accounts payable and accrued expenses	12,653,673	12,653,673	0
11 Deferred revenue	5,256,180	5,256,180	(0)
12 Advances and loans	13,500,000	13,500,000	-
13 Deposits	61,501	61,501	1
14 Total Liabilities	<u>31,471,354</u>	<u>31,471,353</u>	<u>1</u>

Source: 2017 Audited Financial Statements Containing 2016 Restated Amounts & 2016 General Ledger

**Detroit Land Bank Authority Limited Scope Forensic Audit
Comparison of General Ledger to Audited Financial Statements - Balance Sheet
Fiscal Years 2017 through 2019**

**Exhibit 5
Schedule 8**

	2017			2018			2019		
	Audited	General Ledger	Difference	Audited	General Ledger	Difference	Audited	General Ledger	Difference
Assets									
1 Cash - Unrestricted	\$ 6,361,212	\$ 6,361,213	\$ (1)	\$ 11,030,872	\$ 11,030,872	\$ 0	\$ 11,810,648	\$ 11,810,647	\$ 1
2 Cash - Restricted	5,533,705	5,533,704	1	7,508,407	7,508,407	(0)	7,601,956	7,601,956	(0)
3 Total Cash	11,894,917	11,894,917	(0)	18,539,279	18,539,279	0	19,412,604	19,412,604	0
4 Escrow deposits	-	-	-	2,000,000	2,000,000	-	2,000,000	2,000,000	-
5 Accounts receivable	18,252,688	18,252,688	0	19,456,157	19,456,157	0	38,900,405	38,900,405	0
6 Prepaid expenses	4,082	4,082	(0)	66,096	66,096	0	186,409	186,409	(0)
7 Property Held for Resale	24,511,421	24,511,421	(0)	23,341,284	23,341,284	0	21,919,066	21,919,066	0
8 Capital Assets	-	-	-	-	-	-	-	-	-
9 Depreciable assets - Net	204,418	204,417	1	616,332	616,331	1	695,096	695,097	(1)
10 Subtotal	42,972,609	42,972,608	1	45,479,869	45,479,868	1	63,700,976	63,700,976	(0)
11 Total Assets	54,867,526	54,867,526	0	64,019,148	64,019,147	1	83,113,580	83,113,580	(0)
12 Liabilities									
13 Accounts payable and accrued expenses	10,973,199	10,973,199	(0)	19,170,400	19,170,400	(0)	27,910,420	27,910,420	0
14 Deferred revenue	5,161,873	5,161,873	0	5,411,918	5,411,918	(0)	5,135,708	5,135,708	0
15 Escrow Deposits Payable	-	-	-	2,000,000	2,000,000	-	2,000,000	2,000,000	-
16 Advances & Loans	18,500,000	18,500,000	-	7,000,000	7,000,000	-	12,000,000	12,000,000	-
17 Subtotal	34,635,072	34,635,072	0	33,582,318	33,582,318	(0)	47,046,128	47,046,128	0
18 Deferred Inflows of Resources:									
19 Unavailable revenue (Note D)	-	-	-	-	-	-	-	-	-
20 Total Liabilities and Deferred Inflows of Resources	\$ 34,635,072	\$ 34,635,072	\$ 0	\$ 33,582,318	\$ 33,582,318	\$ (0)	\$ 47,046,128	\$ 47,046,128	\$ 0

Source: 2017 - 2019 Audited Financial Statements & General Ledgers

**DLBA Response to October 17, 2021 Supplemental Report
Issued by the Office of the Auditor General and Stout
October 29, 2021**

On July 27, 2020, the Detroit Auditor General released a document called “Detroit Land Bank Authority Limited Scope Forensic Audit Preliminary Report” by the Stout firm (“July 2020 Audit Report”). The Auditor General’s July 2020 Audit Report was deeply flawed and made numerous unfounded conclusions. It contained substantial errors, including a misrepresentation that the DLBA had been unable to account for \$19 million in Fire Insurance Escrow funds the City had provided the DLBA.

On August 10, 2020, the DLBA issued a 43-page point-by-point, detailed response, identifying the substantial mistakes and misrepresentations of the Auditor General’s July 2020 Audit Report. Despite this detailed response provided timely by the DLBA, neither the Auditor General nor Stout responded to the serious misstatements and errors identified by the DLBA for over fourteen months.

It was not until the end of August 2021, more than a year after the DLBA submitted its response and several months after a presentation on this topic before the Budget, Finance and Audit Committee of the City Council, did the Auditor General’s Office reach out to the DLBA to discuss the problems with their July 2020 Audit Report. On October 17, 2021 the Auditor General’s Office provided a draft “Supplemental Report” for the DLBA’s review.

The DLBA has reviewed the Supplemental Report and is relieved to see that Stout and the Auditor General finally admit substantial errors in the July 2020 Audit Report, including the \$19 million misrepresentation described above. The General Auditor’s October 2021 retracts its misrepresentation regarding the \$19 million and relies instead on the figures provided by the DLBA in the DLBA’s August 2020 Response.

The DLBA recognizes that the Auditor General and Stout have made a good faith attempt to correct the most significant errors of their July 2020 Audit Report. However, the DLBA is disappointed that the Supplemental Report continues to be erroneous on several substantive points, most of which the DLBA already identified and explained in its published response to the Interim Report 14 months ago. The DLBA has been reviewed, audited, examined and investigated numerous times and is proud of its current practices and procedures. The DLBA stands by its robust control processes and data integrity, and believes that current practices in place are more than sufficient to meet the intent of all three recommendations remaining in the Supplemental Report.

**OFFICE OF THE AUDITOR GENERAL
 Detroit Land Bank Limited Scope Forensic Audit Supplemental Report Of Raymond A. Roth III, CPA, CFE, Stout Risius Ross, LLC**

DETROIT LAND BANK AUTHORITY

Implementation Tracking of Departmental Responses Submitted 10.29.2021

RECOMMENDATION	TOPIC	RECOMMENDATIONS	DEPARTMENT RESPONSE(S)	ESTIMATED/ PLANNED IMPLEMENTATION DATE	CONTACT PERSON	CONTACT PERSON NUMBER
49. a.	Vendor Approval	<ul style="list-style-type: none"> The DLBA should ensure that every disbursement is made through its accounting system and that the recipient of those funds is properly setup within the system. Further, the DLBA should periodically duplicate the analysis I conducted to detect any instances where payments were made to any individual or entity that is not reflected on its master vendor list. Incorporation of these recommendations will strengthen the DLBA's existing payment authorization / approval controls. The adherence to system generated payments will help prevent DLBA funds from being disbursed to unintended recipients. Periodic review of recipients of funds compared to a master vendor list will help to detect when non-system generated payments were made and allow for further investigation. 	<p>The DLBA previously implemented a vendor setup system to ensure all disbursements through the accounting system.</p> <p>The DLBA previously implemented protocol to ensure all vendors are on a master vendor list.</p> <p>The DLBA has always strictly adhered to system generated payments for all DLBA disbursements, and periodic review will continue.</p>			

OFFICE OF THE AUDITOR GENERAL
Detroit Land Bank Limited Scope Forensic Audit Supplemental Report Of Raymond A. Roth III, CPA, CFE, Stout Risius Ross, LLC

DETROIT LAND BANK AUTHORITY

Implementation Tracking of Departmental Responses Submitted 10.29.2021

RECOMMENDATION	TOPIC	RECOMMENDATIONS	DEPARTMENT RESPONSE(S)	ESTIMATED/ PLANNED IMPLEMENTATION DATE	CONTACT PERSON	CONTACT PERSON NUMBER
49. b	Specialized Reporting	<ul style="list-style-type: none"> • As the DLBA closes out the HHF program and considers application for programs using other public funds it should consider how reports can be designed at the start of the program that provide granularity of detail but also summarize and integrate into traditional reporting. • This type of reporting often requires the architecture of infrastructure prior to beginning a new program. The costs and other resource needs of building such a reporting tool should be considered when making future public fund applications. • The creation of specialized reports at the beginning of programs will allow for greater transparency on the DLBA's use of specific purpose program funds. • The reports will increase the efficiency in audits of those funds and allow for interim and progress reporting so that a program does not need to be "closed out" before reporting can be generated. 	<p>The \$265M HHF program has been completely closed out through MSHDA, with all funds 100% reimbursed. Reporting and program infrastructure was satisfactory to close out this Federal grant.</p> <p>Should the DLBA be awarded any additional grants in the future, the DLBA will implement an appropriate financial tracking system.</p>			
49. c	Risk Assessment	<ul style="list-style-type: none"> • The DLBA should assess the risks of not meeting its stated goals and objectives. • The identification of specific risks to the DLBA's objectives creates the basis for which control activities are created to prevent risk actions from occurring and/or detect them if they do. • Conducting a risk assessment could strengthen the DLBA's existing internal controls as well as find areas where new controls could be valuable. 	<p>The DLBA routinely performs risk assessments including those conducted through the annual audit process.</p> <p>During the most recent audit conducted by an outside auditor, internal controls were reviewed and no material defaults were identified.</p>			