



CITY OF DETROIT, MICHIGAN
OMB Circular A-133 Single Audit Report
Year ended June 30, 2011

CITY OF DETROIT, MICHIGAN

Table of Contents

	Page(s)
Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and Schedule of Expenditures of Federal Awards	1 – 8
Schedule of Expenditures of Federal Awards	9 – 15
Notes to the Schedule of Expenditures of Federal Awards	16
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	17 – 18
Schedule of Findings and Questioned Costs	19 – 121



KPMG LLP
Suite 1900
150 West Jefferson
Detroit, MI 48226

**Report on Compliance with Requirements That Could Have a
Direct and Material Effect on Each Major Program and on Internal
Control over Compliance in Accordance with OMB Circular A-133 and
Schedule of Expenditures of Federal Awards**

The Honorable Mayor
and Members of the City Council
City of Detroit, Michigan:

Compliance

We have audited the City of Detroit, Michigan's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct or material effect on each of the City's major federal programs for the year ended June 30, 2011. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's basic financial statements include the operations of the Detroit Brownfield Redevelopment Authority, Detroit Public Library, Detroit Transportation Corporation, Downtown Development Authority, Eastern Market Corporation, Economic Development Corporation, Greater Detroit Resource Recovery Authority, Local Development Finance Authority, Museum of African American History, and Detroit Land Bank Authority as discretely presented component units, which received federal awards that are not included in the schedule of expenditures of federal awards for the year ended June 30, 2011. Our audit, described below, did not include the operations of the Detroit Brownfield Redevelopment Authority, Detroit Public Library, Detroit Transportation Corporation, Downtown Development Authority, Eastern Market Corporation, Economic Development Corporation, Greater Detroit Resource Recovery Authority, Local Development Finance Authority, Museum of African American History, and Detroit Land Bank Authority because the component units engaged other auditors to perform audits in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.



Adverse (Noncompliance) – Table 1

As identified in Table 1 and described in the accompanying schedule of findings and questioned costs, the City did not comply with certain compliance requirements that are applicable to certain of its major federal programs. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to the identified major federal programs.

Federal program	Compliance requirement	Finding number
Special Supplemental Nutrition Program For Women, Infants, and Children	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2011-06
Special Supplemental Nutrition Program For Women, Infants, and Children	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2011-07
Special Supplemental Nutrition Program For Women, Infants, and Children	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2011-08
Special Supplemental Nutrition Program For Women, Infants, and Children	Procurement, Suspension, and Debarment	2011-09
Special Supplemental Nutrition Program For Women, Infants, and Children	Subrecipient Monitoring	2011-10
Community Development Block Grant	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2011-11
Community Development Block Grant	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2011-12
Community Development Block Grant	Cash Management	2011-13
Community Development Block Grant	Earmarking	2011-14
Community Development Block Grant	Procurement, Suspension, and Debarment	2011-15
Community Development Block Grant	Reporting	2011-17
Community Development Block Grant	Reporting	2011-18
Community Development Block Grant	Subrecipient Monitoring	2011-19
Weatherization for Low Income Persons	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2011-47



Federal program	Compliance requirement	Finding number
Weatherization for Low Income Persons	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2011-48
Weatherization for Low Income Persons	Cash Management	2011-49
Weatherization for Low Income Persons	Davis Bacon	2011-50
Weatherization for Low Income Persons	Eligibility	2011-51
Weatherization for Low Income Persons	Equipment and Real Property Management	2011-52
Weatherization for Low Income Persons	Reporting	2011-54
Weatherization for Low Income Persons	Criminal Background Checks	2011-55
Community Services Block Grant	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2011-65
Community Services Block Grant	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2011-66
Community Services Block Grant	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2011-67
Community Services Block Grant	Cash Management	2011-68
Community Services Block Grant	Eligibility	2011-69
Community Services Block Grant	Reporting	2011-71
Community Services Block Grant	Reporting	2011-72
Community Services Block Grant	Subrecipient Monitoring	2011-73
Community Services Block Grant	Criminal Background Checks	2011-74
Head Start and Early Head Start	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2011-75
Head Start and Early Head Start	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2011-76
Head Start and Early Head Start	Cash Management	2011-77



Federal program	Compliance requirement	Finding number
Head Start and Early Head Start	Earmarking	2011-78
Head Start and Early Head Start	Reporting	2011-80
Head Start and Early Head Start	Subrecipient Monitoring	2011-81

Qualifications (Noncompliance) – Table 2

As identified in Table 2 and described in the accompanying schedule of findings and questioned costs, the City did not comply with certain compliance requirements that are applicable to certain of its major federal programs. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to the identified major federal programs.

Federal program	Compliance requirement	Finding number
Home Investment Partnership Program	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2011-20
Home Investment Partnership Program	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2011-21
Home Investment Partnership Program	Cash Management	2011-22
Homeless Prevention and Rapid Re-Housing	Cash Management	2011-25
Homeless Prevention and Rapid Re-Housing	Cash Management	2011-26
Homeless Prevention and Rapid Re-Housing	Reporting	2011-27
Community Policing, Education and Outreach Program	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2011-28
Community Policing, Education and Outreach Program	Equipment and Real Property Management	2011-29
Trade Adjustment Assistance	Cash Management	2011-31
Trade Adjustment Assistance	Cycle Monitoring Reports	2011-33
Workforce Investment Act	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2011-34
Workforce Investment Act	Cash Management	2011-37
Workforce Investment Act	Procurement, Suspension, and Debarment	2011-38
Workforce Investment Act	Subrecipient Monitoring	2011-40



Federal program	Compliance requirement	Finding number
Workforce Investment Act	Cycle Monitoring Reports	2011-41
Federal Transit Cluster	Davis Bacon	2011-42
Federal Transit Cluster	Equipment and Real Property Management	2011-43
Energy Efficiency and Conservation Block Grant	Reporting	2011-57
Temporary Assistance for Needy Families	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2011-58
Temporary Assistance for Needy Families	Cash Management	2011-61
Temporary Assistance for Needy Families	Procurement, Suspension, and Debarment	2011-62
Temporary Assistance for Needy Families	Subrecipient Monitoring	2011-63
Temporary Assistance for Needy Families	Cycle Monitoring Reports	2011-64
HIV Emergency Relief	Cash Management	2011-82
HIV Emergency Relief	Procurement, Suspension, and Debarment	2011-83
HIV Emergency Relief	Reporting	2011-85
HIV Emergency Relief	Subrecipient Monitoring	2011-86
HIV Emergency Relief	Maintenance of Effort	2011-87
Prevention and Treatment of Substance Abuse	Subrecipient Monitoring	2011-90

In our opinion, because of the effects of the noncompliance described in Table 1, the City did not comply in all material respects, with the requirements referred to above that could have a direct and material effect on the federal programs listed in Table 1. Also, in our opinion, except for the noncompliance described in Table 2, the City complied, in all material respects, with the compliance requirements referred to above that are applicable to each of its major programs included in Table 2 for the year ended June 30, 2011. Also, in our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect to its State Revolving Loan major federal program for the year ended June 30, 2011. Also, as identified in Table 3, the results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133, and which are described in the accompanying schedule of findings and questioned costs.



Other Instances of Noncompliance – Table 3

Federal program	Compliance requirement	Finding number
Community Development Block Grant	Reporting	2011-16
Home Investment Partnership Program	Reporting	2011-23
Home Investment Partnership Program	Reporting	2011-24
Community Policing, Education and Outreach Program	Procurement, Suspension, and Debarment	2011-30
Trade Adjustment Assistance	Eligibility and Procurement, Suspension, and Debarment	2011-32
Workforce Investment Act	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2011-35
Workforce Investment Act	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2011-36
Workforce Investment Act	Reporting	2011-39
Federal Transit Cluster	Procurement, Suspension, and Debarment	2011-44
Federal Transit Cluster	Reporting	2011-45
State Revolving Loan	Reporting	2011-46
Weatherization for Low Income Persons	Procurement, Suspension, and Debarment	2011-53
Energy Efficiency and Conservation Block Grant	Reporting	2011-56
Temporary Assistance for Needy Families	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2011-59
Temporary Assistance for Needy Families	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2011-60
Community Services Block Grant	Procurement, Suspension, and Debarment	2011-70
Head Start and Early Head Start	Procurement, Suspension, and Debarment	2011-79
HIV Emergency Relief	Reporting	2011-84
Prevention and Treatment of Substance Abuse	Matching	2011-88
Prevention and Treatment of Substance Abuse	Reporting	2011-89



Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-5, the items in Table 1, and the items in Table 2 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance as described in the accompanying schedule of findings and questioned costs and listed as the items in Table 3 to be significant deficiencies.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2011, and have issued our report thereon dated December, 22, 2011, which included a reference to the reports of other auditors. Our report on the basic financial statements was modified to recognize that we did not audit the financial statements of the Detroit Brownfield Redevelopment Authority, Detroit Public Library, Detroit Transportation Corporation, Downtown Development Authority, Eastern Market Corporation, Economic Development Corporation, Greater Detroit Resource Recovery Authority, Local Development Finance Authority, Museum of African American History, and Detroit Land Bank Authority which represent 100% of the assets and expenses of the aggregate discretely presented component units. We also did not audit the financial statements of the General Retirement System and the Policemen and Firemen Retirement System and the Detroit Building Authority, which represent 96% and 46% of the assets and expenses/expenditures/deductions, respectively, of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon were furnished to us, and our opinions, insofar as they relate to the amounts included in the aggregate discretely presented component units and the aggregate remaining fund



information, are based on the reports of the other auditors. Our report included an explanatory paragraph stating that the City has an accumulated unassigned deficit in the General Fund of \$196.6 million as of June 30, 2011, which has resulted from operating deficits over the last several years. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses, and accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Mayor, City Council, city management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Detroit, Michigan
March 29, 2012 (except as to the paragraph
relating to the schedule of expenditures of federal
awards, which is as of December 22, 2011)

CITY OF DETROIT, MICHIGAN
Schedule of Expenditures of Federal Awards
Year ended June 30, 2011

<u>Grant title</u>	<u>Catalog of Federal Domestic Assistance</u>	<u>Grant number</u>	<u>2011 Expenditures</u>
Department of Agriculture:			
Via Michigan Department of Community Health:			
Special Supplemental Nutrition Program for Women, Infants, and Childrer	10.557	N/A	\$ 5,190,682
Via Michigan Department of Education:			
Child and Adult Care Food Program – After School Meal:	10.558	82SF02000	130,377
Summer Food Service Program for Children	10.559	82SF02000	762,118
Via Michigan Department of Energy, Labor and Economic Growth			
Supplemental Nutrition Assistance Program:			
Food Assistance	10.561	2M1420122	146,538
Food Assistance	10.561	2M1420122	283,131
Food Assistance – Supportive Services:	10.561	2M1400100	6,203
Food Stamp Nutrition Education Program	10.561	61-5025R	98,347
Via Michigan Department of Human Services:			
Supplemental Nutritional Assistance Program – Packaged Meals	10.561	110990	12,237
Total Supplemental Nutritional Assistance Program			<u>546,456</u>
Via Michigan Department of Education:			
Emergency Assistance Food Program – TEFAF	10.568	820021020	834,451
Emergency Assistance Food Program – TEFAF	10.568	820021020	67,618
Total Emergency Assistance Food Program			<u>902,069</u>
Via Michigan Department of Natural Resources:			
Cooperative Forestry Assist – Emerald Ash Borer Tree Planning 08-07	10.664	CFG 08-07	—
Total Department of Agriculture			<u>7,531,702</u>
Department of Housing and Urban Development:			
Direct Awards:			
Entitlement Grant – NSP Demolition	14.218	B-08-MN-26-0004	17,749,295
Community Development Block Grant	14.218	B-10-MC-26-0006	39,437,664
Total CDBG			57,186,959
Emergency Shelter Grant	14.231	S-10-MC-26-0006	1,397,399
Home Investment Partnership (Special Housing)	14.239	M-10-MC-26-0202	15,457,601
Housing Opportunities for Persons with Aids – HOPWA Aids Housing	14.241	MIH11F001	1,826,018
CDBG Section 108 Loan Guarantees	14.248	N/A	106,439
CDBG ARRA – Recovery Act Funded	14.253	B-09-MY-26-0006	2,312,547
NSP2	14.256	N/A	396,564
ARRA Homeless Prev & Rapid Re-Housing – HPRP Admir	14.262	S-09-MY-26-0006	8,250,310
Lead Hazard Reduction Demo – HUD Lead Hazard II	14.905	MILHD0196-09	1,546,665
Total Department of Housing and Urban Development			<u>88,480,502</u>
Department of Justice:			
Direct Awards:			
Federal Forfeiture	16.000	N/A	871,183
Comm Relations Serv -Youth Citizens Academy 2006-2007	16.541	2006-JL-FX-0268	80,059
DTD Promising New Programs – We’re Here and We Care Program	16.541	2009-JL-FX-0149	587
DTD Promising New Programs – Business to Youth Mentoring	16.541	2008-JL-FX-0194	178,870
Total DTD Promising New Programs			<u>259,516</u>
NIJ Research, Eval, and Development Projects – Cold No More	16.560	2007-DN-BX-K137	232,915
Via Michigan Department of Community Health:			
Crime Victim Assist – Rape Counseling Center Prog 2010	16.575	20083-13V09	247,819
Crime Victim Assist – Rape Counseling Center Prog 2011	16.575	20083-14V09	523,831
Total Crime Victim Assistance			<u>771,650</u>

CITY OF DETROIT, MICHIGAN
Schedule of Expenditures of Federal Awards
Year ended June 30, 2011

<u>Grant title</u>	<u>Catalog of Federal Domestic Assistance</u>	<u>Grant number</u>	<u>2011 Expenditures</u>
Direct Award:			
Missing Persons Program	16.580	2008-DD-BX-0240	\$ 224,138
DOJ Parolees VE Project-Det MI Prog for Parolees Tech, Parole Violators	16.580	2008-DD-BX-0659	88,185
DOJ Parolees-Det MI Prog for Parolees Tech, Parole Violators	16.580	2010-DD-BX-0692	212,408
DOJ Bridge to Success Transitional Jobs	16.580	2008-DD-BX-0264	148,955
Jail Based-Reentry Project	16.580	2010-CZ-BX-0009	246,463
Community Policing, Education and Outreach Program	16.580	2006-DD-BX-0123	142,865
Total Edward Byrne Memorial SLLADG			<u>1,063,014</u>
Encourage to Arrest	16.590	2008-WE-AX-0030	245,308
ARRA DOJ Cops Hiring 2009 Police	16.710	2009-RJ-WX-0053	3,303,009
Community Policing Grant – DOJ COPS	16.710	2009CKWX0549	144,303
Community Policing Grant – DOJ COPS	16.710	2009CKWX0557	139,602
Total Community Policing Grants			<u>3,586,914</u>
Via Michigan State Police:			
Enforcing Underage Drinking Laws Program-Safe Communities	16.727	JJ-10-03	56,243
Enforcing Underage Drinking Laws Program-Safe Communities	16.727	JJ-11-02	96,958
Total Occupant Protection Incentive Grants			<u>153,201</u>
Direct Award:			
Gang Resistance Educ Training	16.737	2008-JV-FX-0059	17,735
Via Michigan Department of Community Health:			
Edward Byrne Memorial – Justice Assistance Grant (JAG) 2008	16.738	2005-DJ-BX-0751	22,800
Edward Byrne Memorial – Justice Assistance Grant (JAG) 2009	16.738	2006-DJ-BX-0109	19,086
Edward Byrne Memorial – Justice Assistance Grant (JAG) 2010	16.738	2009-DJ-BX-0788	723,101
JAG Stimulus 2009-ARRA BJA Vehicle Enhancements	16.738	2009-SB-B9-1422	1,742,736
Total Edward Byrne Memorial JAG			<u>2,507,723</u>
Direct Award:			
East Side Fire Arms-Reduction Initiative	16.753	2010-DD-BX-0383	406,161
Via Michigan Department of Community Health:			
ARRA – Edward Byrne Memorial – JAG Grant 2009 Police	16.803	50001-1-09-B	24,356
ARRA – Local Law Enforcement Assist Discretionary Grant – Technology Grant 20	16.803	50002-1-09-B	51,424
Total ARRA Edward Byrne Memorial JAG			<u>75,780</u>
Total Department of Justice			<u>10,191,100</u>
Department of Labor:			
Via Michigan Department of Energy, Labor and Economic Growth			
Wagner Peyser	17.207	ES192090955A26	749,823
Wagner Peyser	17.207	ES207561055A26	1,704,969
ARRA Disability Program Navigator	17.207	ES175680855A26	74,745
ARRA Employment Serv – MI NCRC	17.207	ES175680855A26	148,866
ARRA Employment Serv – Wagner	17.207	ES17568-08-55	4,331
ARRA Re-employment Serv Case Mg	17.207	ES17568-08-55	47,913
Total Wagner Peyser			<u>2,730,647</u>
Trade	17.245	07-30	5,559,747
Trade Adjustment Assist	17.245	03-29	5,138,567
Total Trade			<u>10,698,314</u>
WIA Adult-Intensive	17.258	AA202001055A26	6,204,393
ARRA WIA Adult Core	17.258	AA171280855	322,090
Total WIA Adult			<u>6,526,483</u>

CITY OF DETROIT, MICHIGAN
Schedule of Expenditures of Federal Awards
Year ended June 30, 2011

<u>Grant title</u>	<u>Catalog of Federal Domestic Assistance</u>	<u>Grant number</u>	<u>2011 Expenditures</u>
ARRA WIA Statewide Activities-JET	17.258,17.259,17.260	AA202001055A26	\$ 1,190,611
WIA Administration	17.258,17.259,17.260	AA202001055A26	1,991,749
ARRA WIA Administration	17.258,17.259,17.260	AA171280855	635,410
ARRA WIA SWA-ECAR Wagner Peysel	17.258,17.259,17.260	AA171280855	202,575
ARRA WIA SWA-Earn & Learn	17.258,17.259,17.260	AA171280855	366,819
ARRA WIA SWA-NWLB-Admin	17.258,17.259,17.260	AA171280855	1,004,264
ARRA WIA Statewide Efficiency	17.258,17.259,17.260	AA171280855	338,198
WIA Statewide Activities – MI NCRC	17.258,17.259,17.260	AA171280855	5,432
WIA Statewide Activities – MWA SVCS CTR OPS	17.258,17.259,17.260	AA186470955	24,000
WIA Statewide Activities – High Concentration	17.258,17.259,17.260	AA202001055A26	31,123
Total WIA Clustered			5,790,181
WIA Youth	17.259	AA202001055A26	5,884,421
ARRA WIA Youth	17.259	AA171280855	—
Total WIA Youth			5,884,421
WIA Rapid Response – American Axle	17.260	IWT11AAMD	24,712
WIA Rapid Response – Incumbent Worker HMSA	17.260	IWT10HMSA	36,750
WIA Dislocated Worker Neg – SE MI	17.260	EM195351060A26	2,536,902
ARRA WIA Dislocated Worker	17.260	AA171280855	2,936,330
Total WIA Dislocated Worker Other			5,534,694
Direct Award:			
Community Based Job Training	17.269	CB-17375-08-60-A-26	499,241
Via Michigan Department of Energy, Labor and Economic Growth:			
WIA Rapid Response – Incumbent Worker	17.278	AA202001055A26	194,192
WIA Dislocated Worker	17.278	AA202001055A26	4,490,345
Total WIA Dislocated Worker			4,684,537
Total Dept of Labor			42,348,518
Department of Transportation:			
Via Michigan Department of Transportation – Bureau of Aeronautics:			
Airport Improvement Program – Land Acquisition	20.106	E-26-0027-3305	—
Direct Award Federal Highway Administration (FHWA)			
Road Construction Apprenticeship Readiness (RCAR) YR 3	20.205	DWDD11-RCAR4	121,012
Direct Awards of Federal Transit Administration:			
Federal Transit Capital Investment	20.500	MI-90-X374	37,304
Federal Transit Capital Investment	20.500	MI-04-0038	2,419,951
Federal Transit Capital Investment	20.500	MI-04-0054	4,923,605
Total Federal Capital Investments			7,380,860
Federal Transit Capital Investment-ARRA	20.507	MI-96-X011	3,599,823
Federal Transit Capital Investment	20.507	MI-90-X605	15,867,003
Federal Transit Capital Investment	20.507	MI-95-X045	1,831,113
Federal Transit Formula Grants	20.507	MI-95-X034	328,638
Federal Transit Formula Grants	20.507	MI-90-X464	236,832
Federal Transit Formula Grants	20.507	MI-90-X502	2,956,479
Federal Transit Formula Grants	20.507	MI-90-X533	706,946
Federal Transit Formula Grants	20.507	MI-90-X563	1,662,069
Federal Transit Formula Grants	20.507	MI-95-X023	219,916
Federal Transit Formula Grants	20.507	MI-90-X604	6,061,119
Total Federal Transit Formula Grants			33,469,938

CITY OF DETROIT, MICHIGAN
Schedule of Expenditures of Federal Awards
Year ended June 30, 2011

<u>Grant title</u>	<u>Catalog of Federal Domestic Assistance</u>	<u>Grant number</u>	<u>2011 Expenditures</u>
Public Transportation Research	20.514	U11006	\$ 305,490
Job Access & Reverse Commute	20.516	MI-37-X014	2,128
Federal Transit Formula Grants Metro Planning	20.522	MI-39-X002	475,000
National Highway Traffic Safety Administration (NHTSA): Via Michigan Department of State Police:			
State & Comm Highway Safety-Traffic Safety 2010	20.600	CP-10-04	40,435
State & Comm Highway Safety-Traffic Safety 2011	20.600	CP-11-04	73,667
State & Comm Highway Safety-Click It or Ticket Traffic 2011	20.600	PT-11-06	220,740
Total State & Comm Highway Safety			<u>334,842</u>
Total Department of Transportation			<u>42,089,270</u>
National Endowment for the Arts: Via Michigan Council for Arts and Cultural Affairs:			
Promotion of the Arts_Partnerships-2011 Mini-Grant Program	45.025	11RR0020RG	15,800
Total National Endowment for the Arts			<u>15,800</u>
Environmental Protection Agency: Via Michigan Department of Environmental Quality:			
Capitalization Grants for Clean Water – State Revolving Loan:	66.458	5175-06	2,034,746
ARRA-Capitalization Grants for Clean Water – State Revolving Loan:	66.458	5175-07	1,092,529
ARRA-Capitalization Grants for Clean Water – State Revolving Loan:	66.458	5175-08	2,834,214
Total Capitalization Grants for Clean Water			<u>5,961,489</u>
Drinking Water Revolving Fund	66.468	7161-01	2,230,156
Drinking Water Revolving Fund	66.468	7178-01	306,719
Drinking Water Revolving Fund			<u>2,536,875</u>
Direct Award: Brownfield Assess & Clean-up: Eastern Market Brownfield Assessment Projec	66.818	BF00E40201-0	418
Total Environmental Protection Agency			<u>8,498,782</u>
Department of Energy: Via Michigan Department of Human Services:			
Weatherization for Low Income Persons	81.042	DOE 10-82007	1,103,535
ARRA Weatherization for Low Income Persons	81.042	DOE- S-09-82007	11,563,107
Total Weatherization			12,666,642
ARRA Emergency Efficiency & Conservation BG	81.128	DE-EE0000747	4,811,161
Total Department of Energy			<u>17,477,803</u>
Department of Education: Direct Awards:			
Improvement of Post Secondary Educ – Adult Access to Educ (AATE) 2010	84.116	PI16Z090330	235,794
Safe and Drug Free Schools 6/2011	84.184	P116Z09033	157,366
For Improvement of Educ (FIE): LEAP Program 2010	84.215	U215K090312	30,061
Total Department of Education			<u>423,221</u>

CITY OF DETROIT, MICHIGAN
Schedule of Expenditures of Federal Awards
Year ended June 30, 2011

<u>Grant title</u>	<u>Catalog of Federal Domestic Assistance</u>	<u>Grant number</u>	<u>2011 Expenditures</u>
Department of Health and Human Services:			
Direct Awards:			
HM Promo & Responsible Father: Promoting Responsible Fatherhood	93.086	90FR0073/04	\$ 414,123
TB Prevention & Control	93.116	U52/CCU500843	516,068
Health Disparities	93.137	MPCMP091033	163,503
Via Michigan Department of Community Health:			
Coordinated Serv & Access WICY-Aids/HIV Family Services 9/2011	93.153	N/A	51,697
Direct Award:			
Childhood Lead Prev CDC 6/2011	93.197	N/A	862,588
Via Michigan Department of Community Health:			
Family Planning	93.217	N/A	853,629
Direct Award:			
SAMH Projects of Reg & National Sig – Detroit Re-Entry Initiative	93.243	6U79SP13331-01-02	173,407
Via Michigan Department of Community Health:			
CDC Immunization-Immunization Action Plan 9/2011	93.268	N/A	430,006
CDC Immunization Grants-Vaccines for Children 9/2011	93.268	N/A	1,349,713
CDC Immunization-Vaccine Replacement & Handling 9/2010	93.268	N/A	30,983
Total CDC Immunization Grants			<u>1,810,702</u>
CDC Prevention – Bio-Terrorism Emerg Prep 9/2011	93.283	N/A	244,179
CDC Prevention – Bio-Terrorism Laboratory 9/2011	93.283	N/A	185,831
CDC Prevention – Cities Readiness Initiatives 9/2011	93.283	N/A	433,395
CDC Prevention – H1N1 Phase I, II, and III 9/2010	93.283	N/A	396,733
Total CDC Prevention			<u>1,260,138</u>
Via Michigan Department of Energy, Labor and Economic Growth:			
TANF Jet Support Services	93.558	G1102MITANF	11,750,659
TANF Jet Support Services	93.558	G1102MITANF	687,082
TANF Jet Support Services	93.558	G1002MITANF	7,350,800
Total TANF			<u>19,788,541</u>
Via Michigan Department of Human Services:			
Low Income Home Energy Assist (LIHEAP) – Weatherization	93.568	LIHEAP-09-82007	2,404,579
CSBG Center Administration-TPA	93.569	CSBG-T-10-82007	18,118
CSBG Specific Assistance Individuals	93.569	CSBG-10-82007	1,911,208
CSBG Administration	93.569	CSBG-11-82007	4,520,130
Total CSBG			<u>6,449,456</u>
Direct Awards:			
Head Start	93.600	05CH0113/45	9,147,411
Head Start-Early	93.600	05CH0113/45	632,920
Head Start-TTA	93.600	05CH0113/45	50,423

CITY OF DETROIT, MICHIGAN
Schedule of Expenditures of Federal Awards
Year ended June 30, 2011

<u>Grant title</u>	<u>Catalog of Federal Domestic Assistance</u>	<u>Grant number</u>	<u>2011 Expenditures</u>
Head Start	93.600	05CH0113/45	\$ 34,967,476
Head Start-Early	93.600	05CH0113/45	1,326,947
Head Start-TTA	93.600	05CH0113/45	146,675
Head Start-USDA	93.600	05CH0113/45	525,949
Head Start-USDA	93.600	05CH0113/46	308,631
Total Head Start			<u>47,106,432</u>
Social Serv Research & Demo – Welfare to Opportunity IDA	93.647	05SE0113/01	93,774
ARRA Head Start-COLA	93.708	05SE0113/01	2,830,249
ARRA Early Head Start-COLA	93.709	05SE0113/01	76,629
Total ARRA Head Start			<u>2,906,878</u>
ARRA Community Service Block Grant – CSBG	93.710	N/A	7,930,770
Via Michigan Department of Community Health: ARRA CDC Immunization	93.712	N/A	—
Direct Awards:			
Mandated Health Information Technology	93.888	D1BIT10830	221,706
HIV Emerg Relief Project 2/2012	93.914	H89HA00021	8,686,212
HIV Emerg Supp Relief – MAI 2/2012	93.914	H89HA00021	256,812
Total HIV			<u>8,943,024</u>
Direct Award:			
Healthy Start Initiative 5/2011	93.926	N/A	1,575,000
Via Michigan Department of Community Health:			
HIV Prevention – Aids/HIV Rapid Testing 9/2011	93.940	N/A	120,778
HIV Prevention – Aids/HIV Prev & Planning 9/2011	93.940	N/A	584,394
Total HIV Prevention			<u>705,172</u>
HIV Demo, Research, Public & Prof Educ – Lab (STARHS & VARHS)	93.941	N/A	(76,977)
Prevention and Treatment of Substance Abuse BG	93.959	10B1MISAPT	4,068,661
Prevention and Treatment of Substance Abuse BG	93.959	93B1MISAPT	8,645,311
Prevention Health Serv: STD Control 9/2011	93.977	N/A	369,554
Local Maternal & Children Health BG 9/2011	93.994	N/A	1,239,093
MCHBG- Childhood Lead Poison Prev-MDCH 9/2011	93.994	N/A	93,853
MCHBG-Crippled Children Service 9/2011	93.994	N/A	546,555
MCGBG-Oral Health-Varnish Program 2/2011	93.994	N/A	68,771
Total Maternal & Child Health Block Grant			<u>1,948,272</u>
Total Department of Health and Human Services			<u>119,186,008</u>

CITY OF DETROIT, MICHIGAN
Schedule of Expenditures of Federal Awards
Year ended June 30, 2011

<u>Grant title</u>	<u>Catalog of Federal Domestic Assistance</u>	<u>Grant number</u>	<u>2011 Expenditures</u>
Department of Homeland Security:			
Michigan State Police Emergency Management/Homeland Security Division			
2006 Urban Area Security Initiative Grant	97.067	N/A	\$ 244,546
2007 Metropolitan Medical Response System Grant	97.067	N/A	126,227
FY 07 UASI Grant	97.067	N/A	1,646,563
2007 Michigan Citizen Corps Program	97.067	N/A	8,632
2008 HSGP Urban Area Security Initiative Grant	97.067	N/A	585,045
2009 HSGP Urban Area Security Initiative Grant	97.067	2009-SS-T9-0060	3,593
2008 HSGP Metropolitan Medical Response System Grant	97.067	N/A	70,528
2008 Citizen Corps Program (CCP)	97.067	N/A	5,719
2009 Citizen Corps Program (CCP)	97.067	2009-SS-T9-0060	700
Total Homeland Security Grant Program			<u>2,691,553</u>
Total Department of Homeland Security			<u>2,691,553</u>
Total Federal Awards			<u>\$ 338,934,259</u>

See accompanying notes to schedule of expenditures of federal awards.

CITY OF DETROIT, MICHIGAN

Notes to Schedule of Expenditures of Federal Awards

For the Year ended June 30, 2011

(1) General

The accompanying schedule of expenditures of federal awards (the SEFA) presents federal financial assistance for the City of Detroit, Michigan (the City). The reporting entity for the City is defined in Section I, note A to the City's basic financial statements. Federal financial assistance received directly from federal agencies, including federal financial assistance passed through other government agencies, is included in the SEFA.

(2) Basis of Presentation

The accompanying SEFA includes the federal grant activity of the City and is presented on the modified accrual basis of accounting. The information in the SEFA is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

(3) Subrecipient Awards

Of the federal expenditures presented in the SEFA, \$124,618,157 of federal awards were provided to subrecipients.

(4) Noncash Transactions

The value of the noncash assistance received was determined in accordance with the provisions of OMB Circular A-133.

(5) Highway and Construction Program

The City participates in various road, street, and bridge construction and repair projects. The projects are funded through an award granted to the State of Michigan Department of Transportation (the State), which administers the grant for the City. The City identifies the projects needed in the locality, and the State performs the procurement, payment, and cash management functions on behalf of the City. The award is managed directly by the State and has not been included in the tests of compliance with laws and regulations associated with the City's Single Audit. The award is approximately \$30.8 million for the year ended June 30, 2011.

(6) Outstanding Loan Balance

The U.S. Department of Housing and Urban Development (HUD) has insured certain mortgage loan borrowings (CFDA #14.248) made by the City of Detroit through the Planning and Development Department in connection with certain development projects. These loans had outstanding principal due of \$88,926,000 at June 30, 2011. There were no new borrowings in fiscal year 2011 and the outstanding principal on existing loans made in prior years have continuing compliance requirements.



KPMG LLP
Suite 1900
150 West Jefferson
Detroit, MI 48226

**Independent Auditors' Report on Internal Control over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The Honorable Mayor Dave Bing
and
The Honorable Members of the City Council
City of Detroit, Michigan:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Detroit, Michigan (the City), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 22, 2011. Our report was modified to include a reference to other auditors and to emphasize the City has an accumulated unreserved undesignated deficit in the General Fund of \$196.6 million as of June 30, 2011, which has resulted from operating deficits over the past several years. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the General Retirement System, the Policemen and Firemen Retirement System, and all of the discretely presented component units, as described in our report on the City's basic financial statements. The financial statements of the General Retirement System, Policemen and Firemen Retirement System, and certain discretely presented component units identified in footnote 1(a) were not audited in accordance with *Government Auditing Standards*. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to



prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in the City's internal control over financial reporting described in the accompanying schedule of findings and responses as findings 2011-1, 2011-2, and 2011-3 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as finding 2011-4.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Mayor, City Council, City management, federal awarding and pass-through agencies, and the Treasurer of the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Detroit, Michigan
December 22, 2011

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Responses

Year ended June 30, 2011

Section I – Summary of Auditors’ Results

- (a) The type of report issued on the basic financial statements: **Unqualified opinion**
- (b) Significant deficiencies in internal control were disclosed by the audit of the financial statements: **Yes**
- (c) Material weaknesses: **Yes**
- (d) Noncompliance that is material to the financial statements: **Yes**
- (e) Significant deficiencies in internal control over major programs were disclosed by the audit: **Yes**
- (f) Material weaknesses: **Yes**
- (g) The type of report issued on compliance for major programs: (each major program listed separately in the following table):

<u>Unqualified</u>	<u>Qualified</u>	<u>Adverse</u>
State Revolving Loan (CFDA No. 66.458)	Home Investment Partnership Program (CFDA No. 14.239) Homeless Prevention and Rapid Re-Housing Program (CFDA No. 14.262) Community Policing Grant - DOJ COPS (CFDA No. 16.710) Trade Adjustment Assistance (CFDA No. 17.245) Workforce Investment Act (CFDA No. 17.258, 17.259, 17.260, 17.278) Federal Transit Cluster (CFDA No. 20.500, 20.507) Energy Efficiency and Conservation Block Grant (CFDA No. 81.128) Temporary Assistance for Needy Families (CFDA No. 93.558) HIV Emergency Relief (CFDA No. 93.914) Prevention and Treatment of Substance Abuse (CFDA No. 93.959)	Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA No. 10.557) Community Development Block Grant (CFDA No. 14.218, 14.253) Weatherization for Low Income Persons (CFDA No. 81.042) Community Services Block Grant (CFDA No. 93.569, 93.710) Head Start and Early Head Start (CFDA No. 93.600, 93.708)

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Responses

Year ended June 30, 2011

- (h) Any audit findings that are required to be reported under Section 510(a) of OMB Circular A-133: **Yes**
- (i) Major programs: Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA NO. 10.557); Community Development Block Grant (CFDA NO. 14.218,14.253); Home Investment Partnership Program (CFDA NO. 14.239); Homeless Prevention and Rapid Re-Housing (CFDA NO. 14.262); Community Policing Grant – DOJ COPS (CFDA NO. 16.710); Workforce Investment Act (CFDA NO. 17.258, 17.259, 17.260, 17.278); Trade Adjustment Assistance (CFDA NO. 17.245); Federal Transit Cluster (CFDA NO. 20.500, 20.507); State Revolving Loan Fund (CFDA NO. 66.458); Weatherization for Low Income Persons (CFDA NO. 81.042); Energy Efficiency and Conservation Block Grant (CFDA NO. 81.128); Temporary Assistance For Needy Families (CFDA NO. 93.558); Community Services Block Grant (CFDA NO. 93.569, 93.710); Head Start and Early Head Start (CFDA NO. 93.600, 93.708, 93.709); HIV Emergency Relief (CFDA NO. 93.914); and Prevention and Treatment of Substance Abuse (CFDA NO. 93.959).
- (j) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- (k) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **No**

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Responses

Year ended June 30, 2011

Finding 2011-01 – Financial Closing and Reporting

Although the City of Detroit (City) has made incremental improvement in their financial closing and reporting processes, deficiencies still exist in the processes to evaluate accounts, and timely record entries into the general ledger in a complete and accurate manner. These deficiencies include the following:

- The process to prepare closing entries and financial statements relies partly upon decentralized accounting staff and software applications other than the City's DRMS general ledger. The process requires a significant amount of manual intervention in order to get information from these other systems in to DRMS.
- The process to identify significant transactions throughout the City's fiscal year to determine the appropriate accounting treatment does not result in timely consideration of how to record or report such transactions. These transactions often are not identified until the end of the fiscal year during the financial reporting process. There is inadequate communication between various City departments on transactions and on how they affect the individual stand-alone financial reports and the Comprehensive Annual Financial Report (CAFR). Information necessary to effectuate a timely and accurate closing of the books is sometimes not communicated between certain departments and agencies of the City.
- The process to close the books and prepare financial statements includes the recording of a significant number of manual post-closing entries. For the year ended June 30, 2011, there were approximately 500 manual journal entries that were made after the books were closed for the year (i.e., after frozen trial balance).
- The process to close the books and evaluate accounts occurs only on an annual basis instead of monthly or quarterly. As a result, certain key account reconciliations and account evaluations are not performed timely and require an extended amount of time to complete during the year-end closing process.
- The established internal control procedures for tracking and recording capital asset activities are not consistently followed. Physical inventories of capital assets are not being performed annually as required by City policy.

Recommendation

We recommend management continue to develop and refine its financial reporting systems and processes. Refinements should include assignment of accounts and reporting units to qualified personnel to conduct detailed analysis of accounts throughout the year on a monthly and quarterly basis. We further recommend management conduct a thorough assessment of the adequacy and completeness of the City's accounting and financial reporting policies and procedures. Based on the results of the assessment, determine the need to develop new policies and procedures and/or reinforce the existing policies and procedures to personnel. The process to close the books and prepare closing entries does not utilize enough adequately trained and appropriately experienced employees to adequately monitor reporting issues throughout the year. We recommend management evaluate the City's organizational structure and personnel composition to determine the adequacy of the accounting related skills and knowledge of assigned personnel in relation to their assigned duties.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Responses

Year ended June 30, 2011

Views of Responsible Officials

We have reviewed the finding and concur with the recommendation. The City continues to make improvements including adopting the recommendations herein. However, layoffs of accounting personnel in the second half of fiscal year 2011-12 and lack of financial resources for training and systems will create challenges for improving the City's financial reporting and accounting processes. We will continue to work on improving the monthly financial reports to enable City decision makers to evaluate the City's financial condition on an interim basis. As we improve, we will continue to uncover accounting deficiencies and take appropriate corrective actions.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Responses

Year ended June 30, 2011

Finding 2011-02 – Reconciliations, Transaction Processing, Account Analysis, and Document Retention

Operations of the City are carried out by numerous City departments utilizing a variety of people, processes, and systems. This type of environment requires diligence in ensuring accurate information is processed and shared with others in the City. Performing reconciliations of data reported from different systems and sources and account analysis are an integral part of ensuring transactional data integrity and accurate financial reporting. During our audit, we noted deficiencies in the areas of transaction processing, account analysis, data integrity, reconciliation performance, and document retention. Those deficiencies include the following:

- The City's process to identify accrued expenses is not adequate. Our audit procedures identified expenditures related to fiscal year 2011 that were not appropriately recorded as expenditures in fiscal year 2011.
- Certain date related information regarding terminations and new hires in the human resources system did not match information in the personnel files.
- Reconciliations of subsidiary ledgers to general ledgers and other IT systems to DRMS are either not being completed, not completed timely, or contain unsupported or unreconciled items.
- A listing of internal controls employed by service organizations is not prepared and evaluated for adequacy by the City. The City uses various service organizations to process significant transactions such as health and dental claims and payroll. The City does not review the service organization auditor reports (SAS 70 Reports) to ensure that the service organization has effective internal controls. Further, the City does not evaluate the user controls outlined in the SAS 70 reports to ensure that the City has these controls in place to ensure complete and accurate processing of transactions between the City and the Service Organization.
- Bank, investment, and imprest cash reconciliations are not prepared timely and contain unreasonably aged reconciling items.
- Proper approval was not consistently obtained prior to opening and closing bank accounts.
- Capital projects that are complete are not closed out and placed into service categories on a timely basis. Further, we noted capital costs that were recorded as construction work in progress but should be considered completed, put into service and depreciated, or written off as an expense as the cost was not eligible for capitalization.
- Interfund and inter-departmental transactions are not reconciled throughout the year on a timely basis or reviewed for proper financial statement classification.
- Casino revenues were not recorded in the proper revenue accounts and the reconciliation and management review process was not performed at a level to detect the misstatement.
- A physical inventory count of fixed assets is not routinely completed by all agencies, as indicated in the City's asset management policies.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Responses

Year ended June 30, 2011

- The calculation of average weekly wage as a basis for weekly payment of workers compensation is a manual calculation that contained errors and was not reviewed or verified by a member of management.
- Long-term disability liability calculation is a manual process that contained errors and is not reviewed by a member of management.
- The City of Detroit does not maintain individual claim data typically maintained as insurance statistics for self-insurance programs for its workers compensation program. Therefore, only actual payment data is available for the actuary's analysis.
- Data provided to the actuaries that assist in estimating workers' compensation liabilities is not reviewed by the City for accuracy nor reconciled by the City to supporting data prior to submission.
- Certain invoices and receipts of goods and services were not matched against purchase orders in the correct period.
- Capital assets are not recorded in the proper period in which they are placed into service. Additionally, certain assets belonging to component units were included in the capital asset register of the City.
- Manual journal entries are not consistently and accurately reviewed and approved.

Recommendation

We recommend management develop or improve existing policies and procedures related to reconciliations and account analysis such that transactions are recorded in the general ledger completely, accurately, and in a timely manner. We further recommend that the City review its document retention and filing policies and procedures and make necessary adjustments such that information is accessible and provides for an adequate audit trail.

We recommend the creation of a comprehensive listing of required reconciliations. Individuals and departments should be provided a subset of the listing (a checklist) to indicate which specific reconciliations they are responsible for, what frequency is required, who is responsible for monitoring to ensure timeliness, and who is responsible for reviewing to ensure accuracy.

Additionally, we recommend training staff how to prepare reconciliations that are thorough and well documented. Also, an electronic filing system should be created with file locations and file naming conventions specified so that all reconciliations are saved to well-organized file servers instead of just desktop computers.

Current City policies require that invoices be paid timely and that contracts and purchase orders are approved prior to goods or services being rendered. We recommend establishing a procedure to monitor payment dates against invoice dates to determine which departments are noncompliant with policies. Enforce the current policies by using personnel actions against noncompliant individuals. Also, consider charging service fees to the budgets of departments that violate the contract and prompt payment ordinances.

Additionally, we recommend performing monthly vendor level contract analysis for each major City vendor. If this is consistently performed, it will enable the analysts to know at any given time, the approximate amount of unbilled goods or services that have been rendered. This would enable the

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Responses

Year ended June 30, 2011

Accounting Department to estimate accruals for each major vendor at year-end within a shortened timeframe thereby facilitating a faster closing of the books.

Lastly, there are no receiving documents utilized to enforce a three-way match. We recommend that all invoices be sent directly to Accounts Payable and that the approvals are then routed to the departments electronically utilizing available features within DRMS. This would enable the Accounts Payable Department to determine the appropriate accounting period for each invoice upon entry into the system.

Views of Responsible Officials

We have reviewed the finding and concur with the recommendation. We have been evaluating the City's diverse accounting systems and operations to consolidate and improve the City's accounting. As noted previously due to the City's lack of resources and layoffs of accounting personnel in the second half of fiscal year 2011-12, improving the City's accounting will be challenging. The Department has improved its financial analysis, which will enable accounting staff to focus on variances to identify errors and problems. During the audit the accounting staff did a better job of completing reviews and account reconciliations, which provided the auditors with more reliable data than in past audits. Additionally, in concert with monthly financial reporting, the Department will develop account reconciliation policies and procedures to ensure reconciling differences are identified and researched in a timely manner. We have implemented a new inter-agency billing and collection process, with more centralized control, which has improved the reconciliation of interfund accounts receivable and payables and facilitated more timely payments. Also, we have begun to attach supporting documentation for the manual journal entries within DRMS. We will continue to improve the City's accounting including implementing the recommendations herein.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Responses

Year ended June 30, 2011

Finding 2011-03 – Information Technology

General controls and application controls work together to ensure the completeness, accuracy, and validity of financial and other information in the systems. Deficiencies exist in the areas of general and application controls. Those deficiencies include the following for some or all systems:

- Administrative access is granted to unauthorized accounts.
- Access to powerful administrator IDs is shared by multiple employees.
- Password parameters are inadequate.
- Segregation of duties conflicts exist between the database administration function and the backend database administration function.
- Periodic reviews of data center access are not performed.
- Periodic reviews of user access are not performed.
- Adequate procedures are not in place to remove user access upon termination.
- Adequate procedures are not in place to remove and review segregation of duties conflicts.
- Automated methods are not in place for tracking of the changes and customizations made to certain applications.
- Program developers have access to move program changes into production for certain applications.
- Backup recoveries were not performed for certain applications.
- Documents supporting adding or modifying user access were not retained.

Recommendation

We recommend the following:

- Access to the backend database should be restricted to database administrators or compensating controls should be implemented to mitigate the risk associated with concurrent access at the front end and backend levels.
- Create and enforce a policy that requires each user to have a unique ID, change the passwords to the default system IDs, restrict access to default and administrative IDs, minimize the use of generic IDs, and turn audit on to log activity.
- Administrative access to the front-end application should be restricted to application administrators or compensating controls should be implemented to mitigate the risk associated with concurrent access at the front end and backend levels.
- Develop and enforce stronger password parameters such as password length of at least six characters, password expiration every 90-120 days, enforce alpha-numeric password, and suspend IDs after five invalid login attempts.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Responses

Year ended June 30, 2011

- Create controls and procedures to suspend or disable separated employees, implement scripts to suspend IDs not used for 45-60 days, implement programs to generate reports showing IDs inactive for longer than 45-60 days, and subsequently manually suspend those IDs.
- Create and enforce a policy that requires review of user access on a periodic basis, correct user access based on review results, and maintain before and after logs to review results.
- Create a matrix to identify application functions that when granted together will give rise to segregation of duties conflict. Follow and enforce the segregation of duties matrix to ensure that segregation of duties conflicts do not exist at the time of role/profile creation.
- Create and enforce a policy to log all confirmation changes, obtain approval from authorized individuals for all configuration changes, and perform appropriate testing on all confirmation changes prior to promoting changes to production.
- Develop and enforce a policy that does not grant access to developers to promote changes into production and access to promote changes into production should be restricted to authorized individuals.
- Implement adequate procedures for retaining backup job logs should for a period of one year in order to cover the entire fiscal year under review.

Views of Responsible Officials

We have reviewed the findings and concur with the recommendations.

- The Information Technology Services Department (ITSD) is implementing the recommendations for those systems supported by ITSD. Additionally, ITSD is also working with technology staff in other agencies to implement the recommendations for findings related to the systems supported directly by the agencies themselves.

Password

- The City identified legacy systems where technology does not support the kind of parameters recommended and/or the systems are scheduled for retirement. The City will also provide more centralization of IT functions to improve consistency in development and enforcement of password parameter policies.

Separation of duties

- Procedures used by the central IT staff (e.g., Change Management) have been shared with technology staff in other agencies to facilitate consistency in compliance. The lack of human resources will create challenges for improving separation of duties. However, the City will continue to work toward improving IT controls. Chief among these will be the implementation of a formal process for periodic review of user access, and development of a "Separation of Duties" matrix for each key financial system. To address the lack of a segregation of duties matrix, the City will explore the implementation of the Oracle GRC product, or some similar product to aid the system owners in development of a matrix and aid the ITSD in enforcement of the matrix.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Responses

Year ended June 30, 2011

System access

- Findings regarding approvals for granting access and authorizing configuration changes stem from failure to properly maintain the documentation supporting the approvals. Policies and procedures already exist that require such authorization prior to granting/changing access and implementing configuration changes. The City will provide more centralization of IT functions to improve consistency in development and enforcement of such policies. The ITSD will also develop a method for ensuring that documentation of authorizations is maintained and retrievable for audit reviews.
- The City will work with business units to implement a policy for reviewing user access for the systems that they “own.” Consolidation of IT services will aid in the successful review and enforcement of user access on a semiannual schedule.
- To mitigate database admin and application admin access to the front end and back end of the database, and to address the issue of tracking changes and customizations, the City will explore implementation of the Oracle GRC (Governance, Risk and Compliance) product or something similar to control and track changes.
- The City has already limited the use of generic IDs and restricted default and administrative IDs for enterprise financial systems. The City will explore the resource issue that currently prohibits turning on system audit capabilities that log all activities. The City will also provide more centralization of IT functions to improve consistency in development and enforcement of policies, which will help with those systems currently outside of centralized IT control.
- Procedures will be implemented to retain backup job logs for at least one year. DRMS current retention is one year. ITS is investigating how to secure the proper resource to store all data and logs, new backup software is currently being investigate and funding has been requested in the 2012-13 Budget.
- For enterprise financial systems, configuration changes are tested and approved prior to production implementation. Procedures and policies exist to govern this. The City will improve maintenance of documentation demonstrating testing and authorization. The City also will provide more centralization of IT functions to improve consistency in development and enforcement of policies for those systems currently outside of centralized IT control.
- Developers do not have access to promote changes to production for systems under centralized IT control. The City will provide more centralization of IT functions to improve consistency in development and enforcement of policies for systems currently outside of centralized IT control.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Responses

Year ended June 30, 2011

Finding 2011-04 – Arbitrage

The City has not implemented the necessary procedures to ensure compliance with the arbitrage rebate rules of Section 148(f) of the Internal Revenue Code of 1986 applicable to the City's outstanding tax-exempt obligations. In discussing this with City officials, they stated the lack of written City policies and procedures regarding the monitoring and calculating of arbitrage rebates caused the City to fail to comply with the rebate rules.

Internal Revenue Code § 148(f) requires certain earnings on nonpurpose investments allocable to the gross proceeds of a bond issue be paid to the United States to prevent the bonds in the issue from being arbitrage bonds. Section 148 of the Internal Revenue Code requires compliance with the rules be ascertained by conducting a series of steps to calculate the amount to be rebated.

Nonpayment of rebates when due could result in the loss of tax exemption for interest on the bonds or in the payment of penalty and interest.

Recommendation

We recommend Management conduct all necessary activities to calculate rebates, submit filings, and pay rebates and/or penalties and interest owed. We further recommend Management develop and implement new written policies and procedures to ensure compliance is maintained on a go-forward basis.

Views of Responsible Officials

We have reviewed the finding and concur with the recommendation. The City settled selected bond issues with the Internal Revenue Service (IRS) in August 2010 and September 2011 and is currently engaged in discussions with the IRS to settle the remaining bond issues. The City currently is working to ensure compliance with the arbitrage rebate compliance rules of the Internal Revenue Code. The Treasury Cash Management System, integrated with the general ledger, facilitates compliance with the Arbitrage Rebate Restriction Requirements.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Section III – Findings and Questioned Costs Relating to Federal Awards:

Item: 2011-05

Finding Type: Material weakness

Federal Program: All

Requirement: A reconciliation of the Schedule of Expenditures of Federal Awards (SEFA) to the General Ledger should be performed throughout the year in order to ensure the SEFA is complete and accurate.

Condition: There were several significant unreconciled differences between the SEFA and the General Ledger. The City's attempt to complete the reconciliation continued more than 8 months after fiscal year-end and errors that required adjustments to the SEFA were discovered throughout this process.

Questioned Costs: None

Possible Asserted Cause and Effect: The internal control procedures were not adequately designed to identify all sources of federal funds on a timely basis. The internal control procedures that should have been in operation were not followed or monitored properly to perform a complete and accurate reconciliation of the SEFA to the General Ledger on a timely basis. Unreconciled differences between the SEFA, the General Ledger, and supporting documentation could result in errors in the SEFA.

Recommendation: Management should redesign the internal controls over the SEFA preparation and reconciliation process. The process should include procedures to identify all sources of federal funds and the related federal compliance requirements. The process should also include procedures to compare source documentation (e.g., federal draw down requests, grant agreements, deposits of federal funds, etc.) to the recorded information for completeness and consistency throughout the year.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-06 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Agriculture

Pass-Through Entity: Michigan Department of Community Health

Federal Program: Special Supplemental Nutrition Program for Women, Infants and Children

CFDA No.: 10.557

Award No.: 20111347-00

Award Year: October 1, 2010 - September 30, 2011

Requirement: Code of Federal Regulations Part 225 Appendix B, Paragraph 8 (h)(l) states that: Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practices of the governmental unit and approved by a responsible official of the governmental unit.

Appendix B, paragraph 8(h)(3) states that: Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

The A 102 Common Rule requires non Federal entities to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Condition: We selected a sample of 78 employees to verify the allowability of direct payroll costs, and noted the following exceptions:

- Time certifications were not provided for 2 of 78 employees whose payroll should not have been charged to this grant; 15 employees did not sign their time certifications and had to have their supervisor sign their time certifications subsequent to June 30, 2011.

Questioned Costs: \$23,599

Possible Asserted Cause and Effect: Employees not working on the program were being paid out of program funds and not all time certification were prepared or retained properly. As such, the City did not comply with the activities allowed /allowable costs requirements.

Recommendation: We recommend management develop a policy related to payroll certifications that includes obtaining certifications during separations from the City. We also recommend that management strengthen internal controls to prevent improper charges to the grant.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-07 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Agriculture

Pass-Through Entity: Michigan Department of Community Health

Federal Program: Special Supplemental Nutrition Program for Women, Infants and Children

CFDA No.: 10.557

Award No.: 20100264, 20111347-00

Award Year: October 1, 2009 - September 30, 2010, October 1, 2010 - September 30, 2011

Requirement: Per OMB Circular A 87, Attachment B, Part 23 (a), Interest: Costs incurred for interest on borrowed capital or the use of a governmental unit's own funds, however represented, are unallowed except as specifically provided in subsection b, or authorized by Federal legislation. Subsection b refers to allowable interest related to construction type activities. The Unfunded Actuarial Accrued Liability (UAAL) does not fall into this category of interest expense, and therefore does not qualify for allowability under this section.

Condition: \$356,069 of UAAL Pension Obligation Certificate payments were charged to the grant. Approximately 94.7% (\$337,197) was related to interest which is an unallowable cost.

Questioned Costs: \$337,197

Possible Asserted Cause and Effect: The Pension Obligation Certificates (POC) were issued in prior years to fund the City's pension systems for its UAAL. The corresponding amounts charged to the grant were for principal and interest, and are to be ongoing for a number of years.

Recommendation: We recommend the City obtains specific approval from granting agencies before charging costs that are typically unallowable.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-08 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Agriculture

Pass-Through Entity: Michigan Department of Community Health

Federal Program: Special Supplemental Nutrition Program for Women, Infants and Children

CFDA No.: 10.557

Award No.: 20100264, 20111347-00

Award Year: October 1, 2009 - September 30, 2010, October 1, 2010 - September 30, 2011

Requirement: Per 2 CFR Part 225 Appendix E, A (1) and (3), indirect cost rates will be reviewed, negotiated, and approved by the cognizant Federal agency on a timely basis. The results of each negotiation shall be formalized in a written agreement between the cognizant agency and the governmental unit.

Condition: The City of Detroit Human Services Department's Indirect Cost Rate Proposal was not approved by their cognizant agency.

Questioned Costs: \$429,128

Possible Asserted Cause and Effect: Management did not comply with the Activities Allowed / Allowable Costs requirement.

Recommendation: We recommend management increase awareness of federal program compliance requirements and monitor compliance with the requirements on a regular basis.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-09 Procurement, Suspension, and Debarment

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Agriculture

Pass-Through Entity: Michigan Department of Community Health

Federal Program: Special Supplemental Nutrition Program for Women, Infants and Children

CFDA No.: 10.557

Award No.: 20111347-00

Award Year: October 1, 2010 - September 30, 2011

Requirement: A-102 requires nonfederal entities receiving Federal Awards to establish and maintain internal controls designed to reasonable ensure compliance with laws, regulations and program compliance requirements.

Condition: The contract between the City and its sole subrecipient for the grant year of October 1, 2010 – September 30, 2011 was approved on November 22, 2010, which was after the start of the contract.

Questioned Costs: None.

Possible Asserted Cause and Effect: The City of Detroit contract process is sometimes long in duration. Grant awards received at or just before the start date causes the contract process to begin after the grant has started.

Recommendation: We recommend City departments work cooperatively to determine a method to ensure contract approvals are obtained prior to the start of work.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-10 Subrecipient Monitoring

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Agriculture

Pass-Through Entity: Michigan Department of Community Health

Federal Program: Special Supplemental Nutrition Program for Women, Infants and Children

CFDA No.: 10.557

Award No.: 20100264, 20111347-00

Award Year: October 1, 2009 - September 30, 2010, October 1, 2010 - September 30, 2011

Requirement: A-102 requires nonfederal entities receiving Federal Awards to establish and maintain internal controls designed to ensure reasonable compliance with laws, regulations and program compliance requirements. Per 31 USC 7502(f)(2)(B)(2), each pass through entity shall: A) Provide each subrecipient the program names (and identifying numbers) from which each assistance is derived, and the federal requirements that govern the use of such awards and the requirements of (this) chapter; B) Monitors the subrecipients use of Federal awards through site visits, limited scope audits, or other means; C) Review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director pertaining to federal awards provided to the subrecipient by the pass-through entity.

Per the Comprehensive Planning, Budgeting and Contract (CPBC) agreement, part II H., The contractor must ensure that each of its subrecipients comply with the Single Audit Act requirements. The contractor must issue management decisions on audit findings of their subrecipients as required by OMB Circular A-133. The contractor must also develop a subrecipient monitoring plan that addresses "during the award monitoring" of subrecipients to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations and the provisions of contracts, and that the performance goals are achieved. The subrecipient monitoring plan should include a risk-based assessment to determine the level of oversight, and monitoring activities such as reviewing financial and performance reports, performing site visits, and maintaining regular contact with subrecipients.

Condition: An on-site review of the subrecipient was not performed during the fiscal year. The subrecipient contract did not communicate the CFDA number, and name of the federal granting agency. Additionally, there are no specific policies and procedures in place for subrecipient monitoring.

Questioned Costs: None

Possible Asserted Cause and Effect: No formal policies and procedures for identifying CFDA numbers or performing subrecipient monitoring were in place.

Recommendation: We recommend the responsibilities of both the City and its subrecipient be clearly stated in the contract. We also recommend that the City develop policies and procedures over subrecipient monitoring to comply with the federal requirements.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-11 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Pass-Through Entity: N/A

Federal Program: Community Development Block Grant (CDBG)

CFDA No.: 14.218

Award No.: B-10-MC-26-0006, B-08-MN-26-0004

Award Year: 7/1/2010 - 6/30/2011

Requirement: Per 2 CFR Part 225 Appendix E, A (1) and (3), indirect cost rates will be reviewed, negotiated, and approved by the cognizant Federal agency on a timely basis. The results of each negotiation shall be formalized in a written agreement between the cognizant agency and the governmental unit. \

Condition: The City of Detroit Planning and Development Department Indirect Cost Rate Proposal was not approved by HUD. As a result, 100% of indirect costs charged to CDBG, amounting to \$5,246,072, are questioned costs.

Questioned Costs: \$ 5,246,072

Possible Asserted Cause and Effect: Management did not comply with the Activities Allowed / Allowable Costs requirement.

Recommendation: We recommend management increase awareness of federal program compliance requirements and monitor compliance with the requirements on a regular basis.

Views of Responsible Officials: The 10-11 proposal would not have been due to HUD until six months from the end of the fiscal year (December 2011). The City of Detroit has been working with HUD since fall of 2011 to secure approval of the 2010-11 plan. There is now a clear path of submission for the proposal that has been communicated to the department by a representative of HUD. The 10-11 P&DD Indirect Cost Proposal will be submitted to HUD in accordance with this communication.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-12 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Pass-Through Entity: N/A

Federal Program: Community Development Block Grant (CDBG)

CFDA No.: 14.218, 14.253

Award No.: B-10-MC-26-0006, B-09-MY-0006, B-08-MN-26-0004

Award Year: 7/1/2010-6/30/2011

Requirement: According to A-87, attachment B (8) (h), where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Per A-87, payroll costs must be adequately documented.

Condition: We selected 13 direct payroll transactions and noted the following: Employees working 100% on the grant did not provide semi-annual certifications in a timely manner attesting to the fact that they worked solely on this grant. Personnel activity reports (PARs) were submitted for employees working on multiple grants, however, payroll costs are not being distributed to the applicable grants as required. As a result, 100% of payroll and fringe costs, amounting to \$8,268,925, are questioned costs. 3 of the 13 employees tested had inaccurate employee history reports on file. 5 of the 13 employees' PAR forms reported hours worked that did not agree to the hours worked as reported in the payroll system. 5 PAR forms did not contain evidence of proper review and approval.

Questioned Costs: \$ 8,268,925

Possible Asserted Cause and Effect: Management did not comply with the Activities Allowed / Allowable Costs requirement.

Recommendation: We recommend that management obtain, on a semiannual basis, a signed certification from employees who work solely on a single federal program. We also recommend that the internal controls be evaluated to prevent future noncompliance.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questions Costs

Year ended June 30, 2011

Views of Responsible Officials: Bi-annual certifications were submitted for the staff included in the sample that worked 100% on a single grant. Per our files, this was less than 10% of staff. Management acknowledges that all payroll costs were not redistributed to administrative allowances for other grants. Information from HUD.gov was provided to the auditors to support our assertion that employees and associated costs can be charged 100% to CDBG and work on other eligible grants (i.e. HPRP, CDBG-R, NSP, etc.). However we agree that the process over semi-annual certifications was not robust enough to remediate the finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-13 Cash Management

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Pass-Through Entity: N/A

Federal Program: Community Development Block Grant (CDBG)

CFDA No.: 14.218, 14.253

Award No.: B-10-MC-26-0006, B-09-MY-0006, B-08-MN-26-0004

Award Year: 7/1/2010-6/30/2011

Requirement: Per 24 CFR 85.20, procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency.

Per OMB Circular A-102, Grants and Cooperative Agreements with State and Local Governments Attachment (1)(a), agency methods and procedures for transferring funds shall minimize the time elapsing between transfer to recipients of grants and cooperative agreements and the recipient's need for the funds.

According to Office of Justice 2011 Financial Guide, Standards of Financial Management Systems, funds specifically budgeted and/or received for one project may not be used to support another.

Condition: For 5 out of 40 subrecipient payments charged to the grant, totaling \$154,503.06, the City did not minimize the time lapse between draw down and the payment of funds as required. Of the 5 exceptions, 1 payment exceeded the time lapse by 1 day, 3 exceeded the time lapse by 2 days, and 1 exceeded the time lapse by 3 days.

For 17 out of 41 OTPS payments charged to the grant, totaling \$2,791,413.44, the City did not minimize the time lapse between drawdown and the payment of funds as required. Of the 17 exceptions, 4 payments exceeded the time lapse by 1 day, 6 exceeded the time lapse by 2 days, 4 exceeded the time lapse by 3 days, 1 exceeded the time lapse by 4 days, 1 exceeded the time lapse by 5 days, and 1 exceeded the time lapse by 6 days.

CDBG funds were being commingled with funds from the State of Michigan - Cities of Promise grant and Fire Insurance Escrow Account.

Questioned Costs: None.

Possible Asserted Cause and Effect: Management did not comply with the Cash Management requirement.

Recommendation: We recommend that the centralized finance team work with the Department of Planning and Development to develop procedures to minimize the time lapse from the drawdown of funds to the payment of

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

funds. We also recommend that management strengthen controls to ensure funds budgeted for CDBG are not used to support another project.

Views of Responsible Officials: For subrecipient payments, the Planning and Development department has worked to minimize the time lapse from IDIS drawdown to disbursement of funds by adjusting the drawdown approval process to more closely match the anticipated payment of funds. However, again, it must be noted that a centralized Finance Department is responsible for input of vouchers into DRMS and issuance of checks. Therefore, there are several factors, including City mandated furlough days and staff reductions, beyond the department's control that hinders an effective process in this area.

With regards to the commingling of CDBG funds with that of the State of Michigan - Cities of Promise grant and the Fire Insurance Escrow Account, the Buildings and Safety Engineering Department receives and manages these funds.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-14 Earmarking

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Pass-Through Entity: N/A

Federal Program: Community Development Block Grant (CDBG)

CFDA No.: 14.218

Award No.: B-10-MC-26-0006, B-08-MN-26-0004

Award Year: 7/1/2010-6/30/2011

Requirement: As specified at 24 CFR 570.502(a)(6), "Recipients and subrecipients that are governmental entities shall comply with the requirements and standards of OMB Circular No. A-87, Cost Principles for State, Local, and Indian Tribal Governments; and with the following section of 24 CFR part 85, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments or the related CDBG provision, as specified.

24 CFR 85.22, Allowable Costs, states, "Allowable costs will be determined in accordance with the cost principles applicable to the organization incurring the costs. For the costs of a State, local, or Indian tribal government, use the principles in OMB Circular A-87."

Condition: As previously noted in the HUD Monitoring Review Report dated September 29, 2011, PDD received findings based on a HUD review for the grant period July 1, 2009 - June 30, 2011 that have not been adequately resolved or addressed. One finding indicated PDD has incorrectly classified and charged administrative staff salary and fringe benefits under technical assistance activities, public facility activities, public services, housing rehab, and economic development TA. The incorrect classification of these salary and fringe benefit charges has masked the true amount the City of Detroit expends for planning and administration. Once properly classified, the City has exceeded the allowable administrative cap of 20%.

Questioned Costs: Indeterminable.

Possible Asserted Cause and Effect: Management did not comply with the Earmarking requirements, as referenced in the HUD review.

Recommendation: We recommend that management strengthen internal controls to ensure Earmarking requirements are met.

Views of Responsible Officials: P&DD has been working closely with HUD since the issue of its CDBG monitoring report dated September 29, 2011 to resolve all outstanding matters. A final determination is still pending on this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-15 Procurement, Suspension, and Debarment

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Pass-Through Entity: N/A

Federal Program: Community Development Block Grant (CDBG)

CFDA No.: 14.218, 14.253

Award No.: B-10-MC-26-0006, B-09-MY-0006, B-08-MN-26-0004

Award Year: 7/1/2010-6/30/2011

Requirement: Per A-102 Common Rule, nonfederal entities receiving federal awards must establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

Per 2 CFR 215.45, some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action.

Per 2 CFR 215.46, procurement records and files for purchases in excess of the small purchase threshold shall include the following at a minimum: (a) Basis for contractor selection; (b) Justification for lack of competition when competitive bids or offers are not obtained; and (c) Basis for award cost or price.

Per 2 CFR 180.300, when you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified.

Condition: We selected 8 contracts for review and noted the following: for 1 contract, the city was unable to provide the contract or procurement files. Of the 7 samples we reviewed, 6 did not have the suspension and debarment certification in the contract agreement.

Questioned Costs: None

Possible Asserted Cause and Effect: Management did not comply with the Procurement, Suspension, and Debarment requirements.

Recommendation: We recommend evaluating current procurement practices to identify areas where internal controls could be strengthened to include monitoring of compliance with procurement standards. Also, we recommend that management obtain suspension and debarment certifications from all subrecipients and vendors.

Views of Responsible Officials: Buildings Safety and Engineering (BS&E) is the responsible department for this item. As P & DD does not review nor process BS&E's contractual documents, the department cannot certify that other city agencies are in compliance with required standards. As BS&E could not provide the requested documents, we acknowledge the finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-16 Reporting

Finding Type: Noncompliance and significant deficiency

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Pass-Through Entity: N/A

Federal Program: Community Development Block Grant (CDBG)

CFDA No.: 14.218, 14.253

Award No.: B-10-MC-26-0006, B-09-MY-0006, B-08-MN-26-0004

Award Year: 7/1/2010-6/30/2011

Requirement: Per 24 CFR 135.90, each recipient which receives directly from HUD financial assistance that is subject to the requirements of this part shall submit to the Assistant Secretary an annual report in such form and with such information as the Assistant Secretary may request, for the purpose of determining the effectiveness of section 3. Where the program providing the section 3 covered assistance requires submission of an annual performance report, the section 3 report will be submitted with that annual performance report.

Per A-102 Common Rule, Nonfederal entities receiving Federal awards must establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Condition: The HUD 60002, Section 3, Summary Report, Economic Opportunities for Low-and Very Low-Income Persons Summary Reports for CDBG, CDBG-R, and NSP-1 were submitted 13 days after the required due date. There was no evidence documenting that the reports were reviewed and approved prior to submission to HUD. The HUD 60002, Section 3 Summary Report for CDBG-R contains the incorrect amount for the “total dollar amount of contracts awarded to Section 3 businesses”. The difference between the Section 3 report and the underlying supporting data is \$13,682.

Questioned Costs: None

Possible Asserted Cause and Effect: Management did not comply with the Reporting requirements.

Recommendation: We recommend that reporting checklists are utilized to monitor the timely submission of all required reports.

Views of Responsible Officials: P&DD Management acknowledges that errors were made and that the reports were submitted late.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-17 Reporting

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Pass-Through Entity: N/A

Federal Program: Community Development Block Grant (CDBG)

CFDA No.: 14.218, 14.253

Award No.: B-10-MC-26-0006, B-09-MY-0006, B-08-MN-26-0004

Award Year: 7/1/2010-6/30/2011

Requirement: Per 2 CFR 170, Appendix A (I)(a)(1), Unless you are exempt as provided in paragraph d. of this award term, you must report each action that obligates \$25,000 or more in Federal funds that does not include Recovery funds (as defined in section 1512(a)(2) of the American Recovery and Reinvestment Act of 2009, Pub. L.111-5) for a subaward to an entity.

Per the March 2011 OMB A-133 Compliance Supplement Part 3 L, grant and cooperative agreement recipients and contractors must report information related to a subaward by the end of the month following the month in which the subaward or obligation of \$25,000 or greater was made and, for contracts, the month in which a modification was issued that changed previously reported information.

Condition: We reviewed the Transparency Act Report and noted the following: The location of the entity was incorrectly stated for CDBG and NSP-1. The DUNS number for NSP-1 was inaccurate. First-tier subawards were not reported for CDBG and NSP-1. There were no identifiable controls in place over the preparation and submission of the data.

Questioned Costs: None

Possible Asserted Cause and Effect: Management did not comply with the Reporting requirement.

Recommendation: We recommend that reporting checklists are utilized to monitor the timely and accurate submission of all required reports.

Views of Responsible Officials: P&DD and Finance believes this information was submitted by the former Grants Manager of the Mayor's Office. As the information submitted is not available for review, the City of Detroit acknowledges the finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-18 Reporting

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Pass-Through Entity: N/A

Federal Program: Community Development Block Grant (CDBG)

CFDA No.: 14.253

Award No.: B-09-MY-0006

Award Year: 7/1/2010-6/30/2011

Requirement: Per Section 1512 of the American Recovery and Reinvestment Act (ARRA), Subtitle A (c), not later than 10 days after the end of each calendar quarter, each recipient that received recovery funds from a Federal agency shall submit a report to that agency that contains-(1) the total amount of recovery funds received from that agency; (2) the amount of recovery funds received that were expended or obligated to projects or activities; and (3) a detailed list of all projects or activities for which recovery funds were expended or obligated, including (A) the name of the project or activity; (B) a description of the project or activity; (C) an evaluation of the completion status of the project or activity; (D) an estimate of the number of jobs created and the number of jobs retained by the project or activity; and (E) for infrastructure investment made by state and local government, the purpose, total cost, and rationale of the agency for funding the infrastructure investment with funds made available under this Act, and name of the person to contact at the agency if there are concerns with the infrastructure investment.

Condition: On two ARRA reports the vendor payment information was not accurate.

Questioned Costs: None

Possible Asserted Cause and Effect: Management did not comply with the Reporting requirement.

Recommendation: We recommend that the internal controls be evaluated to prevent future noncompliance.

Views of Responsible Officials: P&DD provided the correct information to the former Grants Manager for submittal. However, per Finance, the information was submitted incorrectly to Recovery.Gov. As such, Finance acknowledges the finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-19 Subrecipient Monitoring

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Pass-Through Entity: N/A

Federal Program: Community Development Block Grant (CDBG)

CFDA No.: 14.218, 14.253

Award No.: B-10-MC-26-0006, B-09-MY-0006, B-08-MN-26-0004

Award Year: 7/1/2010-6/30/2011

Requirement: Per OMB Circular A-133, Subpart D(d) (1), (3), and (4), a pass-through entity shall perform the following for federal awards it makes: (1) Identify federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of federal agency; (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved; (4) Ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year. Per A-102 Common Rule, nonfederal entities receiving federal awards must establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

Condition: 42 out of 50 subrecipient agreements did not contain the CFDA number. 1 out of 50 subrecipient agreements was not approved by the Finance Director or Deputy. 1 out of 50 subrecipient files did not include the desk review checklist, which is used to review the OMB Circular A-133 Report. Also, the organization did not follow up on the findings, issue a management decision within 6 months after receipt of the report, nor determine the subrecipient took appropriate and timely corrective action.

Questioned Costs: None

Possible Asserted Cause and Effect: Management did not comply with the Subrecipient Monitoring requirement.

Recommendation: We recommend management modify the contract with the subrecipient to include the required elements. We also recommend that the internal controls be evaluated to prevent future noncompliance.

Views of Responsible Officials: Management acknowledges the findings. However, we noted that 35% of the selected samples were previously sited in the 09-10 audit for missing CFDA numbers and that 40% of the selected samples were for older contract periods previously noted for non-compliance with regards to CFDA numbers. Also, management confirmed that the 1 of 50 subrecipient agreements sited was fully approved. However, the agreement was missing a stamp from one City agency on the contract transmittal page.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-20 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Pass-Through Entity: N/A

Federal Program: Home Investment Partnership Program (HOME)

CFDA No.: 14.239

Award No.: M-10-MC-26-0202

Award Year: 2010/2011

Requirement: Per 2 CFR Part 225 Appendix E, A (1) and (3), indirect cost rates will be reviewed, negotiated, and approved by the cognizant Federal agency on a timely basis. The results of each negotiation shall be formalized in a written agreement between the cognizant agency and the governmental unit.

Condition: The City of Detroit Planning and Development Department Indirect Cost Rate Proposal was not approved by HUD. As a result, 100% of indirect costs charged to the HOME grant, amounting to \$213,233, are questioned costs.

Questioned Costs: \$ 213,233

Possible Asserted Cause and Effect: Management did not comply with the Activities Allowed / Allowable Costs requirement.

Recommendation: We recommend management increase awareness of federal program compliance requirements and monitor compliance with the requirements on a regular basis.

Views of Responsible Officials: The 10-11 proposal would not have been due to HUD until six months from the end of the fiscal year (June 2011). The City of Detroit has been working with HUD since fall of 2011 to secure approval of the 2010-11 plan. There is now a clear path of submission for the proposal that has been communicated to the department by a representative of HUD. The 10-11 P&DD Indirect Cost Proposal will be submitted to HUD in accordance with this communication.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-21 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Pass-Through Entity: N/A

Federal Program: Home Investment Partnership Program (HOME)

CFDA No.: 14.239

Award No.: M-10-MC-26-0202

Award Year: 2010/2011

Requirement: Per A-87, attachment B (8) (h), where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Per A-87, payroll costs must be adequately documented.

Condition: 1 out of 11 Personnel Activity Report (PAR) forms sampled was not properly reviewed and approved. 4 out of 11 did not have proper allocation of payroll expenses to the different grants reported on the PAR forms. 4 out of 11 PAR forms requested were not provided. Therefore, payroll costs charged to the HOME grant, amounting to \$827,783, will be questioned. Of this amount, \$477,764 relates to direct payroll, and \$350,019 relates to fringe benefits.

Questioned Costs: \$ 827,783

Possible Asserted Cause and Effect: Management did not comply with the Activities Allowed / Allowable Costs requirement.

Recommendation: We recommend that the internal controls be evaluated to prevent future noncompliance.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-22 Cash Management

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Pass-Through Entity: N/A

Federal Program: Home Investment Partnership Program (HOME)

CFDA No.: 14.239

Award No.: M-10-MC-26-0202

Award Year: 2010/2011

Requirement: Per 24 CFR 92.502 (c) (2), HOME funds drawn from the United States Treasury account must be expended for eligible costs within 15 days. Any funds that are drawn down and not expended for eligible costs within 15 days of disbursement must be returned to HUD for deposit in the participating jurisdiction's United State Treasury account of the HOME Investment Fund.

Condition: We selected 67 expenditures charged to the grant, totaling \$13,977,542 and noted that for 10 expenditures, totaling \$24,482.76, the City did not minimize the time lapse between drawdown of funds and payment to 15 days or less, as required. Of the 10 exceptions, 7 exceeded the time lapse by 7 days, 2 exceeded the time lapse by 5 days, and 1 exceeded the time lapse by 14 days.

Questioned Costs: None.

Possible Asserted Cause and Effect: Management did not comply with the Cash Management requirement.

Recommendation: We recommend that the centralized finance team work with the Department of Planning and Development to develop procedures to minimize the time lapse from the drawdown of funds to the payment of funds.

Views of Responsible Officials: For payments, the Planning and Development department has worked to minimize the time lapse from IDIS drawdown to disbursement of funds by adjusting the drawdown approval process to more closely match the anticipated payment of funds. However, again, it must be noted that a centralized Finance Department is responsible for input of vouchers into DRMS and issuance of checks. Therefore, there are several factors, including City mandated furlough days and staff reductions, beyond the department's control that hinders an effective process in this area.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-23 Reporting

Finding Type: Noncompliance and significant deficiency

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Pass-Through Entity: N/A

Federal Program: Home Investment Partnership Program (HOME)

CFDA No.: 14.239

Award No.: M-10-MC-26-0202

Award Year: 2010/2011

Requirement: Per 24 CFR 135.90, each recipient which receives directly from HUD financial assistance that is subject to the requirements of this part shall submit to the Assistant Secretary an annual report in such form and with such information as the Assistant Secretary may request, for the purpose of determining the effectiveness of section 3. Where the program providing the section 3 covered assistance requires submission of an annual performance report, the section 3 report will be submitted with that annual performance report.

Per A-102 Common Rule, Nonfederal entities receiving Federal awards must establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Condition: The HUD 60002, Section 3 Summary Report for HOME was submitted 13 days after the required due date. There was no evidence documenting that the report was reviewed and approved prior to submission to HUD.

The HUD 60002, Section 3 Summary Report for HOME contains the incorrect number for the “Total dollar amount of construction contracts awarded” and “Total dollar amount of all non-construction contracts awarded”. The difference between these two accounts and the underlying supporting data is \$56,635. This difference represents a misclassification of a construction project which was accounted for as a non-construction project.

Questioned Costs: None.

Possible Asserted Cause and Effect: Management did not comply with the Reporting requirement.

Recommendation: We recommend that reporting checklists are utilized to monitor the timely submission of all required reports.

Views of Responsible Officials: P&DD Management acknowledges that errors were made and that the reports were submitted late.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-24 Reporting

Finding Type: Noncompliance and significant deficiency

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Pass-Through Entity: N/A

Federal Program: Home Investment Partnership Program (HOME)

CFDA No.: 14.239

Award No.: M-10-MC-26-0202

Award Year: 2010/2011

Requirement: Per 2 CFR 170, Appendix A (I)(a)(1), Unless you are exempt as provided in paragraph d. of this award term, you must report each action that obligates \$25,000 or more in Federal funds that does not include Recovery funds (as defined in section 1512(a)(2) of the American Recovery and Reinvestment Act of 2009, Pub. L. 111-5) for a subaward to an entity.

Per the March 2011 OMB A-133 Compliance Supplement Part 3 L, grant and cooperative agreement recipients and contractors must report information related to a subaward by the end of the month following the month in which the subaward or obligation of \$25,000 or greater was made and, for contracts, the month in which a modification was issued that changed previously reported information.

Condition: We reviewed the Transparency Act Report and noted the following: the information (i.e. the location of the entity) is not reported correctly and there were no identifiable controls in place over the preparation and submission of the data.

Questioned Costs: None

Possible Asserted Cause and Effect: Management did not comply with the Reporting requirement.

Recommendation: We recommend that reporting checklists are utilized to monitor the timely and accurate submission of all required reports.

Views of Responsible Officials: P&DD and Finance believes this information was submitted by the former Grants Manager of the Mayor's Office. As the information submitted is not available for review, the City of Detroit acknowledges the finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-25 Cash Management

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Pass-Through Entity: N/A

Federal Program: Homelessness Prevention and Rapid Re-Housing Program (HPRP)

CFDA No.: 14.257

Award No.: S-09-MY-26-0006

Award Year: July 16, 2009 - July 15, 2012

Requirement: Per 24 CFR 85.20, procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency.

Per OMB Circular A-102, Grants and Cooperative Agreements with State and Local Governments Attachment (1)(a), agency methods and procedures for transferring funds shall minimize the time elapsing between transfer to recipients of grants and cooperative agreements and the recipient's need for the funds.

Condition: For 36 out of 55 vendor expenditures, totaling \$1,235,785, the City did not minimize the time lapse between drawdown of funds and payment of funds as required. Of the 36 exceptions, 20 exceeded the time lapse by 1 to 5 days, 7 exceeded the time lapse by 6 to 10 days, and 9 exceeded the time lapse by 11 or more days.

For 11 out of 23 developer payment expenditures, totaling \$280,498, the City did not minimize the time lapse between drawdown of funds and payment of funds as required. Of the 11 exceptions, 6 exceeded the time lapse by 1 to 5 days, 4 exceeded the time lapse by 6 to 10 days, and 1 exceeded the time lapse by 11 or more days.

Questioned Costs: None

Possible Asserted Cause and Effect: Management did not comply with the Cash Management requirement.

Recommendation: We recommend that the centralized finance team work with the Department of Planning and Development to develop procedures to minimize the time lapse from the drawdown of funds to the payment of funds.

Views of Responsible Officials: The Planning and Development department has worked to minimize the time lapse from IDIS drawdown to disbursement of funds by adjusting the drawdown approval process to more closely match the anticipated payment of funds. However, again, it must be noted that a centralized Finance Department is responsible for input of vouchers into DRMS and issuance of checks. Therefore, there are several factors, including City mandated furlough days and staff reductions, beyond the department's control that hinders an effective process in this area.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-26 Cash Management

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Pass-Through Entity: N/A

Federal Program: Homelessness Prevention and Rapid Re-Housing Program (HPRP)

CFDA No.: 14.257

Award No.: S-09-MY-26-0006

Award Year: July 16, 2009 - July 15, 2012

Requirement: Per 24 CFR 85.21, (e) If the Federal agency has determined that reimbursement is not feasible because the grantee lacks sufficient working capital, the awarding agency may provide cash on a working capital advance basis. Under this procedure the awarding agency shall advance cash to the grantee to cover its estimated disbursement needs for an initial period generally geared to the grantee's disbursing cycle.

Per 24 CFR Section 84.22 (b)(2), Cash advances to a recipient organization shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the recipient organization for direct program or project costs and the proportionate share of any allowable indirect costs.

Condition: 2 out of 73 payments, totaling \$850,000, paid to Coalition on Temporary Shelter (COTS), were excessive advance payments. These payments covered more than COTS' estimated disbursement needs for the following month. There was an outstanding balance for this advance in the amount of \$248,027 as of June 30, 2011. An adjustment was made to the SEFA to reduce HPRP's expenditures by \$248,027 (the amount of the advance that was yet to be recovered by the City as of June 30, 2011).

Questioned Costs: None

Possible Asserted Cause and Effect: Management did not comply with the Cash Management requirement.

Recommendation: We recommend that the internal controls be evaluated to prevent future noncompliance.

Views of Responsible Officials: In consultation with HUD local office, the City advanced COTS as needed to cover two months working capital due to the serious delays in the reimbursement process at the time. Additionally, the City's subrecipient contract agreement required recapture of the advance on or before the end of the contract period. Moving forward, if more than one month's reimbursement is required to assist subgrantees with successful implementation, we will request a waiver from HUD in writing.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-27 Reporting

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Pass-Through Entity: N/A

Federal Program: Homelessness Prevention and Rapid Re-Housing Program (HPRP)

CFDA No.: 14.257

Award No.: S-09-MY-26-0006

Award Year: July 16, 2009 - July 15, 2012

Requirement: Per Section 1512 of the American Recovery and Reinvestment Act (ARRA), Subtitle A (c), not later than 10 days after the end of each calendar quarter, each recipient that received recovery funds from a Federal agency shall submit a report to that agency that contains-(1) the total amount of recovery funds received from that agency; (2) the amount of recovery funds received that were expended or obligated to projects or activities; and (3) a detailed list of all projects or activities for which recovery funds were expended or obligated, including (A) the name of the project or activity; (B) a description of the project or activity; (C) an evaluation of the completion status of the project or activity; (D) an estimate of the number of jobs created and the number of jobs retained by the project or activity; and (E) for infrastructure investment made by state and local government, the purpose, total cost, and rationale of the agency for funding the infrastructure investment with funds made available under this Act, and name of the person to contact at the agency if there are concerns with the infrastructure investment.

Condition: On two ARRA reports the vendor payment information was not accurate.

Questioned Costs: None

Possible Asserted Cause and Effect: Management did not comply with the Reporting requirement.

Recommendation: We recommend that the internal controls be evaluated to prevent future noncompliance.

Views of Responsible Officials: P&DD provided the correct information to the former Grants Manager for submittal. However, per Finance, the information was submitted incorrectly to Recovery.Gov. As such, Finance acknowledges the finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-28 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Justice

Pass-Through Entity: N/A

Federal Program: Public Safety Partnership and Community Policing Grants (COPS)

CFDA No.: 16.710

Award No.: 2009-RJ-WX-0053

Award Year: July 1, 2009 - June 30, 2012

Requirement: The A-102 common rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Per the CHRP grant agreement, "The agency may only be reimbursed for the approved cost categories that are documented within the FFM, up to the amounts specified in this Financial Clearance Memorandum." "Any salary and fringe benefit costs higher than entry-level that your agency pays a CHRP-funded officer must be paid with local funds."

Condition: We selected 65 payroll samples and noted that 36 samples had salary that was claimed over approved reimbursement amounts and 65 samples had fringe benefit expenses claimed over approved reimbursement amounts. In addition, the claimed item - FICA-Med, is not in the approved cost categories per the FFM.

Questioned Costs: \$ 19,087

Possible Asserted Cause and Effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Allowed or Unallowed Activities requirement and Allowable Costs/Cost Principles requirement.

Recommendation: We recommend that management review the FFM and ensure that expenditures claimed are allowable.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-29 Equipment and Real Property Management

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Justice

Pass-Through Entity: N/A

Federal Program: Public Safety Partnership and Community Policing Grants (COPS)

CFDA No.: 16.710

Award No.: 2009-CK-WX-0549, 2009-CK-WX-0557

Award Year: July 1, 2009 - June 30, 2012

Requirement: According to 2 CFR section 215.34, (1) Equipment records shall be maintained accurately and shall include the following information: (i) A description of the equipment; (ii) Manufacturer's serial number, model number, Federal stock number, national stock number, or other identification number; (iii) Source of the equipment, including the award number; (iv) Whether title vests in the recipient or the Federal Government; (v) Acquisition date (or date received, if the equipment was furnished by the Federal Government) and cost; (vi) Information from which one can calculate the percentage of Federal participation in the cost of the equipment (not applicable to equipment furnished by the Federal Government); (vii) Location and condition of the equipment and the date the information was reported; (viii) Unit acquisition cost; and (ix) Ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value where a recipient compensates the Federal awarding agency for its share.

Per the March 2011 OMB Circular A-133 Compliance Supplement and the COPS Tech compliance requirement, "Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained."

Condition: The City did not maintain an equipment listing containing description, sources, who holds title, acquisition date and cost, percentage of federal participation in the cost, location, condition, and any ultimate disposition data including, the date of disposal and sales price or method used to determine current fair market value (if applicable). As a result, no physical inventory counts were/are being performed.

Questioned Costs: None

Possible Asserted Cause and Effect: Because it was unable to provide the requested information, the City is not in compliance with applicable Equipment & Real Property Management compliance requirements.

Recommendation: We recommend the City create an equipment listing and perform periodic inventory counts as required.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-30 Procurement, Suspension and Debarment

Finding Type: Noncompliance and significant deficiency

Federal Agency: U.S. Department of Justice

Pass-Through Entity: N/A

Federal Program: Public Safety Partnership and Community Policing Grants (COPS)

CFDA No.: 16.710

Award No.: 2009-CK-WX-0549, 2009-CK-WX-0557

Award Year: July 1, 2009 - June 30, 2012

Requirement: The A-102 common rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Per 2 CFR 180.300, when you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified.

Condition: For contracts in excess of \$25,000, the Detroit Fire Department did not contain a certification that the vendor and its principals are not suspended or debarred nor was there evidence that the City verified that the contractor was not suspended or debarred by checking the EPLS website.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Procurement and Suspension and Debarment requirement.

Recommendation: We recommend evaluating current procurement practices to identify areas where internal controls could be strengthened to include monitoring of compliance with procurement standards.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-31 Cash Management

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Labor

Pass-Through Entity: Michigan Department of Labor and Economic Growth

Federal Program: Trade Adjustment Assistance

CFDA No.: 17.245

Award No.: N/A

Award Year: October 1, 2010 - September 30, 2011

Requirement: Per OMB Circular A-102, Grants and Cooperative Agreements with State and Local Governments Attachment (2)(a), agency methods and procedures for transferring funds shall minimize the time elapsing between transfer to recipients of grants and cooperative agreements and the recipient's need for the funds. Per the State of Michigan instructions for the Cash Request Form, the department is to use „Actual Disbursements“, „Year-to-Date“ defined as follows, "This figure is to include only the actual cash paid out of costs, including funds to subcontractors."

Condition: The Cash Requests are based partially on accruals. This results in excess cash being on hand throughout the year. The average daily cash balance outstanding for the year was \$194,464.

Questioned Costs: None

Possible Asserted Cause and Effect: DWDD utilized an accrual based Cost Center Responsibility Report to prepare the Cash Request.

Recommendation: We recommend preparing the Cash Requests based on actual disbursements.

Views of Responsible Officials: Cash requests are based partially on accruals due to the fact that DWDD has to ensure the cash is in the appropriate bank accounts before payments are disbursed. However, the check writing process is handled by Central Finance and time lapsing between the receipt and disbursement of funds is beyond our immediate control.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-32 Eligibility / Procurement, Suspension and Debarment

Finding Type: Noncompliance and significant deficiency

Federal Agency: U.S. Department of Labor

Pass-Through Entity: Michigan Department of Labor and Economic Growth

Federal Program: Trade Adjustment Assistance

CFDA No.: 17.245

Award No.: N/A

Award Year: October 1, 2010 - September 30, 2011

Requirement: Per 2 CFR 180.300, when you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified.

Per A-102 Common Rule, non-Federal entities receiving Federal awards must establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Per 2 CFR 225, Appendix A, Paragraph C.1 (j), to be allowable under Federal awards, costs must meet the general criteria: (j) be adequately documented.

Condition: We selected 48 beneficiaries who received program services during the fiscal year 2011, and noted the following: 1 ITA training agreement, which contains suspension and debarment certification, was not signed by the participant, DWDD, and the representative of the training institution.

Questioned Costs: None

Possible Asserted Cause and Effect: Management did not comply with the Eligibility, Procurement, Suspension, and Debarment requirements.

Recommendation: We recommend that the internal controls be evaluated to prevent future noncompliance.

Views of Responsible Officials: I agree with the finding. While the customer met the eligibility criteria for Trade and training a signed copy was not placed in the file at that time. A signed copy of the agreement is now in the participant file and was forwarded to KPMG before the issuance of this correspondence.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-33 Cycle Monitoring Reports

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Labor

Pass-Through Entity: Michigan Department of Labor and Economic Growth

Federal Program: Trade Adjustment Assistance

CFDA No.: 17.245

Award No.: N/A

Award Year: October 1, 2010 - September 30, 2011

Requirement: OMB Circular A-133 Subpart C Section 300 paragraph f requires auditees to follow up and take corrective action on findings.

Condition: DWDD receives 3 cycle monitoring reports a year from the Workforce Development Agency, State of Michigan (WDASOM) (formally the Michigan Department of Energy, Labor, and Economic Growth (MDELEG)). Over the past four years, several comments have been repeated throughout these reports and have not been adequately resolved or addressed by DWDD.

Questioned Costs: None

Possible Asserted Cause and Effect: Timely corrective action has not been taken for each of the findings identified during the cycle monitoring visits.

Recommendation: We recommend that the department take timely corrective action for each of the findings identified during the cycle monitoring visits.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-34 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Labor

Pass-Through Entity: Michigan Department of Labor and Economic Growth

Federal Program: Workforce Investment Act

CFDA No.: 17.258, 17.259, 17.260, 17.278

Award No.: N/A

Award Year: July 1, 2010 - June 30, 2011

Requirement: Allowable Costs/Cost Principles: Per 2 CFR Part 225 Appendix E, Paragraph D (1)(a), All departments or agencies of the governmental unit desiring to claim indirect costs under Federal awards must prepare an indirect cost rate proposal and related documentation to support those costs. The proposal and related documentation must be retained for audit in accordance with the records retention requirements contained in the Common Rule. Per the DWDD Cost Allocation Plan (CAP) issued in June 2010, Part X: Review Modification Process, the CAP is required to be reviewed and modified as necessary, but at least annually.

Condition: The annual review of the 2011 Cost Allocation Plan (CAP) was not done during the fiscal year ending June 30, 2011. The June 2010 CAP was still in place during the fiscal year ending June 30, 2011. The June 2010 CAP was last approved by the DWDD Director on March 2009 as evidenced by signature.

Questioned Costs: None

Possible Asserted Cause and Effect: Management did not comply with the Activities Allowed / Allowable Costs requirement.

Recommendation: We recommend management increase awareness of federal program compliance requirements and monitor compliance with the requirements on a regular basis.

Views of Responsible Officials: I agree with the finding. The Director at the time refused to sign the department cost allocation plan.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-35 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Noncompliance and significant deficiency

Federal Agency: U.S. Department of Labor

Pass-Through Entity: Michigan Department of Labor and Economic Growth

Federal Program: Workforce Investment Act

CFDA No.: 17.258, 17.259, 17.260, 17.278

Award No.: N/A

Award Year: July 1, 2010 - June 30, 2011

Requirement: Allowable Costs/Cost Principles: Per 2 CFR Part 225 Appendix B, Paragraph 8 (h)(1), Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit. Per 2 CFR Part 225, Appendix A, Paragraph C.1 (j), to be allowable under Federal awards, costs must meet the following general criteria: (j) be adequately documented.

Per A-102 Common Rule, nonfederal entities receiving Federal awards must establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements.

Condition: For one sample, payroll expenses for the period ended 8/27/2010 (\$5,233.86) were significantly higher than the payroll amount we calculated based on the employee's annual rate(around \$2,646). Per inquiry with Human Resources management, this payroll amount consisted of regular hour payroll (\$2,626.93), and 'Retro Regular Pay' of \$2,616, which is a system generated adjustment based on a change of salary or other entry made at an earlier date. We obtained all payroll stubs and payroll system reports for the employee from 7/2/2010 to 9/10/2010 and noted that a total of \$7,849 charged in fiscal year ending June 30, 2011 was for payroll expenditures incurred in fiscal year ending June 30, 2010, resulting in an overstatement of current year payroll expenditures in the amount of \$7,849.

Questioned Costs: None

Possible Asserted Cause and Effect: Management did not comply with the Allowable Costs / Cost Principles requirement.

Recommendation: We recommend that the internal controls be evaluated to prevent future noncompliance.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-36 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Noncompliance and significant deficiency

Federal Agency: U.S. Department of Labor

Pass-Through Entity: Michigan Department of Energy, Labor and Economic Growth

Federal Program: Workforce Investment Act

CFDA No.: 17.258, 17.259, 17.260, 17.278

Award No.: N/A

Award Year: July 1, 2010 - June 30, 2011

Requirement: Per 2 CFR Part 225, Appendix A, Paragraph C.1 (g), to be allowable under Federal awards, costs must meet the following general criteria: (j) except as otherwise provided for in 2 CFR part 225, costs be determined in accordance with generally accepted accounting principles.

Condition: One advance payment for rent expenses for July 2011 in the amount of \$172,415 was included in the Cost Allocation Schedule and expensed in June 2011. A total of \$210,004 of rental expenses for July 2011 were incorrectly included in expenditures for the fiscal year ending June 30, 2011. A total of \$295,517 of rental expenses for July 2010 were incorrectly included in expenditures for the fiscal year ending June 30, 2010, which results in a net understatement of rental expenses in the current year in the amount of \$85,513.86.

Questioned Costs: None

Possible Asserted Cause and Effect: Management did not comply with the Allowable Costs / Cost Principles requirement.

Recommendation: We recommend internal controls be evaluated to prevent future noncompliance.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-37 Cash Management

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Labor

Pass-Through Entity: Michigan Department of Energy, Labor and Economic Growth

Federal Program: Workforce Investment Act

CFDA No.: 17.258, 17.259, 17.260, 17.278

Award No.: N/A

Award Year: July 1, 2010 - June 30, 2011

Requirement: Per OMB Circular A-102, Grants and Cooperative Agreements with State and Local Governments Attachment (2)(a), agency methods and procedures for transferring funds shall minimize the time elapsing between transfer to recipients of grants and cooperative agreements and the recipient's need for the funds. Per the State of Michigan instructions for the Cash Request Form, the department is to use „Actual Disbursements“, „Year-to-Date“ defined as follows, "This figure is to include only the actual cash paid out of costs, including funds to subcontractors."

Condition: The Cash Requests are based partially on accruals. This results in excess cash being on hand throughout the year. The average daily cash balance outstanding for the year was \$499,865.

Questioned Costs: None

Possible Asserted Cause and Effect: DWDD utilized an accrual based Cost Center Responsibility Report to prepare the Cash Request.

Recommendation: We recommend preparing the Cash Requests based on actual disbursements.

Views of Responsible Officials: Cash requests are based partially on accruals due to the fact that DWDD has to ensure the cash is in the appropriate bank accounts before payments are disbursed. However, the check writing process is handled by Central Finance and time lapsing between the receipt and disbursement of funds is beyond our immediate control.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-38 Procurement, Suspension and Debarment

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Labor

Pass-Through Entity: Michigan Department of Energy, Labor and Economic Growth

Federal Program: Workforce Investment Act

CFDA No.: 17.258, 17.259, 17.260, 17.278

Award No.: N/A

Award Year: July 1, 2010 - June 30, 2011

Requirement: Per A-102 Common Rule, nonfederal entities receiving Federal awards must establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements.

Per 31 USC 7502(f)(2)(B)(2), Each pass through entity shall: A) Provide each subrecipient the program names (and identifying numbers) from which each assistance is derived, and the Federal requirements that govern the use of such awards and the requirements of (this) chapter; B) Monitors the subrecipients use of Federal awards through site visits, limited scope audits, or other means; C)Review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to Federal awards provided to the subrecipient by the pass-through entity.

Per CFR section 215.45, "Some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action. Price analysis may be accomplished in various ways, including the comparison of price quotations submitted, market prices and similar indicia, together with discounts. Cost analysis is the review and evaluation of each element of cost to determine reasonableness, allocability, and allowability."

Per CFR section 215.43, "All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition." Per the City of Detroit Procurement Policy, DWDD is required to obtain at least 3 bids when attempting to procure goods/services.

Condition: 18 of 25 contracts were not approved by City Council, the president of the subrecipient organization, and the authorized department representative prior to work commencing. For 7 of 25 contracts, DWDD did not perform the cost or price analysis during the process to procure goods/services. For 1 of 25 contracts, DWDD obtained less than 3 bids when attempting to procure goods/services.

Questioned Costs: None

Possible Asserted Cause and Effect: Management did not comply with the Procurement, Suspension, and Debarment requirement.

Recommendation: We recommend that the internal controls be evaluated to prevent future noncompliance.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-39 Reporting

Finding Type: Noncompliance and significant deficiency

Federal Agency: U.S. Department of Labor

Pass-Through Entity: Michigan Department of Energy, Labor and Economic Growth

Federal Program: Workforce Investment Act

CFDA No.: 17.258, 17.259, 17.260, 17.278

Award No.: N/A

Award Year: July 1, 2010 - June 30, 2011

Requirement: Per the State of Michigan Department of Career Development, Office of Workforce Development Policy Insurance 03-38, for the Quarters ending December 31, March 31, and June 30; Quarterly Expenditure Reports are due no later than the 20th calendar day of the month following the end of the report quarter (January 20, April 20, and July 20). For the Quarter ending September 30: The Quarterly Expenditure Report is due no later than October 10. This earlier due date for the last quarter of the FY is required in order to meet the deadlines established in the State of Michigan's year-end closing process. These fiscal reports must be traceable to journals, ledgers, and worksheets. All costs reported must have adequate documentation on file.

Condition: Out of 51 Quarterly Expenditure Reports submitted to the Workforce Development Agency State of Michigan (WDASOM) 4 were not submitted by the due date.

Questioned Costs: None

Possible Asserted Cause and Effect: Management did not comply with the Reporting requirement.

Recommendation: We recommend internal controls be evaluated to prevent future noncompliance.

Views of Responsible Officials: We agree with this finding and feel this was an isolated incident.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-40 Subrecipient Monitoring

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Labor

Pass-Through Entity: Michigan Department of Energy, Labor and Economic Growth

Federal Program: Workforce Investment Act

CFDA No.: 17.258, 17.259, 17.260, 17.278

Award No.: N/A

Award Year: July 1, 2010 - June 30, 2011

Requirement: Per A-102 Common Rule, nonfederal entities receiving Federal awards must establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements.

Per 31 USC 7502(f)(2)(B)(2), Each pass through entity shall: A) Provide each subrecipient the program names (and identifying numbers) from which each assistance is derived, and the Federal requirements that govern the use of such awards and the requirements of (this) chapter; B) Monitors the subrecipients use of Federal awards through site visits, limited scope audits, or other means; C)Review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to Federal awards provided to the subrecipient by the pass-through entity.

Condition: 7 of 8 contracts were not approved by City Council, the president of the Subrecipient organization, and the authorized department representatives prior to the date that services began. For 1 of 8 contracts it was noted that DWDD did not follow up on the findings, issue a management decision within six months after receipt of the report, or determine the subrecipient took appropriate and timely corrective action.

Questioned Costs: None

Possible Asserted Cause and Effect: The timing of the start of the grant period coincides with the receiving of the award letter. The City's contract approval process requires funding to be secured before final approvals can take place.

Recommendation: We recommend City departments work cooperatively to determine a method to obtain an approval to continue contracts under the circumstances while remaining in compliance with procurement and contract ordinances and standards.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-41 Cycle Monitoring Reports

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Labor

Pass-Through Entity: Michigan Department of Energy, Labor and Economic Growth

Federal Program: Workforce Investment Act

CFDA No.: 17.258, 17.259, 17.260, 17.278

Award No.: N/A

Award Year: July 1, 2010 - June 30, 2011

Requirement: OMB Circular A-133 Subpart C Section 300 paragraph f requires auditees to follow up and take corrective action on findings.

Condition: DWDD receives 3 cycle monitoring reports a year from the Workforce Development Agency, State of Michigan (WDASOM) (formally the Michigan Department of Energy, Labor, and Economic Growth (MDELEG)). Over the past four years, several comments have been repeated throughout these reports and have not been adequately resolved or addressed by DWDD.

Questioned Costs: None

Possible Asserted Cause and Effect: Timely corrective action has not been taken for each of the findings identified during the cycle monitoring visits.

Recommendation: We recommend that the department take timely corrective action for each of the findings identified during the cycle monitoring visits.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-42 Davis Bacon

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Transportation

Pass-Through Entity: Federal Transit Administration

Federal Program: Federal Transit Cluster

CFDA No.: 20.500, 20.507

Award No.: Various

Award Year: July 1, 2010 - June 30, 2011

Requirement: Per the compliance supplement for the Davis-Bacon Act, Nonfederal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis Bason Act and the DOL regulations (29 CFR part 5) This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR Sections 5.5 and 5.6).

Condition: For 1 of 3 contracts reviewed, the review and approval of certified payrolls could not be verified.

Questioned Costs: None

Possible Asserted Cause and Effect: Management did not comply with the Davis Bacon requirement.

Recommendation: We recommend internal controls be evaluated to prevent future noncompliance.

Views of Responsible Officials: Management concurs with finding. The Procurement Manager devised a new Policy for Staff on how to properly review and maintain submitted Vendor/Supplier Certified Payrolls.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-43 Equipment and Real Property Management

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Transportation

Pass-Through Entity: Federal Transit Administration

Federal Program: Federal Transit Cluster

CFDA No.: 20.500, 20.507

Award No.: Various

Award Year: July 1, 2010 - June 30, 2011

Requirement: Per the March 2011 OMB Circular A-133 Compliance Supplement, Part 3 Section F "Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained."

Condition: During our prior year testwork over the Equipment and Real Property Management compliance requirement, we obtained the most recent physical inventory conducted at the Department of Transportation (DDOT) and noted there were a number of differences identified during the inventory with no evidence of reconciliation or follow up with the fixed asset subledger. The differences from the prior year physical inventory have still not been resolved.

Questioned Costs: None

Possible Asserted Cause and Effect: The DDOT physical asset inventory was completed for the fiscal year ended June 30, 2010. However, the reconciliation of the physical assets to the accounting records was not performed.

Recommendation: We recommend that the City of Detroit policies regarding taking of physical inventory counts are followed.

Views of Responsible Officials: Management concurs with finding. The Accounting Division will implement a policy to reconcile and properly dispose "not found" fixed assets from DRMS.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-44 Procurement and Suspension and Debarment

Finding Type: Noncompliance and significant deficiency

Federal Agency: U.S. Department of Transportation

Pass-Through Entity: Federal Transit Administration

Federal Program: Federal Transit Cluster

CFDA No.: 20.500, 20.507

Award No.: Various

Award Year: July 1, 2010 - June 30, 2011

Requirement: Per A-102 Common Rule, nonfederal entities receiving federal awards must establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

Per 2 CFR 180.300, when you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified.

Condition: For 1 out of 6 contracts reviewed, there was no verification of suspension and debarment during the procurement process.

Questioned Costs: None

Possible Asserted Cause and Effect: Management did not comply with the Procurement, Suspension and Debarment requirements.

Recommendation: We recommend that management obtain suspension and debarment certifications from all subrecipients and vendors.

Views of Responsible Officials: The Procurement Division is familiar with the EPLS (Excluded Parties List System) requirements found in FAR Part 9.4 - "Debarment, Suspension and Ineligibility," and we do in fact require that the EPLS be reviewed by Staff when bids or proposals are received, but we have not been conducting a second ineligibility review on the same vendor prior to Contract award, as stated in this regulation. We will begin to perform both EPLS reviews immediately.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-45 Reporting

Finding Type: Noncompliance and significant deficiency

Federal Agency: U.S. Department of Transportation

Pass-Through Entity: Federal Transit Administration

Federal Program: Federal Transit Cluster

CFDA No.: 20.500, 20.507

Award No.: Various

Award Year: July 1, 2010 - June 30, 2011

Requirement: Per A-102 Common Rule, nonfederal entities receiving Federal awards must establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements.

Per the Federal Financial Report instructions, quarterly and semi-annual interim reports shall be submitted no later than 30 days after the end of each reporting period.

Condition: We selected a sample of 25 Request for Reimbursements (RFRs) and 10 Federal Financial Reports (FFRs) and noted the following: 1 out of 10 FFRs included a miscalculation of the breakdown between federal and state expenditures. The Q4 FFR for grant MI-90-X605 incorrectly reported \$5,257,445 and \$1,314,361 for the federal and state share of expenditures, respectively. However, the correct amounts are \$5,276,300 and \$1,295,506 for the federal and state share of expenditures, respectively, based on the grant agreement break out percentage. Also out of a sample of 2 DBE reports 1 report was due on 12/1/2011 and was submitted 1 day late.

Questioned Costs: None

Possible Asserted Cause and Effect: Management did not comply with the Reporting requirements. Expenditures reported to FTA and invoiced to MDOT for reimbursement were incorrect.

Recommendation: We recommend that the internal controls over reporting be evaluated to prevent future noncompliance.

Views of Responsible Officials: Management concurs with finding. DDOT will implement an oversight policy to ensure error calculations and reporting deadlines are adhered to.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-46 Reporting

Finding Type: Noncompliance and significant deficiency

Federal Agency: Environmental Protection Agency

Pass-Through Entity: State of Michigan Municipal Bond Authority

Federal Program: State Revolving Loan

CFDA No.: 66.458

Award No.: 5175-07, 5175-08

Award Year: July 1, 2010 - June 30, 2011

Requirement: Per Section 1512 of the American Recovery and Reinvestment Act (ARRA), Subtitle A (c), not later than 10 days after the end of each calendar quarter, each recipient that received recovery funds from a Federal agency shall submit a report to that agency that contains-(1) the total amount of recovery funds received from that agency; (2) the amount of recovery funds received that were expended or obligated to projects or activities; and (3) a detailed list of all projects or activities for which recovery funds were expended or obligated, including (A) the name of the project or activity; (B) a description of the project or activity; (C) an evaluation of the completion status of the project or activity; (D) an estimate of the number of jobs created and the number of jobs retained by the project or activity; and (E) for infrastructure investment made by state and local government, the purpose, total cost, and rationale of the agency for funding the infrastructure investment with funds made available under this Act, and name of the person to contact at the agency if there are concerns with the infrastructure investment.

Condition: We selected 2 ARRA reports and noted the following: total labor hours reported by DWSD to the State does not agree to the total labor hours per the labor distribution report for the department staff for the reporting period.

Questioned Costs: None

Possible Asserted Cause and Effect: Management did not comply with the reporting requirement.

Recommendation: We recommend that the internal controls over reporting be evaluated to prevent future noncompliance.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-47 Allowable Costs/Cost Principles

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Health and Human Services

Federal Program: Weatherization

CFDA No.: 81.042

Award No.: DOE-09-82007, DOE-S-09-82007

Award Year: April 1, 2009 - March 31, 2012

Requirement: According to OMB Cost Circular A-87, Attachment A, Paragraph C, to be allowable under Federal Awards, costs must: be necessary and reasonable for the administration of Federal Awards; be allocable to Federal Awards under the provisions of A-87; be authorized or not prohibited under State or local laws or regulations, and; be adequately documented.

Condition: The general ledger, SEFA, and Monthly Statement of Expenditures (SOE) reports submitted to the State did not agree to each other. The State had previously reimbursed DHS for \$155,798 and requested this to be adjusted on the Statement of Expenditures until proper supporting documentation was provided. There was no evidence that proper support was provided for this amount.

Questioned Costs: \$ 155,798

Possible Asserted Cause and Effect: Due to lack of controls over the reconciliation process, the Department of Human Services may not be in compliance with this requirement.

Recommendation: We recommend that management reconcile accounts on a regular basis to ensure reconciliations can be provided in a timely manner.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-48 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Health and Human Services

Federal Program: Weatherization

CFDA No.: 81.042

Award No.: DOE-09-82007, DOE-S-09-82007

Award Year: April 1, 2009 - March 31, 2012

Requirement: According to OMB Cost Circular A-87, Attachment A, Paragraph C, to be allowable under Federal Awards, costs must: be necessary and reasonable for the administration of Federal Awards; be allocable to Federal Awards under the provisions of A-87; be authorized or not prohibited under State or local laws or regulations, and; be adequately documented.

Condition: We selected 78 line items of cost for testing and noted that 2 items were included as expenditures in both fiscal year 2011 and 2010, 5 items included photocopied or stamped signatures, 1 item was a journal entry reversing the cost for a payment already cleared by a vendor with no explanation, 1 item included an invoice to repay a vendor for an overpayment previously recouped, 1 item did not contain supporting invoices, 1 item included an invoice for a category of cost that was unallowable, and 1 item contained charges that appeared to be duplicate.

Questioned Costs: \$ 392,640

Possible Asserted Cause and Effect: As a result, DHS is not in compliance with applicable Allowable Cost principles, and have expended Federal funds for disallowed costs.

Recommendation: We recommend that management implement controls to perform a detail review of all invoices prior to payment.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-49 Cash Management

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Health and Human Services

Federal Program: Weatherization

CFDA No.: 81.042

Award No.: DOE-09-82007, DOE-S-09-82007

Award Year: April 1, 2009 - March 31, 2012

Requirement: Per 24 CFR 85.20, procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency.

Per OMB Circular A 102, Grants and Cooperative Agreements with State and Local Governments Attachment (1)(a), agency methods and procedures for transferring funds shall minimize the time elapsing between transfer to recipients of grants and cooperative agreements and the recipient's need for the funds.

Condition: The City was unable to provide adequate documentation to determine whether payments were incurred before the cash draw date.

Questioned Costs: None

Possible Asserted Cause and Effect: The Department does not reconcile expenditures to cash draws on a regular basis causing the Department to not be able to provide a reconciliation in a timely manner.

Recommendation: We recommend that management reconcile cash drawdowns to expenditures on a regular basis to ensure reconciliations can be provided in a timely manner.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-50 Davis Bacon

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Health and Human Services

Federal Program: Weatherization

CFDA No.: 81.042

Award No.: DOE-09-82007, DOE-S-09-82007

Award Year: April 1, 2009 – March 31, 2012

Requirement: Per the compliance supplement for the Davis Bacon Act, Nonfederal entities shall include in their construction contracts subject to the Davis Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis Bacon Act and the DOL regulations (29 CFR part 5, Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction). This includes a requirement for the contractor or subcontractor to submit to the non Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR Sections 5.5 and 5.6).

Condition: We selected 5 construction related contracts to review and noted that for 1 contracts the submission of weekly certified payroll was not present for the life of the contract.

Questioned Costs: None

Possible Asserted Cause and Effect: As a result of not retaining the required certified payrolls, DHS is not in compliance with the Davis-Bacon Act requirement.

Recommendation: We recommend that management monitor that all contractors or subcontractors submit certified payroll for each week contract work is performed.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-51 Eligibility

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Health and Human Services

Federal Program: Weatherization

CFDA No.: 81.042

Award No.: DOE-09-82007, DOE-S-09-82007

Award Year: April 1, 2009 – March 31, 2012

Requirement: 1) The A-102 Common rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

2) The agreement between the State of Michigan Department of Human Services (DHS) and the City of Detroit DHS requires that for each eligible client served under the agreement, the grantee shall maintain client case records consisting of: a) Weatherization Assistance Application (DHS-4283) or DHS approved client application used to determine if the household group is eligible for weatherization services. The application must be in accordance with CSPM 612.2; and b) documentation supporting weatherization income eligibility in accordance with CSPM 601.

3) According to OMB Cost Circular A-87, Attachment A, Paragraph C, to be allowable under Federal Awards, costs must: be necessary and reasonable for the administration of Federal Awards; be allocable to Federal Awards under the provisions of A-87; be authorized or not prohibited under State or local laws or regulations, and; be adequately documented.

Condition: We selected 78 eligibility files for testing and noted the following: 14 files could not be provided, 3 files did not retain an intake application for assistance, 6 files retained no proof of home ownership/residency. Additionally, we noted that the eligibility population provided for testing was not a complete population. During our testing over the allowable cost compliance requirement, we selected 78 line items for testing and noted that 6 items contained costs related to work performed for program participants not found in the eligibility population provided. Further review showed that proper eligibility documentation could not be provided for some of these participants.

Questioned Costs: \$23,913

Possible Asserted Cause and Effect: As a result of required documentation not being retained for program participants, DHS is unable to substantiate its compliance with the eligibility compliance requirement. DHS may also have performed services for ineligible participants, resulting in costs that may not be allowable.

Recommendation: We recommend that the internal controls be evaluated to prevent future noncompliance.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-52 Equipment and Real Property Management

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Health and Human Services

Federal Program: Weatherization

CFDA No.: 81.042

Award No.: DOE-09-82007, DOE-S-09-82007

Award Year: April 1, 2009 – March 31, 2012

Requirement: According to 2 CFR section 215.34, (1) Equipment records shall be maintained accurately and shall include the following information: (i) A description of the equipment; (ii) Manufacturer's serial number, model number, Federal stock number, national stock number, or other identification number; (iii) Source of the equipment, including the award number; (iv) Whether title vests in the recipient or the Federal Government; (v) Acquisition date (or date received, if the equipment was furnished by the Federal Government) and cost; (vi) Information from which one can calculate the percentage of Federal participation in the cost of the equipment (not applicable to equipment furnished by the Federal Government); (vii) Location and condition of the equipment and the date the information was reported; (viii) Unit acquisition cost; and (ix) Ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value where a recipient compensates the Federal awarding agency for its share.

Per the March 2011 OMB Circular A-133 Compliance Supplement and the COPS Tech compliance requirement, "Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained."

Condition: Equipment was purchased but no listing could be provided by the City to support. Of the equipment purchased, 2 of 10 infrared cameras were missing in the amount of \$10,352, 4 of 15 blower door kits were missing, and 2 of 15 blower door kits were incomplete for a cost of \$14,337.

Questioned Costs: \$24,689

Possible Asserted Cause and Effect: Because the City was unable to provide the requested information, DHS is not in compliance with applicable Equipment & Real Property Management compliance requirements.

Recommendation: We recommend that the City create an equipment listing and perform periodic inventory counts as required.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-53 Procurement, Suspension and Debarment

Finding Type: Noncompliance and significant deficiency

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Health and Human Services

Federal Program: Weatherization

CFDA No.: 81.042

Award No.: DOE-09-82007, DOE-S-09-82007

Award Year: April 1, 2009 – March 31, 2012

Requirement: According to the March 2011 OMB Circular A-133 Compliance Supplement, Section 1605 of ARRA prohibits the use of ARRA funds for a project for the construction, alteration, maintenance, or repair of a public building or work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States. This results in making the Buy-American Act apply to these ARRA awards. ARRA provides for waiver of these requirements under specified circumstances.

Condition: During our testing over the Procurement, Suspension & Debarment compliance requirement, we selected 5 ARRA funded construction contracts for testing and noted that no evidence of compliance with Buy-American requirements was provided for these construction contractors.

Questioned Costs: None

Possible Asserted Cause and Effect: DHS is unable to prove compliance with Buy-American requirements applicable to ARRA funded awards.

Recommendation: We recommend that the City include this requirement in all contracts related to contracts that contain ARRA funding.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-54 Reporting

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Health and Human Services

Federal Program: Weatherization

CFDA No.: 81.042

Award No.: DOE-09-82007, DOE-S-09-82007

Award Year: April 1, 2009 – March 31, 2012

Requirement: Per A 102 Common Rule, non Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Per the Grant Agreement and the Community Service Policy Manual (CSPM 602), the monthly programmatic report (DHS 1071) is required to be submitted, via email, within 30 days from the end of the report period to the Grantee's grant manager.

Condition: We obtained 12 ARRA Sta Monthly Programmatic reports and noted mathematical errors for 3 of 3 reports. Also, we noted that the August 2009 and the December 2009 reports were not submitted within 30 days from the end of the report period.

We obtained 21 ARRA DOE and DOE Statement of Expenditures and noted the following: 3 of the reports were submitted between 17 and 28 days after the reporting deadline as required and stated within the grant agreement.

We tested 12 ARRA 1512 reports submitted to the State and noted 1 report was submitted 5 days after the reporting deadline as required by the grant agreement.

Questioned Costs: None

Possible Asserted Cause and Effect: Controls were not sufficient to prevent the reports from being submitted late and as a result DHS did not comply with contractual reporting requirements.

Recommendation: We recommend that reporting checklists be used to monitor the timeliness of report preparation and submission.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-55 Special Tests and Provisions – Criminal Background Checks

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Health and Human Services

Federal Program: Weatherization

CFDA No.: 81.042

Award No.: DOE-09-82007, DOE-S-09-82007

Award Year: April 1, 2009 – March 31, 2012

Requirement: Per the agreement between the State of Michigan Department of Human Services (MDHS) and the City of Detroit Department of Human Services (DHS), as a condition of the agreement, the Weatherization grantee shall conduct or cause to be conducted prior to any individuals performing work under this agreement: (1) for each new employee, subcontractor, subcontractor employee or volunteer who has unsupervised direct contact with children and/or vulnerable adult populations or access to confidential information, or is directly supervising volunteers that have direct contact with children and/or vulnerable adult populations or confidential information, or has regardless of supervision status, access to client confidential information, an Internet Criminal History Access Tool (ICHAT) check and a National and State Sex Offender Registry (SOR) check; (2) for each new employee, employee, subcontractor, subcontractor employee or volunteer who works directly with children under this agreement, a Central Registry (CR) check.

Condition: Per discussion with the City, criminal background checks for employees transferred into the department were not performed.

Questioned Costs: None

Possible Asserted Cause and Effect: Insufficient communication between Human Resources and DHS management and as a result the department is not in compliance with the requirement.

Recommendation: We recommend management implement a process and related controls to ensure criminal background checks are completed for all required personnel.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-56 Reporting

Finding Type: Noncompliance and significant deficiency

Federal Agency: U.S. Department of Energy

Pass-Through Entity: N/A

Federal Program: Energy Efficiency and Conservation Block Grant (EECBG)

CFDA No.: 81.128

Award No.: DE-EE0000747

Award Year: October 12, 2009 – October 13, 2012

Requirement: Per A-102 Common Rule, nonfederal entities receiving Federal awards must establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements.

Per the Federal Financial Report instructions, quarterly and semi-annual interim reports shall be submitted no later than 30 days after the end of each reporting period.

Condition: We selected 2 SF-425 Federal Financial Reports for the quarters ending 3/31/11 and 6/30/11 and noted the following: 2 of 2 reports were submitted after the required due date. The reports were due on 4/30/11 and 7/31/11 but were not submitted until 6/7/11 and 9/15/11, respectively.

Questioned Costs: None

Possible Asserted Cause and Effect: Management did not comply with the Reporting requirements.

Recommendation: We recommend that reporting checklists are utilized to monitor the timely and accurate submission of all required reports.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-57 Reporting

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Energy

Pass-Through Entity: N/A

Federal Program: Energy Efficiency and Conservation Block Grant (EECBG)

CFDA No.: 81.128

Award No.: DE-EE0000747

Award Year: October 12, 2009 – October 13, 2012

Requirement: Per Section 1512 of the American Recovery and Reinvestment Act (ARRA), Subtitle A (c), not later than 10 days after the end of each calendar quarter, each recipient that received recovery funds from a Federal agency shall submit a report to that agency that contains-(1) the total amount of recovery funds received from that agency; (2) the amount of recovery funds received that were expended or obligated to projects or activities; and (3) a detailed list of all projects or activities for which recovery funds were expended or obligated, including (A) the name of the project or activity; (B) a description of the project or activity; (C) an evaluation of the completion status of the project or activity; (D) an estimate of the number of jobs created and the number of jobs retained by the project or activity; and (E) for infrastructure investment made by state and local government, the purpose, total cost, and rationale of the agency for funding the infrastructure investment with funds made available under this Act, and name of the person to contact at the agency if there are concerns with the infrastructure investment.

Condition: We selected 2 ARRA reports for testing and noted the following: the quarter ending 6/30/11 was originally submitted on time. However, the original submission used an inaccurate Grant Number. The report was reissued using the correct Grant Number on 7/15/12. The ARRA report for the quarter ending 3/31/11 used an inconsistent Grant Number. The grant award number documented in the report was EE0000747; however, the number in the Grant Agreement is DE-EE0000747. The vendor payment information was incomplete for the quarters ending 3/31/11 and 6/30/11.

Questioned Costs: None

Possible Asserted Cause and Effect: Management did not comply with the Reporting requirement.

Recommendation: We recommend that the internal controls be evaluated to prevent future noncompliance.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-58 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Energy, Labor & Economic Growth

Federal Program: Temporary Assistance for Needy Families

CFDA No.: 93.558

Award No.: N/A

Award Year: October 1, 2010 - September 30, 2011

Requirement: Allowable Costs/Cost Principles: Per 2 CFR Part 225 Appendix E, Paragraph D (1)(a), All departments or agencies of the governmental unit desiring to claim indirect costs under Federal awards must prepare an indirect cost rate proposal and related documentation to support those costs. The proposal and related documentation must be retained for audit in accordance with the records retention requirements contained in the Common Rule. Per the DWDD Cost Allocation Plan (CAP) issued in June 2010, Part X: Review Modification Process, the CAP is required to be reviewed and modified as necessary, but at least annually.

Condition: The annual review of the 2011 Cost Allocation Plan (CAP) was not completed during the fiscal year ending June 30, 2011. The June 2010 CAP was still in place during the fiscal year ending June 30, 2011. The June 2010 CAP was last approved by the DWDD Director on March 2009 as evidenced by signature.

Questioned Costs: None

Possible Asserted Cause and Effect: Management did not comply with the Activities Allowed / Allowable Costs requirement.

Recommendation: We recommend management increase awareness of federal program compliance requirements and monitor compliance with the requirements on a regular basis.

Views of Responsible Officials: I agree with the finding. The Director at the time refused to sign the department cost allocation plan.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-59 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Noncompliance and significant deficiency

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Energy, Labor & Economic Growth

Federal Program: Temporary Assistance for Needy Families

CFDA No.: 93.558

Award No.: N/A

Award Year: October 1, 2010 - September 30, 2011

Requirement: Allowable Costs/Cost Principles: Per 2 CFR Part 225 Appendix B, Paragraph 8 (h)(1), Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit. Per 2 CFR Part 225, Appendix A, Paragraph C.1 (j), to be allowable under Federal awards, costs must meet the following general criteria: (j) be adequately documented.

Per A-102 Common Rule, nonfederal entities receiving Federal awards must establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements.

Condition: During We noted that for one sample, payroll expenses for the period ended 8/27/2010 (\$5,233.86) were significantly higher than the payroll amount we calculated based on the employee's annual rate(around \$2,646). Per inquiry with Human Resources management, this payroll amount consisted of regular hour payroll (\$2,626.93), and 'Retro Regular Pay' of \$2,616, which is a system generated adjustment based on a change of salary or other entry made at an earlier date. We obtained all payroll stubs and payroll system reports for the employee from 7/2/2010 to 9/10/2010 and noted that a total of \$7,849 charged in fiscal year ending June 30, 2011 was for payroll expenditures incurred in fiscal year ending June 30, 2010, resulting in an overstatement of current year payroll expenditures in the amount of \$7,849.

Questioned Costs: None

Possible Asserted Cause and Effect: Management did not comply with the Allowable Costs / Cost Principles requirement.

Recommendation: We recommend that the internal controls be evaluated to prevent future noncompliance.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-60 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Noncompliance and significant deficiency

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Energy, Labor & Economic Growth

Federal Program: Temporary Assistance for Needy Families

CFDA No.: 93.558

Award No.: N/A

Award Year: October 1, 2010 - September 30, 2011

Requirement: Per 2 CFR Part 225, Appendix A, Paragraph C.1 (g), to be allowable under Federal awards, costs must meet the following general criteria: (j) except as otherwise provided for in 2 CFR part 225, costs be determined in accordance with generally accepted accounting principles.

Condition: One advance payment for rent expenses for July 2011 in the amount of \$172,415 was included in the Cost Allocation Schedule and expensed in June 2011. A total of \$210,004 of rental expenses for July 2011 were incorrectly included in expenditures for the fiscal year ending June 30, 2011. A total of \$295,517 of rental expenses for July 2010 were incorrectly included in expenditures for the fiscal year ending June 30, 2010, which results in an understatement of rental expenses in the current year in the amount of \$85,513.86.

Questioned Costs: None

Possible Asserted Cause and Effect: Management did not comply with the Allowable Costs / Cost Principles requirement.

Recommendation: We recommend internal controls be evaluated to prevent future noncompliance.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-61 Cash Management

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Energy, Labor & Economic Growth

Federal Program: Temporary Assistance for Needy Families

CFDA No.: 93.558

Award No.: N/A

Award Year: October 1, 2010 - September 30, 2011

Requirement: Per OMB Circular A-102, Grants and Cooperative Agreements with State and Local Governments Attachment (2)(a), agency methods and procedures for transferring funds shall minimize the time elapsing between transfer to recipients of grants and cooperative agreements and the recipient's need for the funds. Per the State of Michigan instructions for the Cash Request Form, the department is to use „Actual Disbursements“, „Year-to-Date“ defined as follows, "This figure is to include only the actual cash paid out of costs, including funds to subcontractors."

Condition: The City did not minimize the time lapse between the drawdown and the payment of funds as required. The average daily balance outstanding was \$665,283.

Questioned Costs: None

Possible Asserted Cause and Effect: DWDD utilized an accrual based Cost Center Responsibility Report to prepare the Cash Request.

Recommendation: We recommend preparing the Cash Requests based on actual disbursements.

Views of Responsible Officials: Cash requests are based partially on accruals due to the fact that DWDD has to ensure the cash is in the appropriate bank accounts before payments are disbursed. However, the check writing process is handled by Central Finance and time lapsing between the receipt and disbursement of funds is beyond our immediate control.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-62 Procurement, Suspension and Debarment

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Energy, Labor & Economic Growth

Federal Program: Temporary Assistance for Needy Families

CFDA No.: 93.558

Award No.: N/A

Award Year: October 1, 2010 - September 30, 2011

Requirement: A-102 requires nonfederal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with laws, regulations and program compliance requirements.

Per Policy Issuance 04-03, "At minimum, the procurement policy shall require: Cost and/or price analysis for every procurement, written standards for all types of procurement, conduct that ensures full and open competitions, (etc...)."

Condition: We selected 25 contracts for review and noted the following: 18 of 25 contracts were not approved by City Council, the president of the subrecipient organization, and the authorized department representative prior to work commencing. 5 of 25 contract files did not have evidence of free and open competition or cost/price analysis.

Questioned Costs: None

Possible Asserted Cause and Effect: Management did not comply with the Procurement requirements.

Recommendation: We recommend City departments work cooperatively to determine a method to obtain an approval to continue contracts under the circumstances while remaining in compliance with procurement and contract ordinances and standards.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-63 Subrecipient Monitoring

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Energy, Labor & Economic Growth

Federal Program: Temporary Assistance for Needy Families

CFDA No.: 93.558

Award No.: N/A

Award Year: October 1, 2010 - September 30, 2011

Requirement: Per A-102 Common Rule, nonfederal entities receiving Federal awards must establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements.

Condition: We selected 8 contracts for testing and noted the following: 8 of 8 contracts were not approved by City Council, the president of the Subrecipient organization, and the authorized department representatives prior to date that services began.

Questioned Costs: None

Possible Asserted Cause and Effect: The timing of the start of the grant period coincides with the receiving of the award letter. The City's contract approval process requires funding to be secured before final approvals can take place.

Recommendation: We recommend City departments work cooperatively to determine a method to obtain an approval to continue contracts under the circumstances while remaining in compliance with procurement and contract ordinances and standards.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-64 Cycle Monitoring Reports

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Energy, Labor & Economic Growth

Federal Program: Temporary Assistance for Needy Families

CFDA No.: 93.558

Award No.: N/A

Award Year: October 1, 2010 - September 30, 2011

Requirement: OMB Circular A-133 Subpart C Section 300 paragraph f requires auditees to follow up and take corrective action on findings.

Condition: DWDD receives 3 cycle monitoring reports a year from the Workforce Development Agency, State of Michigan (WDASOM) (formally the Michigan Department of Energy, Labor, and Economic Growth (MDELEG)). Over the past four years, several comments have been repeated throughout these reports and have not been adequately resolved or addressed by DWDD.

Questioned Costs: None

Possible Asserted Cause and Effect: Timely corrective action has not been taken for each of the findings identified during the cycle monitoring visits.

Recommendation: We recommend that the department take timely corrective action for each of the findings identified during the cycle monitoring visits.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-65 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Human Services

Federal Program: Community Services Block Grant

CFDA No.: 93.569, 93.710

Award No.: Various

Award Year: October 1, 2010 - September 30, 2011

Requirement: OMB Circular A-87 (A-87) establishes principles and standards for determining allowable direct and indirect costs for Federal awards. This section is organized into the following areas of allowable costs: State/Local-Wide Central Service Costs; State/Local Department or Agency Costs (Direct and Indirect); and State Public Assistance Agency Costs.

The general criteria affecting allowability of costs under Federal awards are:

- Reasonable and Necessary - Costs must be reasonable and necessary for the performance and administration of Federal awards.
- Allocable - Costs must be allocable to the Federal awards under the provisions of A-87. (Refer to A-87, Attachment A, paragraph C.3 for additional information on allocable costs.
- Authorized - Costs must be authorized or not prohibited under State or local laws or regulations.
- Conformity to Laws, Regulations and Sponsored Agreements - Costs must conform to any limitations or exclusions set forth in A-87, Federal laws, terms, and conditions of the federal award, or other governing regulations as to types or amounts of cost items.
- Consistency - A cost must be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
- Be accorded consistent treatment - A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- Accordance with GAAP - Costs must be determined in accordance with generally accepted accounting principles, except as otherwise provided in A-87.
- Cost Sharing or Matching Requirements - Costs must not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award, except as specifically provided by Federal law or regulation.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questions Costs

Year ended June 30, 2011

- Transactions that Reduce or Offset Direct or Indirect Costs - Costs must be net of all applicable credits (Refer to A-87, Attachment A, paragraph C.4 for additional information on applicable credits). Examples of such transactions include purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments for overpayments or erroneous charges.

- Costs Documentation - Costs must be adequately documented.

Condition: 22 of the 88 desktop computers that were purchased are not in use. 2 of the 13 laptops purchased are not in use. Costs that appear to be general costs relating to the Department of Human Services have not been allocated over the various grants, i.e. all costs have been allocated to the CSBG program. 22 of 25 MS Project Software licenses purchased were never installed or used by the Department

Questioned Costs: \$146,880

Possible Asserted Cause and Effect: The Department ordered equipment in excess of current needs and is not in compliance with OMB Circular A-87 cost principles.

Recommendation: We recommend that the Department review their needs and place orders for only those items that are necessary and reasonable for the administration of the grant.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-66 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Human Services

Federal Program: Community Services Block Grant

CFDA No.: 93.569, 93.710

Award No.: Various

Award Year: October 1, 2010 - September 30, 2011

Requirement: OMB Circular A-87 (A-87) establishes principles and standards for determining allowable direct and indirect costs for Federal awards. This section is organized into the following areas of allowable costs: State/Local-Wide Central Service Costs; State/Local Department or Agency Costs (Direct and Indirect); and State Public Assistance Agency Costs.

The general criteria affecting allowability of costs under Federal awards are:

- Reasonable and Necessary - Costs must be reasonable and necessary for the performance and administration of Federal awards.
- Allocable - Costs must be allocable to the Federal awards under the provisions of A-87. (Refer to A-87, Attachment A, paragraph C.3 for additional information on allocable costs.
- Authorized - Costs must be authorized or not prohibited under State or local laws or regulations.
- Conformity to Laws, Regulations and Sponsored Agreements - Costs must conform to any limitations or exclusions set forth in A-87, Federal laws, terms, and conditions of the federal award, or other governing regulations as to types or amounts of cost items.
- Consistency - A cost must be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
- Be accorded consistent treatment - A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- Accordance with GAAP - Costs must be determined in accordance with generally accepted accounting principles, except as otherwise provided in A-87.
- Cost Sharing or Matching Requirements - Costs must not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award, except as specifically provided by Federal law or regulation.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

- Transactions that Reduce or Offset Direct or Indirect Costs - Costs must be net of all applicable credits (Refer to A-87, Attachment A, paragraph C.4 for additional information on applicable credits). Examples of such transactions include purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments for overpayments or erroneous charges.

- Costs Documentation - Costs must be adequately documented.

Condition: For 22 of the 40 payments selected for testing, supporting invoices could not be obtained to support the expenditures incurred.

Questioned Costs: \$2,348,323

Possible Asserted Cause and Effect: The Department of Human Services has charged costs to the CSBG grant which may not be allowed and is not in compliance with OMB Circular A-87 cost principles.

Recommendation: We recommend that management follow their document retention policy and implement controls to ensure adequate documentation is retained.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questions Costs
Year ended June 30, 2011

Item: 2011-67 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Human Services

Federal Program: Community Services Block Grant

CFDA No.: 93.569, 93.710

Award No.: Various

Award Year: October 1, 2010 - September 30, 2011

Requirement: According to A-87, attachment B (8) (h), where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Per A-87, payroll costs must be adequately documented.

Condition: The City could not provide 10 of 40 time allocations selected for testing. Of the 30 that were received, the time spent could not be traced to the GL due to time has been allocated to the program based on a predetermined percentage allocation basis and not on actual hours worked per the time allocation reports/employee certifications; therefore the related fringe benefits would also be incorrectly allocated. Further, 2 of 40 personnel files were not provided, and the recalculated cost, using the Status Change Form, did not agree to the payroll report for 25 employees.

Questioned Costs: \$3,504,797

Possible Asserted Cause and Effect: The Department of Human Services has charged costs to the CSBG grant which may not be allowed and is not in compliance with OMB Circular A-87 cost principles.

Recommendation: We recommend that management obtain, on a semiannual basis, a signed certification from employees who work solely on a single federal program and reconcile budget to actual payroll costs based on time and effort reporting. We also recommend that the internal controls be evaluated to prevent future noncompliance.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

Item: 2011-68 Cash Management

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Human Services

Federal Program: Community Services Block Grant

CFDA No.: 93.569, 93.710

Award No.: Various

Award Year: October 1, 2010 - September 30, 2011

Requirement: Per 24 CFR 85.20, procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency.

Per OMB Circular A 102, Grants and Cooperative Agreements with State and Local Governments Attachment (1)(a), agency methods and procedures for transferring funds shall minimize the time elapsing between transfer to recipients of grants and cooperative agreements and the recipient's need for the funds.

Condition: The City could not provide adequate documentation to determine whether payments made were incurred before the cash draw date.

Questioned Costs: None

Possible Asserted Cause and Effect: The Department of Human Services may not be in compliance with cash management requirements.

Recommendation: We recommend that management reconcile accounts on a regular basis to ensure reconciliations can be provided in a timely manner.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Item: 2011-69 Eligibility

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Human Services

Federal Program: Community Services Block Grant

CFDA No.: 93.569, 93.710

Award No.: Various

Award Year: October 1, 2010 - September 30, 2011

Requirement: Per 2 CFR Part 225, Appendix A, Paragraph C.1 (j), to be allowable under Federal awards, costs must meet the following general criteria: (j) be adequately documented. Per A-102 Common Rule, Nonfederal entities receiving Federal awards must establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements.

Condition: Of the 65 files selected, 6 files could not be found, 10 of the files received did not include proper income documentation/ calculations, 6 of the files received had intake application forms that were not signed by the CSBG intake worker, 4 of the files received did not include proper identification documents, 7 of the files received did not have signed check requests for benefits paid to individuals. Further, DHS was unable to reconcile the eligibility listing to the relevant GL expenditures, and thus we could not determine the costs related to the findings above.

Questioned Costs: \$5,871,844

Possible Asserted Cause and Effect: The department has not performed required checks, obtained sufficient documentation before accepting an individual as eligible and maintained a listing of payments made to individuals, therefore, is not in compliance with federal Eligibility requirements.

Recommendation: We recommend that management implement controls to ensure that all eligibility requirements are met before approving individuals.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

Item: 2011-70 Procurement, Suspension and Debarment

Finding Type: Noncompliance and significant deficiency

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Human Services

Federal Program: Community Services Block Grant

CFDA No.: 93.569, 93.710

Award No.: Various

Award Year: October 1, 2010 - September 30, 2011

Requirement: Per 2 CFR part 180.300, when you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified.

Condition: 1 of 8 subrecipients tested did not have a signed suspension and debarment certification in the contract.

Questioned Costs: None

Possible Asserted Cause and Effect: Managements misunderstanding of the compliance requirements.

Recommendation: We recommend that management obtain suspension and debarment certifications from all subrecipients. Additionally, we recommend that management confirm that the entity is not suspended or debarred by reviewing the ELPS web site.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

Item: 2011-71 Reporting

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Human Services

Federal Program: Community Services Block Grant

CFDA No.: 93.569, 93.710

Award No.: Various

Award Year: October 1, 2010 - September 30, 2011

Requirement: The agreement between the State of Michigan Department of Human Services (MDHS) and the City of Detroit Department of Human Services (DHS) requires that the grantee submit a monthly Statement of Expenditures (SOE) to MDHS. The SOE shall accurately indicate actual expenditures incurred in the performance of this agreement for the period being billed. The SOE shall be submitted to MDHS within 30 days from the end of the monthly billing period. For the month of September, billings shall be submitted as reasonably directed by the Grant Administrator to meet fiscal year and closing deadlines.

Section 1512 ARRA reports are to be submitted monthly within 30 days of month end.

Condition: During our review of monthly FSRs, we discovered that 2 of 12 months, April and May 2011, were not submitted to the State timely. They were submitted in June and July 2011, respectively. In addition to this the ARRA section 1512 report for November 2010 was not submitted timely. The report was submitted in January 2011.

We obtained 12 Statement of Expenditure reports and noted that 2 of the 12 months were submitted beyond the deadline of 30 days from the end of the monthly billing period. The April 2011 report was submitted 48 days after the close of the month, and the May 2011 report was submitted 70 days after the close of the month. We also noted that 1 of 6 ARRA related Statement of Expenditure (November 2010) reports was 37 days after the close of the month.

Questioned Costs: None

Possible Asserted Cause and Effect: The department has not submitted monthly financial reports to MDHS timely and, therefore, is not in compliance with the agreement with MDHS.

Recommendation: We recommend that reporting checklists are utilized to monitor the timely submission of all required reports.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Item: 2011-72 Reporting

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Human Services

Federal Program: Community Services Block Grant

CFDA No.: 93.569, 93.710

Award No.: Various

Award Year: October 1, 2010 - September 30, 2011

Requirement: The agreement between the State of Michigan Department of Human Services (MDHS) and the City of Detroit Department of Human Services (DHS - the grantee) requires that the grantee submit a monthly Statement of Expenditures (SOE) to MDHS. The SOE shall accurately indicate actual expenditures incurred in the performance of this agreement for the period being billed. The SOE shall be submitted to MDHS with thirty (30) days from the end of the monthly billing period. For the month of September, billings shall be submitted as reasonably by the Grant Administrator to meet fiscal year and closing deadlines. Section 1512 ARRA reports are to be submitted monthly within 30 days of month end.

Condition: During our review of the reconciliation between the Schedule of Expenditures submitted and the GL/DRMS the we noted the following: \$49,195 was disallowed the money was received from the subrecipient however no evidence was provided that it was refunded to the State, \$190,431.58 was incorrectly reported in the FY2011 FSR's as they related to the FY2010, \$28, 365.72 of expenditures were not supported, and \$308,200 that was reported on the SEFA could not be reconciled to the FSR's submitted. Additionally, it was noted that out of the 40 invoices selected, 7 invoices related to the 09/10 year but was recorded in the 10/11 year.

Questioned Costs: \$77,561

Possible Asserted Cause and Effect: The department has submitted inaccurate financial reports to MDHS and, therefore, is not in compliance with the agreement with MDHS.

Recommendation: We recommend that management reconcile accounts on a regular basis to ensure reconciliations can be provided in a timely manner.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Item: 2011-73 Subrecipient Monitoring

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Human Services

Federal Program: Community Services Block Grant

CFDA No.: 93.569, 93.710

Award No.: Various

Award Year: October 1, 2010 - September 30, 2011

Requirement: Per OMB Circular A-133, Subpart D(d) (1), (3), and (4), a pass-through entity shall perform the following for federal awards it makes: (1) Identify federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of federal agency; (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved; (4) Ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

Condition: We selected 8 subrecipients for testing and noted that 1 subrecipient agreement did not specify the CFDA number and 4 subrecipient monitoring files could not be located.

Questioned Costs: None

Possible Asserted Cause and Effect: Insufficient subrecipient monitoring policy caused the Department to not be in compliance with this requirement.

Recommendation: We recommend that the responsibilities of both the City and its subrecipient be clearly stated in the contract and that specific written monitoring procedures are developed and implemented.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Item: 2011-74 Special Tests and Provisions – Criminal Background Checks

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Human Services

Federal Program: Community Services Block Grant

CFDA No.: 93.569, 93.710

Award No.: Various

Award Year: October 1, 2010 - September 30, 2011

Requirement: Per the agreement between the State of Michigan Department of Human Services (MDHS) and the City of Detroit Department of Human Services (DHS), as a condition of the agreement, the Community Services Block Grant grantee shall conduct or cause to be conducted prior to any individuals performing work under this agreement: (1) for each new employee, subcontractor, subcontractor employee or volunteer who has unsupervised direct contact with children and/or vulnerable adult populations or access to confidential information, or is directly supervising volunteers that have direct contact with children and/or vulnerable adult populations or confidential information, or has regardless of supervision status, access to client confidential information, an Internet Criminal History Access Tool (ICHAT) check and a National and State Sex Offender Registry (SOR) check; (2) for each new employee, employee, subcontractor, subcontractor employee or volunteer who works directly with children under this agreement, a Central Registry (CR) check.

Condition: Three employees newly hired or transferred into the CSBG program during the fiscal year had no criminal background checks performed.

Questioned Costs: None

Possible Asserted Cause and Effect: Insufficient communication between Human Resources and DHS management and as a result the department is not in compliance with the requirement.

Recommendation: We recommend management implement a process and related controls to ensure criminal background checks are completed for all required personnel.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Item: 2011-75 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: N/A

Federal Program: Head Start, Early Head Start

CFDA No.: 93.600, 93.708, 93.709

Award No.: Various

Award Year: November 1, 2009 – October 31, 2010, November 1, 2010 – October 31, 2011

Requirement: According to A-87, attachment B (8) (h), where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Per A-87, payroll costs must be adequately documented.

Condition: 10 of 40 time allocations were not provided by the City. Of the 30 that were received, the time spent could not be traced to the GL. This is due to time has been allocated to the program based on a predetermined percentage allocation basis and not on actual hours worked per the time allocation reports/employee certifications. The Head Start program is one of the programs that receives a budget amount instead of actual. Consequently, the related fringe benefits would also be incorrectly allocated. In addition, we did not receive a reconciliation of employees who are 100% charged to Head Start in time to perform procedures prior to the issuance of this audit report.

Questioned Costs: \$3,224,441

Possible Asserted Cause and Effect: The Department of Human Services has charged costs to the Head Start grant which may not be allowed and is may not be in compliance with OMB Circular A-87 cost principles.

Recommendation: We recommend that management reconcile accounts on a regular basis to ensure reconciliations can be provided in a timely manner.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

Item: 2011-76 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: N/A

Federal Program: Head Start, Early Head Start

CFDA No.: 93.600, 93.708, 93.709

Award No.: Various

Award Year: November 1, 2009 – October 31, 2010, November 1, 2010 – October 31, 2011

Requirement: Per 2 CFR Part 225 Appendix E, A (1) and (3), indirect cost rates will be reviewed, negotiated, and approved by the cognizant Federal agency on a timely basis. The results of each negotiation shall be formalized in a written agreement between the cognizant agency and the governmental unit.

Condition: The City of Detroit Department of Human Services' Indirect Cost Rate Proposal was not approved by their cognizant agency (HUD) as required.

Questioned Costs: \$449,509

Possible Asserted Cause and Effect: Management did not comply with the Activities Allowed / Allowable Costs requirement.

Recommendation: We recommend management increase awareness of federal program compliance requirements and monitor compliance with the requirements on a regular basis.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Item: 2011-77 Cash Management

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: N/A

Federal Program: Head Start, Early Head Start

CFDA No.: 93.600, 93.708, 93.709

Award No.: Various

Award Year: November 1, 2009 – October 31, 2010, November 1, 2010 – October 31, 2011

Requirement: Per 24 CFR 85.20, procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency.

Per OMB Circular A 102, Grants and Cooperative Agreements with State and Local Governments Attachment (1)(a), agency methods and procedures for transferring funds shall minimize the time elapsing between transfer to recipients of grants and cooperative agreements and the recipient's need for the funds.

Condition: We selected 78 expenditures charged to the grant, totaling \$25,284,400, and noted that for 12 out of 78 expenditures, totaling \$4,762,474, the City did not minimize the time lapse between drawdown and the payment of funds as required. Of the 12 exceptions, the time lapse between drawdown and payment was 4 days for 6 items, 5-10 days for 3 items, and 10 or more days for 3 items.

Questioned Costs: None

Possible Asserted Cause and Effect: Central Finance Accounts Payable procedures for payment processes require modification to accommodate grant expenditure requirements.

Recommendation: We recommend that the centralized finance team work with the Department of Human Services to develop procedures to minimize the time lapse from the drawdown of funds to the payment of funds.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

Item: 2011-78 Earmarking

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: N/A

Federal Program: Head Start, Early Head Start

CFDA No.: 93.600, 93.708, 93.709

Award No.: Various

Award Year: November 1, 2009 – October 31, 2010, November 1, 2010 – October 31, 2011

Requirement: Per OMB Circular A-133 Compliance Supplement, Subpart G (3a.) The costs of developing and administering a Head Start program shall not exceed 15 percent of the annual total program costs, including the required non-Federal contribution to such costs (i.e., matching), unless a waiver has been granted by ACF. Development and administrative costs include, but are not limited to, the cost of organization-wide planning, coordination and general purpose direction, accounting and auditing, purchasing and personnel functions, and the cost of operating and maintaining space for these purposes (42 USC 9839(b)(2); 45 CFR section 1301.32).

Per A-102 requires nonfederal entities receiving Federal Awards to establish and maintain internal controls designed to reasonable ensure compliance with laws, regulations and program compliance requirements.

Condition: DHS exceeded the 15% maximum of costs of developing and administering a Head Start program. Administrative costs charged to the grant were 18.52% of total expenditures.

Questioned Costs: \$326,098

Possible Asserted Cause and Effect: The Department of Human Services was not capturing all of the administrative costs incurred by its subrecipients and exceeded the maximum threshold.

Recommendation: We recommend that the department adds monitoring of administrative costs to the subrecipient monitoring.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Item: 2011-79 Procurement, Suspension and Debarment

Finding Type: Noncompliance and significant deficiency

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: N/A

Federal Program: Head Start, Early Head Start

CFDA No.: 93.600, 93.708, 93.709

Award No.: Various

Award Year: November 1, 2009 – October 31, 2010, November 1, 2010 – October 31, 2011

Requirement: 45 CFR 74.46 -- Procurement records Procurement records and files for purchases in excess of the simplified acquisition threshold (\$100,000) shall include the following at a minimum: (a) Basis for contractor selection, (b) justification for lack of competition when competitive bids or offers are not obtained, and (c) basis for award cost or price.

45 CFR 74.43 -- Competition All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. The recipient shall be alert to organizational conflicts of interest as well as noncompetitive practices among contractors that may restrict or eliminate competition or otherwise restrain trade. In order to ensure objective contractor performance and eliminate unfair competitive advantage, contractors that develop or draft grant applications, or contract specifications, requirements, statements of work, invitations for bids and/or requests for proposals shall be excluded from competing for such procurements. Awards shall be made to the bidder or offeror whose bid or offer is responsive to the solicitation and is most advantageous to the recipient, price, quality and other factors considered. Solicitations shall clearly set forth all requirements that the bidder or offeror shall fulfill in order for the bid or offer to be evaluated by the recipient. Any and all bids or offers may be rejected when it is in the recipient's interest to do so.

Condition: Head Start contracts are not competitively bid. No support of the rationale to limit competition was provided.

Questioned Costs: None

Possible Asserted Cause and Effect: Management did not comply with Procurement requirements.

Recommendation: We recommend that the City competitively bid all contracts.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

Item: 2011-80 Reporting

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: N/A

Federal Program: Head Start, Early Head Start

CFDA No.: 93.600

Award No.: Various

Award Year: November 1, 2009 – October 31, 2010, November 1, 2010 – October 31, 2011

Requirement: Per 2 CFR 170, Appendix A (I)(a)(1), Unless you are exempt as provided in paragraph d. of this award term, you must report each action that obligates \$25,000 or more in Federal funds that does not include Recovery funds (as defined in section 1512(a)(2) of the American Recovery and Reinvestment Act of 2009, Pub. L. 111-5) for a subaward to an entity.

Per the March 2011 OMB A-133 Compliance Supplement Part 3 L, grant and cooperative agreement recipients and contractors must report information related to a subaward by the end of the month following the month in which the subaward or obligation of \$25,000 or greater was made and, for contracts, the month in which a modification was issued that changed previously reported information.

Condition: Per review of the Transparency Act Report, the reporting of key data elements of the subaward to the subrecipient (i.e. award amount, subrecipient name, date of signed contract) were not reported in the Transparency Act website, and there were no identifiable controls in place over the preparation and submission of the data.

Questioned Costs: None

Possible Asserted Cause and Effect: Management did not comply with the Subaward Transparency Act & Sub-Granting Reporting requirements.

Recommendation: We recommend that reporting checklists are utilized to monitor the timely and accurate submission of all required reports.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Item: 2011-81 Subrecipient Monitoring

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: N/A

Federal Program: Head Start, Early Head Start

CFDA No.: 93.600, 93.708, 93.709

Award No.: Various

Award Year: November 1, 2009 – October 31, 2010, November 1, 2010 – October 31, 2011

Requirement: Per OMB Circular A-133, Subpart D(d) (1), (3), and (4), a pass-through entity shall perform the following for federal awards it makes: (1) Identify federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of federal agency; (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved; (4) Ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

Condition: There were multiple findings that were repeated from previous audits of the subrecipients indicating that Department management did not take the appropriate action to ensure that any corrective action was completed on a timely basis. Additionally, 2 subrecipient contracts did not contain the CFDA number.

Questioned Costs: None

Possible Asserted Cause and Effect: Insufficient subrecipient monitoring policy caused the Department to not be in compliance with this requirement.

Recommendation: We recommend that the responsibilities of both the City and its subrecipient be clearly stated in the contract and that specific written monitoring procedures are developed and implemented.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Item: 2011-82 Cash Management

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: N/A

Federal Program: HIV Emergency Relief

CFDA No.: 93.914

Award No.: H89HA00021

Award Year: March 1, 2010 – February 28, 2011, March 1, 2011 – February 29, 2012

Requirement: Per 24 CFR 85.20, procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency.

Per OMB Circular A-102, Grants and Cooperative Agreements with State and Local Governments Attachment (1)(a), agency methods and procedures for transferring funds shall minimize the time elapsing between transfer to recipients of grants and cooperative agreements and the recipient's need for the funds.

Condition: We selected 75 expenditures charged to the grant, totaling \$3,782,353, and noted that for 7 out of 8 expenditures, totaling \$3,037,253, the City did not minimize the time lapse between drawdown and the payment of funds as required. Of the 7 exceptions, the time lapse between drawdown and payment was 4 - 7 days for 6 items, and 16 days for 1 item.

Questioned Costs: None

Possible Asserted Cause and Effect: Central Finance Accounts Payable procedures for payment processes require modification to accommodate grant expenditure requirements.

Recommendation: We recommend that the centralized finance team work with the Department of Planning and Development to develop procedures to minimize the time lapse from the drawdown of funds to the payment of funds.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

Item: 2011-83 Procurement, Suspension and Debarment

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: N/A

Federal Program: HIV Emergency Relief

CFDA No.: 93.914

Award No.: H89HA00021

Award Year: March 1, 2010 – February 28, 2011, March 1, 2011 – February 29, 2012

Requirement: Per A-102 requires nonfederal entities receiving Federal Awards to establish and maintain internal controls designed to reasonable ensure compliance with laws, regulations and program compliance requirements.

Condition: We selected 2 contracts for review and noted the following: 1 was approved 3 months after the effective date of the contract and 1 was approved at least 4 months after the effective date of the contract.

Questioned Costs: None

Possible Asserted Cause and Effect: Grant awards received at or just before the start date causes the contract process to begin after the grant has started.

Recommendation: We recommend that City departments work cooperatively to determine a method to ensure contract approvals are obtained prior to the start of work.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

Item: 2011-84 Reporting

Finding Type: Noncompliance and significant deficiency

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: N/A

Federal Program: HIV Emergency Relief

CFDA No.: 93.914

Award No.: H89HA00021, H3MHA08480

Award Year: August 1, 2010 – July 31, 2010

Requirement: Per A-102 Common Rule, Nonfederal entities receiving Federal awards must establish and maintain internal controls designed to reasonable ensure compliance with Federal laws, regulations, and program compliance requirements.

Per review of the Federal Financial Reporting instructions, quarterly reports are due 30 days after the end of the quarter and final reports are due 90 days after the grant year end.

Condition: The FFR for the MAI grant for the grant year ended July 31, 2010 was submitted 32 days late. The report was due October 31, 2010.

Questioned Costs: None

Possible Asserted Cause and Effect: This grouping of the grants has caused delays since not all of the grants have the expenditure information available by the due date. As a result, the City missed the reporting deadline.

Recommendation: We recommend that reporting checklists are utilized to facilitate report preparation and submission.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

Item: 2011-85 Reporting

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: N/A

Federal Program: HIV Emergency Relief

CFDA No.: 93.914

Award No.: H89HA00021

Award Year: March 1, 2010 – February 28, 2011, March 1, 2011 – February 29, 2012

Requirement: Per 2 CFR 170, Appendix A (I)(a)(1), Unless you are exempt as provided in paragraph d. of this award term, you must report each action that obligates \$25,000 or more in Federal funds that does not include Recovery funds (as defined in section 1512(a)(2) of the American Recovery and Reinvestment Act of 2009, Pub. L. 111-5) for a subaward to an entity.

Per the March 2011 OMB A-133 Compliance Supplement Part 3 L, grant and cooperative agreement recipients and contractors must report information related to a subaward by the end of the month following the month in which the subaward or obligation of \$25,000 or greater was made and, for contracts, the month in which a modification was issued that changed previously reported information.

Condition: Per review of the Transparency Act Report, the reporting of key data elements of the subaward to the subrecipient (i.e. award amount, subrecipient name, date of signed contract) were not reported in the Transparency Act website, and there were no identifiable controls in place over the preparation and submission of the data.

Questioned Costs: None

Possible Asserted Cause and Effect: Management did not comply with the Subaward Transparency Act & Sub-Granting Reporting requirements.

Recommendation: We recommend that reporting checklists are utilized to monitor the timely and accurate submission of all required reports.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Item: 2011-86 Subrecipient Monitoring

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: N/A

Federal Program: HIV Emergency Relief

CFDA No.: 93.914

Award No.: H89HA00021

Award Year: March 1, 2010 – February 28, 2011, March 1, 2011 – February 29, 2012

Requirement: A-102 requires nonfederal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with laws, regulations and program compliance requirements.

Per 31 USC 7502(f)(2)(B)(2), Each pass through entity shall: A) Provide each subrecipient the program names (and identifying numbers) from which each assistance is derived, and the Federal requirements that govern the use of such awards and the requirements of (this) chapter; B) Monitors the subrecipients use of Federal awards through site visits, limited scope audits, or other means; C) Review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to Federal awards provided to the subrecipient by the pass-through entity.

Condition: The City does not have any official policies and procedures in place to effectively and efficiently monitor the subrecipient. There was no evidence of management review of the onsite review checklist. The Professional Service Contract between the City of Detroit and the subrecipient, contains responsibilities listed for both parties that are ambiguous and do not clearly disclose all of the relevant terms and conditions of the grant agreement from the State of Michigan, including whether the contractor should report expenditures on a cash or accrual basis, what federal program the funding is related to, the CFDA# and pass through information.

Questioned Costs: None

Possible Asserted Cause and Effect: The City lacked a formal subrecipient monitoring policy and therefore, did not comply with the subrecipient monitoring requirements.

Recommendation: We recommend that the responsibilities of both the City and its subrecipient be clearly stated in the contract and that specific written monitoring procedures are developed and implemented.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Item: 2011-87 Maintenance of Effort

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: N/A

Federal Program: HIV Emergency Relief

CFDA No.: 93.914

Award No.: H89HA00021

Award Year: March 1, 2010 – February 28, 2011, March 1, 2011 – February 29, 2012

Requirement: Per the Ryan White HIV/Aids Program Part A Manual, Section II, Grant Administration, Part 4, Maintenance of Effort, Section A Legislative Background: Sections 2605(a) of the Ryan White legislation states: (a)(A) "that funds received under a grant awarded under this subpart will be utilized to supplement not supplant State funds made available in the year for which the grant is awarded to provide HIV-related services as described in section 2604(b)(1); (B) "that the political subdivisions within the eligible area will maintain the level of expenditures by such political subdivisions for HIV-related services as described in section 2604(b)(1) at a level that is equal to the level of such expenditures by such political subdivisions for the preceding fiscal year; and (C) "that political subdivisions within the eligible area will not use funds received under a grant awarded under this part in maintaining the level of expenditures for HIV-related services as required in subparagraph (B)."

OMB Circular A-102 requires non-Federal entities receiving Federal awards establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements.

Condition: We obtained the supporting detail for the Maintenance of Effort (MOE) expenses submitted to HRSA; however, the City was unable to provide support of the percentages used to determine the amount related to HIV services.

Questioned Costs: None

Possible Asserted Cause and Effect: The City utilized an estimate of certain costs without sufficient support for the estimate. As a result, the City could have been out of compliance.

Recommendation: We recommend that the department utilize actual numbers to support the Maintenance of Effort requirements, including supporting the percentage allocated to the HIV Emergency Relief program.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

Item: 2011-88 Matching

Finding Type: Noncompliance and Significant deficiency

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Community Health

Federal Program: Prevention and Treatment of Substance Abuse

CFDA No.: 93.959

Award No.: 10 B1 MI SAPT, 93 B1 MI SAPT

Award Year: October 1, 2009 – September 30, 2010, October 1, 2010 – September 30, 2011

Requirement: Pursuant to Section 6213 of Public Act No. 368 of 1978, as amended, Michigan has promulgated match requirement rules. Rules 325.4151 through 325.4153 appear in the 1981 Annual Administrative Code Supplement. In brief, the rule defines allowable matching fund sources and states that the allowable match must equal at least ten percent of each comprehensive CA budget (see Attachment B to the Agreement) - less direct federal and other state funds.

A-102 requires nonfederal entities receiving Federal Awards to establish and maintain internal controls designed to reasonable ensure compliance with laws, regulations and program compliance requirements.

Condition: There was \$1,218,701 of matching expenses that the City was unable to provide sufficient support for. The City was unable to provide payroll certifications related to the payroll portion of the matching calculation. Additionally the City was unable to provide sufficient documentation over the legal cost allocated to the program. Finally, the City allocates a portion of Central Services to Substance Abuse; however, the Central Services Cost Allocation plan was not approved by the cognizant agency, and therefore, is not an allowable cost. Even if these unallowable costs were subtracted from the matching expenses, the City still had enough other expenses to meet the matching requirement.

Questioned Costs: None

Possible Asserted Cause and Effect: The City could potentially be out of compliance with the Matching requirement for the Prevention and Treatment of Substance Abuse Program.

Recommendation: We recommend that the City implements time certification for employees who work 100% of their time on the Substance Abuse Program. Additionally we recommend that the City develop and get approval for a central cost allocation plan as required by A-87.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

Item: 2011-89 Reporting

Finding Type: Noncompliance and significant deficiency

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Community Health

Federal Program: Prevention and Treatment of Substance Abuse

CFDA No.: 93.959

Award No.: 10 B1 MI SAPT, 93 B1 MI SAPT

Award Year: October 1, 2009 – September 30, 2010, October 1, 2010 – September 30, 2011

Requirement: Per A-102 Common Rule, Nonfederal entities receiving Federal awards must establish and maintain internal controls designed to reasonable ensure compliance with Federal laws, regulations, and program compliance requirements. Per the State of Michigan EGrAMS system, the FSR's are due 30 days after the end of the quarter with the fourth quarter due 60 days after the end of the quarter. According to the OMB Circular A-133 Compliance supplement, the amounts reported in the financial reports should be prepared from, and agree to, the accounting records.

Condition: The 2010 RER was submitted 4 days after the deadline. The 2010 audit report was not yet submitted via EGrAMS, the Prevention Strategy Report for 2011 was not yet submitted. Additionally, 12 additional reports required per the grant agreement were submitted after the required due date.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness of timely reporting. As a result, management did not comply with the Reporting requirements.

Recommendation: We recommend that reporting checklists are utilized to ensure timely report preparation and submission and monitoring thereof.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Item: 2011-90 Subrecipient Monitoring

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Community Health

Federal Program: Prevention and Treatment of Substance Abuse

CFDA No.: 93.959

Award No.: 10 B1 MI SAPT, 93 B1 MI SAPT

Award Year: October 1, 2009 – September 30, 2010, October 1, 2010 – September 30, 2011

Requirement: A-102 requires nonfederal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with laws, regulations and program compliance requirements.

Per 31 USC 7502(f)(2)(B)(2), Each pass through entity shall: A) Provide each subrecipient the program names (and identifying numbers) from which each assistance is derived, and the Federal requirements that govern the use of such awards and the requirements of (this) chapter; B) Monitors the subrecipients use of Federal awards through site visits, limited scope audits, or other means; C) Review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to Federal awards provided to the subrecipient by the pass-through entity.

Condition: The City does not have any official policies and procedures in place to effectively and efficiently monitor the subrecipient. There was no evidence of management review of the onsite review checklist. The Professional Service Contract between the City of Detroit and the subrecipient, contains responsibilities listed for both parties that are ambiguous and do not clearly disclose all of the relevant terms and conditions of the grant agreement from the State of Michigan, including whether the contractor should report expenditures on a cash or accrual basis.

Questioned Costs: None

Possible Asserted Cause and Effect: As there was no formal monitoring program in place during the single audit year, the City was not in compliance with the subrecipient monitoring requirements.

Recommendation: We recommend that the responsibilities of both the City and its subrecipient be clearly stated in the contract and that specific written monitoring procedures are developed and implemented.

Views of Responsible Officials: Management concurs with this finding.