

City of Detroit, Michigan

**Federal Awards
Supplemental Information
June 30, 2017**

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Report on Schedule of Expenditures of Federal Awards
Required by the Uniform Guidance

Independent Auditor's Report

To the Honorable Mayor Michael E. Duggan 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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated January 26, 2018, which contained unmodified opinions on 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.

Our audit was conducted for the purpose of forming opinions on the financial statement that collectively comprise the basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to January 26, 2018. We did not audit the financial statements of of the Public Lighting Authority, which is a major enterprise fund with assets, net position, and revenue of \$229.5 million, \$32.1 million, and \$13.4 million, respectively. We also did not audit the following discretely presented component units: Detroit Brownfield Redevelopment Authority, Detroit Public Library, Detroit Transportation Corporation, Downtown Development Authority, Eastern Market Corporation, Economic Development Corporation, Local Development Finance Authority, Museum of African American History, Detroit Land Bank Authority, and Eight Mile/Woodward Corridor Improvement Authority, which collectively represent 77 percent, 62 percent, and 78 percent of the assets, net position, and revenue, respectively, of the discretely presented component units. We also did not audit the following blended component units: Detroit Building Authority and Greater Detroit Resource Recovery Authority, which represent 1 percent, 0.5 percent, and 1.5 percent of the assets, net position/fund balance, and revenue, respectively, of the aggregate remaining fund information. Those financial statements were audited by other auditors, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the entities listed above, is based on the report of the other auditors.

The City's basic financial statements include the operations of the Detroit Transportation Corporation, Detroit Housing Commission, Downtown Development Authority, Eastern Market Corporation, Economic Development Corporation, Detroit Landbank Authority, Detroit Employment Solutions Corporation, Detroit Building Authority, Public Lighting Authority, Detroit Brownfield Redevelopment Authority, Local Development Finance Authority, Eight Mile/Woodward Corridor Improvement Authority, and Museum of African American History. The schedule excludes these operations because they received a separate financial statement audit and were subjected to a single audit.

The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by the Uniform Guidance, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Plante & Moran, PLLC

January 26, 2018

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*

Independent Auditor's Report

To Management, the Honorable Mayor
Michael E. Duggan, and
the Honorable Members of the City Council
City of Detroit, Michigan

We have audited, in accordance with the 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, 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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 26, 2018.

Our report on the City includes a reference to other auditors who audited the financial statements of the Public Lighting Authority, which is a major enterprise fund with assets, net position, and revenue of \$229.5 million, \$32.1 million, and \$13.4 million, respectively. We also did not audit the following discretely presented component units: Detroit Brownfield Redevelopment Authority, Detroit Public Library, Detroit Transportation Corporation, Downtown Development Authority, Eastern Market Corporation, Economic Development Corporation, Local Development Finance Authority, Museum of African American History, Detroit Land Bank Authority, and Eight Mile/Woodward Corridor Improvement Authority, which collectively represent 77 percent, 62 percent, and 78 percent of the assets, net position, and revenue, respectively, of the discretely presented component units. We also did not audit the following blended component units: Detroit Building Authority and Greater Detroit Resource Recovery Authority, which represent 1 percent, 0.5 percent, and 1.5 percent of the assets, net position/fund balance, and revenue, respectively, of the aggregate remaining fund information. This report does not include the complete 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. The financial statements of General Retirement System, Police and Fire Retirement System, Detroit Public Library (discretely presented component unit), and Greater Detroit Resource Recovery Authority (blended component unit) were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Detroit, Michigan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

To Management, the Honorable Mayor
Michael E. Duggan, and
the Honorable Members of the City Council
City of Detroit, Michigan

A deficiency in internal control 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 a combination of deficiencies, in internal control 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 2017-001, 2017-002, 2017-003, 2017-004, 2017-005, and 2017-006 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Detroit, Michigan's financial statements are free from 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of findings and questioned costs as Finding 2017-006.

City of Detroit, Michigan's Response to Findings

The City of Detroit, Michigan's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City of Detroit, Michigan's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Morse, PLLC

January 26, 2018

Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance

Independent Auditor's Report

To the Honorable Mayor Michael E. Duggan and the
Honorable Members of the City Council
City of Detroit, Michigan

Report on Compliance for Each Major Federal Program

We have audited the City of Detroit, Michigan's (the "City") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017. The City of Detroit, Michigan's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The City of Detroit, Michigan's basic financial statements include the operations of the Detroit Transportation Corporation, Detroit Housing Commission, Downtown Development Authority, Eastern Market Corporation, Economic Development Corporation, Detroit Landbank Authority, Detroit Employment Solutions Corporation, Detroit Building Authority, Public Lighting Authority, Detroit Brownfield Redevelopment Authority, Local Development Finance Authority, Eight Mile/Woodward Corridor Improvement Authority, and Museum of African American History which received federal awards, and which are not included in the schedule during the year ended June 30, 2017. Our audit, described below, did not include the operations of Detroit Transportation Corporation, Detroit Housing Commission, Downtown Development Authority, Eastern Market Corporation, Economic Development Corporation, Detroit Landbank Authority, Detroit Employment Solutions Corporation, Detroit Building Authority, Public Lighting Authority, Detroit Brownfield Redevelopment Authority, Local Development Finance Authority, Eight Mile/Woodward Corridor Improvement Authority, and Museum of African American History. The above-mentioned entities received a separate financial statement audit and separate a single audit when required by Uniform Guidance.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Detroit, Michigan's major federal programs based on our audit of the types of compliance requirements referred to above.

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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance 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 of Detroit, Michigan'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Detroit, Michigan's compliance.

To the Honorable Mayor Michael E. Duggan and the
Honorable Members of the City Council
City of Detroit, Michigan

Opinion on Each Major Federal Program

In our opinion, the City of Detroit, Michigan complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as Findings 2017-008, 2017-009, 2017-010, 2017-011, and 2017-012. Our opinion on each major federal program is not modified with respect to these matters.

The City of Detroit, Michigan's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and/or corrective action plan. The City of Detroit, Michigan's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

Report on Internal Control Over Compliance

Management of the City of Detroit, Michigan is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Detroit, Michigan's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 material weaknesses or significant deficiencies and therefore, identified material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

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 a 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 Findings 2017-007, 2017-008, 2017-009, and 2017-012 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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2017-010 to be a significant deficiency.

The City of Detroit, Michigan's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and/or corrective action plan. The City of Detroit, Michigan's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

To the Honorable Mayor Michael E. Duggan and the
Honorable Members of the City Council
City of Detroit, Michigan

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Plante & Morse, PLLC

January 26, 2018

City of Detroit, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2017

Federal Agency/Pass-through Entity/Program Title	CFDA #	Pass-through Entity Identifying Number	Subrecipient Expenditures	Federal Expenditures
Department of Agriculture:				
Child Nutrition Cluster:				
Via Michigan Department of Education:				
2016 Summer Food Program	10.559	N/A	\$ -	\$ 279,345
2017 Summer Food Program	10.559	N/A	-	62,152
Total Child Nutrition Cluster			<u>-</u>	<u>341,497</u>
Via Michigan Department of Health and Human Services:				
Special Supplemental Nutrition Program for Women, Infants, and Children 2016	10.557	IW100342	998,544	998,544
Special Supplemental Nutrition Program for Women, Infants, and Children Breastfeeding 2016	10.557	W500342	30,524	30,524
Special Supplemental Nutrition Program for Women, Infants, and Children 2017	10.557	IW100342	3,334,929	3,438,082
Special Supplemental Nutrition Program for Women, Infants, and Children Breastfeeding 2017	10.557	W500342	83,388	85,967
Total Supplemental Nutritional Assistance Program WIC			<u>4,447,385</u>	<u>4,553,117</u>
Total Department of Agriculture			<u>4,447,385</u>	<u>4,894,614</u>
Department of Housing and Urban Development:				
CDBG - Entitlement Grants Cluster:				
Direct Awards:				
Community Development Block Grant	14.218	B-13-MC-26-0006	11,541	23,302
Community Development Block Grant	14.218	B-14-MC-26-0006	5,976,262	15,014,161
Community Development Block Grant	14.218	B-15-MC-26-0006	4,798,125	14,487,742
Community Development Block Grant	14.218	B-16-MC-26-0006	1,444,534	3,922,133
Community Development Block Grant - Declared Disaster Recovery FY16	14.218	B-15-MC-26-0006	-	843,102
Neighborhood Stabilization Program 1	14.218	B-08-MN-26-0004	-	104,675
Neighborhood Stabilization Program 3	14.218	B-11-MN-26-0004	-	639,626
Total CDBG - Entitlement Grants Cluster			<u>12,230,462</u>	<u>35,034,741</u>
Direct Awards:				
Emergency Shelter Grant	14.231	E-14-MC-26-0006	-	1,240,388
Emergency Shelter Grant	14.231	E-15-MC-26-0006	170,858	1,109,892
Total ESG			<u>170,858</u>	<u>2,350,280</u>
Direct Awards:				
Economic Development Grant (EDI)	14.251	B0-09-SP-M1-0108	-	332,500
Economic Development Grant (EDI)	14.251	B-09-SP-MI-0089	-	37,060
Total EDI Grant			<u>-</u>	<u>369,560</u>

City of Detroit, Michigan

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2017

Federal Agency/Pass-through Entity/Program Title	CFDA #	Pass-through Entity Identifying Number	Subrecipient Expenditures	Federal Expenditures
Department of Housing and Urban Development (Continued):				
Direct Awards:				
Home Investment Partnership (Special Housing)	14.239	M-11-MC-26-0202	\$ -	\$ 2,375
Home Investment Partnership (Special Housing)	14.239	M-12-MC-26-0202	-	509,233
Home Investment Partnership (Special Housing)	14.239	M-13-MC-26-0202	-	2,724,183
Home Investment Partnership (Special Housing)	14.239	M-14-MC-26-0202	-	516,505
Home Investment Partnership (Special Housing)	14.239	M-15-MC-26-0202	-	611,023
Total Home Investment Partnership			<u>-</u>	<u>4,363,319</u>
Direct Awards:				
Housing Opportunities for Persons With Aids 6/2015	14.241	MIH15-F001	21,358	21,358
Housing Opportunities for Persons With Aids 6/2016	14.241	MIH16-F001	2,321,380	2,321,380
Total HOPWA			<u>2,342,738</u>	<u>2,342,738</u>
Direct Awards -				
Lead Hazard Reduction Demonstration Grant Program	14.905	MI-LHHD-026614	-	1,138,448
Total Lead Hazard Reduction Demonstration Program			<u>-</u>	<u>1,138,448</u>
Total Department of Housing and Urban Development			<u>14,744,058</u>	<u>45,599,086</u>
Department of Interior:				
Via Michigan State Housing Development Authority (MSHDA):				
Historic Preservation Fund Grant Program: Belle Isle Aquarium	15.904	CG15-426	-	19,240
Historic Preservation Fund Grant Program: Scarab Club	15.904	CG15-427	-	24,000
Total Historic Preservation Fund Grant			<u>-</u>	<u>43,240</u>
Total Department of Interior			<u>-</u>	<u>43,240</u>
Department of Justice:				
Direct Awards:				
Cease Fire Detroit Community Violence Prevention	16.123	2012-PB-FX-K002	-	292,925
Youth Violence Prevention Capacity	16.123	2012-NY-FX-0027	-	180,623
Total Violence Prevention			<u>-</u>	<u>473,548</u>
Via Michigan Department of Health and Human Services:				
Crime Victim Assist - V.O.C.A. 2016/2017	16.575	2015-VA-GX-0044	-	134,253
Crime Victim Assist - V.O.C.A. 2015/2016	16.575	2014-VA-GX-0046	-	427,640
Total Crime Victim Assistance			<u>-</u>	<u>561,893</u>

City of Detroit, Michigan

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2017

Federal Agency/Pass-through Entity/Program Title	CFDA #	Pass-through Entity Identifying Number	Subrecipient Expenditures	Federal Expenditures
Department of Justice (Continued):				
Encourage Arrest Detroit Domestic Violence Reduction Project 2015-2016	16.590	2015-WE-AX-0043	\$ -	\$ 32,144
Total Encourage to Arrest			-	32,144
Project Safe Neighborhoods	16.609	2016-UL-WX-0037	-	37,989
Total Project Safe Neighborhoods			-	37,989
Direct Awards:				
2010 COPS Technology Program	16.710	2010-CK-WX-0506	-	41,237
2013 COPS Hiring Program Grant	16.710	2013-UL-WX-0038	-	233,848
2013 COPS Micro Bike	16.710	2013-CK-WX-K032	-	9,948
2015 COPS Hiring Program Grant (& match)	16.710	2015-UL-WX-0024	-	540,971
2016 COPS Hiring Program Grant	16.710	2016-UL-WX-0037	-	394,127
2010 Clinical Violators and Ex-Offenders Project	16.710	2010-DD-BX-0692	-	145,866
Total COPS Grants			-	1,365,997
Direct Awards -				
2013 Justice Assistance Grant	16.738	2015-DE-BX-K034	-	127,748
Via The County of Wayne:				
2013 Justice Assistance Grant	16.738	2013-DJ-BX-0503	-	342,256
2014 Justice Assistance Grant	16.738	2014-DJ-BX-0503	-	216,569
Total Justice Assistance Grants (JAG)			-	686,573
Direct Awards -				
2015-2017 Technology Information for Public Safety (TIPS)	16.751	2015-DG-BX-K007	-	125,951
Total Byrne Criminal Justice Innovation Program			-	125,951
Via Community Health and Social Service Center (CHASS) -				
2015 Comm. Health and Soc. Serv. Ctr. - National Crime Victims Rights Week	16.888	2015-CY-AX-0006	-	6,029
Total Consolidated and Technical Assistance Grant			-	6,029
Total Department of Justice			-	3,290,124

City of Detroit, Michigan

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2017

Federal Agency/Pass-through Entity/Program Title	CFDA #	Pass-through Entity Identifying Number	Subrecipient Expenditures	Federal Expenditures
Department of Transportation:				
Highway Planning and Construction Cluster -				
Via Michigan Department of Transportation:				
2014 CMAQ Diesel	20.205	2014-0098	\$ -	\$ 79,240
Highway Research Planning and Construction	20.205	00-5459	-	1,700,866
Total Highway Planning and Construction Cluster			<u>-</u>	<u>1,780,106</u>
Federal Transit Cluster:				
Via Federal Transit Administration:				
Federal Transit Capital Investment Grant	20.500	MI-04-0054-00	-	616,982
Federal Transit Capital Investment Grant	20.500	MI-04-0070-00	-	32,075
Federal Transit Capital Investment Grant	20.500	MI-04-0093-00	-	1,458,247
Total Federal Transit Capital Investment Grants			<u>-</u>	<u>2,107,304</u>
Via Federal Transit Administration:				
Federal Transit Formula Grant	20.507	MI-90-X563-00	-	45,434
Federal Transit Formula Grant	20.507	MI-90-X604-00	-	148,641
Federal Transit Formula Grant	20.507	MI-90-X605-00	-	13,023,457
Federal Transit Formula Grant	20.507	MI-95-X034-00	-	1,251,058
Federal Transit Formula Grant	20.507	MI-90-X642-00	-	106,105
Total Federal Transit Formula Grants			<u>-</u>	<u>14,574,695</u>
Total Federal Transit Cluster			<u>-</u>	<u>16,681,999</u>
Transit Services Programs Cluster:				
Direct Awards:				
Job Access and Reverse Commute Grant	20.516	MI-37-X035-00	-	133,782
Job Access and Reverse Commute Grant	20.516	MI-37-X041-02	-	501,970
Total Job Access and Reverse Commute Grants			<u>-</u>	<u>635,752</u>
Direct Awards:				
New Freedom Grant	20.521	MI-57-X005-00	-	130,486
New Freedom Grant	20.521	MI-57-X015-00	-	328,915
New Freedom Grant	20.521	MI-57-X013-00	-	274,453
Total New Freedom Grants			<u>-</u>	<u>733,854</u>
Total Transit Services Programs Cluster			<u>-</u>	<u>1,369,606</u>

City of Detroit, Michigan

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2017

Federal Agency/Pass-through Entity/Program Title	CFDA #	Pass-through Entity Identifying Number	Subrecipient Expenditures	Federal Expenditures
Department of Transportation (Continued):				
Highway Safety Cluster:				
Via Michigan Department of State Police:				
Strategic Traffic Enforcement Prog 2015-2016	20.600	PT-16-23	\$ -	\$ 97,728
Strategic Traffic Enforcement Prog 2016-2017	20.600	PT-17-33	-	185,425
Highway Safety Underage Enforcement 2015-2016	20.616	AL-16-07	-	30,887
Highway Safety Underage Enforcement 2016-2017	20.616	AL-16-17	-	23,430
Total State and Community Highway Safety			<u>-</u>	<u>337,470</u>
Total Highway Safety Cluster			<u>-</u>	<u>337,470</u>
Via Federal Transit Administration:				
Metropolitan Planning Grant	20.505	SEMCOG CPG16-17006	-	314,304
Metropolitan Planning Grant	20.505	SEMCOG S8DD0T17-17016	-	41,607
Total Metropolitan Planning Grants			<u>-</u>	<u>355,911</u>
Via Michigan Department of Transportation -				
Federal Aviation Admin: Runway Safety Area Study	20.106	D-26-0027-3912	-	13,330
Total Airport Improvement Program			<u>-</u>	<u>13,330</u>
Total Department of Transportation			<u>-</u>	<u>20,538,422</u>
Environmental Protection Agency:				
Drinking Water State Revolving Fund Cluster:				
Via Michigan Department of Environmental Quality:				
Capitalization Grants for Drinking Water-State Revolving Fund	66.468	7412-01	-	836,269
Capitalization Grants for Drinking Water-State Revolving Fund	66.468	7413-01	-	1,816,059
Total Drinking Water State Revolving Fund Cluster			<u>-</u>	<u>2,652,328</u>
Direct Awards -				
Recovery Park Green Infrastructure Work	66.469	GL-00E01279	-	443,474
Total Great Lakes Program			<u>-</u>	<u>443,474</u>

City of Detroit, Michigan

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2017

Federal Agency/Pass-through Entity/Program Title	CFDA #	Pass-through Entity Identifying Number	Subrecipient Expenditures	Federal Expenditures
Environmental Protection Agency (Continued):				
Direct Awards -				
USEPA Environmental Training Grant	66.815	JT-00E01370	\$ -	\$ 106,329
Total Environmental Training Grant			<u>-</u>	<u>106,329</u>
Direct Awards -				
US0079A Brownfields Program (Part A): Assessment Grants - FY 2015	66.818	BF-00E01519	-	143,862
Total Brownfields Assessment Grant			<u>-</u>	<u>143,862</u>
Total Environmental Protection Agency			<u>-</u>	<u>3,345,993</u>
Department of Health and Human Services:				
Medicaid Cluster -				
Via Michigan Department of Health and Human Services:				
CSHCS Outreach & Advocacy 9/2016	93.778	05U05M15ADM	70,640	70,640
CSHCS Outreach & Advocacy 9/2017	93.778	05U05M15ADM	192,596	192,596
Total Medicaid Cluster			<u>263,236</u>	<u>263,236</u>
Via The County of Macomb:				
2014 Medical Reserve Corps	93.008	MRCSG101005-04-00	-	3,941
2014 Medical Reserve Corps Region 2 South	93.008	MRCSG101005-04-00	-	4,550
Total Medical Reserve Corps Grants			<u>-</u>	<u>8,491</u>
Via Michigan Department of Health and Human Services:				
Public Health Emergency Preparedness Cities Readiness Initiative 9/2017	93.069	NU90TP000528	130,202	134,996
Public Health Emergency Preparedness Cities Readiness Initiative 9/2018	93.069	NU90TP000528	15,678	15,678
Public Health Emergency Preparedness 9/2016	93.069	NU90TP000528	49,687	49,687
Public Health Emergency Preparedness 9/2017	93.069	NU90TP000528	162,155	166,231
Public Health Emergency Preparedness Ebola 2017	93.069	NU90TP000528	1,147	1,147
Total Public Health Emergency Preparedness			<u>358,869</u>	<u>367,739</u>
Via Michigan Department of Health and Human Services:				
Immunization Vaccines for Children 09/2016	93.268	H23 CCH522556	128,792	128,792
Immunization Vaccines for Children 09/2017	93.268	H23 CCH522556	303,495	303,495
Immunization Action-Vaccination Shipped (In-kind)	93.268	H23 CCH522556	-	799,228
West Nile Virus Community Surveillance Program	93.268	N/A	-	489
Total CDC Immunization			<u>432,287</u>	<u>1,232,004</u>

City of Detroit, Michigan

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2017

Federal Agency/Pass-through Entity/Program Title	CFDA #	Pass-through Entity Identifying Number	Subrecipient Expenditures	Federal Expenditures
Department of Health and Human Services (Continued):				
Direct Awards:				
HIV Emerg Supp Relief 2/2017	93.914	H89HA00021-24-00	\$ 7,301,080	\$ 7,301,080
HIV Emerg Supp Relief 2/2018	93.914	H89HA00021-25-00	1,293,471	1,293,471
Total HIV Emergency Supplemental Relief			<u>8,594,551</u>	<u>8,594,551</u>
Via Michigan Department of Health and Human Services:				
HIV Ryan White Part B 2016	93.917	N/A	59,397	59,397
HIV Ryan White Part B 2017	93.917	N/A	133,585	137,601
HIV Ryan White Part B MAI 9/2017	93.917	N/A	8,002	8,002
Total HIV Ryan White Part B			<u>200,984</u>	<u>205,000</u>
Via Michigan Department of Health and Human Services:				
ZIKA Virus Community Support Program 9/2017	93.966	N/A	640	640
ZIKA Virus Mosquito Surveillance Program 9/2017	93.966	N/A	1,455	1,455
Total Zika Health Care Services Program			<u>2,095</u>	<u>2,095</u>
Via Michigan Department of Health and Human Services:				
Infant Safe Sleep 9/2016	93.994	B1MIMCHS	2,749	3,298
Infant Safe Sleep 9/2017	93.994	B1MIMCHS	4,198	4,198
Local Maternal & Child Health 9/2016	93.994	B1MIMCHS	882,305	887,970
Local Maternal & Child Health 9/2017	93.994	B1MIMCHS	953,572	953,572
Lead Poison Prevention (MDCH) 9/2016	93.994	B1MIMCHS	192,204	192,204
Lead Poison Prevention (MDCH) 9/2017	93.994	B1MIMCHS	322,211	322,211
Total Maternal and Child Health Block Grant			<u>2,357,239</u>	<u>2,363,453</u>
Total Department of Health and Human Services			<u>12,209,261</u>	<u>13,036,569</u>
Department of Homeland Security:				
Direct Awards:				
2015 Emergency Management Performance Grant (EMPG)	97.042	EMC-2016-EP-00001-S01	-	6,224
2016 Emergency Management Performance Grant (EMPG)	97.042	EMC-2017-EP-00001-S01	-	28,025
Total EMPG			<u>-</u>	<u>34,249</u>

City of Detroit, Michigan

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2017

Federal Agency/Pass-through Entity/Program Title	CFDA #	Pass-through Entity Identifying Number	Subrecipient Expenditures	Federal Expenditures
Department of Homeland Security (Continued):				
Direct Awards:				
2012 Assistance to Firefighter Grant - Fire Prevention and Safety	97.044	EMW-2012-FO-07169	\$ -	\$ 288,373
2013 AFG Fire Prevention Grant	97.044	EMW-2013-FP-00717	-	197,043
2014 FEMA AFG	97.044	EMW-2014-FP-00621	-	34,749
Total Assistance to Firefighter Grant			-	<u>520,165</u>
Via The County of Macomb:				
2014 HSGP-UASI	97.067	EMW-2014-SS-00059	-	154,397
2015 HSGP: Part D Urban Area Security Initiative (UASI)	97.067	EMW-2015-SS-00033	-	478,819
Total HSGP			-	<u>633,216</u>
Direct Awards -				
2013 SAFER Grant	97.083	EMW-2013-FH-00613	-	9,652,485
Total SAFER Grant			-	<u>9,652,485</u>
Total Department of Homeland Security			-	<u>10,840,115</u>
Total Federal Awards			\$ 31,400,704	<u>\$ 101,588,163</u>

City of Detroit, Michigan

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2017

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City of Detroit, Michigan (the "City") under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the City of Detroit, Michigan, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Detroit, Michigan.

The City's basic financial statements include the operations of the Detroit Transportation Corporation, Detroit Housing Commission, Downtown Development Authority, Eastern Market Corporation, Economic Development Corporation, Detroit Landbank Authority, Detroit Employment Solutions Corporation, Detroit Building Authority, Public Lighting Authority, Detroit Brownfield Redevelopment Authority, Local Development Finance Authority, Eight Mile/Woodward Corridor Improvement Authority, and Museum of African American History, which received federal awards, and which are not included in the schedule during the year ended June 30, 2017. The Schedule excludes the above-mentioned entities because they received a separate financial statement audit and a separate single audit when required by Uniform Guidance.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule include the federal grant activity of the City of Detroit, Michigan and are presented on the same basis of accounting as the financial reporting with the exception of the expenditures related to CFDA 66.458, Capitalization Grants for Clean Water - State Revolving Fund (CWSRF) and CFDA 66.468, Capitalization Grants for Drinking Water - State Revolving Fund (DWSRF) programs, which are reported on the Schedule on the cash basis. The CWSRF and DWSRF expenditures are reported in accordance with the subrecipient reporting guidelines outlined in the 2017 OMB Compliance Supplement for CFDA 66.458 and 66.468.

Expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

The City has elected not to use the 10 percent *de minimus* indirect cost rate to recover indirect costs as allowed under the Uniform Guidance.

Note 3 - Outstanding Loan Balance

The U.S. Department of Housing and Urban Development has insured certain mortgage loan borrowings (CFDA 14.248) made by the City of Detroit, Michigan through the Planning and Development Department in connection with certain development projects. These loans had an outstanding principal due of \$50,739,000 at June 30, 2017. There were no new borrowings in fiscal year 2017. In addition, there are no continuing compliance requirements associated with these loans other than the scheduled repayments. As such, the outstanding principal balance is not included in the Schedule.

City of Detroit, Michigan

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2017

Note 4 - 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 identified the projects needed in the locality, and the State performed 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 \$18.9 million for the year ended June 30, 2017.

City of Detroit, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted?

Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516 (a)?

Yes No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
14.218	Community Development Block Grant (CDBG) - Entitlement Grants Cluster
14.239	HOME Investment Partnerships Program
93.914	HIV Emergency Relief Project Grants (Ryan White HIV/AIDS Program Part A)
97.083	Staffing for Adequate Fire and Emergency Response (SAFER)

Dollar threshold used to distinguish between type A and type B programs: \$3,000,000

Auditee qualified as low-risk auditee? Yes No

City of Detroit, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2017

Section II - Financial Statement Audit Findings

Reference Number	Finding
2017-001	<p>Finding Type - Material weakness (repeat finding)</p> <p>Criteria - The City, Detroit Water and Sewerage Department (DWSD), Detroit Department of Transportation (DDOT), and the City's component units should have a process in place to ensure proper recording and reconciling of general ledger activity throughout the year as well as identification and recording of all year-end closing entries in accordance with generally accepted accounting principles (GAAP) prior to the commencement of the audit.</p> <p>Condition - The City, DWSD, and DDOT's general ledger and underlying financial records were not reconciled and closed in a timely manner. In addition, there were numerous adjustments that should have been identified by management which were instead identified during the audit of the City, DWSD, and DDOT, and by component auditors for the Detroit Building Authority, Detroit Transportation Corporation (component units of the City).</p> <p>Context - During the City's fiscal year ended June 30, 2017, staffing constraints contributed to the City and the component units identified above not having the proper controls in place to ensure timely and accurate financial reporting. Material adjusting journal entries were proposed by the auditors and posted by the City, DWSD, DDOT, and the City's component units in order to ensure the financial statements were not misstated.</p> <p>One of these auditor identified adjusting entries resulted in a prior period adjustment for the City. This entry related to a material adjustment identified in the current year that was indicative of a misstatement in financial reporting impacting prior years related to an overaccrual for property tax overpayments and amounts owed to other taxing authorities. This prior period adjustment increased the beginning net position in governmental activities and the beginning fund balance in the General Fund by \$28.3 million.</p> <p>Adjusting journal entries identified during the audit of the City, DWSD, and DDOT resulted in a decrease in net position in excess of \$200 million impacting several opinion units, including entries related to the following: increasing the general claims reserve liability; reducing the capital asset balances to agree to supporting documentation; decreasing amounts owed to other governmental agencies for estimated property tax overpayment escheatment liabilities; adjusting property and income tax receivables and the related allowance for amounts expected to be collected, including the related modified accrual deferred inflows and full accrual revenue; adjusting estimated income tax payable; recording an allowance for a forgiven loan receivable to a component unit; decreasing the accounts payable balance for duplicated items; adjusting amounts recorded as cash to properly reflect a liability to a component unit; recording the impact of bond refunding, including recording of bond proceeds and transfers to escrow agents in modified accrual funds; adjusting the net pension liability, pension expense, and related deferred inflows and outflows; deferral of miscellaneous revenue not received within the period of availability in modified accrual funds; properly record interfunds; and correcting parking fund beginning net position to agree to prior year financial statements. Additionally, adjustments to DWSD included entries to the bifurcation gain/loss.</p> <p>Entries were also identified by component auditors for the Detroit Building Authority and the Detroit Transportation Corporation to record expenses in the proper period and to ensure the related receivables and revenue/deferred inflows and capital assets were properly recorded where applicable.</p>

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2017

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2017-001 (Con't)	<p>In addition to the adjusting entries made as a result of the audit, certain auditor identified entries related to the City, DWSD, and DDOT ultimately were not recorded due to immateriality, including recording loans receivable and allowances for HUD HOME loans to developers, recording activity of the Joint Employment and Procurement Advisory Board (JEPAB) discretely presented component unit, reclassifying the Employee Benefits Fund and Employee Disability Income trust funds as internal service funds, recording a liability for unbilled attorney fees, adjusting the liability for compensated absences for governmental and business type funds, reclassifying capital outlay originally recorded as miscellaneous expense, recording an overpayment tax liability for the refunds from tax years 2011 and 2012, adjusting the prior period adjustment so that the 2010 tax year overpayment tax liability write-off is reflected in the current year, removing an asset and liability for undistributed tax receipts, increasing the workers' compensation liability, and removing a liability related to undistributed receipts. It was also noted that a receivable for income tax nonfilers, which is subject to estimation and could be understated, has not been recorded as of year end. In addition, the City does not have a lookback process in place to track and analyze the estimate of the allowance against income tax receivables. The City has two funds that are improperly classified as fiduciary funds as the assets are not held in a trust or any other fiduciary arrangement. DDOT's accrued liability balance includes employees who will not be paid in the future and is overstated. Passed adjustments also include increasing the general claims reserve liability for the Water Fund, reducing liabilities related to Great Lakes Water Authority shared services for work performed after year end, increasing accounts payable for services provided prior to year end, increasing revenue related to affordability cash, and recording DDOT insurance proceeds related to the Shoemaker Terminal fire as revenue.</p> <p>Cause - The City, DWSD, DDOT, and several of the City's component units did not have processes in place to ensure activity was properly reconciled to the general ledger throughout the year and year-end closing entries were identified and recorded in the general ledger prior to the commencement of the audit. In addition, the City has a variety of systems as well as decentralized staff resulting in a high level of manual intervention in order to compile and complete necessary financial reporting.</p> <p>Effect - If the City, DWSD, DDOT, and the component units identified above had not recorded the auditor-identified entries, the financial statements would have been materially misstated.</p> <p>Recommendation - The City should continue to work with all departments to ensure that each has adequate resources to fully and accurately reconcile and record activity throughout the year and identify and record year-end entries prior to the start of the audit. A system will need to be developed to close the financial records in a timely manner, which will include forming reliable estimates for certain accruals since management may not be able to rely on actual subsequent receipts and disbursements in all instances (i.e., lookback adjustments). An independent review of reconciliations and trial balances prior to the start of the audit would assist in identifying and correcting potential errors.</p>

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2017

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2017-001 (Con't)	Views of Responsible Officials and Planned Corrective Actions - During fiscal year 2017, the CFO continued implementing the strategic objective of the office of the chief financial officer (OCFO) to restructure and reorganize the financial operations of the City. During fiscal year 2018, the OCFO began documenting new policies and procedures for all the major OCFO business process life cycles. This will provide standardized and consistent administration across all OCFO divisions. In addition, the OCFO is continually working to optimize the functionality of the Oracle Cloud ERP system, which will assist with overall efficiency and productivity. In addition, OCFO has restructured and added a tax accounting unit to its Treasury function, which will be responsible for the timely and accurate recording of all tax revenue and receivables, including the regular review and analysis of all related accounts. OCFO is in the process of developing procedures to govern the work of this unit. Bond transactions will be recorded timely with the appropriate level of involvement from management on the more complicated transactions (refundings).

Reference Number	Finding
2017-002	Finding Type - Material weakness (repeat finding) Criteria - There should be a procedure in place to reconcile bank activity on a timely basis and to ensure cash balances are properly stated as of the end of the year. Condition - The City and the Detroit Water and Sewerage Department (DWSD) did not have procedures in place to ensure all bank accounts were fully reconciled to the general ledger and the reconciliations were performed and reviewed timely. The significant delay in properly recording transactions throughout the year on a timely basis significantly reduces the accuracy of the monthly bank reconciliations requiring multiple revisions and significant delays prior to finalization. The City's outstanding check list also contained a large amount of voided checks dating back many years. It was also noted that DWSD did not timely update the authorized signers at the financial institution when personnel changes occurred during the year. Context - The City has a significant number of bank accounts to reconcile each month and primary accounts have significant monthly activity. During the current year, the City has continued to review accounts to determine if accounts could be closed to increase efficiency and to reduce both costs and the potential for error. The City and DWSD did not prepare timely bank reconciliations throughout the year. In addition, the City's reconciliations did not always fully reconcile between the adjusted general ledger and bank balances. In some cases, the unreconciled difference was significant, up to \$600,000, and there is not a formal approval process to resolve unreconciled errors. Due to the lag in posting to the general ledger, bank reconciliations are not able to be fully vetted and reviewed until three to six months after year end. The City's outstanding check list contained a large number of voided checks which were voided in the City's general ledger, but were not communicated to the bank as void. Voided checks were destroyed so there is no documentation trail to easily demonstrate those checks were actually voided versus tendered. DWSD authorized signers were not updated to reflect the change in CFO.

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2017

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2017-002 (Con't)	<p>Cause - The City and DWSD did not have procedures in place to ensure timely preparation and review of bank reconciliations, including proper accounting for voided checks. DWSD did not have proper procedures in place to ensure personnel changes were timely communicated to financial institutions to ensure access rights were terminated.</p> <p>Effect - Without timely and accurate recording a cash activity and preparation and review of bank reconciliations and follow up on voided checks, the City and DWSD could fail to identify errors and malfeasance related to cash transactions. Failure to properly notify the financial institution of personnel changes could lead to misappropriation of funds.</p> <p>Recommendation - We recommend the City continue to review its bank accounts to determine if additional consolidation of accounts is possible. For those accounts that are necessary, we recommend the City and DWSD ensure adequate resources are available to perform timely recording of transaction and preparation of bank reconciliations for these accounts and that the reconciliations are reviewed and an approval process is documented for unreconciled differences. The City should also communicate with the banks to ensure all checks voided in the general ledger system are also voided at the banks. DWSD should implement procedures to ensure personnel changes are immediately communicated to financial institutions to access is limited to authorized individuals.</p> <p>Views of Responsible Officials and Planned Corrective Actions - As a part of the implementation of the OCFO's strategic objectives to restructure and reorganize the financial operations of the City, the bank reconciliation process was centralized and accounting staff were hired to prepare monthly reconciliations. The City's existing policy includes preparation, proper identification of reconciling items, and review by appropriate personnel. Due to separation of duties, the reconciling items are then disseminated to the appropriate OCFO personnel for correction. The City of Detroit, Michigan is working to develop the process to ensure reconciling items are resolved and recorded timely by appropriate staff. We note that reconciliations go through reiterations as reconciling items are resolved until the month end/period is closed. We are also continually working to optimize the functionality of the Oracle Cloud ERP system to automate the bank reconciliation process. The OCFO will also develop and implement a procedure to ensure the timely removal of voided checks from both the outstanding list and the general ledger and a monthly reconciliation between the two. DWSD will document a process to ensure bank accounts are reconciled completely during the monthly close process so that there are no unreconciled differences at the beginning of the audit. DWSD will also implement a procedure to ensure signature cards are updated immediately after any personnel changes. The OCFO is in the process of selecting a vendor for a new Treasury management system as well as redesigning operating processes for its Treasury function. In addition, OCFO has developed a cash accounting and auditing unit, which will be responsible for the daily recording and reconciliation of all cash transactions. The OCFO continues its process to understand the purpose for each bank account and is developing a consolidation plan that will result in a pooled cash structure with limited bank accounts. Over the past year, the OCFO has reduced the number of bank accounts by 84 percent.</p>

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2017

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2017-003	<p>Finding Type - Material weakness (repeat finding)</p> <p>Criteria - There should be a documented process in place to ensure that the City has proper segregation of duties and approval processes in place related to the appropriateness of cash disbursements.</p> <p>Condition - There was a lack of adequately documented, segregated, and implemented controls over approval processes related to the appropriateness of certain cash disbursements.</p> <p>Context -</p> <ul style="list-style-type: none">• The City does not have formal documentation for authorized individuals and related approval thresholds for income tax refunds. During fiscal year 2016, the State of Michigan began processing income taxes for the City for individuals for tax year 2015 and for withholdings, corporate, partnership, and all others beginning January 1, 2017 (tax year 2016). The City will continue to process refunds and delinquent tax activity for years prior to tax years 2015 (individuals) and 2016 (all others).• Both the human resources and payroll audit functions have the ability to initiate and approve a wage or salary change.• The City does not have a formal review process to ensure wire transfers are properly executed and properly authorized (detective controls).• The City utilizes a manual process whereby city employees in the secondary employment program create manual invoices of their time worked and submit these invoices for payment through the accounts payable process. Reviews should be performed by the appropriate supervisor who can cross check each invoice to prior submissions to ensure that there is no duplication of hours to be paid out. <p>Cause -</p> <ul style="list-style-type: none">• A policy was not in place to require income tax refunds over a certain threshold to be approved.• There was a lack of segregation of duties related to the ability to initiate and approve wage and salary changes.• Wire transfers are not reviewed timely to ensure transfers were properly executed and appropriate support is maintained related to authorization.• There is no automated process for capturing time worked in the secondary employment program at the City.

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2017

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
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2017-003
(Con't)

Effect -

- Without a threshold over which income tax refunds need to be approved, there is a potential for improper payouts to be issued.
- Since human resources and the payroll audit functions have the ability to initiate and approve compensation changes, there is a potential for improper rates to be initiated and approved without a secondary review.
- Without a formal process for ensuring wire transfers were properly supported and executed, there is a potential for unauthorized or erroneous transfers.
- Using a manual process to capture time worked in the secondary employment program creates a risk related to the accuracy of the invoices and an opportunity for misappropriation of assets.

Recommendation - We recommend the City implement the following controls:

- The City should consider adopting a formal policy to establish an approval process for income tax refunds over a certain threshold to the extent the City has refunds to process.
- The City should review the duties of human resources and the payroll audit departments to determine which department should initiate wage changes and which should review and approve them to ensure proper segregation of duties.
- The City should establish a formal review process related to wire transfers and maintain appropriate documentation of transfer approvals.
- The City should consider a time sheet system with approval by supervisors or an automated system to capture time worked in the secondary employment program.

Views of Responsible Officials and Planned Corrective Actions - During fiscal year 2018, the OCFO began documenting new policies and procedures for all the major OCFO business process life cycles, including policies and procedures for income tax refunds, which will include an approval signoff hierarchy. The procedures will also include wire processing procedures to ensure all transactions are reviewed in a timely manner. The implementation of the Treasury Cash Management System will also allow users to add support directly to fund transfer requests.

We also note that human resources will continue with the implementation of a new Human Resources Information System (HRIS) and payroll system. This HRIS/payroll implementation will include new policies, procedures, and internal controls, and staff will monitor, track, and measure the adequacy of the internal controls. These new policies and procedures will also include controls over compensated absence bank payouts. These new procedures will include validation checks to ensure that accumulated hours are accurate based on source data. The procedures will also include a separate review and authorization process to ensure accuracy.

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2017

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2017-004	<p>Finding Type - Material weakness (repeat finding)</p> <p>Criteria - The City, in conjunction with the City's retirement systems (police and fire and general) (the "Retirement Systems"), should have a documented process to ensure timely and accurate accumulation, review, and submission of census data to the Retirement Systems' actuary in order to obtain the information required to comply with GASB Statement Nos. 67 and 68.</p> <p>Condition - During the audit of the census data provided to the actuary, several instances of errors were noted in the data or there was missing data that resulted in incomplete information.</p> <p>Context - The specific issues noted include the following:</p> <ul style="list-style-type: none">• Frozen Accrued Benefits (Police and Fire and General Employees Retirement Systems Component II) - As Component II is frozen as of June 30, 2014, a calculation of individuals' frozen accrued benefits for active members should be performed and provided to the actuary. Currently, these calculations have not been performed and the actuary is estimating based on average final compensation (AFC) and sick bank data as of June 30, 2014 provided by the system. The actuary has increased the frozen accrued benefit estimates by 10 percent for police and fire and 2 percent for general employees to provide consistency with a limited number of actual computations.• Completeness of Census Data (Police and Fire and General Employees Retirement Systems Component I and II) - Based on the testing performed, it was noted some members were either improperly included or excluded from the data sent to the actuary, including approximately 250 individuals in Component I of the General Employees Retirement System who received a refund and, therefore, forgo any future pension, yet were still included in the census data. In addition, some key employee data was missing for members.• Active Pay Amount (Police and Fire and General Employees Retirement Systems Component I) - The actuary uses an active member's current pay in its calculation for determining a member's estimated future benefit. Based on the testing performed, some discrepancies were noted between the pay information provided to the actuary and pay information from the City.• Member Classifications (Police and Fire and General Employees Retirement Systems Component I and II) - Based on the testing performed, some members were incorrectly classified between the three statuses (active, deferred, or retired). Incorrect classification leads to inaccurate actuarial calculations being performed on those members.• Death Audit (Police and Fire and General Employees Retirement Systems Component I and II) - It was noted a death audit was not performed on the deferred members list sent to the actuary. These issues could lead to the pension liability being misstated due to incomplete or inaccurate information.

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2017

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2017-004 (Con't)	<p>Context (continued) -</p> <ul style="list-style-type: none">Based on discussions with the actuary and review of the actuarial valuations, it was noted that significant work is performed on the original census provided by the Police and Fire and General Employees Retirement Systems that is ultimately used in the valuations. This includes removing ineligible individuals and reclassifying individuals between the different statuses (active, deferred, retired). <p>Cause - The City provides active pay data to the Retirement Systems, but sometimes that data is not accurate or complete. The Retirement Systems maintain census information for retired or deferred members. While the Retirement Systems do have a process in place to review the census data prior to providing it to the actuary, that process is not effective in ensuring the census information is complete and accurate.</p> <p>Effect - Without procedures to ensure timely accumulation of complete and accurate census data, the City's net pension liability that is recorded on the statement of net position of each affected opinion unit could be materially misstated.</p> <p>Recommendation - We recommend the City, in conjunction with the Retirement Systems, implement the following processes and controls:</p> <ul style="list-style-type: none">Frozen Accrued Benefits (Police and Fire and General Employees Retirement Systems Component II) - It is recommended the City and the Retirement Systems complete the calculations of the final frozen accrued benefits as of June 30, 2014 and provide the data to the actuary as soon as possible; this would result in the most accurate calculation of the total pension liability of Component II.Completeness of Census Data (Police and Fire and General Employees Retirement Systems Component I and II) - As the Component I and II census data is retained in the same database, it is recommended the City and the Retirement Systems have a process in place to accurately determine which members are eligible for each plan. Also, we recommend a more robust review of census data prior to sending the census information to the actuary to identify any missing data; subsequent follow up should be performed timely prior to remitting the data to the actuary.Active Pay Amount (Police and Fire and General Employees Retirement Systems Component I) - It is recommended the City and/or the Retirement Systems perform sample testing on the data sent to the actuary to ensure it is providing the proper compensation information, as defined in the plan of adjustment.Member Classifications (Police and Fire and General Employees Retirement Systems Component I and II) - It is recommended the City and/or the Retirement Systems perform more robust review of census data prior to sending the census information to the actuary to identify errors between the classification of employees as active, deferred, or retired.

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2017

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2017-004 (Con't)	<p>Recommendation (continued) -</p> <ul style="list-style-type: none"> • Death Audit (Police and Fire and General Employees Retirement Systems Component I and II) - We encourage the City and/or the Retirement Systems to put in place more comprehensive procedures to further ensure the accuracy of this census data, particularly for deferred members who were not subject to a death audit this past year. • We recommend the Retirement Systems perform high level analytical procedures on the census data to ensure the ultimate reporting by the actuary encompasses the totality of the information that the Retirement Systems actually provided. <p>Views of Responsible Officials and Planned Corrective Actions - The Retirement Systems will develop and document a process to ensure accurate information is provided to the actuary. This process includes an application that will compare the pay information received from the City to the information sent to the actuary. In addition, the Retirement System completed the frozen benefits calculation project in October 2017. The results will be provided to the actuary.</p>

Reference Number	Finding
2017-005	<p>Finding Type - Material weakness</p> <p>Criteria - The City, Detroit Water and Sewerage Department (DWSD), and Greater Detroit Resource Recovery Authority (GDRRA) should have appropriate overall monitoring procedures in place over the general ledger and external financial reporting function to ensure timely and accurate financial statements.</p> <p>Condition - The City, DWSD, and GDRRA lacked appropriate reconciliation procedures and overall monitoring of account balances during the year. A variety of systems, decentralized staff, and manual procedures required to compile complete and accurate financial reports resulted in a delay in the audit as well as many auditor proposed journal entries.</p> <p>Context - The City, DWSD, and GDRRA did not have a process to assign all general ledger accounts to the appropriate person for overall monitoring including analytical analysis. Reconciliations in several areas, including interfunds, cash, receivables, and transfers, were not performed on a monthly basis during the year. The State of Michigan processes income taxes for the City; however, the City lacks procedures to ensure that the appropriate information is received and reviewed in a timely fashion to allow for accurate financial reporting. Several payroll processes are performed manually without a review process. In conjunction with audit procedures, it was also that there were numerous matches between vendor and employee addresses and the City did not have procedures to investigate the reasonableness of these matches. Within GDRRA, many critical duties are not segregated and, therefore, proper checks and balances are not in place. In addition, a process should be put in place to resolve prior findings timely.</p>

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2017

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2017-005 (Con't)	<p>Cause - The City, DWSD, and GDRRA did not have processes in place to ensure general ledger accounts were monitored and analyzed by appropriate individuals. Monthly reconciliation procedures were not in place. Appropriate procedures to coordinate the receipt and review of information from the State of Michigan related to city income taxes were not in place. Several payroll procedures have not been automated. The City did not have a process to investigate instances where vendor and employee addresses matched. GDRRA has one individual that performs the majority of accounting functions.</p> <p>Effect - As a result of the lack of appropriate overall monitoring procedures, the audit was delayed and there were many auditor proposed journal entries. In addition, there is an increased risk of error or fraud.</p> <p>Recommendation - The City, DWSD, and GDRRA should develop overall monitoring procedures to aid in ensuring that all activity in a fund is complete, accurate and logical. This includes assigning an appropriate individual to each general ledger account as well as several individuals who would be responsible for the entire general ledger and city financial statements to perform monitoring, analytical analysis, and adjustment as needed. We recommend reconciliations, review, and analysis be performed at least on a monthly basis. In addition, the City should work with the State of Michigan to receive information related to income taxes on a timely basis. Furthermore, to the extent possible, payroll processes should be automated and a system should be implemented to investigate vendor and employee address matches. At GDRRA, duties should be segregated to ensure there are proper checks and balances in place.</p> <p>Views of Responsible Officials and Planned Corrective Actions - During fiscal year 2017, the CFO continued implementing the strategic objective of the office of the chief financial officer (OCFO) to restructure and reorganize the financial operations of the City. During fiscal year 2018, the OCFO began documenting new policies and procedures for all the major OCFO business process life cycles. This will provide standardized and consistent administration across all OCFO divisions. In addition, OCFO has restructured and added a tax accounting unit, which will be responsible for the timely and accurate recording of all tax revenue and receivables, including the regular review and analysis of all related accounts. It is expected that this unit will be staffed and operational by the end of the fiscal year. OCFO is in the process of developing procedures to govern the work of this unit. OCFO is in the process of amending the agreement with the State and in the agreement will expressly list the information needed for completion of the annual audit along with required deadlines for completion. DWSD will develop and document a procedure to ensure that all activity in a fund is complete, accurate, and logical. We will establish monthly protocols to monitor and perform analysis on each general ledger account. Lastly, GDRRA believes acceptable checks and balances vis-a-vis accounting transactions and reporting are in place. All transactions are approved by the director of GDRRA and the board treasurer, ensuring adequate approvals for both departmental and nondepartmental.</p>

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2017

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2017-006	<p>Finding Type - Material noncompliance and material weakness (repeat finding)</p> <p>Criteria - There should be a process in place to ensure that the City and the City's component units comply with laws and regulations.</p> <ul style="list-style-type: none">• The Uniform Unclaimed Property Act (Public Act 29 of 1995) requires the Michigan Holder Transmittal Annual Report of Unclaimed Property to be submitted annually by November 1. Any holder of unclaimed property who fails to file a report of unclaimed property is subject to fines and penalties as prescribed in Public Act 29 of 1995.• Per Public Act 2 of 1968, Section 141.435 (2), states' total budgeted expenditures shall not exceed estimated revenue plus accumulated fund balance. In addition, Section 141.438 (3), "Except as otherwise provided in Section 19, an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body."• Public Act 213 of 2007 requires that quarterly investment reports be provided to the City Council.• Detroit Transportation Corporation (DTC): In addition, per 2 CFR 200.302(a), nonfederal entities' financial management systems, including records documenting compliance with federal statutes, regulations, and the terms and conditions of the federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions, and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the federal statutes, regulations, and the terms and conditions of the federal award. <p>Condition - There were instances identified where the City and the Detroit Transportation Corporation (DTC), a component unit, were not in compliance with laws and regulations as follows:</p> <ul style="list-style-type: none">• The City has outstanding checks related to payroll, accounts payable, and property tax refunds that have not been escheated to the State of Michigan. Many of these checks have been outstanding for several years.• The City's final budget for several nonmajor special revenue funds resulted in a projected deficit. There were expenditures incurred against appropriations in excess of the amount appropriated by the City Council.• Quarterly investment reports were not provided to the City Council.• The City's process to accumulate transactions related to fiscal year 2017 into its general ledger did not allow for timely reporting of accurate financial information.

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2017

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2017-006 (Con't)	<p>Context -</p> <ul style="list-style-type: none">• The City has recorded a liability for amounts to be escheated to the State of Michigan, including estimated penalties and interest, at June 30, 2017.• For certain nonmajor special revenue funds, the City's final budget resulted in a projected fund deficit as presented in the required supplemental information. For certain appropriations, the City's actual expenditures exceeded its corresponding appropriation as presented in the notes to the basic financial statements.• The required quarterly reporting was not provided to the City Council during the fiscal year.• The City did not have a process to track grant activities in the general ledger in a timely manner and the general ledger records were not adjusted timely at the individual grant level, as required by 2 CFR Part 200. <p>Cause - There is not a process in place to fully monitor compliance with laws and regulations throughout the year.</p> <p>Effect - The City and the DTC were out of compliance with the laws and regulations identified above.</p> <p>Recommendation - We recommend the City and DTC implement a process that identifies specific individuals responsible for identifying and monitoring applicable compliance requirements throughout the year. In addition, the City should consider filing a Voluntary Disclosure Agreement (Form 4869) when submitting escheatments to the State.</p> <p>Views of Responsible Officials and Planned Corrective Actions - As part of the CFO's strategic objectives to restructure and reorganize the financial operations of the City, monthly budget reports are prepared and meetings conducted by OCFO and the city departments to monitor and analyze the budget to prevent recurring violations of the Uniform Budgeting and Accounting Act. These monthly budget-to-actual reports are shared with the CFO and the mayor's team to maintain compliance with the budget. Subsequent to June 30, 2017, the City Council and the Detroit Financial Review Commission authorized budget amendments for the General Fund to be posted to June 2017. As a result of the actions by City Council, the City did not incur expenditures in the General Fund in excess of the amount ultimately appropriated by City Council. In addition, OCFO will develop, document, and implement a process to ensure the timely escheatments to the State. OCFO is in the process of compiling an investment report to be provided to City Council on a quarterly basis. Lastly, the City will prepare grant reconciliations throughout the year and make any necessary adjustments at the individual grant level.</p>

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2017

Section III - Federal Program Audit Findings

Reference Number	Finding
2017-007	<p>CFDA Number, Federal Agency, and Program Name -</p> <p>CFDA #14.218, Housing and Urban Development (HUD), Community Development Block Grant Entitlement Cluster, Community Development Block Grant Program (CDBG)</p> <p>CFDA #14.239, Housing and Urban Development (HUD), HOME Investment Partnership (HOME)</p> <p>Federal Award Identification Number and Year -</p> <p>CDBG - B-16-MC-26-0006 HOME - M-15-MC-26-0202, M-14-MC-26-0202, M-13-MC-26-0202, M-12-MC-26-0202, and M-11-MC-26-0202</p> <p>Pass-through Entity - N/A</p> <p>Finding Type - Material weakness</p> <p>Repeat Finding - Yes, 2016-009</p> <p>Criteria - Per 2 CFR 200.502 (a) - The determination of when a federal award is expended must be based on when the activity related to the federal award occurs. Generally, the activity pertains to events that require the nonfederal entity to comply with federal statutes, regulations, and the terms and conditions of federal awards, such as: expenditure/expense transactions associated with awards including grants, cost-reimbursement contracts under the FAR, compacts with Indian Tribes, cooperative agreements, and direct appropriations; the disbursement of funds to subrecipients; the use of loan proceeds under loan and loan guarantee programs; the receipt of property; the receipt of surplus property; the receipt or use of program income; the distribution or use of food commodities; the disbursement of amounts entitling the nonfederal entity to an interest subsidy; and the period when insurance is in force.</p> <p>Condition - The initial schedule of expenditures of federal awards (SEFA) did not report expenditures in accordance with the above regulations.</p> <p>Questioned Costs - None</p> <p>Identification of How Questioned Costs Were Computed - Not applicable as there are no questioned costs.</p> <p>Context - The expenditures reported on the SEFA for CDBG were overstated by approximately \$16,000,000; the amount represented Section 108 loan proceeds related to settlement payments. The error was corrected by the City.</p> <p>Additionally, HOME expenditures are understated by approximately \$260,000. The HOME funds reported on the SEFA have not been adjusted for this amount.</p> <p>Cause and Effect - Internal control procedures were not adequate to create a complete and accurate SEFA resulting in a revision to the SEFA. The change did not impact major program determination.</p> <p>Recommendation - The City should design controls over SEFA reporting to ensure that the expenditures on the SEFA are complete and accurate.</p>

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2017

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2017-007 (Con't)	<p>Views of Responsible Officials and Planned Corrective Actions - The office of the chief financial officer (OCFO) will continue to design stronger controls over SEFA reporting to ensure that the expenditures on the SEFA are complete and accurate. A review will be performed in advance of SEFA reporting to ensure compliance. During the fiscal year 2017 audit, expenses of approximately \$16 million related to Developers Section 108 settlement payments were included in the SEFA expenditures total. As these expenditures did not reduce future drawdowns, these expenditures were subsequently removed from the SEFA expenditure total. Going forward, the developer's settlement payments related to Section 108 will be captured separately on our reconciliation. Also, approximately \$260,000 related to retainage that was not included in the SEFA. The City will ensure our process captures retainage going forward.</p>

Reference Number	Finding
2017-008	<p>CFDA Number, Federal Agency, and Program Name -</p> <p>CFDA #14.218, Housing and Urban Development (HUD), Community Development Block Grant Entitlement Cluster, Community Development Block Grant Program (CDBG)</p> <p>CFDA #14.239, Housing and Urban Development, Home Investment Partnership</p> <p>Federal Award Identification Number and Year - CDBG - B-15-MC-26-0006 and Home - M15-MC260202</p> <p>Pass-through Entity - N/A</p> <p>Finding Type - Material weakness and material noncompliance with laws and regulations</p> <p>Repeat Finding - Yes, 2016-015</p> <p>Criteria - Per 24 CFR 135.90, "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. If the program providing the Section 3 covered assistance does not require an annual performance report, the Section 3 report is to be submitted by January 10 of each year or within 10 days of project completion, whichever is earlier."</p> <p>Condition - The City did not file the Section 3 report for program year ended June 30, 2017.</p> <p>Questioned Costs - None</p> <p>Identification of How Questioned Costs Were Computed - Not applicable as no questioned costs were identified.</p>

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2017

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2017-008 (Con't)	<p>Context - The City is required to file the HUD 60002, Section 3 Summary report, Economic Opportunities for Low- and Very Low-Income Persons for both CDBG and Home. In addition, the City is required to file the PR03 Activity Summary Report and the PR26 Financial Summary Report for CDBG. The City filed the Activity Summary Report and the Financial Summary Report but did not file the Section 3 report.</p> <p>Cause and Effect - The City did not have adequate processes in place to compile the data for the Section 3 report and file it with HUD.</p> <p>Recommendation - We recommend that the City implement a process to ensure that the Section 3 report is completed and submitted in a timely manner.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The Housing and Revitalization Department (HRD) concurs with the finding and has transferred the Section 3 monitoring to the Civil Rights, Inclusion, and Opportunity (CRIO) Department effective July 1, 2017. OCFO will work with CRIO to ensure there is a process in place to compile the data and file the report timely with HUD.</p>

Reference Number	Finding
2017-009	<p>CFDA Number, Federal Agency, and Program Name - CFDA #14.218, Housing and Urban Development (HUD), Community Development Block Grant Entitlement Cluster, Community Development Block Grant Program (CDBG)</p> <p>Federal Award Identification Number and Year - B-14-MC-26-0006</p> <p>Pass-through Entity - N/A</p> <p>Finding Type - Material weakness and material noncompliance with laws and regulations</p> <p>Repeat Finding - Yes, 2016-017</p> <p>Criteria - Per 24 CFR 570.503, "Before disbursing any CDBG funds to a subrecipient, the recipient shall sign a written agreement with the subrecipient and at a minimum the agreement should contain the following:</p> <ol style="list-style-type: none"> 1. Statement of work - The agreement shall include a description of the work to be performed, a schedule for completing the work, and a budget. These items shall be in sufficient detail to provide a sound basis for the recipient effectively to monitor performance under the agreement. 2. Records and reports - The recipient shall specify in the agreement the particular records the subrecipient must maintain and the particular reports the subrecipient must submit in order to assist the recipient in meeting its recordkeeping and reporting requirements.

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2017

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2017-009 (Con't)	<p>Criteria (continued) -</p> <ol style="list-style-type: none"> 3. Program income - The agreement shall include the program income requirements set forth in §570.504(c). The agreement shall also specify that, at the end of the program year, the grantee may require remittance of all or part of any program income balances (including investments thereof) held by the subrecipient (except those needed for immediate cash needs, cash balances of a revolving loan fund, cash balances from a lump-sum drawdown, or cash or investments held for Section 108 security needs). 4. Uniform requirements - The agreement shall require the subrecipient to comply with applicable uniform requirements, as described in §570.502. 5. Other program requirements - The agreement shall require the subrecipient to carry out each activity in compliance with all federal laws and regulations described in subpart K of these regulations." <p>Condition - The City has a subrecipient agreement with LISC to administer the 0 percent Rehabilitation Loan Program. The original contract indicated that the activity would be advance funded. It was subsequently determined this program design was not feasible. However, the subrecipient agreement was not properly amended. During a monitoring visit performed in September 2015, HUD identified this as finding. The finding has not been cleared.</p> <p>Questioned Costs - None</p> <p>Identification of How Questioned Costs Were Computed - Not applicable as no questioned costs were identified.</p> <p>Context - LISC is a subrecipient with the responsibility to administer the 0 percent Rehabilitation Loan program. The subrecipient agreement contains language that does not apply to the housing rehabilitation activity that is being carried out. The LISC subrecipient agreement is for \$6.6 million. Approximately \$952,000 was drawn down in two lump-sum draws in accordance with the old subrecipient contract language; this was inappropriate given that the program was no longer a lump-sum draw program. HUD subsequently approved the amount drawn thus far (approximately \$952,000) and thus creating no questioned costs.</p> <p>Cause and Effect - After the original subrecipient agreement was written and signed, the scope of the project and funding methodology changed. The subrecipient agreement was not properly amended to reflect the change prior to HUD's monitoring visit. It has subsequently be amended, but has not been cleared by HUD.</p> <p>Recommendation - We recommend the City implement a process to ensure that all subrecipient contracts reflect the appropriate scope of work and intended funding methodology, including timely amendments when necessary.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City of Detroit, Michigan will implement a process to ensure that all subrecipient contracts reflect the appropriate scope of work and intended funding methodology, including timely amendments when necessary. For the LISC contract, the second contract amendment to resolve the HUD finding is expected by April 2018.</p>

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2017

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2017-010	<p>CFDA Number, Federal Agency, and Program Name - CFDA #14.218, Housing and Urban Development (HUD), Community Development Block Grant Entitlement Cluster, Community Development Block Grant Program (CDBG)</p> <p>Federal Award Identification Number and Year - B-14-MC-26-0006 and B-15-MC-26-0006, B-16-MC-26-0006</p> <p>Pass-through Entity - N/A</p> <p>Finding Type - Significant deficiency and material noncompliance with laws and regulations</p> <p>Repeat Finding - Yes, 2016-016</p> <p>Criteria - On December 26, 2014, the administrative rules and cost principles outlined in the Uniform Guidance (2 CFR 200 subparts A through E) became applicable for new awards or increments of awards issued on or after this date. The rules outlined in the Uniform Guidance became applicable to CDBG as of December 26, 2014, given the HUD transition guidance.</p> <p>2 CFR 200.331 outlines requirements for pass-through entities. All pass-through entities must ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification. When some of this information is not available, the pass-through entity must provide the best information available to describe the Federal award and subaward. Required information includes the following:</p> <ol style="list-style-type: none">(1) Federal award identification(2) All requirements imposed by the pass-through entity on the subrecipient so that the federal award is used in accordance with federal statutes, regulations, and the terms and conditions of the federal award(3) Any additional requirements that the pass-through entity imposes on the subrecipient in order for the pass-through entity to meet its own responsibility to the federal awarding agency, including identification of any required financial and performance reports(4) An approved federally recognized indirect cost rate negotiated between the subrecipient and the federal government or, if no such rate exists, either a rate negotiated between the pass-through entity and the subrecipient (in compliance with this part), or a <i>de minimis</i> indirect cost rate as defined in §200.414 Indirect (F&A) costs, paragraph (f)(5) A requirement that the subrecipient permit the pass-through entity and auditors to have access to the subrecipient's records and financial statements as necessary for the pass-through entity to meet the requirements of this part(6) Appropriate terms and conditions concerning closeout of the subaward

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2017

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2017-010 (Con't)	<p>Condition - During the year, the City administered the CDBG grants under the guidelines of 2 CFR 200 subparts A through E. However, the controls in place did not ensure that all of the required information as prescribed by 2 CFR 200.331, <i>Requirements for Pass-through Entities</i>, was included in the grant agreements for its subrecipients. The following elements outlined in 2 CFR 200.331 were partially included or were not included in all grant agreements:</p> <ol style="list-style-type: none">1. CFDA number and name - The agreement indicated the funding sources, the name of the grant (in this case CDBG), and the pertinent CFR reference; however, the CFDA number was not included.2. Subrecipient's unique entity identifier3. Federal award identification number4. Federal award date - The agreements should include the date the award was provided to the City.5. Total amount of federal awards obligated to the subrecipient, including the current obligation - The agreements did include the current obligation; however, amounts previously obligated were not included.6. Identification of whether the award is R&D7. Indirect cost rate for the federal award (including if the <i>de minimis</i> rate is charged per §200.414 Indirect (F&A) costs) <p>Questioned Costs - None</p> <p>Identification of How Questioned Costs Were Computed - Not applicable as no questioned costs were identified.</p> <p>Context - While the City implemented the Uniform Guidance regulations on the effective date, the missing subrecipient agreement components in most agreements caused the City not to fully comply with the Uniform Guidance requirements.</p> <p>Cause and Effect - The controls in place did not ensure that the City implemented all requirements under Uniform Guidance for most subrecipient agreements. As a result, certain requirements were missed.</p> <p>Recommendation - We recommend the City of Detroit, Michigan review its procedures and controls to ensure all subrecipient agreements properly reflect all required elements prescribed by 2 CFR 200.331, <i>Requirements for Pass-through Entities</i>, and be included in all subawards to subrecipients.</p>

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2017

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2017-010 (Con't)	<p>Views of Responsible Officials and Planned Corrective Actions - The Housing and Revitalization Department (HRD) has amended its procedures and controls to ensure the required information as prescribed by 2 CFR 200.331, <i>Requirements for Pass-through Entities</i>, are included in all subawards to subrecipients, including contract modifications, when applicable. Contract amendments pertaining to this requirement are being prepared and sent out to current subrecipients. We note that this finding was cited for contracts from fiscal year 2015-2016 and prior awards. Required contractual language was included in fiscal year 2016-2017 subrecipient agreements that were processed this current fiscal year.</p>

Reference Number	Finding
2017-011	<p>CFDA Number, Federal Agency, and Program Name - 97.083, Department of Homeland Security (Federal Emergency Management Agency), Staffing for Adequate Fire and Emergency Grants</p> <p>Federal Award Identification Number and Year - EMW-2013-FH-00613</p> <p>Pass-through Entity - N/A</p> <p>Finding Type - Material noncompliance with laws and regulations</p> <p>Repeat finding - Yes, 2016-010</p> <p>Criteria - Federal Emergency Management Agency (FEMA) awarded the City \$24,206,500 under award number EMW-2013-FH-00613 based on the application submitted by the City, which outlined that its request was based on hiring and maintaining 939 firefighters on payroll, of which 150 firefighters would be supported with the funding received under this award.</p> <p>FEMA set up all performance measures based on the application submitted by the City.</p> <p>Condition - The City applied for and was awarded the 2013 SAFER award to hire and maintain 939 firefighters on payroll, of which 150 firefighters would be supported with the funding received under this award. However, as of June 30, 2017, the City had 829 firefighters on payroll. The City's inability to meet the level of effort requirements did not create any questioned costs.</p> <p>Questioned Costs - None</p> <p>Identification of How Questioned Costs Were Computed - Not applicable as there are no questioned costs.</p> <p>Context - The City received an award for \$24,206,400 to be used to hire and maintain 939 firefighters on payroll, of which 150 firefighters would be supported with the funding received under this award. The City was able to maintain this level of services during the year. However, there was significant turnover towards the end of fiscal year 2017 that caused a decrease in the number of firefighters on payroll being charged to the grant.</p>

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2017

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2017-011 (Con't)	<p>Cause and Effect - The City experienced significant turnover towards the end of fiscal year 2017. Management described a cumbersome new hire process that resulted in the City being unable to rehire 110 additional firefighters to ensure the minimum required firefighters were on payroll.</p> <p>Recommendation - The City should review the turnover rates and hire adequate firefighters to meet any shortfall that might occur as a result of turnover.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The Detroit Fire Department (DFD) will review the turnover rates and hire an adequate number of firefighters to meet any shortfall that might occur as a result of turnover. The office of the chief financial officer, together with the DFD, will periodically review the number of firefighters and highlight any shortfalls. Also, the DFD has created an applicant list to make the hiring process faster.</p>

Reference Number	Finding
2017-012	<p>CFDA Number, Federal Agency, and Program Name - 93.914 - Department of Health and Human Services Health Resources and Services Administration - HIV Emergency Relief Program Grants (Ryan White HIV/AIDS Program Part A), 10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)</p> <p>Federal Award Identification Number and Year -</p> <p>Ryan White - H89HA00021-24-00 (March 1, 2016 - February 28, 2017)</p> <p>WIC - IW100342 & W500342 (October 1, 2015 - September 30, 2016; October 1, 2016 - September 30, 2017)</p> <p>Pass-through Entity - WIC is passed through the Michigan Department of Health and Human Services; N/A for Ryan White</p> <p>Finding Type - Material weakness and material noncompliance with laws and regulations</p> <p>Repeat Finding - Yes, 2016-012</p> <p>Criteria - In accordance with 45 CFR 75.305 2(b), for nonfederal entities other than states, payment methods must minimize the time elapsing between the transfer of funds from the United State Treasury or the pass-through entity and the disbursement by the nonfederal entity whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payments by other means.</p> <p>In accordance with 2 CFR 305 (b) (3), when the reimbursement method is used, the federal awarding agency or pass-through entity must make payment within 30 calendar days after receipt of billing, unless it is believed the request to be improper.</p> <p>Condition - Controls in place did not minimize the time elapsing between the transfer of funds from HRSA (Ryan White HIV/AIDS Program Part A) and Michigan Department of Health and Human Services (WIC) and the disbursements to the City of Detroit, Michigan's subrecipients.</p>

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2017

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2017-012 (Con't)	<p>Questioned Costs - None</p> <p>Identification of How Questioned Costs Were Computed - Not applicable as there are no questioned costs.</p> <p>Context - For Ryan White, one out of the six billings received from the City of Detroit, Michigan's subrecipient and selected for audit testing was paid in excess of 30 calendar days (i.e., 46 calendar days). The City of Detroit, Michigan received a total of 20 billings during the year.</p> <p>For WIC, in five out of the 25 transactions selected for testing, it took the City of Detroit, Michigan greater than 30 calendar days to make payment to subrecipients after receipt of billing. The days in excess ranged from 31-95 calendar days. The above-mentioned transactions were selected from 19 billings received from the City of Detroit, Michigan's subrecipients. The five deviations were from a total of five billings out of a total of 62.</p> <p>Cause and Effect - Controls in place did not result in the City of Detroit, Michigan minimizing the time elapsed between the transfer of funds from HRSA (Ryan White) and Michigan Department of Health and Human Services (WIC) and the disbursement to its subrecipients.</p> <p>Recommendation - We recommend City of Detroit, Michigan review its procedures and controls to ensure disbursement of funds to its subrecipients is consistent with both <i>Uniform Administrative Requirements, Cost Principles, and Audit Requirements for HHS Awards</i>.</p> <p>Views of Responsible Officials and Planned Corrective Actions - OCFO has implemented process improvements to ensure that vendor invoices are approved for payment in a timely manner and that payments are made within a timeframe not exceeding the 30-day requirement.</p>