



CITY OF DETROIT, MICHIGAN
OMB Circular A-133 Single Audit Report
June 30, 2006

CITY OF DETROIT, MICHIGAN
OMB Circular A-133 Single Audit Report

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Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and Schedule of Expenditures of Federal Awards

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

Compliance

We have audited the compliance of the City of Detroit, Michigan (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The City's major federal programs are identified in the Summary of Auditors' Results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

Except as discussed in Table 2, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

Qualifications (Noncompliance) – Table 1

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



Federal program	Compliance requirement	Finding number
Home Investment Partnership Program	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2006-64
Home Investment Partnership Program	Cash Management	2006-65
Home Investment Partnership Program	Davis Bacon	2006-66
Home Investment Partnership Program	Period of Availability	2006-67
Home Investment Partnership Program	Procurement, Suspension and Debarment	2006-68
Home Investment Partnership Program	Program Income	2006-69
Federal Transit Cluster	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2006-72
State Revolving Loan/ Drinking Water	Procurement, Suspension and Debarment	2006-76
HIV Emergency Relief	Reporting	2006-91
HIV Emergency Relief	Subrecipient Monitoring	2006-92

Adverse (Scope Limitation) – Table 2

As identified in Table 2 and described in the accompanying schedule of findings and questioned costs, we were unable to obtain sufficient documentation supporting the compliance of City for certain compliance requirements that are applicable to certain of its major federal programs nor were we able to satisfy ourselves as to the City’s compliance with those requirements by other auditing procedures.

Federal program	Compliance requirement	Finding number
Special Nutrition for Women, Infant’s and Children	Subrecipient Monitoring	2006-56
Prevention and Treatment of Substance Abuse	Matching, Level of Effort, Earmarking	2006-84

Adverse (Noncompliance) – Table 3

As identified in Table 3 and described in the accompanying schedule of findings and questioned costs, the City did not comply with certain compliance requirements that are applicable to certain of its major federal programs. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to the identified major federal programs.



Federal program	Compliance requirement	Finding number
Special Nutrition for Women, Infants and Children	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2006-54
Special Nutrition for Women, Infants and Children	Reporting	2006-55
Community Development Block Grant	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2006-57
Community Development Block Grant	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2006-58
Community Development Block Grant	Procurement, Suspension and Debarment	2006-59
Community Development Block Grant	Program Income	2006-60
Community Development Block Grant	Subrecipient Monitoring	2006-61
Community Development Block Grant	Reporting	2006-62
Community Development Block Grant	Reporting	2006-63
Immunizations Program and Vaccines Provided	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2006-77
Immunizations Program and Vaccines Provided	Reporting	2006-78
Immunizations Program and Vaccines Provided	Special Tests and Provisions – Control, Accountability and Safeguarding of Vaccines	2006-79
Immunizations Program and Vaccines Provided	Special Tests and Provisions – Control, Accountability and Safeguarding of Vaccines	2006-80
Prevention and Treatment of Substance Abuse	Reporting	2006-85
Prevention and Treatment of Substance Abuse	Subrecipient Monitoring	2006-86
Prevention and Treatment of Substance Abuse	Reporting	2006-87
Head Start	Cash Management	2006-94
Head Start	Subrecipient Monitoring	2006-95



Federal program	Compliance requirement	Finding number
Community Services Block Grant	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2006-96
Community Services Block Grant	Procurement, Suspension and Debarment	2006-97
Community Services Block Grant	Reporting	2006-98

In our opinion, except for the noncompliance described in the Table 1, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major programs for the year ended June 30, 2006. Also, in our opinion, because of the effects of the noncompliance described in Table 3 and except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the City's compliance with the requirements of the major federal programs described in Table 2, the City did not comply in all material respects, with the requirements referred to above that are applicable to each of its major federal programs described in Table 3. As identified in table 4, the results of our auditing procedures also disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs.

Other Instances of Non-Compliance – Table 4

Federal program	Compliance requirement	Finding number
Workforce Investment Act	Cash Management	2006-71
Federal Transit Cluster	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2006-73
Temporary Assistance for Needy Families	Cash Management	2006-82
Prevention and Treatment of Substance Abuse	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2006-83
HIV Emergency Relief	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2006-88
HIV Emergency Relief	Matching, Level of Effort, Earmarking	2006-89
HIV Emergency Relief	Matching, Level of Effort, Earmarking	2006-90
Head Start	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2006-93

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance



with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable Conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2006-52 through 2006-98.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above we consider the items 2006-52 and 2006-53, and the items in Table 1, Table 2 and Table 3 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 25, 2008, which included a reference to other auditors. Our report on the basic financial statements was modified to recognize that we did not audit the financial statements of the Detroit Brownfield Redevelopment Authority, Downtown Development Authority Economic Development Authority, Museum of African American History, Detroit Transportation Corporation, and the Greater Detroit Resource Recovery Authority, which represents 87.8% and 76.4%, respectively, of the assets and revenues of the discretely presented component units. We also did not audit the financial statements of the Retirement Systems, which represent 96.5% and 73.2% respectively, of the assets and expense/expenditures/deductions of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as they related to the amounts included for the aggregate discretely presented component units and the aggregate remaining fund information, are based on the reports of the other auditors. Our report was qualified based on the Detroit Public Library Component Unit (the Library) not having audited financial statements. We were not engaged to audit the Library's financial statements as part of our audit of the City's basic financial statements. The Library's financial activities are included in the City's financial statements as a discretely presented component unit and represents 8.6%, 18.7% and 15.2% of the assets, net assets, and revenues, respectively of the City's aggregate discretely presented component units. Our report included an emphasis paragraph stating that the City excluded the reporting in its financial statements of the Detroit Housing Commission and the School District of the City of Detroit which were, previously reported as discretely presented component units. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part



of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

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

KPMG LLP

Detroit, Michigan
September 30, 2008 (except for the
Schedule of Expenditures of
Federal Awards, Paragraph 10,
as to which the date is
February 25, 2008)

CITY OF DETROIT, MICHIGAN
Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

Grant title	Grant number	Catalog of federal domestic assistance	2006 expenditures
Department of Agriculture:			
Summer Food Service Program for Children	26-61146	10.559	\$ 874,180
Illegal Dumping Pilot	X985149-01	10.762	10,667
Via Michigan Department of Community Health			
WIC Supplemental Food	n/a	10.557	4,071,059
Via Michigan Family Independence Agency			
Packaged Meals	ES-04-82014	10.561	12,240
Via Michigan Department of Career Development:			
Food Assistance (AY 06)	05-18	10.561	823,221
Food Assistance Supportive Services (AY 06)	05-18	10.561	9,265
Food Assistance (AY 05)	04-08	10.561	594,346
Food Assistance Supportive Services (AY 05)	04-08	10.561	8,560
Via Michigan Department of Education:			
TEFAP	820021020	10.568	21,227
TEFAP	820021020	10.568	71,160
TEFAP	820021020	10.568	289,201
			6,785,126
Department of Education:			
Mayor's Time	U215K032278	84.215	149,767
			149,767
Department of Energy:			
Via Michigan Family Independence Agency			
Weatherization	DOE-06-82007	81.042	15,784
Weatherization	DOE-05-82007	81.042	2,571,806
			2,587,590
Department of Health and Human Services:			
Tuberculosis Outreach Assistance	U52/CCU500843	93.116	551,311
HIV Emergency Relief (HRSA)	05H89HA00021	93.914	9,144,882
Healthy Start Initiative	HSP26-C001-01	93.926	1,837,500
Head Start	05CH0113/40	93.600	11,920,154
Head Start	05CH0113/39	93.600	61,978
Head Start	05CH0112/41	93.600	35,092,373
Early Head Start	05CH0113/40	93.600	828,300
Early Head Start	05CH0113/41	93.600	1,075,088
Early Head Start	05CH0113/39	93.600	11,635
Via Michigan Department of Community Health:			
Childhood Lead Poison	n/a	93.197	763,232
Bio Terrorism	n/a	93.283	640,055
Child Health BG	n/a	93.994	1,656,470
Outreach & Assistance	9000001019	93.044	138,471
Childhood Lead	n/a	93.197	376,752
Family Planning	n/a	93.217	652,939
Immunization	n/a	93.268	516,671
Vaccine Provided	n/a	93.268	5,290,363
Vaccine Distribution	n/a	93.778	166,788
Aids/Hiv Consort	n/a	93.917	248,118
Aids/HIV Prevention and Planning	n/a	93.940	685,154
Aids/HIV Family Services	n/a	93.917	14,147
Aids Counseling	n/a	93.940	37,449
Aids Counseling	n/a	93.940	(68,861)
Prevention and Treatment of Substance Abuse	n/a	93.959	24,829,967
STD Control	n/a	93.977	372,632
Crippled Children Service	n/a	93.994	852,888
Primary Care-Chass	n/a	93.991	890,971

CITY OF DETROIT, MICHIGAN
Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

Grant title	Grant number	Catalog of federal domestic assistance	2006 expenditures
Via Michigan Dept of Human Services:			
Family Independence Agency:			
TANF	06-82007	93.558	\$ 258,630
TANF	05-82007	93.558	191,732
WX-LIHEAP	05-82007	93.568	999,019
WX-LIHEAP	05-82007	93.568	195,170
WX-LIHEAP	06-82007	93.568	4,132
Community Services Block Grant	05-82007	93.569	1,740,048
Community Services Block Grant	06-82007	93.569	4,191,205
Empowerment Zone	ECEZ-96-82001	14.244	710,125
Via Michigan Dept. of Labor & Economic Growth:			
TANF Work First (AY 06)	05-19	93.558	15,691,701
TANF Work First (AY 05)	04-11	93.558	4,875,008
TANF – Supportive Services (AY 06)	05-20	93.558	1,396,653
TANF – Supportive Services (AY 05)	04-21	93.558	600,000
TANF – Goodwill (AY 06)	05-14	93.558	360,916
			129,801,766
Department of Housing and Urban:			
Community Development Block Grant	B-05-MC-26-0006	14.218	50,376,728
Emergency Shelter Grant	S-05-MC-26-0006	14.231	1,650,586
Section 108 Loans	B-98-MC-26-006A	14.248	7,568,018
Special HSG Rehab Prog	M-05-MC-26-0202	14.239	18,731,656
Supportive Housing Program	MI-28-15-307	14.235	2,736,651
Vernor Lawndale	B-98-MC-26-0006B	14.251	600,000
HUD Lead Hazard	MILHD003504	14.905	1,234,446
Housing Opportunities for Persona with Aids	MI26H05-F001	14.241	1,554,000
Shelter Plus Care	MI28C101017	14.238	114,103
			84,566,188
Department of Interior:			
Anna Scripps Whitcomb conservatory Renovation	26-04-ML-0118	15.929	13,145
Restoration of Peterson Playground	L3217 (2225)	15.929	29,598
Belle Isle Flynn Pavilior	26CTY12600101	15.929	116,491
			159,234
Department of Homeland Security:			
Via Michigan State Police:			
2005 Urban Area Security Initiative (UASI)	n/a	97.067	316,379
Click it or Ticket	PT-06-08	16.710	37,706
			354,085
Department of Justice:			
Bureau of Justice Assistance VIII	2003-LB-BX-1064	16.592	1,162,805
Bureau of Justice Assistance IX	2004-LB-BX-1452	16.592	563,890
Encourage Arrest	2004-WEAX-0067	16.710	530,207
Project Safe Neighborhood	2003-GP-CX-0170	16.609	13,251
Great Program	2004-JV-FX-0174	16.737	56,000
Culture of Integrity	2002-HSWX-0017	16.710	16,432
Operation Takeback	2005JLFX0298	16.710	98,664
Homeland Security	2003OLWX0008	16.710	72,934
Community Oriented Policing Service (COPS)	98 ULWX0057	16.710	73,401
DNA Capacity	2004-DN-BX-K148	16.741	415,004
Via Michigan Department of Human Services:			
Family Independence Agency:			
JAIBG	05-82007	16.523	67,407
JAIBG	05-82007	16.523	484,855
JAIBG	06-82007	16.523	40,827
Equitable Sharing Funds	None	n/a	12,900
Youth and Community Allied for action-09/04-8/05	JP-05-82001	16.540	37,500

CITY OF DETROIT, MICHIGAN
Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

Grant title	Grant number	Catalog of federal domestic assistance	2006 expenditures
Via Michigan Department of Comm. Health:			
Victim Asst. 05	20083-8-2003	16.575	\$ 423,564
Victim Assistance	20083-8V03	16.575	32,808
			4,102,449
Department of Labor:			
Adult with Disabilities	E-9-4-2-0094-D5	17.720	306,563
Adult with Disabilities	E-9-4-2-0094-D5	17.720	299,878
Youth Opportunity Grants	AZ-10109-00-60	17.259	2,351,079
Via Michigan Department of Labor & Economic Growth:			
Reemployment Services	05-05	17.207	235,468
Wagner Peyner-Employment Services	05-04	17.207	1,882,271
Trade	05-17	17.245	410,415
Trade (AY04 CI/AY 05)	04-15	17.245	102,329
WIA Youth	05-04	17.259	7,218,254
WIA Administration	05-06	17.258,17.259,17.260	1,910,630
WIA Statewide Youth Activity High Concentrator	05-09	17.258,17.259,17.260	93,369
WIA Statewide Service Center Op (AY 06) – One Stop	05-07	17.258,17.259,17.260	500,000
WIA Incentive Distance Learning	641P5201619	17.267	65,000
WIA Adult	05-06	17.258	6,610,605
WIA Dislocated Worker	05-06	17.260	7,257,380
WIA Dislocated Worker National Reserve – Audit	04-03	17.260	69,373
WIA Dislocated Worker National Reserve Administrator	04-03	17.260	14,209
WIA Incumbent Worker	05-11	17.258,17.259,17.260	212,959
WIA Statewide Displaced Homemaker	05-12	17.258,17.259,17.260	65,121
WIA Statewide (Focus Hope)	AY04/05-PY05	17.258,17.259,17.260	1,399,748
WIA Statewide-Capacity Building	05-08	17.258,17.259,17.260	24,000
WIA Performance Incentive	05-24	17.258,17.259,17.260	183,846
Reed Act-Work First (AY 06)	05-19	n/a	466,121
Reed Act-Work First (AY 05)	04-11	n/a	1,059,175
			32,737,793
Environmental Protection Agency:			
Brownfield Pilot	BP-985204-01	66.818	16,402
Bfld Cleanup Revig Loan Fund	BL985739-01	66.818	350,000
Great Cities Clean Diesel Retrofit	X9-96538601-2	66.034	49,058
Great Cities Riverfront	X7 96564201-0	66.436	60,018
Via Michigan Department of Treasury			
State Revolving Loan	5143-02	66.458	1,059,505
State Revolving Loan	5175-02	66.458	1,290,465
State Revolving Loan	5175-05	66.458	1,820,840
State Revolving Loan	5204-03	66.458	930,405
State Revolving Loan	5204-04	66.458	2,478,827
State Revolving Loan	5204-05	66.458	472,646
State Revolving Loan	5204-06	66.458	2,254,520
State Revolving Loan	5228-01	66.458	1,592,035
State Revolving Loan	7161-01	66.458	1,640,362
State Revolving Loan	7162-01	66.458	831,198
			14,846,281
Department of Transportation:			
Federal Transit Administration			
Facility Construction	MI-90-X325/MDOT 00-0368	20.500	20,701
Trolley/Communications	MI-90-X337/MDOT 00-0776	20.500	390,185
Outreach Activities	MI-90-X347/MDOT 01-0324	20.500	24,901
Facility/Communication/Engineering	MI-90-X383/MDOT 02-0033/Z6	20.500	373,657
Facility/Communication/Engineering	MI-90-X411/MDOT 02-0033/Z7	20.500	660,058
Downtown Transit Center	MI-90-X421/MDOT 02-0033/Z11	20.500	154,716
Facility Improvement	MI-90-X422/MDOT 02-0033/Z12	20.500	528,258
Preventive maint//Facility etc.	MI-90-X434/MDOT 02-0033/Z16	20.500	478,604

CITY OF DETROIT, MICHIGAN
Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

<u>Grant title</u>	<u>Grant number</u>	<u>Catalog of federal domestic assistance</u>	<u>2006 expenditures</u>
Bus Lease	MI-90-X437/MDOT 02-0033/Z18	20.500	\$ 2,653,091
Preventive maint//Facility etc	MI-90-X464/MDOT 02-0033/	20.500	6,698,732
Preventive maint	MI-90-X502/MDOT 02-0033/Z26	20.500	9,618,357
Center City Loop-Rail Study	MI-70-X001	20.500	155,892
Transit Center	MI-70-X002	20.500	1,987,000
Emergency Prep	MI-40-X001	20.500	20,323
Downtown Transit Center	MI-03-0196/MDOT 02-0033/Z15	20.500	583,266
Bus Lease	MI-03-0204/MDOT 02-0033/Z20	20.500	1,028,156
Job Access and Reverse Commute – (E&TD)	MI-37-X001	20.516	200,000
Job Access and Reverse Commute – (E&TD)	MI-37-X004MDOT 00-0807/A1	20.516	275,806
Job Access and Reverse Commute – (E&TD)	MI-37-X009/MDOT 02-0033/Z10	20.516	100,883
Job Access and Reverse Commute – (E&TD)	MI-37-X014MDOT 02-0033/Z19	20.516	748,774
Vehicle-Pass through	MDOT 2004-0449	20.500	246,608
Unified Work Program/Transit Planning	MI 80-X013	20.514	305,490
			<u>27,253,458</u>
Total			<u>\$ 303,343,737</u>

See accompanying notes to schedule of expenditures of federal awards.

CITY OF DETROIT, MICHIGAN

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

(1) General

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

(2) Basis of Presentation

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

(3) Subrecipient Awards

Of the federal expenditures presented in the SEFA, \$124,935,786 of federal awards was provided to subrecipients.

(4) Noncash Transactions

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

(5) Highway and Construction Program

The City participates in various road, street, and bridge construction and repair projects. The projects are funded through an award granted to the State of Michigan Department of Transportation (the State), which administers the grant for the City. The City identifies the projects needed in the locality, and the State performs the procurement, payment, and cash management functions on behalf of the City. The award is managed directly by the State and has not been included in the tests of compliance with laws and regulations associated with the City's Single Audit. The award is approximately \$13.6 million for the year ended June 30, 2006.



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Detroit, MI 48226-4429

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

The Honorable Mayor
and 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 (City) as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 25, 2008 which includes an emphasis paragraph stating that the City excluded the reporting units financial statements of the Detroit Housing Commission and the School District of the City of Detroit because they are no longer component units of the City. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Detroit Brownfield Redevelopment Authority, Detroit Public Library, Downtown Development Authority, Economic Development Authority, Museum of African American History, Detroit Transportation Corporation, Greater Detroit Resource Recovery Authority, and the Retirement Systems as described in our report on the City's financial statements. The financial statements of the Detroit Public Library (Library) have not been audited, and we were not engaged to audit the Library's financial statements as part of our audit of the City's basic financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Section II of the schedule of findings and questioned costs as items 2006-01 through 2006-04, and 2006-06 through 2006-51.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may



occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider items 2006-1, 2006-02, 2006-03, 2006-04, 2006-06, 2006-07, 2006-09, 2006-10, 2006-11, 2006-15, 2006-16, 2006-17, 2006-18, 2006-21, 2006-22, 2006-24, 2006-27, 2006-28, 2006-29, 2006-30, 2006-35, and 2006-36 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Section II as item 2006-05.

We noted certain other matters that we reported to management of the City which are included in Section II.

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

KPMG LLP

Detroit, Michigan
February 25, 2008

CITY OF DETROIT, MICHIGAN
 Schedule of Findings and Questioned Costs
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Section I – Summary of Auditors’ Results

- (a) The type of report issued on the basic financial statements: **Qualified opinion**
- (b) Reportable conditions in internal control were disclosed by the audit of the basic financial statements: **Yes**
 Material weaknesses: **Yes**
- (c) Noncompliance that is material to the basic financial statements: **No**
- (d) Reportable conditions in internal control over major programs: **Yes**
 Material weaknesses: **Yes**
- (e) The type of report issued on compliance for major programs:

<u>Unqualified</u>	<u>Qualified</u>	<u>Adverse</u>
Workforce Investment Act (CFDA # 17.258,17.259, 17.260)	Home Investment Partnership Program (CFDA #14.239)	Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA #10.557)
Temporary Assistance For Needy Families (CFDA #93.558)	Federal Transit Cluster (CFDA #20.500)	Community Development Block Grant (CFDA #14.218)
	State Revolving Loan / Drinking Water (CFDA #66.458)	Immunizations Program and Vaccines Provided (CFDA #93.268)
	HIV Emergency Relief (CFDA #93.914)	Prevention and Treatment of Substance Abuse (CFDA# 93.959)
		Head Start (CFDA #93.600)
		Community Services Block Grant (CFDA #93.569)

- (f) Any audit findings that are required to be reported under Section 510(a) of OMB Circular A-133: **Yes**
- (g) Major programs: Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA # 10.557); Community Development Block Grant (CFDA # 14.218); Home Investment Partnership

CITY OF DETROIT, MICHIGAN

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Program (CFDA # 14.239); Workforce Investment Act (CFDA # 17.258, 17.259, 17.260); Federal Transit Cluster (CFDA # 20.500); State Revolving Loan Fund/Drinking Water (CFDA #66.458); Immunization Program and Vaccines Provided (CFDA #93.268); Temporary Assistance For Needy Families (CFDA # 93.558); Prevention and Treatment of Substance Abuse (CFDA # 93.959); HIV Emergency Relief (CFDA # 93.914); Head Start (CFDA #93.600); Community Services Block Grant (CFDA # 93.569)

- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- (i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **No**

Section II – Summary of Findings Relating to the Financial Statements which are Required to be Reported in Accordance with *Government Auditing Standards*.

Item 2006-01 – Financial Statement Preparation

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

The financial reporting process should be designed to effectively accumulate process, summarize, and present fairly a complete set of financial statements and supporting information on a timely basis. This should include the timely submission of the City’s Comprehensive Annual Financial Report (CAFR) to the State of Michigan Treasurer.

Condition

Deficiencies noted in the prior year’s audit related to financial statement preparation were not corrected. We continue to note certain deficiencies as described below:

- The financial statement preparation process relies partly upon decentralized accounting staff and software applications other than the City’s DRMS general ledger. The process also requires a significant amount of manual intervention. These circumstances create an environment that lengthens the time necessary and increases errors occurring during the preparation of the financial statements.
- Throughout the City’s fiscal year, complex transactions are entered into that have a significant impact on the financial statements without timely consideration given as to how to record or report such transactions. These transactions are often not identified until the end of the fiscal year during the financial reporting process. In addition, there is inadequate communication between various City departments on major transactions and on how they affect the individual reports and the CAFR.
- A significant number of manual postclosing entries are recorded, which consist of significant adjustments.
- The financial reporting process only occurs for the year-end financial statements as compared to a monthly or quarterly basis. As a result, certain key account reconciliations are not performed timely and take an extended amount of time to complete during the closing process. Information necessary to effectuate a timely and accurate closing of the books is sometimes not communicated between certain departments and agencies of the City.

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- The financial reporting function does not utilize enough qualified and appropriately experienced employees to prepare the financial statements or monitor reporting issues throughout the year. As a result, the City has employed contractors at the end of the reporting process.

Cause

Financial reporting and accounting employees are not provided adequate amounts of training. Employees with qualifications important to accounting and financial reporting functions have left the City and have not been replaced with employees with similar qualifications. Disparate systems require significant manual intervention (analysis and reconciliation) in order for the City to determine that it has received complete and accurate information for the financial reporting process. Internal control procedures designed to mitigate the effect of these issues are not consistently monitored by the City's management throughout the year to determine if they are operating effectively.

Effect

The above deficiencies hinder the City's ability to timely and accurately prepare financial statements.

Recommendation

It is imperative that management provide ongoing and regular training to accounting and financial reporting employees and hire other personnel with the qualifications and experience necessary to adequately perform the duties in the financial reporting function. Management should monitor internal control procedures throughout the year to determine that they are being executed as designed. In addition, the City should review its financial reporting and accounting organizational structure as many accounting activities are performed outside of the finance department.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
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Item 2006-02 – Schedule of Expenditures of Federal Awards

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

A reconciliation of the Schedule of Expenditures of Federal Awards (SEFA) to the General Ledger should be performed throughout the year in order to ensure the SEFA is complete and accurate as to the reporting of federal funds and to avoid putting such funds at risk through noncompliance with the awarding agencies.

Condition

There were several significant unreconciled differences between the SEFA and the General Ledger. The attempt to reconcile continued more than a year after fiscal year-end and significant errors that required adjustments to the SEFA were discovered throughout this process.

Cause

The internal control procedures were not adequately designed to identify all sources of federal funds. The internal control procedures that were in operation were not followed or monitored properly to perform a complete and accurate reconciliation of the SEFA to the General Ledger on a timely basis.

Effect

Unreconciled differences between the SEFA, the General Ledger, and supporting documentation could result in significant errors in the financial statements or SEFA.

Recommendation

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

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
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Item 2006-03 – Manual Journal Entries

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

It is the City's policy that journal entries are prepared by the respective departments and require approval by a supervisor or manager and should be accompanied by sufficient supporting documentation. The approver of the journal entry is required to be independent of the preparer and at least one management level above (same department) or at least the same level (different department) as preparer.

Condition

During our test work, we noted 31 of the 104 entries selected did not contain evidence of proper approval. In addition, 39 entries did not have adequate supporting documentation accompanying the entry. Of the 31 entries not properly approved, 16 of the 31 entries were prepared, posted, and approved by a single individual instead of multiple independent individuals.

Cause

Internal controls were circumvented and not properly monitored and enforced.

Effect

Journal entries that lack appropriate approvals and supporting documentation increase the risk that internal controls will not prevent or detect misstatements in the financial statements, whether caused by error or fraud.

Recommendation

Employees who prepare, approve, and process journal entries should receive periodic training. The City should develop policies and procedures related to monitoring and detecting noncompliance with City policies. Employees who are found to circumvent internal controls should be subject to appropriate personnel actions which at a minimum should include termination.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
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Item 2006-04 – Bond Covenants

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

The fraud provisions of the Securities Act of 1934 require continuing disclosure of all material matters. Not reporting violations of bond covenants could be considered a violation of these provisions. Management should have internal control procedures to identify and evaluate compliance with all bond covenants.

Condition

There is no formal process to identify, evaluate, and monitor each bond covenant entered into by the City. The City was unable to provide evidence that they had monitored compliance with bond covenants throughout the year.

Cause

Internal control procedures related to the identification and evaluation of bond covenants was not designed properly to appropriately reduce the risk of noncompliance to an acceptable level.

Effect

Noncompliance with the fraud provisions of the Securities Act of 1934 can be considered a serious violation of federal laws.

Recommendation

Management should establish internal control procedures to identify, evaluate, and monitor compliance with all bond covenants on an ongoing basis. The internal control procedures should include procedures whereby other members of management are monitoring the internal controls throughout the year to determine if they are placed in operation and operating effectively.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
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Item 2006-05 – Remittance of Escheatment Properties

Type: Compliance and Other Matters

Criteria

The City is required to remit unclaimed (escheat) property to the State of Michigan Department of Treasury, Unclaimed Property Division, with complete and accurate information on an annual claim file report per the State of Michigan's Unclaimed Property Act, Public Act 29 of 1995.

Condition

The City has not filed the required Michigan Holder Transmittal Annual Report of Unclaimed Property, nor remitted escheatable properties to the State of Michigan, Unclaimed Property Division.

Cause

Internal controls were not properly established, executed, or monitored. Management does not have a documented procedure to ensure that unclaimed properties are escheated.

Effect

The City is currently not in compliance with Public Act 29. The potential financial statement effect is that the liabilities of the City might be understated due to the potential existence of penalties and interest associated with not filing.

Recommendation

Management should develop internal control procedures to determine that the City employee responsible for filing the required escheatment related documentation has conducted the activities in accordance with Michigan laws.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
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Item 2006-06 – Calculation of Arbitrage

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

The City is required by Bond Covenants and Federal Tax Law to ensure that it does not violate arbitrage laws.

Condition

During our audit, we noted management did not have a process in place to monitor compliance with the arbitrage laws to ensure that the City's bonds remain tax exempt.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

The City is out of compliance with IRS rules and bond covenants regarding arbitrage calculations.

Recommendation

Management should develop and enforce internal controls designed to ensure that the City is in compliance with the arbitrage requirements.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

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Item 2006-07 – Workers’ Compensation

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

In order to appropriately design the internal control procedures to be utilized over the processing, authorizing, and documenting of workers’ compensation claims, the City should investigate the internal control procedures utilized by its third-party administrator and then assess and design complementary controls over the processing, authorizing, and maintaining history of claims data.

Condition

During our audit, we noted the City has not evaluated and reviewed the internal control procedures utilized by its third-party administrator and does not have internal control procedures to assess the completeness and accuracy of the underlying data provided to the actuary.

Cause

The City does not currently have a policy in place that requires evaluation of internal controls of the third-party administrators. Internal controls were not properly established, executed, or monitored.

Effect

Due to the City not having a complete data set related to its own experience with workers’ compensation claims, the City’s consulting actuary utilized industry-wide data combined with City data to establish payment patterns. Additionally, the actuary was unable to prepare a standard development analysis because the City had not maintained historical valuations of loss and expense payments and outstanding loss reserves summarized by accident year. The actuarial estimate is subject to greater variation than it would be had traditional data been available for review.

Recommendation

The City should obtain and evaluate the Third Party Administrator (TPA) SAS 70 reports to assess the internal control procedures used by the TPA’s. The City should then develop complementary internal control procedures. The City should consider implementing either a new system or modifying current systems to include more appropriate claims tracking and maintenance of reserves. The collection of such insurance statistics would provide for more consistency in the loss reserving process and could provide the City information that could be used to implement cost-saving measures.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
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Item 2006-08 – Procurement Authorization

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

The City requires a proper signature on purchase orders over \$2,000 and approval by City Council for purchase orders over \$25,000.

Condition

During our test work, we noted 2 of 32 purchase orders that did not have City Council approval when required and 4 of 32 purchase orders that did not contain appropriate signatures. We also noted 2 purchase orders that were one cent (\$0.01) below the threshold for approvals. This is a potential risk factor that there was an attempt to circumvent the approval control thresholds.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

Purchase orders that are authorized without proper approval could lead to inefficient use of funds, misappropriation of assets, or fraud.

Recommendation

Management should strengthen the internal controls over the purchase order authorization process by implementing additional monitoring procedures. Monitoring procedures should include analysis of purchasing data files by vendor, requisition department, appropriation, date, time, and amount.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
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Item 2006-09 – Service Providers

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

The City should have a formalized process for obtaining and reviewing the internal controls related to the Service Organizations that accumulate, process, and summarize significant financial information on behalf of the City.

Condition

During our test work, we noted the City did not review the internal controls that related to Service Organizations that accumulate, process, and summarize significant financial information. Additionally, the Finance Department appeared to be unaware of several of the Service Organizations that City departments were utilizing.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

The City's financial statements could be materially misstated by the inadvertent reliance of the completeness and accuracy of financial information being processed by the service organizations.

Recommendation

Management should develop and enforce a process to review the completeness and accuracy of the information being provided to the service organizations. Review the internal controls of the service organizations through an audit of internal controls for service organizations (SAS 70) or perform their own internal controls testing. Lastly, the City should be reviewing the information being received from the service organizations for completeness and accuracy.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
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Item 2006-10 – Cash and Investment Reconciliations

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

Cash and investment accounts should be reconciled to the General Ledger on a monthly basis and all differences should be investigated and appropriately resolved on a timely basis.

Condition

During our audit, we noted various cash and investment accounts were not reconciled timely and contained unresolved differences that were not investigated on a timely basis.

Cause

Internal control procedures were not properly executed, monitored, or enforced on a consistent basis.

Effect

Unresolved differences on cash and investment reconciliations could result in misstatements, whether caused by error or fraud, in the financial statements that would go undetected. Additionally, reconciling items that are not resolved timely become stale and often more difficult to resolve as time passes.

Recommendation

Cash and investment reconciliations should be completed within a short period of time after each month-end and all differences should be investigated and resolved immediately.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
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Item 2006-11 – Cash and Investment Accounts, also see Item 2006-11

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

Internal controls should be designed, executed, monitored, and enforced to ensure that all bank accounts and investment accounts are properly authorized and accounted for throughout the City departments.

Condition

During our test work, we noted several inactive, off-balance-sheet and apparently unauthorized accounts. In addition, we noted that the City did not maintain a complete and accurate listing of all bank and investment accounts.

Cause

Internal control procedures were not properly executed and monitored on a consistent basis.

Effect

Unauthorized or unknown bank and investment accounts increase the risk of errors and irregularities to occur in the financial statements. In addition, it increases the risk of fraud to occur.

Recommendation

We recommend that management strengthen the internal controls to ensure that Finance and Treasury are aware of all bank and investment accounts, including inactive, closed, or unauthorized accounts. Consideration should be given to developing policies and procedures related to monitoring and detecting noncompliance with City policies. We further recommend that management strengthen the controls over the opening, closing, and signatories of all bank and investment accounts.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
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Item 2006-12 – Classification of Cash Equivalents – DWSD

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

The City is required to consider certain short-term, highly liquid investments as cash equivalents per Governmental Accounting Standards Board Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds*.

Condition

During our audit, we noted the Detroit Water and Sewerage Department (DWSD) was not properly classifying cash equivalents in its financial statements.

Cause

Individuals responsible for preparing financial statements were not aware of the relevant U.S. generally accepted accounting principles (GAAP) related to the classification of cash and cash equivalents.

Effect

The presentation and disclosures of cash equivalents could be misstated in the financial statements.

Recommendation

Individuals responsible for preparing the financial statements should receive adequate training to ensure awareness of all relevant GAAP.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
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Item 2006-13 – Investment Valuation

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

The City's accounting policy and (GAAP) require the valuation and recording of investments at fair value.

Condition

During our test work, we noted certain investments that were not properly valued at fair value.

Cause

Internal controls were not properly established, executed, or monitored to prevent, detect, and/or correct the error.

Effect

Investment amounts not recorded at fair value could lead to a material misstatement to the financial statements.

Recommendation

Management should strengthen the City's internal controls to ensure all investments are properly recorded in accordance with City and State of Michigan requirements and GAAP.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
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Item 2006-14 – Imprest Cash Authorized Limits

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

The City has an imprest cash policy that allows for a specific authorized amount in each account.

Condition

During our audit, we noted several departments held more cash in their imprest cash accounts than they were authorized for.

Cause

Internal control procedures were not established, followed, or monitored on a consistent basis to ensure compliance with City policy.

Effect

Not following City policy increases the risk of error in the financial statements and increases the risk of fraud to occur.

Recommendation

Employees who are responsible for handling the imprest cash accounts should be provided training over the applicable policies. Consideration should be given to developing policies and procedures related to monitoring and detecting noncompliance with City policies.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
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Item 2006-15 – Construction Work in Process

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

Internal controls should exist to ensure that all capital assets are properly released into service per the City's policy and the definition of "in process" by GAAP.

Condition

Construction in process (CIP) for the governmental activities, Water Fund, Sewage Fund, Automobile Parking Fund, and the Detroit Building Authority have not been released into service in a timely manner to match the City's policy or the definition of "in process" by GAAP. In addition, several items were initially recorded in the current year as additions to CIP that should have been expensed.

Cause

Internal controls are not properly designed, executed, or monitored to ensure that all capital assets are properly released into service per the City's policy and the definition of "in process" by GAAP.

Effect

If items are not placed into service, the recording of depreciation expense will not begin. This could result in misstatements in the financial statements.

Recommendation

Individuals who are knowledgeable in the area of GAAP related to capital assets should perform a substantive evaluation of every CIP project on an annual basis at a minimum. All projects that are placed into service by the fiscal year-end should be transferred from CIP to the appropriate asset category and related depreciation should be taken. In addition, all charges to CIP need to be evaluated to determine whether they fit the definition of a capital asset and should be capitalized or if they should be expensed.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
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Item 2006-16 – Recording of Capital Asset Disposals

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

Internal controls should exist to ensure that all capital asset disposals are properly recorded in the financial records and the capital asset system in accordance with GAAP.

Condition

During our audit, we noted an inaccurate calculation of the gain on disposal of capital assets in 18 of 30 samples selected.

Cause

Internal control procedures were not established, followed, or monitored on a consistent basis to properly identify capital asset disposals and accurately account for them.

Effect

A lack of appropriate internal controls over the recording of capital asset disposals could lead to material errors in the financial statements.

Recommendation

Management should strengthen the City's internal controls to adequately identify and account for capital asset disposals. Individuals who are knowledgeable in the area of GAAP related to capital assets should perform a substantive monitoring and communication with all departments to ensure all potential capital asset disposals are recorded properly. Additionally, the City should consider conducting fixed asset physical counts on an ongoing department by department basis so that each department has all capital assets physically counted in accordance with City policies.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
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Item 2006-17 – Recording of Capital Asset Additions

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

Internal controls should exist to ensure that all capital asset additions are properly recorded in the financial records and the capital asset system in accordance with GAAP.

Condition

The majority of assets were being capitalized on a cash or cost basis instead of the accrual basis of accounting causing adjustments to the total assets acquired in the next fiscal year.

Cause

Internal controls were not adequately designed, effective, or monitored to ensure that asset additions are accurately accounted for in the proper period. In addition, the City does not have an established set of year-end procedures to be performed to reconcile data from one department to another.

Effect

A lack of appropriate internal controls over the recording of capital asset additions and an established year-end reconciling process could lead to material errors in the financial statements.

Recommendation

Management should strengthen internal controls over the year-end closing process to ensure capital asset additions are being accurately accounting for in accordance with GAAP. This should include reconciling capital outlay expenditures by department to the capital asset additions recorded.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
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Item 2006-18 – Capital Asset Inventories

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

Finance Directive #95 issued by the City's Finance Department, outlines the capital assets policy for all City agencies. Section IV of the Finance Directive establishes the requirement that each agency conduct a physical inventory of its capital assets prior to each year-end.

Condition

During our audit, we noted physical inventories of capital assets were not being conducted as required.

Cause

Internal controls over the monitoring and enforcement of physical counts of capital assets were not established, followed, or monitored on a consistent basis.

Effect

A lack of the required physical counts of capital assets could result in misstatements in the financial statements not being detected on a timely basis. Additionally, if capital assets are not counted on a periodic basis, misappropriation or theft of capital assets could go undetected.

Recommendation

Management should strengthen the internal controls over the physical counts of capital assets. This should include conducting fixed asset physical counts on an ongoing department by department basis so that each department has all capital assets physically counted in accordance with City policies. Physical counts should be conducted by individuals who are independent of the custody and recording of capital assets and independent of the purchasing and receiving of capital assets.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
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Item 2006-19 – Identification of Impaired Assets

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

The City should have a formalized internal control process for monitoring known events that could cause an asset to be impaired and therefore require an assessment of impairment in accordance with GAAP.

Condition

During our audit, we noted there was not a formal process for monitoring and tracking events that could cause an asset to be impaired.

Cause

Internal control procedures were not established, followed, or monitored.

Effect

Not having an adequate process over monitoring the events that could cause an asset to be impaired could cause an error in the financial statements.

Recommendation

The City should develop a formalized internal control process for monitoring the events that could cause an asset to be impaired. Additionally, whenever a new accounting pronouncement is issued that will potentially impact the City, the City should assess the impact at the implementation date and develop and implement internal control procedures to ensure compliance with the new pronouncement on an ongoing basis.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
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Item 2006-20 – Capital Asset Classifications – Detroit Department of Transportation (DDOT)

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

The City should have a policy in place to ensure that they are accurately depreciating their capital assets over their useful lives.

Condition

During our audit, we noted that DDOT's depreciation policy did not segregate between buildings, which should be depreciated in accordance with the depreciation policy, and building improvements, which should be depreciated over the lesser of the expected useful life of the building improvement or the remaining useful life of the building that the improvement was made to.

Cause

Internal control procedures were not established, followed, or monitored.

Effect

The City's capital assets and related accumulated depreciation could be misstated.

Recommendation

The City should develop a policy that accurately depreciates their capital assets over their useful lives.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
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Item 2006-21 – Legal Case Reserve Analysis

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

All legal cases should be identified, monitored, and assessed in accordance with GAAP, including *Financial Accounting Standard No. 5* and *Government Accounting Standard Board Interpretation No. 6*.

Condition

During our audit, we noted the legal case reserve listing was inaccurate, incomplete, and not assessed properly in accordance with GAAP.

Cause

Internal control procedures were not established, followed, or monitored to ensure a complete and accurate list of legal cases was assessed in accordance with GAAP. In addition, there was inadequate training and communication between departments on the proper accounting for legal reserves.

Effect

Incomplete and inaccurate legal reserves could potentially lead to a material error in the financial statements.

Recommendation

Management should strengthen the internal control process over the legal reserve process. This should include adequate training and timely periodic reviews of all legal cases assessed in accordance with GAAP.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-22 – Recording of Inventory

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

As part of the year-end closing process, management requires each department to perform a physical count of inventory to assess the completeness, accuracy, and valuation of each department's inventory.

Condition

During our audit, we noted insufficient inventory listings and related supporting documentation.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

Insufficient documentation could result in misstatements to the financial statements.

Recommendation

Management should strengthen the internal controls over the recording of inventory and the physical count process. Employees who are responsible for performing the inventory should be given adequate training over the inventory process. Consideration should be given to develop an electronic inventory system for the departments to track and monitor inventory.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-23 – Inventory valuation – DDOT

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

In accordance with management's inventory policy and GAAP, inventory should be valued at the lower of cost or market.

Condition

During our test work, we noted errors between the price of inventory in the Lawson inventory system and the most recent invoice resulting in inventory not being valued at actual cost.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

Inaccurate valuation of inventory could cause errors in the financial statements.

Recommendation

Management should strengthen internal controls to ensure that inventory is properly valued.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-24 – Payroll Reconciliation from the Payroll Sub-Ledger to the General Ledger

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

To ensure completeness and accuracy of the payroll accounts in the general ledger, management should reconcile the payroll sub-ledger to the General Ledger on a routine basis.

Condition

During our audit, we noted that reconciliation between the Payroll Sub-Ledger to the General Ledger was not performed.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

Unresolved differences between the General Ledger and the Payroll Sub-Ledger could result in errors and/or irregularities in the General Ledger.

Recommendation

Management should establish controls to ensure that the General Ledger and the Payroll Sub-Ledger are reconciled on a timely basis and all differences should be investigated and resolved immediately.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-25 – Payroll File Maintenance Audit Report

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Internal controls should be in place to ensure that all changes to the payroll file are appropriate and authorized. The Payroll File Maintenance Audit Report that shows all changes to the payroll file is required to be reviewed and approved by the payroll clerks.

Condition

During our audit, we noted a File Maintenance Report was printed showing the changes to the payroll file; however, there is no evidence of review by management or payroll clerks.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

The financial statements could potentially be misstated by inaccurate or unauthorized changes in the payroll file.

Recommendation

Management should strengthen internal controls to ensure that the Payroll File Maintenance Audit Report is reviewed and the review is evidenced by a signature.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-26 – Sick Leave Reserve – DDOT

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Internal controls should be in place to ensure that when changes to union agreements occur, the reserve accounts are properly adjusted.

Condition

During our audit, we noted the DDOT failed to increase the sick leave reserve to account for the increase in payouts per the new union agreement.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

The financial statements could potentially be misstated.

Recommendation

Management should establish and enforce internal controls to ensure that reserve amounts are adjusted to reflect increases in payouts with regards to new union agreements. Management should implement a process to evaluate the potential financial statement impact of all new and/or revised contracts.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-27 – Interfund Transaction Recording, also see Item 2006-01

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

The City is required to properly record interfund transactions on a timely basis and ensure that they are properly recorded in accordance with GAAP.

Condition

During our test work, we noted the City is not reconciling the interfund transaction on a timely basis and is improperly recognizing internal reimbursements in the financial statements by recording them as revenue in the reimbursed fund instead of a reduction of expenditures.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

The financial statements could be misstated and not presented in accordance with GAAP.

Recommendation

Management should strengthen the internal controls to prevent, detect, and correct errors in the due to/due from. Additionally, management should strengthen the internal controls in the reporting process to ensure that all applicable revenue and expenditure transactions are recorded and presented accurately in accordance with GAAP.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-28 – Recognition of Revenue in the Government-Wide Statements, also see Item 2006-01

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

Management is required to recognize revenue on the full accrual basis of accounting in the governmental activities financial statements and to recognize revenue on the modified basis of accounting in the Governmental funds financial statements in accordance with GAAP. However, the accounts receivable recognition criteria are the same for both the full accrual and modified accrual bases of accounting.

Condition

During our test work, we noted that different criteria were used for recognizing accounts receivables, at the governmental activities and governmental fund levels even though the recognition criteria used should have been the same.

Cause

Individuals responsible for preparing the financial statements were unaware of the appropriate GAAP.

Effect

The City's financial statements could contain a misstatement in their accounts receivable and deferred revenues.

Recommendation

Individuals responsible for preparing the financial statements should possess relevant experience and should receive training on GAAP on a regular basis.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-29 – Accounts Receivable Aging Report

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

Management should develop a complete and accurate accounts receivable aging report in order to properly reserve for accounts that will not be collected.

Condition

During our test work, we noted that the accounts receivable aging report was not accurately aging each invoice. In addition, we noted the accounts receivable year-end process was very complex and labor intensive.

Cause

Internal controls were not properly established, executed, or monitored to ensure that reports contain accurate data and calculations.

Effect

Inaccurate aging of accounts receivable could cause an error in the financial statements.

Recommendation

Management should strengthen the City internal controls to ensure that the accounts receivable aging report is properly aged.

Views of Responsible Official

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-30 – Recording of Emergency Medical Services (EMS) and Parking Revenue Streams

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

Management is required to recognize revenue and receivables on the full accrual basis of accounting in the governmental activities in the financial statements in accordance with GAAP.

Condition

During our test work, we noted the City was inaccurately recognizing revenue for both the EMS and Parking revenue accounts. The billing and collection data is accumulated, processed, and collected by service organizations. Once billed, the service organization is only responsible for rebilling a given number of times, after which they stop attempting to collect. If a bill is collected, it is remitted to the City that records revenue only when this collection occurs. Revenues should be recorded when they are earned and the City has an enforceable legal claim beyond what the service organization time frame for collection.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

Inadequate monitoring of significant accounts receivable and revenue accounts could cause misstatements in the financial statements.

Recommendation

Management should strengthen the City internal controls to ensure that the EMS and Parking accounts are properly monitored and recorded in accordance with GAAP.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-31 – Reconciliation of Income Tax Ledger to the General Ledger

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

In order to ensure complete and accurate revenue is recorded in the general ledger the income tax division reconciles the DRMS cash collections to the amount of collections in the Tax Administration System (TAS).

Condition

During our audit, we noted the City did not prepare reconciliations of the income tax collections from the DRMS General Ledger System to TAS subsidiary ledger.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

Unresolved differences between the General Ledger and the income tax subsidiary ledger could result in errors in the financial statements.

Recommendation

Management should establish internal controls to ensure that the General Ledger and the income tax subsidiary ledger are reconciled on a timely basis. In addition, any reconciling items should be investigated and resolved immediately.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-32 – Revenue/Accounts Receivable Process – Public Lighting Department

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Adequate internal controls are required to ensure the meter reading, bill processing, recordkeeping, is complete and accurate.

Condition

During our audit, we noted inadequate internal controls including management review and approval, segregation of duties, information technology and monitoring of the process. It was noted that the same individual is responsible for custody, recordkeeping, authorization, review of transactions.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

Electrical accounts receivable and revenue could potentially be materially misstated due to a lack of internal controls for billing, recording, and collecting accounts receivables.

Recommendation

Management should strengthen the internal controls to ensure that accounts receivable and revenue are complete, accurate, and properly earned.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-33 – Application of Payments to the Water Fund and the Sewerage Fund

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

To ensure complete and accurate accounts receivable balances for the Water Fund and Sewerage Fund, the department should have an adequate systematic process for applying partial payments to customer accounts.

Condition

During our test work, we noted the billing and collection system for the Water and Sewerage Department automatically attributes the entire partial payment of a bill to the Water Fund and then any remaining amount to the Sewerage Fund.

Cause

The design and implementation of the Customer Billing Management System (CBMS) did not allow for a systematic allocation of partial payments to customer accounts.

Effect

By not having a systematic allocation of payments to customer accounts the Water Fund accounts receivable sub-ledger will have a better collection rate than the Sewerage Fund. This results in the Sewerage fund having a larger amount of uncollectible customer accounts.

Recommendation

Management should change the CBMS allocation and application of payments to each fund.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-34 – Accounts Payable Reconciliation – Parking Fund

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Management should ensure that Parking's MIP general ledger system and the City Accounts Payable module in DRMS are reconciled.

Condition

During our test work, we noted the City did not reconcile the Central Accounts Payable module to the MIP general ledger system. Parking maintains its own General Ledger System; however, the Central Accounts Payable Department issues checks on behalf of the Parking Department using DRMS.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

There could potentially be an error in the parking accruals or expenditures as a result.

Recommendation

Management should strengthen the internal controls to reconcile the parking accounts payable ledger to the City's General Ledger.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-35 – Year-end Accruals

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

Expenditures generally should be recognized when transactions or events that result in claims against financial resources take place.

Condition

During our test work, we noted City departments are not consistently reporting all invoices or other items that require accrual to the Accounts Payable department. Specifically, we identified 79 out of 253 invoices selected for which an accrual was not recorded when it should have been recorded.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

The City could misstate expenditures and related liabilities.

Recommendation

Management should strengthen the internal controls procedures over the accrual process. Management should provide periodic training for the various departments and monitor the process on a periodic basis. Additionally, management should conduct analysis of data files as part of the year-end closing process to assist in identifying unrecorded accruals.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
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Item 2006-36 – Invoice Accrual Policies

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

Generally, expenditures should be recognized when transactions or events that result in claims against financial resources take place.

Condition

During our test work, we noted the City only required departments to accrue for invoices over \$100,000 but did not perform an analysis to quantify the potential effect of this policy.

Cause

Management believes that any invoices below this amount are immaterial to the City.

Effect

The City could potentially be underreporting expenditures and liabilities in the aggregate.

Recommendation

Management should develop and enforce a process where all invoices after year-end are inspected to determine if they should be accrued for. Management should also develop and enforce a process for departments to report their year-end accruals. Alternatively, if management chooses to maintain the current policy, then it should conduct analyses to determine the potential impact of the policy versus recording all invoices.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

NOTE: ITEMS 2006-37 THROUGH 2006-51 ARE “Information Technology” (OR SYSTEMS) RELATED.

Item 2006-37 – Password Management

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Adequate password parameters should be enforced over systems used in support of the financial reporting process to avoid unauthorized use of user accounts. Password rules should consider:

- Minimum password length
- Acceptable password change intervals
- Passwords syntax rules (i.e., prohibited passwords, required letter/number/special character combinations)

Condition

During our test work over the (IT) General Controls related to the application, database, and operating systems for the DRMS (General Ledger system), PPS (Payroll System), EMPAC (Inventory System for DWSD), Lawson System (DDOT Inventory), CBMS, MIP (General Ledger System for Parking Fund), Tax Administration System (TAS), Equalizer Tax application and the TideMark Systems, we noted the City did not have adequate password parameters in place.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

There is the potential that the integrity of the system could be compromised affecting the financial statements.

Recommendation

Management should develop and enforce stronger password parameters such as password length of at least 6 characters, password expiration every 90-120 days, enforce alpha-numeric password, and suspend ID's after 5 invalid login attempts.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-38 – Unique User ID’s

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Authentication mechanism should be established for information systems that provides for individual accountability.

Condition

During our test work over the IT General Controls related to the application, database, and operating systems for the DRMS (General Ledger system), PPS (Payroll System), EMPAC (Inventory System for DWSD), Lawson System (DDOT Inventory), CBMS (DWSD), MIP (General Ledger System for Parking), TAS, Equalizer Tax application and the TideMark Systems, we noted the City had shared user ID’s with various levels of access active in the system.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

There is the potential that the integrity of the system could be compromised affecting the financial statements as there is no accountability associated with shared user ID’s.

Recommendation

Management should create and enforce a policy that requires each user to have a unique ID, change the passwords to the default system ID’s, restrict access to default and administrative ID’s, minimize the use of generic ID’s, and turn audit on to log activity.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-39 – DWSD Network – Non unique User ID's

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Authentication mechanism should be established for information systems that provides for individual accountability.

Condition

During our test work over the IT General Controls related to the Detroit Water and Sewerage Department's IT Network, we noted the City had three shared ID's and nonunique user ID's.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

There is the potential that the integrity of the system could be compromised affecting the financial statements as there is no accountability associated with shared ID's.

Recommendation

Management should create and enforce a policy that requires each user to have a unique ID, change the passwords to the default system ID's, restrict access to default and administrative ID's, minimize the use of generic ID's, and turn audit on to log activity.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-40 – Restricted Access to Powerful and Administrative ID's

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Appropriate controls should be in place to ensure that users are assigned access rights in accordance with their job functions as well as over the process to request, authorize, establish, issue, modify, suspend, and close user accounts and access rights to organizational information systems in a timely manner.

Condition

During our test work over the IT General Controls related to the application, database, and operating systems for the DRMS (General Ledger system), MIP (General Ledger – Parking), TAS, and the Equalizer Tax application, we noted several ID's belonged to terminated individuals; however, they were still active in the system and one user was improperly granted GL Executive 1 access in DRMS instead of the requested Requisition responsibility.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

There is the potential that the integrity of the system could be compromised affecting the financial statements as there is no accountability associated with the terminated employees.

Recommendation

Management should create controls and procedures to suspend or disable separated employees, implement scripts to suspend ID's not used for 45-60 days, implement programs to generate reports showing ID's inactive for longer than 45-60 days, and subsequently manually suspend those ID's. Management should also suspend or disable the terminated employee ID's on a timely basis.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-41 – Management Review of Active Users

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Controls should be in place so that management/information owners conduct periodic reviews of access to the City's financial system resources and other confidential/critical data to confirm the appropriateness of these access rights.

Condition

During our test work over the IT General Controls related to the application, database, and operating systems for the DRMS (General Ledger system), PPS (Payroll System), EMPAC (Inventory System for DWSD), Lawson System (DDOT Inventory), CBMS (DWSD), MIP (General Ledger System for Parking), TAS, Equalizer Tax application, and the TideMark Systems, we noted the City does not perform a periodic review of active users and their respective access rights to identify and remove unauthorized access.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

There is the potential that the integrity of the system could be compromised affecting the financial statements as there could be unauthorized accounts in use.

Recommendation

Management should create and enforce a policy that requires review of user access on a periodic basis, correct user access based off of review results, and maintain before and after logs to review results.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-42 – Approval of the Segregation of Duties Matrix

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Controls should be in place to allow for proper segregation of duties and responsibilities for authorizing transactions, recording transactions, and maintaining custody to prevent individuals from being in a position to both perpetrate and conceal an error or irregularity.

Condition

During our test work over the IT General Controls related to the application, database, and operating systems for the DRMS (General Ledger system), PPS (Payroll System), EMPAC (Inventory System for DWSD), Lawson System (DDOT Inventory), CBMS (DWSD), MIP (General Ledger System for Parking), TAS, Equalizer Tax application and the TideMark Systems, we noted the City was unable to provide documentation supporting that segregation of duties is enforced.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

There is the potential that the integrity of the system could be compromised as there may be inadequate segregation of duties.

Recommendation

Management should create a matrix to identify application functions that when granted together will give rise to segregation of duties conflict. Management should then follow and enforce the segregation of duties matrix to ensure that segregation of duties conflicts do not exist at the time of role/profile creation.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-43 – Configuration Changes to Systems are Tested and Approved by Management

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Controls should be in place to ensure that configuration changes that are made to the IT systems are tested, validated, approved, and logged prior to implementation into the production environment.

Condition

During our test work over the IT General Controls related to the application, database, and operating systems for the DRMS (General Ledger system), PPS (Payroll System), CBMS (DWSD), and the TideMark Systems, we noted the City did not have adequate procedures in place to log and approve configuration changes.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

There is the potential that the integrity of the system could be compromised as unapproved configuration changes could occur.

Recommendation

Management should create and enforce a policy to log all configuration changes, obtain approval from authorized individuals for all configuration changes, and perform appropriate testing on all configuration changes prior to promoting changes to production.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-44 – Access for Migrating Changes into Production

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Only a limited number of personnel should have access to migrate changes to the production environment to ensure that this process is well controlled and only tested, authorized, and properly approved changes are migrated into production.

Condition

During our test work over the IT General Controls related to the application, database, and operating systems for the DRMS (General Ledger system) system, we noted that nonunique ID's with administrative privileges were used to migrate changes into production. In addition, our test work over the IT General Controls related to the application, database, and operating systems for the PPS (Payroll System) and the Lawson System (DDOT Inventory), we noted that Program Developers have access to move program changes into production. In addition, our test work over the IT General Controls related to the application, database, and operating systems for the CBMS (DWSD), we noted that the vendor supporting the EnQuesta application had access to make changes to the application without approvals from the business application owners.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

There is the potential that the integrity of the system could be compromised.

Recommendation

Management should use only unique ID's to establish accountability, change passwords to the 'default' system ID's, restrict access to default, administrative, and application ID's, minimize the use of generic ID's, and when using generic ID's turn audit on to log activity. Management should also develop and enforce a policy that does not grant access to developers to promote changes into production and access to promote changes into production should be restricted to authorized individuals.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-45 – Program Developments Approved by Management

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Controls should be in place to ensure that program changes and developments which are made to the IT systems are tested, validated, approved, and logged prior to implementation into the production environment.

Condition

During our test work over the IT General Controls related to the application, database, and operating system for the DRMS (General Ledger system) system, we noted the City did not have documented approvals to demonstrate that version upgrades of applications were authorized.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

There is the potential that the integrity of the system could be compromised.

Recommendation

Management should develop and enforce a policy to obtain and retain approvals for all program developments.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-46 – System Development and Acquisition Policy

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Controls should be in place to ensure that program changes and developments which are made to the IT systems are tested, validated, approved, and logged prior to implementation into the production environment.

Condition

During our test work over the IT General Controls related to the application, database, and operating system for the DRMS system (General Ledger system), we noted the City did not have documented approvals to demonstrate that version upgrades of applications were tested as required by the program development policy.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

There is the potential that the integrity of the system could be compromised.

Recommendation

Management should develop and enforce a policy that ensures appropriate testing on all program development projects is performed prior to promoting changes to production, that all program developments are tested and results are retained, and approval from authorized individuals is obtained for all program development projects.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-47 – User Access Requests are Authorized by Management

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Controls should be in place to ensure that users are assigned access rights in accordance with their job functions as well as over the process to request, authorize, establish, issue, modify, suspend, and close user accounts and access rights to organizational information systems in a timely manner.

Condition

During our test work over the IT General Controls related to the application, database, and operating systems for the DRMS (General Ledger system), PPS (Payroll System), EMPAC (Inventory System for DWSD), Lawson System (DDOT Inventory), CBMS (DWSD), MIP (General Ledger System for Parking), TAS, Equalizer Tax application and the TideMark Systems, we noted the City did not have adequate processes in place for adding, deleting, and modifying user access. We also noted ID's belonging to terminated employees were still active. 16 of 25 ID's selected during the testing of EMPAC did not have documentation demonstrating that the ID creation or modification was authorized. Documentation regarding new user ids is not retained for the Lawson system. 17 of 20 users in TAS were inactive. 1 administrative ID was created in the TAS system without relevant approvals as required by control design. There is no level of access indicated on the access grant request form for TideMark.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

There is the potential that the integrity of the system could be compromised.

Recommendation

Management should develop and enforce a policy that requires approvals from authorized individuals prior to creating new ID's and granting user access to applications. Management should create controls and procedures to suspend or disable separated employees, implement scripts to suspend ID's not used for 45-60 days, implement programs to generate reports showing ID's inactive for longer than 45-60 days, and subsequently manually suspend those ID's. Management should also suspend or disable the terminated employee ID's on a timely basis.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-48 – DWSD Network – User Access Modifications

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Controls should be in place to ensure that users are assigned access rights in accordance with their job functions as well as over the process to request, authorize, establish, issue, modify, suspend, and close user accounts and access rights to organizational information systems in a timely manner.

Condition

During our test work over the IT General Controls related to the Detroit Water and Sewerage Department's IT Network, we noted the City does not have adequate processes for adding, deleting, and modifying user access.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

There is the potential that the integrity of the system could be compromised affecting the financial statements.

Recommendation

Management should develop and enforce a policy that requires approvals from authorized individuals prior to creating new ID's and granting user access to applications. Management should create controls and procedures to suspend or disable separated employees, implement scripts to suspend ID's not used for 45-60 days, implement programs to generate reports showing ID's inactive for longer than 45-60 days and subsequently manually suspend those ID's. Management should also suspend or disable the terminated employee ID's on a timely basis.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-49 – Change Request Authorization

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Controls should be in place to ensure that program changes and developments that are made to the IT systems are tested, validated, approved, and logged prior to implementation into the production environment.

Condition

During our test work over the IT General Controls related to the application, database, and operating systems for the PPS (Payroll System), EMPAC, Lawson System (DDOT Inventory), CBMS (DWSD), MIP (General Ledger System for Parking), Equalizer Tax application, and the TideMark Systems, we noted 13 of 25 tested program changes in PPS did not have approvals authorizing the changes. Program change/report creation requests were not always approved by management prior to implementation for EMPAC and Lawson. Adequate controls are not in place when making program changes and creating reports out of CBMS (DWSD) system as the vendor supporting the application can make changes without approvals from business application owners. Adequate evidence is not retained regarding the program changes performed by the vendor for MIP and Equalizer. Auditable evidence is not retained regarding the program changes to demonstrate that program changes and reports created are tested for Tidemark.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

There is the potential that the integrity of the system could be compromised affecting the financial statements.

Recommendation

Management should develop and enforce a policy to log all program changes, obtain approval from authorized individuals for all program changes, perform appropriate testing on all program changes prior to promoting changes to production, and obtain approval on test results from authorized individuals prior to moving changes into production.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

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Item 2006-50 – Password Management

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Controls should be in place to ensure that emergency program changes that are made to the IT systems are validated, approved, and logged prior to implementation into the production environment.

Condition

During our test work over the IT General Controls related to the application, database, and operating system for the Lawson System (DDOT Inventory), we noted management did not always review emergency changes to the system.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

There is the potential that the integrity of the system could be compromised affecting the financial statements.

Recommendation

Management should require that all emergency changes are logged and enforce the control that approval must be obtained from authorized individuals for all emergency changes.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

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Item 2006-51 – Incident Log and Resolution

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Controls should be in place to ensure that system problems that could potentially have an impact on the financial reporting process are identified and resolved in a timely manner.

Condition

During our test work over the IT General Controls related to the application, database, and operating systems for the Lawson System (DDOT Inventory) and MIP (General Ledger System for Parking), we noted the City does not have an adequate process to assign or track problems and incidents. For Lawson there is no one in-charge of the support mailbox for requests nor are they assigned to appropriate individuals for resolution. For MIP there are no procedures in place to report and track incidents regarding the application.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

There is the potential that the integrity of the system could be compromised affecting the financial statements.

Recommendation

Management should implement and enforce adequate procedures to log and track problems and incidents.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

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Other Matters

Criteria

The Office of the Auditor General (OAG) serves as the independent internal auditing function for the City. It is essential that all organizations seeking a sound internal control environment establish a tone at the top that supports internal audit as an essential component to achieving financial, technological, and operational success.

Conditions/Recommendations – Access to Records

Sec. 4-205 of the City Charter states that the Auditor General shall have access to the financial and other records of all City agencies at any time. It was noted during the course of our audit that on numerous occasions both Auditor General staff as well as KPMG staff did not have access to various records in a timely manner, which drastically prolonged our work. The OAG and the external auditors must be given access to any financial and other records of all City agencies at any time.

View of the Auditor General

We concur that the OAG and the external auditors need unfettered access to City records in order to complete an appropriate scope of audit work. A delay in obtaining access to records severely limits our ability to reach conclusions and can significantly extend the duration of the audit work and the corresponding costs of conducting the audit. The Executive Branch must inform each department that they have an obligation to provide information in a thorough and timely manner to auditors.

Conditions/Recommendations – Year-end Closing Procedures

The City issues annually a book of year-end closing procedures. The procedures include instructions to Finance Department personnel as well as instructions to personnel from other departments. A number of closing procedures were not adhered to by City personnel. City management did not adequately monitor compliance with the published closing procedures. Management should add procedures that require certain finance/accounting department personnel to monitor compliance with the closing procedures. Additionally, the OAG should consider auditing whether the Finance Department has adequately monitored compliance with the closing procedures.

View of the Auditor General

Each year, the City issues a year-end closing package that indicates what each department must do in order to close the books. The OAG audits compliance with the year-end closing package by way of our biennial audits of each department. The OAG will add to our annual audit schedule an audit of compliance of year-end closing procedures in addition to our biennial audits.

Conditions/Recommendations – Cash Count

The OAG has performed surprise cash counts and has discovered audit findings as a result. The OAG should consider performing additional regular and surprise cash counts.

View of the Auditor General

We concur and we will conduct additional cash counts on a more frequent basis.

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Conditions/Recommendations – Corrective Actions

City management should report regularly on the status of corrective actions related to prior audit comments made by the OAG, the external auditors, and other third-party auditors. The OAG should review the corrective action information submitted by City management and provide City Council with comments and questions regarding the information submitted.

View of the Auditor General

Sec. 4-205 of the City Charter provides that recommendations that are not put into effect by agencies shall be reviewed by the Finance Director, who shall advise the Auditor General and the City Council of action being taken with respect to the recommendations. The audit comments of other third-party auditors as well as prior OAG audit findings are incorporated into the audit plans of the OAG.

In addition, the City Council changed to a committee structure in the fall of 2007, and the Budget, Finance & Audit standing committee was established. The committee has directed the audited department and the Finance Department to report back to the committee every quarter, until each audit comment made by the OAG has been resolved.

Conditions/Recommendations

As technology becomes more prevalent in the City's business operations, the use of computer assisted auditing tools and the ability to determine if information provided by the systems is accurate, reliable, and timely is more important than ever. The OAG should enhance its audit capabilities and resources in the area of IT.

View of the Auditor General

Due to the charter mandate of auditing every City department at least once every two years and the lack of adequate auditors, this has not been done. We will seek funding in our budget to cover the additional costs associated with IT audits and the hiring of qualified IT auditors.

Conditions/Recommendation – Audit Plan

The OAG should submit on an annual basis their audit plan to the Budget, Finance & Audit Committee.

View of the Auditor General

The OAG will submit our annual plan to the Budget, Finance & Audit committee. In addition we will submit this information as part of our budget request by way of the City's budget process so that we may obtain additional and necessary funding.

Conditions/Recommendation – Reporting

Department of Treasury guidelines require reporting of defalcations, fraud, or embezzlement to the Local Audit and Finance Division (of the State Treasury Department). Appropriate reporting guidelines need to be developed.

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View of the Auditor General

We will resume the practice of submitting audit reports to the State of Michigan.

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Section III – Findings and Questioned Costs Relating to Federal Awards

Item 2006-52 – Single Audit Submission

Finding Type: Material weakness

Requirement: Per the Office of Management and Budget (OMB) Circular A-133 section 320: Report submission : (a) General. The audit shall be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. (However, for fiscal years beginning on or before June 30, 1998, the audit shall be completed and the data collection form and reporting package shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or 13 months after the end of the audit period.) Unless restricted by law or regulation, the auditee shall make copies available for public inspection.

Condition: The City did not submit their Single Audit reporting package (Single Audit Report, Data Collection Form, Status of Prior Year Findings, and a Corrective Action Plan) and data collection report within the required time period. The City received an extension from the cognizant agency through January 31, 2008, but did not receive further approval beyond that date.

Questioned Costs: None

Possible asserted cause and effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the submission requirements of OMB A-133.

Recommendation: We recommend that management strengthen the processes and controls to ensure that the City is in compliance with the submission requirements of OMB A-133.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

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Item 2006-53 – Schedule of Expenditures of Federal Awards Reconciliation

Finding Type: Material weakness

Requirement: A reconciliation of the Schedule of Expenditures of Federal Awards (SEFA) to the General Ledger should be performed throughout the year in order to ensure the SEFA is complete and accurate as to the reporting of federal funds and to avoid putting such funds at risk through noncompliance with the awarding agencies.

Condition: There were several significant unreconciled differences between the SEFA and the General Ledger. The attempt to reconcile continued more than a year after fiscal year-end and significant errors that required adjustments to the SEFA were discovered throughout this process.

Questioned Costs: None

Possible asserted cause and effect: The internal control procedures were not adequately designed to identify all sources of federal funds. The internal control procedures that were in operation were not followed or monitored properly to perform a complete and accurate reconciliation of the SEFA to the General Ledger on a timely basis. Unreconciled differences between the SEFA, the General Ledger, and supporting documentation could result in significant errors in the financial statements or SEFA.

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

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

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Item 2006-54 – Activities Allowed and Unallowed and Allowable Costs/Cost Principles

Finding Type: Material non-compliance and material weakness

Federal Agency: *U.S. Department of Agriculture (USDA)*

Pass-Through Entity: *Michigan Department of Community Health*

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

CFDA No.: 10.557

Award No.: N/A

Award Year: October 1, 2005 – September 30, 2006

Requirement: Activities Allowed and Unallowed and Allowable Costs/Cost Principles: Per OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, Attachment B, Paragraph 8 (h)(1), Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit. In addition, Attachment B, Paragraph 8 (h)(3), Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employee worked solely on that program for the period covered by the certification. These certifications' will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Condition: During our testwork over WIC, we selected 48 employee paychecks for review. For 48 of 48 items selected, the City did not require employees to prepare a periodic certification indicating that they work solely on the program. As a result the entire payroll expense of \$3,317,545 is a questioned costs as A-87 requires payroll certifications to be performed to support the amount of payroll expense charged to the grant. For 10 of 48 items selected, the City was unable to provide adequate supporting documentation for the time worked.

Questioned Costs: \$3,317,545

Possible asserted cause and effect: Due to the number of instances noted above, it appears that management's internal control process for monitoring the programs compliance requirements were not operating effectively and they were not aware of OMB Circular A-87 requirements. As a result, management did not comply with the Activities Allowed and Unallowed and Allowable Costs/Cost Principles requirement. This may cause the City to lose federal funding due to noncompliance.

Recommendation: We recommend that management strengthen the internal control process to ensure that payroll certifications are performed by employees that work solely on the program. The certifications along with all supporting documentation of time worked should be maintained, in addition it should be reviewed

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and approved by individuals from management who are fully aware of activities allowed by the grant agreement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

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Item 2006-55 – Reporting – Report Submission

Finding Type: Material non-compliance and material weakness

Federal Agency: *U.S. Department of Agriculture (USDA)*

Pass-Through Entity: *Michigan Department of Community Health*

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

CFDA No.: 10.557

Award No.: N/A

Award Year: October 1, 2005 – September 30, 2006

Requirement: Reporting: Per the Comprehensive Planning, Budgeting and Contract (CPBC) grant agreement, all Financial Status Reports (FSR) must be prepared in accordance with the Department's FSR instructions and submitted not later than 30 days after the close of the first three fiscal quarters. The reports are due 1/30/xx, 4/30/xx, and 7/30/xx. The final WIC FSR is due on 1/15/xx, The final total contractor FSR and Output Measures report (HR-977) is due January 31st after the agreement period end date.

Condition: Four quarterly FSR documents were selected for testing and all four of the FSR's were submitted after the required due date. The September 30, 2005 FSR was submitted on February 9, 2006, 24 days after the deadline, the December 31, 2005 FSR was submitted on February 28, 2006, 29 days after the deadline, the March 31, 2006 FSR was submitted on May 1st, 2006, 1 day after the deadline and the June 30, 2006 FSR was submitted on July 31st, 2006, 1 day after the deadline.

Questioned Costs: None

Possible asserted cause and effect: The internal controls were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the reporting submission requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure that the CPBC documents are submitted on time.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

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Item 2006-56 – Subrecipient Monitoring

Finding Type: Material non-compliance and material weakness

Federal Agency: *U.S. Department of Agriculture (USDA)*

Pass-Through Entity: *Michigan Department of Community Health*

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

CFDA No.: 10.557

Award No.: N/A

Award Year: October 1, 2005 – September 30, 2006

Requirement: Subrecipient Monitoring: Per Circular A-133 Subpart D(d) (3)&(4), Pass-through entity responsibilities: A pass-through entity shall perform the following for Federal awards it makes: (3) Monitor the activities of sub-recipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goal are achieved. (4) Ensure that sub-recipients expending \$500,000 or more in Federal awards during the sub-recipient's fiscal year have met the audit requirements of this part for that fiscal year.

Condition: The City was unable to provide sufficient evidence that the Health Department monitored the subrecipients. They were unable to provide A-133 reports for 3 of 3 subcontractors or evidence that they reviewed other documentation indicating that the subcontractors was not required to have an A-133 audit. Additionally, the department only performed on-site monitoring of the sub-recipients during one quarter and not every quarter as stated in the department policies.

Questioned Costs: None

Possible asserted cause and effect: The internal control procedures were not properly designed, executed, or monitored. In addition, the process did not include creating and maintaining a subrecipient monitoring file for each subrecipient. As a result, WIC did not comply with the sub-recipient monitor requirement and therefore, also cannot confirm whether their sub-recipients are in compliance with the program requirements.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the subrecipient compliance requirement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

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Item 2006-57 – Activities Allowed or Unallowed and Allowable Costs/Cost Principles – Other Expenditures

Finding Type: Material non-compliance and material weakness

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

Pass-Through Entity: *N/A*

Federal Program: Community Development Block Grant (CDBG)

CFDA No.: 14.218

Award No.: B-05-MC-26-0006

Award Year: July 1, 2005 - June 30, 2006

Requirement: Activities Allowed or Unallowed and Allowable Costs/Cost Principles: Per OMB Circular A-87, Attachment A, Paragraph C.1(j), to be allowable under Federal awards, costs must meet the following general criteria: (j) Be adequately documented. Per A-102 Common Rule, Non-federal entities receiving Federal awards must establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements.

Condition: During our testwork we selected a sample of 50 other than payroll expenditures totaling \$2,912,802 and noted that for 1 of 50 items totaling \$4,963 the City charged the CDBG grant for an Empowerment Zone Expenditure.

Questioned Costs: \$4,963; \$12,278 most likely

Possible asserted cause and effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Activities Allowed or Unallowed and Allowable Costs/Cost requirements.

Recommendation: We recommend that management strengthen internal control process to ensure compliance with the Activities Allowed or Unallowed and Allowable Costs/Cost requirements.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

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Item 2006-58 – Activities Allowed or Unallowed and Allowable Costs/Cost Principles - Payroll
Finding Type: Material non-compliance and material weakness

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

Pass-Through Entity: *N/A*

Federal Program: Community Development Block Grant (CDBG)

CFDA No.: 14.218

Award No.: B-05-MC-26-0006

Award Year: July 1, 2005 - June 30, 2006

Requirement: Activities Allowed or Unallowed and Allowable Costs/Cost Principles: Per OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, Attachment B, Paragraph 8 (h)(1), Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit. In addition, Attachment B, Paragraph 8 (h)(3), Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employee worked solely on that program for the period covered by the certification. These certifications' will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Condition: During our testwork, we selected 84 employee paychecks charged to the grant for review and noted the following: for 84 of 84 items selected, the City did not require employees to prepare a periodic certification indicating that they work solely on the Grant; For 69 of 84 items selected we noted that the bi-weekly time and attendance report were not reviewed and approved by the supervisor as required. As a result the entire payroll expense of \$13,911,298 is a questioned costs as A-87 requires payroll certifications to be performed to support the amount of payroll expense charged to the grant.

Questioned Costs: \$13,911,298

Possible asserted cause and effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Activities Allowed or Unallowed and Allowable Costs/Cost requirements.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Activities Allowed or Unallowed and Allowable Costs/Cost requirements.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

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Item 2006-59 – Procurement, Suspension and Debarment

Finding Type: Material non-compliance and material weakness

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

Pass-Through Entity: *N/A*

Federal Program: Community Development Block Grant (CDBG)

CFDA No.: 14.218

Award No.: B-05-MC-26-0006

Award Year: July 1, 2005 - June 30, 2006

Requirement: Procurement, Suspension and Debarment: According to the A-133 Compliance Supplement, grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment Suspension". A-102 Common Rule requires non-Federal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements. Procurement: 24CFR Part 85.36 (b)(9) Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. A-102 Common Rule requires non-Federal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements.

Condition: During our testwork we selected 32 contracts for review of the provisions of the Procurement, Suspension and Debarment requirement and noted the following: there were 3 of 32 items selected for testing that did not have sufficient information available to determine the City performed its duty to ensure the contractor was not suspended or debarred; 4 of 32 contracts had no evidence of proposal evaluation to evidence competitive application and award of funds.

Questioned Costs: None

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

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Procurement, Suspension and Debarment compliance requirement.

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Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

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Item 2006-60 – Program Income - Reconciliation

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

Finding Type: **Material non-compliance and material weakness**

Pass-Through Entity: *N/A*

Federal Program: Community Development Block Grant (CDBG)

CFDA No.: 14.218

Award No.: B-05-MC-26-0006

Award Year: July 1, 2005 - June 30, 2006

Requirement: Program Income: According to the A-133 program specific compliance supplement and 24 CFR sections 570.426, 570.500, 570.504 and 570.506, The grantee must accurately account for any program income generated from the use of CDBG funds and must treat such income as additional CDBG funds which are subject to all program rules.

Condition: The amount of program income reported on the Federal Cash Transaction reports did not agree to the amount of program income reported in the HUD's Integrated Disbursement and Information System (IDIS). The IDIS summary reported \$2,319,359 of program income. The Federal Cash Transaction Report reported \$2,552,526. The variance of \$233,167 could not be explained or supported/substantiated by the City.

Questioned Costs: None

Possible asserted cause and effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Program Income compliance requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Program Income compliance requirement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

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Item 2006-61 – Subrecipient Monitoring

Finding Type: Material non-compliance and material weakness

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

Pass-Through Entity: *N/A*

Federal Program: Community Development Block Grant (CDBG)

CFDA No.: 14.218

Award No.: B-05-MC-26-0006

Award Year: July 1, 2005 - June 30, 2006

Requirement: Subrecipient Monitoring: Per Circular A-133 Subpart D(d) (3)&(4), Pass-through entity responsibilities: A pass-through entity shall perform the following for Federal awards it makes: (3) Monitor the activities of sub-recipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goal are achieved. (4) Ensure that sub-recipients expending \$500,000 or more in Federal awards during the sub-recipient’s fiscal year have met the audit requirements of this part for that fiscal year.

Condition: During our testwork, we selected 50 subrecipient monitoring files for review and noted the following: 3 of the files contained findings on their A-133 report however, had no evidence that the City followed up with these subrecipients regarding the findings; 3 of 50 items the City did not ensure that the entity was not required to file an A-133 report; 1 of 50 items there was no evidence that the department monitored the subrecipient; 1 of 50 items there was only desk monitoring performed even though the entity was evaluated as high risk; and 2 of 50 items selected did not include CDBG funds on their A-133 report and there was no evidence of departmental follow up with the subrecipient.

Questioned Costs: None

Possible asserted cause and effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Subrecipient Monitoring compliance requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Subrecipient Monitoring compliance requirement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

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Item 2006-62 – Reporting

Finding Type: Material non-compliance and material weakness

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

Pass-Through Entity: *N/A*

Federal Program: Community Development Block Grant (CDBG)

CFDA No.: 14.218

Award No.: B-05-MC-26-0006

Award Year: July 1, 2005 - June 30, 2006

Requirement: Reporting: Per the OMB A-133 Compliance Supplement and 24 CFR 85.20 b(1) Financial reporting must be Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. A-102 Common Rule requires non-Federal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements.

Condition: The City improperly classified Section 108 loan disbursements totaling \$4,626,134 as "adjustments to compute total amount subject to low/mod benefit" in the Comprehensive Annual Performance and Evaluation Report (CAPER).

Questioned Costs: None

Possible asserted cause and effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Reporting compliance requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Reporting compliance requirement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

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Item 2006-63 – Reporting - Reconciliation

Finding Type: Material non-compliance and material weakness

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

Pass-Through Entity: *N/A*

Federal Program: Community Development Block Grant (CDBG)

CFDA No.: 14.218

Award No.: B-05-MC-26-0006

Award Year: July 1, 2005 - June 30, 2006

Requirement: Reporting: Per the OMB A-133 Compliance Supplement and 24 CFR 85.20 b(1) Financial reporting must be Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. A-102 Common Rule requires non-Federal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements.

Condition: The amount of Expenditures reported in the DRMS system did not agree to the amount of expenditures reported in the HUD's Integrated Disbursement and Information System (IDIS). The DRMS system reported \$56,906,149 of Expenditures. The IDIS system reported \$58,953,199. The variance of \$2,479,032 could not be explained or supported/substantiated by the City.

Questioned Costs: None

Possible asserted cause and effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Reporting compliance requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Reporting compliance requirement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

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Item 2006-64 – Activities Allowed and Unallowed and Allowable Costs/Cost Principles - Payroll

Finding Type: Material non-compliance and material weakness

Federal Agency: *U.S. Department of Housing and Urban Development*

Pass-Through Entity: *N/A*

Federal Program: Home Investment Partnership Program

CFDA No.: 14.239

Award No.: M-93-MC-26-0202

Award Year: July 1, 2005 - June 30, 2006

Requirement: Activities Allowed and Unallowed and Allowable Costs/Cost Principles: Per OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, Attachment B, Paragraph 8 (h)(1), Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit. In addition, Attachment B, Paragraph 8 (h)(3), Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employee worked solely on that program for the period covered by the certification. These certifications' will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee. A-102 Common Rule requires non-Federal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements.

Condition: During our test work we selected 30 direct payroll items totaling \$51,218 for review and noted that there was not a certification performed for all employee's that worked solely on the program. As a result the entire payroll expense of \$598,583 is a questioned cost as A-87 requires payroll certifications to be performed to support the amount of payroll expense charged to the grant. We also noted that 8 of 30 bi-weekly Time and Attendance Report were not reviewed and approved by the supervisor as required.

Questioned Costs: \$598,583

Possible asserted cause and effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Activities Allowed or Unallowed and Allowable Costs/Cost requirements.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Activities Allowed or Unallowed and Allowable Costs/Cost requirements.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-65 – Cash Management - Reconciliation

Finding Type: Material non-compliance and material weakness

Federal Agency: *U.S. Department of Housing and Urban Development*

Pass-Through Entity: *N/A*

Federal Program: Home Investment Partnership Program

CFDA No.: 14.239

Award No.: M-93-MC-26-0202

Award Year: July 1, 2005 - June 30, 2006

Requirement: Cash Management: Per OMB Circular A-102, Grants and Cooperative Agreements with State and Local Governments, when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government.

Condition: During our testwork, we obtained a reconciliation between the Integrated Disbursement and Information System (IDIS) and the DRMS system and noted a difference. The IDIS expenditures were 19,455,269. The DRMS expenditures were 18,731,656. There were supportable reconciling items of \$30,503. The remaining variance of \$693,115 could not be supported or substantiated by the City.

Questioned Costs: \$693,115

Possible asserted cause and effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Cash Management requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Cash Management requirement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-66 – Davis Bacon

Finding Type: Material non-compliance and material weakness

Federal Agency: *U.S. Department of Housing and Urban Development*

Pass-Through Entity: *N/A*

Federal Program: Home Investment Partnership Program

CFDA No.: 14.239

Award No.: M-93-MC-26-0202

Award Year: July 1, 2005 - June 30, 2006

Requirement: Davis Bacon Act: Per the Circular A-133 compliance supplement, Non-federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the Department of Labor regulations.

Condition: During our testwork we selected 23 construction contracts for review and noted: 2 of 23 contracts did not include the required labor standards clauses.

Questioned Costs: None

Possible asserted cause and effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Davis Bacon requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Davis Bacon requirement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-67 – Period of Availability

Finding Type: Material non-compliance and material weakness

Federal Agency: *U.S. Department of Housing and Urban Development*

Pass-Through Entity: *N/A*

Federal Program: Home Investment Partnership Program

CFDA No.: 14.239

Award No.: M-93-MC-26-0202

Award Year: July 1, 2005 - June 30, 2006

Requirement: Period of Availability: Per 24 CFR Part 92.500 d.1.C., HUD will reduce or recapture HOME funds in the HOME Investment Trust Fund by the amounts of any funds in the United States Treasury account that are not expended within five years after the last day of the month in which HUD notifies the participating jurisdiction of HUD's execution of the HOME Investment Partnership Agreement.

Condition: During our testwork we selected 40 drawdown requests totaling \$10,659,227 for our review and noted 3 of the 40 items totaling \$98,228 where the entitlement funds for FY 1999 were drawn on, which is not within the five year period of availability.

Questioned Costs: \$98,228

Possible asserted cause and effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Period of Availability requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Period of Availability requirement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Item 2006-68– Procurement, Suspension and Debarment

Finding Type: Material non-compliance and material weakness

Federal Agency: *U.S. Department of Housing and Urban Development*

Pass-Through Entity: *N/A*

Federal Program: Home Investment Partnership Program

CFDA No.: 14.239

Award No.: M-93-MC-26-0202

Award Year: July 1, 2005 - June 30, 2006

Requirement: Procurement, Suspension and Debarment: According to the A-133 Compliance Supplement, grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment Suspension". A-102 Common Rule requires non-Federal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements.

Condition: During our testwork, we selected 37 contracts for review and noted that the City personnel did not perform any procedures related to Procurement, Suspension and Debarment for the HOME Investment Partnership program.

Questioned Costs: None

Possible asserted cause and effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Procurement, Suspension and Debarment requirements.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Procurement, Suspension and Debarment requirements.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-69 – Program Income

Finding Type: Material non-compliance and material weakness

Federal Agency: *U.S. Department of Housing and Urban Development*

Pass-Through Entity: *N/A*

Federal Program: Home Investment Partnership Program

CFDA No.: 14.239

Award No.: M-93-MC-26-0202

Award Year: July 1, 2005 - June 30, 2006

Requirement: Program Income: According to the A-133 program specific compliance supplement and 24 CFR sections 570.426, 570.500, 570.504 and 570.506, The grantee must accurately account for any program income generated from the use of HOME Investment Partnership Program funds and must treat such income as additional Home Investment Partnership Program funds which are subject to all program rules.

Condition: During our testwork, we selected 35 items totaling \$971,813 for review and noted the following: for 10 of 35 items selected, we noted that the item was improperly included in FY 2007 program income instead of 2006 program income in Integrated Disbursement Information System (IDIS) totaling \$312,058; 1 of 35 items selected for testing totaling \$1,574 were improperly included in 2006 in the IDIS but are related to the 2005 fiscal year.

Questioned Costs: None

Possible asserted cause and effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Program Income requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Program Income requirement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
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Item 2006-70 – Activities Allowed and Unallowed and Allowable Costs/Cost Principles

Finding Type: Reportable condition

Federal Agency: *U.S. Department of Labor*

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

Federal Program: Workforce Investment Act (W.I.A)

CFDA No.: 17.258, 17.259 and 17.260

Award No.: NA

Award Year: October 1, 2005 – September 30, 2006

Requirement: Activities Allowed and Unallowed and Allowable Costs/Cost Principles: Per OMB A-87, Cost Principles for State, Local, and Indian Tribal Governments, Attachment A, part C, 1(j), To be allowable under Federal awards, costs must meet the following general criteria: (j), Be adequately documented.

Condition: During our testwork, we selected 25 cost allocation items and noted the following: 1 of 25 journal vouchers was missing and for 1 of 25 items, the journal entry amounts for two programs (both of which are the same CFDA number) were transposed.

Questioned Costs: None

Possible asserted cause and effect: Internal controls were not properly executed to ensure effectiveness.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Activities Allowed or Unallowed and Allowable Costs / Cost Principles requirement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-71 – Cash Management

Finding Type: Non-Compliance and reportable condition

Federal Agency: *U.S. Department of Labor*

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

Federal Program: Workforce Investment Act (W.I.A)

CFDA No.: 17.258, 17.259 and 17.260

Award No.: NA

Award Year: October 1, 2005 – September 30, 2006

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

Condition: During our testwork, we selected 45 items and noted that the City did not minimize the amount of time elapsing between the drawdown and disbursement of funds to less than three days for 13 of 45 items selected.

Questioned Costs: None

Possible asserted cause and effect: Internal controls were not properly designed, executed or monitored to ensure effectiveness. As a result, management did not comply with the Cash Management requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Cash Management requirements.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-72 – Activities Allowed and Unallowed and Allowable Costs/Cost Principles - Payroll
Finding Type: Material non-compliance and material weakness

Federal Agency: *U.S. Department of Transportation*

Pass-Through Entity: *Michigan Department of Transportation*

Federal Program: Federal Transit Cluster

CFDA No.: 20.500

Award No.: MI-90-X337 / MDOT 00-0776, MI-90-X347/MDOT 01-0324, MI-90-X359/MDOT 01-0727, MI-90-X374/MDOT 02-0297, MI-90-X383/MDOT 02-0033/Z6, MI-90-X411/MDOT 02-0033/Z7, MI-90-X412/MDOT 02-0033/Z14, MI-90-X421/MDOT02-0033/Z11, MI-90-X422/MDOT 020033/Z12, MI-90-X434/M

Award Year: October 1, 2005 – September 30, 2006

Requirement: Activities Allowed and Unallowed and Allowable Costs/Cost Principles: Per OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, Attachment B, Paragraph 8 (h)(1), Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit. In addition, Attachment B, Paragraph 8 (h)(3), Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employee worked solely on that program for the period covered by the certification. These certifications' will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee. A-102 Common Rule requires non-Federal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements.

Condition: During our testwork, we selected 15 payroll checks totaling \$19,546.72 and noted that the City did not perform the required certifications for all employees working solely on the program. As a result the entire payroll expense of \$8,154,438 is a questioned cost as A-87 requires payroll certifications to be performed to support the amount of payroll expense charged to the grant.

Questioned Costs: \$8,154,438

Possible asserted cause and effect: Due to the number of instances noted above, it appears that management's internal control process for monitoring the programs compliance requirements were not effective and they were not aware of OMB Circular A-87. As a result, management did not comply with the Activities Allowed and Unallowed and Allowable Costs/Cost Principles requirement. This may cause the City to lose federal funding due to noncompliance.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Recommendation: We recommend that management strengthen the internal control process to ensure that payroll certifications performed by employees and reviewed and approved by individuals from management who are fully aware of activities allowed by the grant agreement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-73 – Activities Allowed and Unallowed and Allowable Costs/Cost Principles – Other Expenses

Finding Type: Non-compliance and reportable condition

Federal Agency: *U.S. Department of Transportation*

Pass-Through Entity: *Michigan Department of Transportation*

Federal Program: Federal Transit Cluster

CFDA No.: 20.500

Award No.: MI-90-X337 / MDOT 00-0776, MI-90-X347/MDOT 01-0324, MI-90-X359/MDOT 01-0727, MI-90-X374/MDOT 02-0297, MI-90-X383/MDOT 02-0033/Z6, MI-90-X411/MDOT 02-0033/Z7, MI-90-X412/MDOT 02-0033/Z14, MI-90-X421/MDOT02-0033/Z11, MI-90-X422/MDOT 020033/Z12, MI-90-X434/M

Award Year: October 1, 2005 – September 30, 2006

Requirement: Activities Allowed or Unallowed and Allowable Costs/Cost Principles: Per OMB Circular A-87, Attachment A, Paragraph C.1(j), to be allowable under Federal awards, costs must meet the following general criteria: (j) Be adequately documented. Per A-102 Common Rule, Non-federal entities receiving Federal awards must establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements.

Condition: During our testwork, we selected 50 fixed asset invoices for review totaling \$7,927,824 and noted that the City was unable to provide evidence indicating that 1 of the 50 items totaling \$10,120 selected for testing was reviewed and authorized prior to purchase.

Questioned Costs: \$10,120; \$13,654 most likely

Possible asserted cause and effect: Internal controls were not properly executed to ensure effectiveness. As a result, management did not comply with the Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Equipment Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-74 – Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Reportable condition

Federal Agency: *Environmental Protection Agency*

Pass-Through Entity: *State of Michigan Municipal Bond Authority*

Federal Program: State Revolving Loan / Drinking Water

CFDA No.: 66.458

Award No.: 5143-02, 5175-02

Award Year: *NA*

Requirement: Activities Allowed or Unallowed and Allowable Costs/Cost Principles: A-102 Common Rule requires non-Federal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements.

Condition: During our testwork, we selected a sample of 48 “Request for Disbursement of Fund” forms totaling \$59,815,888 and noted the following: one “Request for Disbursement of Funds” form was not authorized by the Director of Water and Sewerage as evidenced by a signature totaling \$664,244; one "Engineer's Estimate and Certification" form was not authorized by the Director of Engineering evidenced by a signature totaling \$5,064,544, however the items were authorized and signed by several other members of management, therefore this is an internal control finding and not a compliance finding.

Questioned Costs: None

Possible asserted cause and effect: Internal controls were not properly executed to ensure effectiveness. As a result, management did not comply with the Activities Allowed or Unallowed and Allowable Costs/ Cost Principle requirements.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Activities Allowed or Unallowed and Allowable Costs / Cost Principles requirement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-75 – Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Reportable condition

Federal Agency: *Environmental Protection Agency*

Pass-Through Entity: *State of Michigan Municipal Bond Authority*

Federal Program: State Revolving Loan / Drinking Water

CFDA No.: 66.458

Award No.: 5143-02, 5175-02

Award Year: *NA*

Requirement: Activities Allowed and Unallowed and Allowable Costs/Cost Principles: Per OMB A-87, Cost Principles for State, Local, and Indian Tribal Governments, Attachment A, part C, 1(j), To be allowable under Federal awards, costs must meet the following general criteria: (j), Be adequately documented.

Condition: During our test work, we selected a sample of 48 "Request for Disbursement of Funds" forms totaling \$59,815,888 and noted the following: the City improperly drew down an additional \$143,032. We reviewed the wire transfer and communications with the State indicating that the amount was returned. As such there is no questioned cost.

Questioned Costs: None

Possible asserted cause and effect: Internal controls were not properly executed or monitored to ensure effectiveness. As a result, management did not comply with the Activities Allowed or Unallowed and Allowable Costs/Cost Principles requirements.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Activities Allowed or Unallowed and Allowable Costs/Cost Principles and requirement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-76 – Procurement, Suspension and Debarment

Finding Type: Material non-compliance and material weakness

Federal Agency: *Environmental Protection Agency*

Pass-Through Entity: *State of Michigan Municipal Bond Authority*

Federal Program: State Revolving Loan / Drinking Water

CFDA No.: 66.458

Award No.: 5175-02, 5204-03, 5204-04, 5204-05, 5204-06, 5228-01

Award Year: *NA*

Requirement: Procurement, Suspension and Debarment: According to 40 CFR 31.35, grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment Suspension". A-102 Common Rule requires non-Federal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements.

Condition: During our testwork, we selected a sample of 9 contracts and noted 2 of the 9 contracts did not contain a "Suspension and Debarment Certification."

Questioned Costs: None

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

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Procurement, Suspension and Debarment compliance requirement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Item 2006-77 – Activities Allowed and Unallowed and Allowable Costs/Cost Principles - Payroll

Finding Type: Material non-compliance and material weakness

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

Pass-Through Entity: *Michigan Department of Community Health*

Federal Program: Immunizations Program and Vaccines Provided

CFDA No.: 93.268

Award No.: NA

Award Year: October 1, 2005 – September 30, 2006

Requirement: Activities Allowed and Unallowed and Allowable Costs/Cost Principles: Per OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, Attachment B, Paragraph 8 (h)(1), Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit. In addition, Attachment B, Paragraph 8 (h)(3), Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employee worked solely on that program for the period covered by the certification. These certifications' will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Condition: During our test work, we selected 60 employee paychecks totaling \$62,196 for review and noted the following: annual certifications for employees working solely on the grant were not provided for 60 of the 60 items selected; we noted that supporting personnel timesheets were not provided in 3 instances; in 2 instances the green-bar pay rate did not agree to the employee file. As a result the entire payroll expense of \$431,608 is a questioned cost as A-87 requires payroll certifications to be performed to support the amount of payroll expense charged to the grant.

Questioned Costs: \$431,608

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

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Activities Allowed or Unallowed and Allowable Costs/Cost requirements.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-78 – Reporting – Report Submission

Finding Type: Material non-compliance and material weakness

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

Pass-Through Entity: *Michigan Department of Community Health*

Federal Program: Immunizations Program and Vaccines Provided

CFDA No.: 93.268

Award No.: NA

Award Year: October 1, 2005 – September 30, 2006

Requirement: Reporting: Per the Comprehensive Planning, Budgeting and Contract (CPBC) grant agreement, all Financial Status Reports (FSR) must be prepared in accordance with the Department's FSR instructions and submitted not later than 30 days after the close of the first three fiscal quarters. The reports are due 1/30/xx, 4/30/xx, and 7/30/xx. The final total contractor FSR and Output Measures report (HR-977) is due January 31st after the agreement period end date.

Condition: Four quarterly FSR documents were selected for testing and all four of the FSR's were submitted after the required due date. The September 30, 2005 FSR was submitted on February 9, 2006, 24 days after the deadline, the December 31, 2005 FSR was submitted on February 28, 2006, 29 days after the deadline, the March 31, 2006 FSR was submitted on May 1st, 2006, 1 day after the deadline and the June 30, 2006 FSR was submitted on July 31st, 2006, 1 day after the deadline.

Questioned Costs: None

Possible asserted cause and effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Reporting requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Reporting requirement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-79 – Special Tests and Provisions – Control Accountability and Safeguarding of Vaccines
Finding Type: Material non-compliance and material weakness

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

Pass-Through Entity: *Michigan Department of Community Health*

Federal Program: Immunizations Program and Vaccines Provided

CFDA No.: 93.268

Award No.: NA

Award Year: October 1, 2005 – September 30, 2006

Requirement: Special Tests and Provisions - Control, Accountability and Safeguarding of Vaccines: Per A-102 Common Rule, effective control and accountability must be maintained for all vaccines. Vaccines must be adequately safeguarded and used solely for authorized purposes.

Condition: During our test work, we selected a sample of 60 vaccines for review and traced these items through distribution to clinics to verify that the Health Department is adequately tracking the disbursement of vaccines. For 5 of 60 items, the lot numbers of the vaccines shipped to clinics did not match up with the lot number in the monthly vaccine report. In addition, 1 of 60 items selected, the shipper was not signed.

Questioned Costs: None

Possible asserted cause and effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Control, Accountability and Safeguarding of Vaccines requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Control, Accountability and Safeguarding of Vaccines requirements.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-80 – Special Tests and Provisions – Control Accountability and Safeguarding of Vaccines

Finding Type: Material non-compliance and material weakness

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

Pass-Through Entity: *Michigan Department of Community Health*

Federal Program: Immunizations Program and Vaccines Provided

CFDA No.: 93.268

Award No.: NA

Award Year: October 1, 2005 – September 30, 2006

Requirement: Special Tests and Provisions - Control, Accountability and Safeguarding of Vaccines: Per A-102 Common Rule, effective control and accountability must be maintained for all vaccines. Vaccines must be adequately safeguarded and used solely for authorized purposes.

Condition: During our testwork, we selected 60 vaccine lots and noted that for 14 of 60 vaccine lots the vaccine order form was missing or did not match the shipper sent with the vaccine lot.

Questioned Costs: None

Possible asserted cause and effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Control, Accountability and Safeguarding of Vaccines requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Control, Accountability and Safeguarding of Vaccines requirements.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Item 2006-81 – Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Reportable condition

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

Pass-Through Entity: *Michigan Department of Labor and Economic Growth / Michigan Family Independence Agency (Michigan Department of Human Services)*

Federal Program: TANF

CFDA No.: 93.558

Award No.: 05-82007, 06-82007, 05-19, 04-11, 05-20, 04-21, 05-14

Award Year: October 1, 2005 – September 30, 2006

Requirement: Activities Allowed or Unallowed and Allowable Costs/Cost Principles: Per OMB A-87, Cost Principles for State, Local, and Indian Tribal Governments, Attachment A, part C, 1(j), To be allowable under Federal awards, costs must meet the following general criteria: (j), Be adequately documented.

Condition: During our testwork, we selected cost allocation 25 items and noted the following: 1 of 25 journal vouchers was missing and 1 of 25 items, the journal entry amounts for two programs (both of which are the same CFDA number) were transposed.

Questioned Costs: None

Possible asserted cause and effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Activities Allowed or Unallowed and Allowable Costs/ Cost Principle requirements.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Activities Allowed or Unallowed and Allowable Costs / Cost Principles requirement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
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Item 2006-82 – Cash Management

Finding Type: Non-compliance and reportable condition

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

Pass-Through Entity: *Michigan Department of Labor and Economic Growth / Michigan Family Independence Agency (Michigan Department of Human Services)*

Federal Program: TANF

CFDA No.: 93.558

Award No.: 05-82007, 06-82007, 05-19, 04-11, 05-20, 04-21, 05-14

Award Year: October 1, 2005 – September 30, 2006

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

Condition: During our testwork, we selected 45 items and noted that the City did not minimize the amount of time elapsing between the drawdown and disbursement of funds to less than three days for 9 of 45 items selected.

Questioned Costs: None

Possible asserted cause and effect: Internal controls were not properly designed, executed or monitored to ensure effectiveness. As a result, management did not minimize the time elapsing between drawdown and disbursement of funds.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Cash Management requirements.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Item 2006-83 – Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Non-compliance and reportable condition

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

Pass-Through Entity: *Michigan Department of Community Health*

Federal Program: Prevention and Treatment of Substance Abuse

CFDA No.: 93.959

Award No.: NA

Award Year: October 1, 2005 – September 30, 2006

Requirement: Activities Allowed or Unallowed and Allowable Costs/Cost Principles: Per OMB Circular A-87, Attachment A, Paragraph C.1(j), to be allowable under Federal awards, costs must meet the following general criteria: (j) Be adequately documented. per A-102 Common Rule, Non-federal entities receiving Federal awards must establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements.

Condition: During our testwork we reviewed 50 items from program expenditures and noted that for 1 of 50 items selected the City could not provide adequate supporting documentation.

Questioned Costs: \$53,936

Possible asserted cause and effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Activities Allowed or Unallowed and Allowable Costs/Cost requirements.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Activities Allowed or Unallowed and Allowable Costs/Cost requirements.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-84 – Matching, Level of Effort, Earmarking

Finding Type: Material non-compliance and material weakness

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

Pass-Through Entity: *Michigan Department of Community Health*

Federal Program: Prevention and Treatment of Substance Abuse

CFDA No.: 93.959

Award No.: NA

Award Year: October 1, 2005 – September 30, 2006

Requirement: Matching: Per the agreement signed by the City of Detroit Department of Health and Wellness Promotion and the State of Michigan Department of Health and Human Services, the City is required to maintain a 10% match of grant funds in each grant year. per A-102 Common Rule, Non-federal entities receiving Federal awards must establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements.

Condition: During our testwork over the Prevention and Treatment of Substance Abuse program, the City was unable to provide adequate documentation supporting the local match contributions that were reported in the Revenue and Expenditures report to the State of Michigan.

Questioned Costs: None

Possible asserted cause and effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Matching, Level of Effort, Earmarking requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Matching, Level of Effort, Earmarking requirement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-85 – Reporting - Reconciliation

Finding Type: Material non-compliance and material weakness

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

Pass-Through Entity: *Michigan Department of Community Health*

Federal Program: Prevention and Treatment of Substance Abuse

CFDA No.: 93.959

Award No.: NA

Award Year: October 1, 2005 – September 30, 2006

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

Condition: During our testwork, we noted that the department did not provide timely reconciliations of the Revenue and Expenditure Report's (RER) to the DRMS general ledger system as the reconciliation was not finalized until May 2, 2008.

Questioned Costs: None

Possible asserted cause and effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Reporting requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Reporting requirement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-86 – Subrecipient Monitoring

Finding Type: Material non-compliance and material weakness

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

Pass-Through Entity: *Michigan Department of Community Health*

Federal Program: Prevention and Treatment of Substance Abuse

CFDA No.: 93.959

Award No.: NA

Award Year: October 1, 2005 – September 30, 2006

Requirement: Subrecipient Monitoring: A-102 Common Rule requires non-Federal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements. Per 31 USC 7502(f)(2)(B) (2) Each pass-through entity shall: (A) provide such subrecipient the program names (and any identifying numbers) from which such assistance is derived, and the Federal requirements which govern the use of such awards and the requirements of this chapter; (B) monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means; (C) review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to Federal awards provided to the subrecipient by the pass-through entity;

Condition: During our testing, we selected 54 items for review. We noted the following: for 11 of 54 items selected for testing, the City was unable to provide the A-133 report; for 41 of 51 items evidence of follow up on past due reports was not provided; 54 of 54 items there was no evidence of a review performed on the A-133 report; 1 of 54 items the Quality Assurance Evaluation form was not properly authorized; 18 of 54 items the City was unable to provide Programmatic site visit documentation; 3 of 54 items the City was unable to provide financial site visit documentation.

Questioned Costs: None

Possible asserted cause and effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Subrecipient Monitoring compliance requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Subrecipient Monitoring compliance requirement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-87 – Reporting

Finding Type: Material non-compliance and material weakness

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

Pass-Through Entity: *Michigan Department of Community Health*

Federal Program: Prevention and Treatment of Substance Abuse

CFDA No.: 93.959

Award No.: NA

Award Year: October 1, 2005 – September 30, 2006

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

Condition: During our testwork, we noted the following: the department did not have evidence of review and approval for 3 out of the quarterly Revenue and Expenditure Reports (RERs); 3 out of the 4 quarterly RERs contain mathematical miscalculations. Additionally, the reconciliation between the DRMS general ledger and the RER contained a \$532,832 unreconciled variance for which the City could not provide an explanation.

Questioned Costs:

Possible asserted cause and effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Reporting requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Reporting requirement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-88 – Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Non-compliance and Reportable condition

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

Pass-Through Entity: *Michigan Department of Community Health*

Federal Program: HIV Emergency Relief

CFDA No.: 93.914

Award No.: H89HA00021-13-00, H89HA00021-14-00

Award Year: March 1 2005 - February 28, 2006

Requirement: Activities Allowed or Unallowed and Allowable Costs/Cost Principles: A-102 Common Rule requires non-Federal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements.

Condition: During our testwork, we selected 60 items for review and noted: 4 of 60 items had no evidence of review or approval by the program administrator, program accountant or the program accounting manager.

Questioned Costs: \$65,776; \$485,802 most likely

Possible asserted cause and effect: Internal Controls were not properly designed, executed, or monitored to ensure effectiveness.

Recommendation: We recommend that management strengthen the internal control process to ensure operating effectiveness of internal controls.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-89 – Matching, Level of Effort, Earmarking

Finding Type: Non-compliance and reportable condition

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

Pass-Through Entity: *Michigan Department of Community Health*

Federal Program: HIV Emergency Relief

CFDA No.: 93.914

Award No.: H89HA00021-13-00, H89HA00021-14-00

Award Year: March 1 2005 - February 28, 2006

Requirement: Level Of Effort: Per 42 USC 300ff-15(a)(1)(B) and (C): Each political subdivision within the metropolitan area I required to maintain its level of expenditures for HIV-related services to individuals with HIV disease at the level equal to its level of such expenditures for the preceding fiscal year. Political subdivisions within the EMA may not use funds received under the HIV grants to maintain the required level of HIV/AIDS related services.

Condition: During our test work, we noted that the level of effort calculation is based on budgeted expenditures for various clinics multiplied by the percentage of HIV cases that are seen at the clinic not the actual expenditures.

Questioned Costs: None

Possible asserted cause and effect: Internal Controls were not properly designed, executed, or monitored to ensure effectiveness. As a result management did not comply with the Matching, Level of Effort, Earmarking requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Matching, Level of Effort, Earmarking requirement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-90 – Matching, Level of Effort, Earmarking

Finding Type: Non-compliance and reportable condition

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

Pass-Through Entity: *Michigan Department of Community Health*

Federal Program: HIV Emergency Relief

CFDA No.: 93.914

Award No.: H89HA00021-13-00, H89HA00021-14-00

Award Year: March 1 2005 - February 28, 2006

Requirement: Earmarking: Per 42 USC 300ff-14(b)(4)(A): For the purpose of providing health and support services to infants, children, youth, and women with HIV disease, including treatment measures to prevent the prenatal transmission of HIV, the chief elected official of an eligible area, in accordance with the established priorities of the planning council, shall for each of such populations in the eligible area use, from the grants made for the area under section 300ff-11 (a) of this title for a fiscal year, not less than the percentage constituted by the ratio of the population involved (infants, children, youth, or women in such area) with acquired immune deficiency syndrome to the general population in such area of individuals with such syndrome.

Condition: During our testwork, we noted that 0.20% of the award was spent on Children, while at least 0.29% was required.

Questioned Costs: None

Possible asserted cause and effect: Internal Controls were not properly designed, executed, or monitored to ensure effectiveness. As a result management did not comply with the Matching, Level of Effort, Earmarking requirement.

Recommendation: We recommend that management strengthen the internal control processes to ensure compliance with the Matching, Level of Effort, Earmarking requirement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-91 – Reporting

Finding Type: Material non-compliance and material weakness

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

Pass-Through Entity: *Michigan Department of Community Health*

Federal Program: HIV Emergency Relief

CFDA No.: 93.914

Award No.: H89HA00021-13-00, H89HA00021-14-00

Award Year: March 1 2005 - February 28, 2006

Requirement: Reporting: A-102 Common Rule requires non-Federal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements. Per 45 CFR A 74.52 (a)(1)(IV): Recipients shall submit the SF-269 and SF-269A no later than 30 days after the end of each specified reporting period for quarterly and semi annual reports, and 90 calendar days for annual and final reports.

Condition: During our testwork, it was noted that the Final Financial Status Report was revised on 6/30/08 due to unreconciled differences, more than two years after the grant year ended. Additionally, adequate supporting documentation was not provided indicating that the expenses occurred before the grant period end. We reviewed the supporting detail related to the adjustment to the final FSR and the client was unable to provide adequate supporting documentation indicating that the expenditure occurred during the grant year.

Questioned Costs: \$92,081

Possible asserted cause and effect: Internal Controls were not properly designed, executed, or monitored to ensure effectiveness. As a result the City did not comply with the Reporting requirements.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Reporting requirement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Item 2006-92 – Subrecipient Monitoring

Finding Type: Material non-compliance and material weakness

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

Pass-Through Entity: *Michigan Department of Community Health*

Federal Program: HIV Emergency Relief

CFDA No.: 93.914

Award No.: H89HA00021-13-00, H89HA00021-14-00

Award Year: March 1 2005 - February 28, 2006

Requirement: Subrecipient Monitoring: A-102 Common Rule requires non-Federal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements. Per 31 USC 7502(f)(2)(B) (2) Each pass-through entity shall: (A) provide such subrecipient the program names (and any identifying numbers) from which such assistance is derived, and the Federal requirements which govern the use of such awards and the requirements of this chapter; (B) monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means; (C) review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to Federal awards provided to the subrecipient by the pass-through entity;

Condition: During our testing, the client was unable to provide monitoring policies and procedures. Per discussion with the Grant Accountant the City does not monitor the Subrecipient's compliance with the A-133 requirements as outlined in their contract.

Questioned Costs: None

Possible asserted cause and effect: Internal Controls were not properly designed, executed, or monitored to ensure effectiveness. As a result the City did not comply with the Subrecipient Monitoring requirements.

Recommendation: We recommend that management strengthen the processes and controls to ensure compliance with the Subrecipient Monitoring requirement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Item 2006-93 – Activities Allowed and Unallowed and Allowable Costs/Cost Principles

Finding Type: Non compliance and reportable condition

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

Pass-Through Entity: *N/A*

Federal Program: Head Start, Early Head Start

CFDA No.: 93.600

Award No.: 05CH0113/39, 05CH0113/40, 05CH0113/41

Award Year: November 1, 2005 - October 31, 2006

Requirement: Activities Allowed and Unallowed and Allowable Costs/Cost Principles: Per OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, Attachment B, Paragraph 8 (h)(1), Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit. In addition, Attachment B, Paragraph 8 (h)(3), Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employee worked solely on that program for the period covered by the certification. These certifications' will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Per A-87: (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:(a) More than one Federal award,(b) A Federal award and a non-Federal award,(c) An indirect cost activity and a direct cost activity,(d) Two or more indirect activities which are allocated using different allocation bases, or(e) An unallowable activity and a direct or indirect cost activity.

(5) Personnel activity reports or equivalent documentation must meet the following standards:(a) They must reflect an after-the-fact distribution of the actual activity of each employee,(b) They must account for the total activity for which each employee is compensated, (c) They must be prepared at least monthly and must coincide with one or more pay periods, and (d) They must be signed by the employee.

Condition: During our testwork, we selected 15 employees and pay periods to review direct payroll costs charged to the grant and noted the following:1 of 15 employee timesheets were not available for review. We also selected 23 indirect payroll costs charged to the grant and noted the following: 2 of 23 employees the Administration Allocation form was not dated. This form is used to approve the employee's time allocation between various Federal programs.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Questioned Costs: \$64,376; \$268,745 most likely

Possible asserted cause and effect: Internal Controls were not properly designed, executed, or monitored to ensure effectiveness.

Recommendation: We recommend that management strengthen the processes and controls to ensure compliance with the Activities Allowed or Unallowed and Allowable Costs/Cost requirements.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-94 – Cash Management

Finding Type: Material non-compliance and material weakness

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

Pass-Through Entity: *N/A*

Federal Program: Head Start, Early Head Start

CFDA No.: 93.600

Award No.: 05CH0113/39, 05CH0113/40, 05CH0113/41

Award Year: November 1, 2005 - October 31, 2006

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

Condition: During our testwork, we selected 40 other than payroll expenditures for review and noted that 29 of 40 expenditures the City did not minimize the time between drawdown and payment of the expenditure as it exceed 3 days. In one instance the timeframe between drawdown and payment was 5 months.

Questioned Costs: None

Possible asserted cause and effect: Internal Controls were not properly designed, executed, or monitored to ensure effectiveness. As a result the City did not comply with the Cash Management compliance requirements.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Cash Management compliance requirements.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-95 – Subrecipient Monitoring

Finding Type: Material non-compliance and material weakness

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

Pass-Through Entity: *N/A*

Federal Program: Head Start, Early Head Start

CFDA No.: 93.600

Award No.: 05CH0113/39, 05CH0113/40, 05CH0113/41

Award Year: November 1, 2005 - October 31, 2006

Requirement: Subrecipient Monitoring: A-102 Common Rule requires non-Federal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements. Per 31 USC 7502(f)(2)(B) (2) Each pass-through entity shall: (A) provide such subrecipient the program names (and any identifying numbers) from which such assistance is derived, and the Federal requirements which govern the use of such awards and the requirements of this chapter; (B) monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means; (C) review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to Federal awards provided to the subrecipient by the pass-through entity;

Condition: During our test work, we selected the site visits for all 9 sites for review and noted that 6 of 9 sites were missing a grant agreement. We selected the site visits for all four quarters related to the 9 sites for our review and noted that the City was not able to provide site visit documentation for 13 of 36 site visits.

Questioned Costs: None

Possible asserted cause and effect: Internal Controls were not properly designed, executed, or monitored to ensure effectiveness. As a result the City did not comply with the Subrecipient Monitoring requirements.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Subrecipient Monitoring requirement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Item 2006-96 – Activities Allowed and Unallowed and Allowable Costs/Cost Principles - Payroll

Finding Type: Material non-compliance and material weakness

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

Pass-Through Entity: *Michigan Family Independence Agency (Michigan Department of Human Services)*

Federal Program: Community Services Block Grant (CSBG)

CFDA No.: 93.569

Award No.: CSBG-06-82007, CSBG-05-82007

Award Year: October 1, 2005 – September 30, 2006

Requirement: Activities Allowed and Unallowed and Allowable Costs/Cost Principles: Per OMB Circular A-87, (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:(a) More than one Federal award,(b) A Federal award and a non-Federal award,(c) An indirect cost activity and a direct cost activity,(d) Two or more indirect activities which are allocated using different allocation bases, or(e) An unallowable activity and a direct or indirect cost activity. (5) Personnel activity reports or equivalent documentation must meet the following standards:(a) They must reflect an after-the-fact distribution of the actual activity of each employee,(b) They must account for the total activity for which each employee is compensated, (c) They must be prepared at least monthly and must coincide with one or more pay periods, and (d) They must be signed by the employee.

Per OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, Attachment B, Paragraph 8 (h)(1), Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit. In addition, Attachment B, Paragraph 8 (h)(3), Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employee worked solely on that program for the period covered by the certification. These certifications' will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Condition: During our test work, we selected 50 paychecks and noted that employees that work on multiple grants are not required to track their time using a time and effort reporting process. We also noted that employees that work solely on the grant are not required to certify their time. As a result the entire payroll expense of \$4,571,535 is a questioned cost as A-87 requires payroll certifications to be performed to support the amount of payroll expense charged to the grant.

Questioned Costs: \$4,571,535

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Possible asserted cause and effect: Internal Controls were not properly designed, executed, or monitored to ensure effectiveness. As a result the City did not comply with the Activities Allowed or Unallowed and Allowable Costs/Cost Principles requirements.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Activities Allowed or Unallowed and Allowable Costs/Cost Principles requirements.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Item 2006-97 – Procurement, Suspension and Debarment

Finding Type: Material non-compliance and material weakness

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

Pass-Through Entity: *Michigan Family Independence Agency (Michigan Department of Human Services)*

Federal Program: Community Services Block Grant (CSBG)

CFDA No.: 93.569

Award No.: CSBG-06-82007, CSBG-05-82007

Award Year: October 1, 2005 – September 30, 2006

Requirement: Procurement, Suspension and Debarment: According to the A-133 Compliance Supplement, grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment Suspension". A-102 Common Rule requires non-Federal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements.

Condition: During our testwork we selected 14 contracts for review and noted that all 14 contracts did not contain a clause indicating that the subrecipient was not suspended or debarred.

Questioned Costs: None

Possible asserted cause and effect: Internal Controls were not properly designed, executed, or monitored to ensure effectiveness. As a result the City did not comply with the Procurement, Suspension and Debarment requirements.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Procurement, Suspension and Debarment requirements.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Item 2006-98– Reporting - Reconciliation

Finding Type: Material non-compliance and material weakness

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

Pass-Through Entity: *Michigan Family Independence Agency (Michigan Department of Human Services)*

Federal Program: Community Services Block Grant (CSBG)

CFDA No.: 93.569

Award No.: CSBG-06-82007, CSBG-05-82007

Award Year: October 1, 2005 – September 30, 2006

Requirement: Reporting: Per the Grant Agreement Section III part F: The DHS-1070 shall be submitted to DHS within thirty days from the end of the monthly billing period.

Condition: During our testwork it was noted that for 2 of the 12 payment requests selected, the City made the request after the thirty day requirement as directed by the grant agreement. The December 31, 2005 payment request was submitted on June 27, 2006, 178 days after the end of the period. The September 30, 2005 payment request was submitted on January 1, 2006, 93 days after the end of the period.

Questioned Costs: None

Possible asserted cause and effect: Internal Controls were not properly designed, executed, or monitored to ensure effectiveness. As a result the City did not comply with the Reporting requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Reporting requirement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.