



CITY OF DETROIT, MICHIGAN
OMB Circular A-133 Single Audit Report
Year ended June 30, 2010

CITY OF DETROIT, MICHIGAN

Table of Contents

	Page(s)
Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and Schedule of Expenditures of Federal Awards	1 – 7
Schedule of Expenditures of Federal Awards	8 – 12
Notes to the Schedule of Expenditures of Federal Awards	13
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	14 – 15
Schedule of Findings and Questioned Costs	16 – 105



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

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

Compliance

We have audited the City of Detroit, Michigan's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct or material effect on each of the City's major federal programs for the year ended June 30, 2010. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's basic financial statements include operations of the Detroit Brownfield Redevelopment Authority, Detroit Public Library, Detroit Transportation Corporation, Downtown Development Authority, Eastern Market Corporation, Economic Development Corporation, Greater Detroit Resource Recovery Authority, Local Development Finance Authority, and Museum of African American History as discretely presented component units, which received federal awards that are not included in the schedule of expenditures of federal awards for the year ended June 30, 2010. Our audit, described below, did not include the operations of the Detroit Brownfield Redevelopment Authority, Detroit Public Library, Detroit Transportation Corporation, Downtown Development Authority, Eastern Market Corporation, Economic Development Corporation, Greater Detroit Resource Recovery Authority, Local Development Finance Authority, and Museum of African American History because the component units engaged other auditors to perform audits in accordance with OMB Circular A-133.

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



Adverse (Noncompliance) – Table 1

As identified in Table 1 and described in the accompanying schedule of findings and questioned costs, the City did not comply with certain compliance requirements that are applicable to the Special Supplemental Nutrition Program For Women, Infants, and Children. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to the identified major federal program.

Federal program	Compliance requirement	Finding number
Special Supplemental Nutrition Program For Women, Infants, and Children	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2010-07
Special Supplemental Nutrition Program For Women, Infants, and Children	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2010-08
Special Supplemental Nutrition Program For Women, Infants, and Children	Procurement, Suspension, and Debarment	2010-10
Special Supplemental Nutrition Program For Women, Infants, and Children	Subrecipient Monitoring	2010-12



Qualifications (Noncompliance) – Table 2

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

Federal program	Compliance requirement	Finding number
Community Development Block Grant	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2010-13
Community Development Block Grant	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2010-14
Community Development Block Grant	Cash Management	2010-15
Community Development Block Grant	Procurement, Suspension, and Debarment	2010-16
Community Development Block Grant	Suspension and Debarment	2010-17
Community Development Block Grant	Subrecipient Monitoring	2010-20
Section 108 Loans	Cash Management	2010-21
Section 108 Loans	Environmental Review and Required Certification and HUD Approval	2010-22
Home Investment Partnership Program	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2010-23
Home Investment Partnership Program	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2010-24
Home Investment Partnership Program	Environmental Review and Required Certification and HUD Approval	2010-26
Trade Adjustment Assistance	Cash Management	2010-27
Trade Adjustment Assistance	Cycle Monitoring Reports	2010-28
Workforce Investment Act	Cash Management	2010-31
Workforce Investment Act	Subrecipient Monitoring	2010-35
Workforce Investment Act	Cycle Monitoring Reports	2010-36
Federal Transit Cluster	Equipment and Real Property Management	2010-37
State Revolving Loan	Davis Bacon	2010-39
Temporary Assistance for Needy Families	Cash Management	2010-42
Temporary Assistance for Needy Families	Subrecipient Monitoring	2010-45
Temporary Assistance for Needy Families	Cycle Monitoring Reports	2010-46



Federal program	Compliance requirement	Finding number
Weatherization for Low Income Persons	Davis Bacon	2010-47
Weatherization for Low Income Persons	Procurement, Suspension, and Debarment	2010-49
Weatherization for Low Income Persons	Criminal Background Checks	2010-50
Weatherization for Low Income Persons	Reporting	2010-51
Community Services Block Grant	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2010-52
Community Services Block Grant	Reporting	2010-55
Community Services Block Grant	Subrecipient Monitoring	2010-56
Community Services Block Grant	Criminal Background Checks	2010-58
Head Start and Early Head Start	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2010-60
Head Start and Early Head Start	Subrecipient Monitoring	2010-62
HIV Emergency Relief	Maintenance of Effort	2010-63
HIV Emergency Relief	Procurement, Suspension, and Debarment	2010-64
HIV Emergency Relief	Subrecipient Monitoring	2010-66
Prevention and Treatment of Substance Abuse	Subrecipient Monitoring	2010-69

In our opinion, because of the effects of the noncompliance described in Table 1, the City did not comply in all material respects, with the requirements referred to above that could have a direct and material effect on the federal program listed in Table 1. Also, in our opinion, except for the noncompliance described in Table 2, the City complied, in all material respects, with the compliance requirements referred to above that are applicable to each of its major programs included in Table 2 for the year ended June 30, 2010. Also, as identified in Table 3, the results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133, and which are described in the accompanying schedule of findings and questioned costs.



Other Instances of Noncompliance – Table 3

Federal program	Compliance requirement	Finding number
Special Supplemental Nutrition Program For Women, Infants, and Children	Eligibility	2010-09
Special Supplemental Nutrition Program For Women, Infants, and Children	Reporting	2010-11
Community Development Block Grant	Reporting	2010-18
Community Development Block Grant	Reporting	2010-19
Home Investment Partnership Program	Reporting	2010-25
Workforce Investment Act	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2010-29
Workforce Investment Act	Equipment and Real Property Management	2010-32
Workforce Investment Act	Reporting	2010-33
Workforce Investment Act	Reporting	2010-34
Federal Transit Cluster	Reporting	2010-38
Temporary Assistance for Needy Families	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2010-40
Temporary Assistance for Needy Families	Equipment and Real Property Management	2010-43
Temporary Assistance for Needy Families	Eligibility	2010-44
Community Services Block Grant	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2010-53
Community Services Block Grant	Suspension and Debarment	2010-54
Head Start and Early Head Start	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2010-59
Head Start and Early Head Start	Cash Management	2010-61
HIV Emergency Relief	Reporting	2010-65
Prevention and Treatment of Substance Abuse	Matching	2010-67
Prevention and Treatment of Substance Abuse	Reporting	2010-68

Internal Control over Compliance

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



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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2010-6, the items in Table 1, and the items in Table 2 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2010-30, 2010-41, 2010-48 and the items in Table 3 to be significant deficiencies.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2010, and have issued our report thereon dated December 17, 2010, which included a reference to the reports of other auditors. Our report on the basic financial statements was modified to recognize that we did not audit the financial statements of the Detroit Brownfield Redevelopment Authority, Detroit Public Library, Detroit Transportation Corporation, Downtown Development Authority, Eastern Market Corporation, Economic Development Corporation, Greater Detroit Resource Recovery Authority, Local Development Finance Authority, and Museum of African American History, which represent 100% of the assets and expenses of the aggregate discretely presented component units. We also did not audit the financial statements of the General Retirement System and the Policemen and Firemen Retirement System and the Detroit Building Authority, which represent 93% and 42% of the assets and expenses/expenditures/deductions, respectively, of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon were furnished to us, and our opinions, insofar as they relate to the amounts included in the aggregate discretely presented component units and the aggregate remaining fund information, are based on the reports of the other auditors. Our report contains a scope limitation as the auditors of the Retirement Systems were unable to obtain sufficient audit evidence supporting the fair value of approximately \$216,000,000 of Retirement Systems' alternative investments held at June 30, 2010 related mostly to private placement, real estate, and pooled investments. Our report also included an explanatory paragraph stating that the City has an accumulated unreserved undesignated deficit in the General Fund of \$155.7 million as of June 30, 2010, which has contributed to the City's dependence on borrowing for cash flow purposes. Our report also refers to the adoption of provisions of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, as of July 1, 2009. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of



federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

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

KPMG LLP

Detroit, Michigan
March 28, 2011 (except for the Schedule of
Expenditures of Federal Awards, Paragraph 11,
as to which the date is December 17, 2010)

CITY OF DETROIT, MICHIGAN
Schedule of Expenditures of Federal Awards
Year ended June 30, 2010

Grant title	Catalog of federal domestic assistance	Grant number	2010 Expenditures
Department of Agriculture:			
Via Michigan Department of Community Health:			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	N/A	\$ 5,201,898
Via Michigan Department of Education:			
Child and Adult Care Food Program – After School Meals	10.558	82SF02000	538,250
Summer Food Service Program for Children	10.559	82SF02000	461,384
Via Michigan Department of Career Development:			
Supplemental Nutritional Assistance Program:			
Food Assistance	10.561	2M1420122	689,313
Food Assistance – Supportive Services	10.561	2M1400100	10,591
Food Assistance – Program Operations	10.561	08-15	311,491
Food Assistance – Supportive Services	10.561	08-15	11,364
Food Stamp Nutrition Education Program	10.561	61-5025R	38,193
Via Michigan Department of Human Services:			
Supplemental Nutritional Assistance Program – Packaged Meals	10.561	ES-09-82009	1,099
Total Supplemental Nutritional Assistance Program			<u>1,062,051</u>
Via Michigan Department of Education:			
Emergency Assistance Food Program – TEFAP	10.568	820001020	59,972
ARRA Emergency Assistance Food Program – TEFAP HS Admin	10.568	820001020	61,650
Emergency Assistance Food Program – TEFAP	10.568	820001020	200,492
Total Emergency Assistance Food Program			<u>322,114</u>
Via Michigan Department of Natural Resources:			
Cooperative Forestry Assist – Emerald Ash Borer Tree Plan	10.664	CFG 08-07	4,000
Total Department of Agriculture			<u>7,589,697</u>
Department of Housing and Urban Development:			
Entitlement Grant – NSP Demolition	14.218	B-08-MN-26-0004	1,249,898
CDBG	14.218	B-09-MC-26-0006	37,368,887
Total CDBG			<u>38,618,785</u>
CDBG ARRA – Recovery Act Funded	14.253	B-09-MY-26-0006	5,560
Emergency Shelter Grant	14.231	S-09-MC-26-0006	1,723,339
Home Investment Partnership (Special Housing)	14.239	M03-MC-26-0202	3,252,348
Housing Opportunities for Persons with Aids – HOPWA Aids Housing	14.241	MIH09-F001	1,840,579
CDBG Section 108 Loan Guarantees	14.248	N/A	4,915,182
ARRA Homeless Prev & Rapid Re-Housing – HPRP Admin	14.262	S-09-MY-26-0006	1,703,919
Lead Hazard Reduction Demo – HUD Lead Hazard II	14.905	MILHD0151-06	1,403,550
Lead Hazard Reduction Demo – HUD Lead Hazard II	14.905	MILHD0196-09	100,699
Total Lead Hazard Reduction			<u>1,504,249</u>
Total Department of Housing and Urban Development			<u>53,563,961</u>
Department of History, Arts, and Libraries:			
Via Michigan Department of History, Arts, and Libraries:			
Historic Preservation Fund Grants – Survey & Thematic	15.904	CG08-395	29,971
Total Department of History, Arts, and Libraries			<u>29,971</u>
Department of Justice:			
Federal Forfeiture	16.000	MI8234900	656,385
Community Policing Grant – DOJ COPS	16.171	2009CKWX0557	236,488
Community Policing Grant – DOJ COPS	16.171	2009CKWX0549	270,240
Total Community Policing Grants			<u>506,728</u>
Comm Relations Serv – Youth Citizens Academy 2006-2007	16.200	2006-JL-FX-0268	105,518
Encourage To Arrest 2008-2009	16.525	2008-WE-AX-0030	146,422
DTD Promising New Prog – We’re Here and We Care Prog	16.541	2009-JL-FX-0149	3,024
DTD Promising New Prog – Business to Youth Mentoring	16.541	2008-JL-FX-0194	60,385
Total DTD Promising New Programs			<u>63,409</u>

CITY OF DETROIT, MICHIGAN
Schedule of Expenditures of Federal Awards
Year ended June 30, 2010

Grant title	Catalog of federal domestic assistance	Grant number	2010 Expenditures
NIJ Research, Eval, & Development Projects – Cold No More	16.560	2007-DX-BX-K137	\$ 247,439
Crime Victim Assist – Rape Counseling Center Prog.	16.575	20083-12V07	216,364
Crime Victim Assist – Rape Counseling Center Prog.	16.575	20083-13V09	430,710
Total Crime Victim Assistance			<u>647,074</u>
Edward Byrne Memorial – Drug Violence Enforcement Project	16.580	2008-DD-BX-0238	290,361
Edward Byrne Memorial – Missing Persons Program	16.580	2008-DD-BX-0240	63,754
Edward Byrne Memorial – DOJ Parolees	16.580	2008-DD-BX-0659	25,269
Edward Byrne Memorial – DOJ Bridge to Success Transitional Jobs	16.580	2008-DD-X-0264	29,915
Total Edward Byrne Memorial SLLADG			<u>409,299</u>
Public Safety & Comm Pol – ARRA DOJ Cops Hiring 2009 Police	16.710	2009-RJ-WX-0053	1,479,270
Public Safety & Comm Pol – Community Policing, Educ and Outreach	16.710	2006-DD-BX-0123	7,784
Total Public Safety & Community Policing			<u>1,487,054</u>
Gang Resistance Educ Training	16.737	2008-JV-FX-0059	121,814
Via Michigan Department of Community Health:			
Edward Byrne Memorial – Justice Assistance Grant (JAG) 2007	16.738	2005-DJ-BX-0751	1,622,705
Edward Byrne Memorial – Justice Assistance Grant (JAG) 2008	16.738	2006-DJ-BX-0720	381,661
Edward Byrne Memorial – Justice Assistance Grant (JAG) 2006	16.738	2006-DJ-BX-0720	987,951
Total Edward Byrne Memorial JAG			<u>2,992,317</u>
ARRA – Edward Byrne Memorial – JAG Grant 2009 Police	16.803	50001-1-09-B	72,519
ARRA – LLADG – Technology Grant 2009 Police	16.803	50002-1-09-B	120,000
Total ARRA Edward Byrne Memorial			<u>192,519</u>
Total Department of Justice			<u>7,575,978</u>
Department of Labor:			
Via Michigan Department of Labor and Economic Growth:			
Wagner Peysner	17.207	ES192090955A26	1,756,451
Trade Adjustment Assist	17.245	07-30	3,572,883
Trade Adjustment Assist	17.245	03-29	807,573
Total Trade			<u>4,380,456</u>
WIA Adult	17.258	AA186470955	8,672,469
ARRA WIA Adult	17.258	AA171280855	4,502,771
Total WIA			<u>13,175,240</u>
WIA Statewide Activities – JET	17.258,17.259,17.260	AA186470955	1,353,902
WIA Local Administration	17.258,17.259,17.260	AA186470955	2,299,697
ARRA WIA Local Administration	17.258,17.259,17.260	AA171280855	1,808,735
ARRA WIA Statewide Activities – Capacity Building	17.258,17.259,17.260	AA171280855	24,000
WIA Statewide Activities – MWA SVCS CTR OPS	17.258,17.259,17.260	AA186470955	500,000
WIA Statewide Activities – High Concentration	17.258,17.259,17.260	AA186470955	46,685
Total WIA & Statewide			<u>6,033,019</u>
WIA Youth	17.259	AA171280855	9,103,336
ARRA WIA Youth	17.259	AA171280855	10,229,940
Total WIA Youth			<u>19,333,276</u>
WIA Rapid Response – Incumbent Worker	17.260	AA186470955	231,650
WIA Dislocated Worker	17.260	AA171280855	7,541,304
ARRA WIA Dislocated Worker	17.260	AA171280855	3,941,922
Total WIA Dislocated Workers			<u>11,714,876</u>
Work Incentive Grant – Disab Navigator	17.266	W1155610660	60,000
Via Michigan Department of Labor and Economic Growth:			
Community Based Job Training	17.269	CB-17375-08-60-A-26	1,067,642
Total Department of Labor			<u>57,520,960</u>

CITY OF DETROIT, MICHIGAN
Schedule of Expenditures of Federal Awards
Year ended June 30, 2010

Grant title	Catalog of federal domestic assistance	Grant number	2010 Expenditures
Department of Transportation:			
Via Michigan Department of Transportation – Bureau of Aeronautics:			
Airport Improvement Program – Land Acquisition	20.106	E-26-0027-3305	\$ 2,221
Via Federal Transit Administration:			
Federal Transit Capital Investment – ARRA – ARRA USDOT			
FTA Operating	20.500	MI-96-X011	14,786,109
Federal Transit Capital Investment – Timed Transfer Center Construction	20.500	MI-03-0227	79,422
Federal Transit Capital Investment – Bus Shelters and Bust Stops	20.500	MI-90-X374	44,634
Federal Transit Capital Investment – Engineering & Design-Maint Facility	20.500	MI-04-0006	5,489,326
Federal Transit Capital Investment – Preventive Maintenance	20.500	MI-90-X605	1,409,297
Federal Transit Capital Investment – Construct-Downtown Transit Center	20.500	MI-03-0204	770,612
Federal Transit Capital Investment – Lease Purchase	20.500	MI-04-0023	4,608,000
Federal Transit Capital Investment – Fare Equipment	20.500	MI-04-0038	9,411,741
Federal Transit Capital Investment – Lease Purchase	20.500	MI-95-X045	275,904
Total Federal Capital Investment			<u>36,875,045</u>
Federal Transit Formula Grants – Lease Purchase	20.507	MI-95-X006	1,587,697
Federal Transit Formula Grants – Transit Enhancement-Shelter	20.507	MI-90-X359	97,333
Federal Transit Formula Grants – Transit Enhancement Signs	20.507	MI-90-X434	233,162
Federal Transit Formula Grants – Downtown Transit Center	20.507	MI-90-X464	1,312,267
Federal Transit Formula Grants – Bus Rehab/Rebuild	20.507	MI-90-X502	2,658,665
Federal Transit Formula Grants – Lease Purchase Buses	20.507	MI-90-X514	3,125,000
Federal Transit Formula Grants – Service Vehicles & Facility Improvement	20.507	MI-90-X533	1,362,875
Federal Transit Formula Grants – Rehab/Renov, Gen Dev, and DTOGS	20.507	MI-90-X563	3,872,594
Federal Transit Formula Grants – Lease Purchase	20.507	MI-95-X023	1,142,285
Federal Transit Formula Grants – Prev Maint, Rehab & Office Equip	20.507	MI-90-X604	2,373,741
Total Federal Transit Formula Grants			<u>17,765,619</u>
Public Transportation Research	20.514	U09006	305,490
Job Access & Reverse Commute	20.516	MI-37-X014	352
Job Access & Reverse Commute	20.516	MI-37-X020	78,754
Total Job Access & Reverse Commute			<u>79,106</u>
Via Michigan State Police:			
Occupant Protection Incentive Grant – Traffic Safety	20.602	CP-09-04	65,134
Occupant Protection Incentive Grant – Traffic Safety	20.602	CP-10-04	59,541
Occupant Protection Incentive Grant – Youth Alcohol	20.602	AL-09-11	24,083
Occupant Protection Incentive Grant – Youth Alcohol	20.602	JJ-10-03	98,584
Occupant Protection Incentive Grant – Click It or Ticket Traffic	20.602	PT-09-28	97,949
Occupant Protection Incentive Grant – Click It or Ticket Traffic	20.602	PT-10-01	159,721
Total Occupant Protection Incentive Grant			<u>505,012</u>
Total Department of Transportation			<u>55,532,493</u>
Environmental Protection Agency:			
Parents of Newborns Lead Prevention 2009	66.716	X8-00E19701	100,000
Brownfield Assess & Clean-up – Sears Site Clean-Up Project	66.818	BF00E40101-0	5,411
Brownfield Assess & Clean-up – Globe Building Site Clean-Up	66.818	BF00E40001-0	26,028
Brownfield Assess & Clean-up – Eastern Market Brownfield Project	66.818	BF00E40201-0	29,137
Total Brownfield Assess & Clean-up			<u>60,576</u>
Via Michigan Department of Environmental Quality:			
Capitalization Grants for Clean Water – State Revolving Loans	66.458	5175-06	8,252,112
Capitalization Grants for Clean Water – State Revolving Loans	66.458	5175-07	3,369,869
ARRA – Capitalization Grants for Clean Water – State Revolving Loans	66.458	5175-08	431,786
ARRA – Capitalization Grants for Clean Water – State Revolving Loans	66.458	5175-07	3,239,400
Total Capitalization Grants for Clean Water			<u>15,293,167</u>
Drinking Water Revolving Fund	66.468	7240-01	814,487
Total Environmental Protection Agency			<u>16,268,230</u>

CITY OF DETROIT, MICHIGAN
Schedule of Expenditures of Federal Awards
Year ended June 30, 2010

Grant title	Catalog of federal domestic assistance	Grant number	2010 Expenditures
Department of Energy:			
Via Michigan Department of Human Services:			
Weatherization for Low Income Persons	81.042	DOE-09-82007	\$ 1,806,352
ARRA Weatherization for Low Income Persons	81.042	DOE-S-09-82007	4,232,110
Total Weatherization			6,038,462
ARRA Emergency Efficiency & Conservation BG	81.128	DE-EE0000747	186,440
Total Department of Energy			6,224,902
Department of Education:			
Improvement of Post Secondary Educ – (AATE) 2010	84.116	PI16Z090330	13,717
Safe & Drug Free Schools & Communities	84.184	Q184DO80048-09	136,735
For Improvement of Educ (FIE) – Region 1 Regranting	84.215	10RR0019SV	10,800
For Improvement of Educ (FIE) – LEAP Program	84.215	U215K090312	18,900
Total FIE			29,700
Total Department of Education			180,152
Department of Health and Human Services:			
Healthy Marriage Promotion & Responsible Father – PRF 2010	93.086	90FR0073/04	217,598
Healthy Marriage Promotion & Responsible Father – PRF 2009	93.086	90FR0073/01	186,693
Total HM Promo & Responsible Father			404,291
TB Prevention & Control	93.116	U52/CCU500843	414,062
Health Disparities	93.137	MPCMP091033-01-000	217,497
Childhood Lead Poison Prev – CDC	93.197	5H64CH00156-04	922,955
SAMH Projects of Reg & National Sig – Detroit Re-Entry Initiative	93.243	6U79SP13331-01-02	237,372
Head Start	93.600	05CH0113/44	10,655,952
Head Start – TTA	93.600	05CH0113/44	88,287
Head Start – Early	93.600	05CH0113/44	123,028
Head Start	93.600	05CH0113/45	37,720,536
Head Start – TTA	93.600	05CH0113/45	174,649
Head Start – Early	93.600	05CH0113/45	816,341
Head Start	93.600	05CH0113/42	10,208
Head Start	93.600	05CH0113/43	13,238
Total Head Start			49,602,239
Social Serv Research & Demo – Welfare to Opportunity IDA	93.647	90XP0269/01	289,413
ARRA Head Start – COLA	93.708	05SE0113/01	48,206
Specially Selected Health Projects – Health Info Tech	93.888	D1BIT10830-01-01	70,891
HIV Emerg Relief Project	93.914	H89HA00021	8,312,750
HIV Emerg Relief Project – MAI	93.914	H89HA00021	784,628
Total HIV			9,097,378
Healthy Start Initiative	93.926	H49MC00147	1,575,000
Prevention Health Serv – STD Control	93.977	N/A	455,216
Via Michigan Department of Community Health:			
Public Health Emergency Prep – H1N1	93.069	N/A	399,464
Coordinated Serv & Access WICY-Aids/HIV Family Services	93.153	N/A	48,737
Family Planning	93.217	N/A	961,214
CDC Immunization Grants – Vaccines for Children	93.268	N/A	577,866
CDC Immunization – Immunization Reaching More	93.268	N/A	31,484
CDC Immunization – Immunization Action Plan	93.268	N/A	395,428
Total CDC Immunization Grants			1,004,778
ARRA CDC Immunization Program	93.712	N/A	127,872
CDC Prevention – Pandemic Flu	93.283	N/A	75,069
CDC Prevention – Early Warning Infectious Disease	93.283	N/A	4,640
CDC Prevention – Bio-Terrorism Emerg Prep	93.283	N/A	453,671
CDC Prevention – Bio-Terrorism Laboratory	93.283	N/A	101,943
CDC Prevention – Cities Readiness Initiatives	93.283	N/A	421,550
CDC Prevention – H1N1 Phase, I, II, & III	93.283	N/A	1,831,810
Total CDC Prevention			2,888,683

CITY OF DETROIT, MICHIGAN
Schedule of Expenditures of Federal Awards
Year ended June 30, 2010

Grant title	Catalog of federal domestic assistance	Grant number	2010 Expenditures
Via Michigan Department of Labor and Economic Growth:			
TANF Jet Support Services	93.558	08-25	\$ 319,726
TANF Jet Support Services	93.558	G1002MI TANF	1,000,000
TANF Jet	93.558	G1002MI TANF	11,585,732
TANF Jet	93.558	08-12	6,693,445
TANF	93.558	TANF-09-82007	18,948
Total TANF			<u>19,617,851</u>
Via Michigan Department of Human Services:			
Low Income Home Energy Assist (LIHEAP) – Weatherization	93.568	LIHEAP-09-82007	1,520,017
Specific Assistance Individuals	93.569	CSBG-09-82007	2,757,403
CSBG TPA	93.569	N/A	5,882
CSBG Administration	93.569	CSBG-10-82007	3,309,485
Total CSBG			<u>6,072,770</u>
ARRA Community Service Block Grant – CSBG	93.710	CSBG-S-09-82007	2,980,457
Via Michigan Department of Community Health:			
Medical Assist Prog – Nurse Family Partnership	93.778	N/A	12,742
HIV Care Formula Grant – Aids/HIV Consortia	93.917	N/A	53,960
HIV Prevention – Aids/HIV Rapid Testing 2009	93.940	N/A	4,666
HIV Prevention – Aids/HIV Rapid Testing 2010	93.940	N/A	665,090
Total HIV Prevention – AIDS/HIV Rapid Testing			<u>669,756</u>
HIV Demo, Research, Public & Prof Educ – Lab (STARHS & VARHS)	93.941	N/A	47,900
Prevention and Treatment of Substance Abuse BG	93.959	10B1MISAPT	14,735,129
Family Planning – Infant Mortality	93.974	N/A	4,470
Local Maternal & Child Health BG (MCHBG)	93.994	N/A	1,743,408
MCHBG – Childhood Lead Poison Prev-MDCH	93.994	N/A	407,389
MCHBG – Crippled Children Service	93.994	N/A	785,610
Total Maternal & Child Health Block Grant			<u>2,936,407</u>
Total Department of Health and Human Services			<u>117,416,727</u>
Department of Homeland Security:			
Via Michigan Sate Police			
2005 Urban Area Security Initiative Grant	97.067	N/A	221,718
2006 Metropolitan Medical Response System (MMRS)	97.067	N/A	25,714
2006 Urban Area Security Initiative Grant	97.067	N/A	820,932
2007 Metropolitan Medical Response System Grant	97.067	N/A	129,894
2007 UASI Grant	97.067	N/A	484,068
2007 Michigan Citizen Corps Program	97.067	N/A	4,266
Total UASI Grant			<u>1,686,592</u>
2006 Buffer Zone Protection Program	97.078	N/A	169,563
Total Department of Homeland Security			<u>1,856,155</u>
Total			\$ <u>323,759,226</u>

See accompanying notes to schedule of expenditures of federal awards.

CITY OF DETROIT, MICHIGAN

Notes to Schedule of Expenditures of Federal Awards

For the Year ended June 30, 2010

(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, \$111,887,401 of federal awards were provided to subrecipients.

(4) Noncash Transactions

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

(5) Highway and Construction Program

The City participates in various road, street, and bridge construction and repair projects. The projects are funded through an award granted to the State of Michigan Department of Transportation (the State), which administers the grant for the City. The City identifies the projects needed in the locality, and the State performs the procurement, payment, and cash management functions on behalf of the City. The award is managed directly by the State and has not been included in the tests of compliance with laws and regulations associated with the City's Single Audit. The award is approximately \$13.9 million for the year ended June 30, 2010.

(6) Outstanding Loan Balance

The U.S. Department of Housing and Urban Development (HUD) has insured certain mortgage loan borrowings (CFDA #14.248) made by the City of Detroit through the Planning and Development Department in connection with certain development projects. These loans had outstanding principal due of \$89,506,000 at June 30, 2010. New borrowings in fiscal year 2010 total \$8,420,930 and the outstanding principal on existing loans made in prior years have continuing compliance requirements.



KPMG LLP
Suite 1200
150 West Jefferson
Detroit, MI 48226

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Detroit, Michigan (the City), as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 17, 2010. Our report was modified to include a qualified opinion over the aggregate remaining fund information due to a scope limitation resulting from insufficient audit evidence over pension system investments. Our report was also modified to include a reference to other auditors and to emphasize the City has an accumulated unreserved undesignated deficit in the General Fund of \$155.7 million as of June 30, 2010, which has contributed to the City's dependence on borrowing for cash flow purposes. Our report also emphasized the City adopted the provisions of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, as of July 1, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the General Retirement System, the Policemen and Firemen Retirement System, and all of the discretely presented component units, as described in our report on the City's basic financial statements. The financial statements of the General Retirement System, Policemen and Firemen Retirement System, and certain discretely presented component units identified in footnote 1(a) were not audited in accordance with *Government Auditing Standards*. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

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

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



A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in the City's internal control over financial reporting described in the accompanying schedule of Findings and Questioned costs as findings 2010-1, 2010-2, and 2010-3 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of Findings and Questioned costs as findings 2010-4 and 2010-5.

The City of Detroit, Michigan'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, City management, federal awarding and pass-through agencies, and the Treasurer of the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Detroit, Michigan
December 17, 2010

CITY OF DETROIT, MICHIGAN
 Schedule of Findings and Questioned Costs
 Year ended June 30, 2010

Section I – Summary of Auditors’ Results

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

<u>Qualified</u>	<u>Adverse</u>
Community Development Block Grant (CFDA No. 14.218, 14.253)	Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA No. 10.557)
Home Investment Partnership Program (CFDA No. 14.239)	
Section 108 Loans (CFDA No. 14.248)	
Trade Adjustment Assistance (CFDA No. 17.245)	
Workforce Investment Act (CFDA No. 17.258, 17.259, 17.260)	
Federal Transit Cluster (CFDA No. 20.500, 20.507)	
State Revolving Loan (CFDA No. 66.458)	
Weatherization for Low Income Persons (CFDA No. 81.042)	
Temporary Assistance for Needy Families (CFDA No. 93.558)	
Community Services Block Grant (CFDA No. 93.569, 93.710)	
Head Start and Early Head Start (CFDA No. 93.600, 93.708)	
HIV Emergency Relief (CFDA No. 93.914)	
Prevention and Treatment of Substance Abuse (CFDA No. 93.959)	

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

- (h) Any audit findings that are required to be reported under Section 510(a) of OMB Circular A-133: **Yes**
- (i) Major programs: Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA NO. 10.557); Community Development Block Grant (CFDA NO. 14.218,14.253); Section 108 Loans (CFDA NO. 14.248); Home Investment Partnership Program (CFDA NO. 14.239); Workforce Investment Act (CFDA NO. 17.258, 17.259, 17.260); Trade Adjustment Assistance (CFDA NO. 17.245); Federal Transit Cluster (CFDA NO. 20.500, 20.507); State Revolving Loan Fund (CFDA NO. 66.458); Weatherization for Low Income Persons (CFDA NO. 81.042); Temporary Assistance For Needy Families (CFDA NO. 93.558); Community Services Block Grant (CFDA NO. 93.569, 93.710); Head Start and Early Head Start (CFDA NO. 93.600, 93.708); HIV Emergency Relief (CFDA NO. 93.914); and Prevention and Treatment of Substance Abuse (CFDA NO. 93.959).
- (j) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- (k) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **No**

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

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

Finding 2010-01 – Financial Closing and Reporting

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

- The process to prepare closing entries and financial statements relies partly upon decentralized accounting staff and software applications other than the City's DRMS General Ledger. The process requires a significant amount of manual intervention in order to get information from these other systems in to DRMS.
- The process to identify significant transactions throughout the City's fiscal year to determine the appropriate accounting treatment does not result in timely consideration of how to record or report such transactions. These transactions often are not identified until the end of the fiscal year during the financial reporting process. There is inadequate communication between various City departments on transactions and on how they affect the individual stand-alone financial reports and the Comprehensive Annual Financial Report (CAFR). Information necessary to effectuate a timely and accurate closing of the books is sometimes not communicated between certain departments and agencies of the City.
- The process to close the books and prepare financial statements includes the recording of a significant number of manual post-closing entries. For the year ended June 30, 2010, there were approximately 400 manual journal entries that were made after the books were closed for the year (i.e., after frozen trial balance).
- The process to close the books and evaluate accounts occurs only on an annual basis instead of monthly or quarterly. As a result, certain key account reconciliations and account evaluations are not performed timely and require an extended amount of time to complete during the year-end closing process.
- The established internal control procedures for tracking and recording capital asset activities are not consistently followed. Physical inventories of capital assets are not being performed annually as required by City policy.

Recommendation

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

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Views of Responsible Officials

We have reviewed the finding and concur with the recommendation. Although the City has had to manage its current priority in publishing the 2010 CAFR on time, it continues to strategize the rebuilding of its accounting division and to make improvements to accounting and financial reporting systems. The City continues to make improvements including adopting the recommendations herein. Our goal is to implement a process in the second half of fiscal year 2010-2011 to close the General Ledger on an interim basis. This will include implementing a process to evaluate accounts and post adjusting journal entries on an interim basis, as well as changing its internal processing of purchase orders, purchase order receipts, and Accounts Payable processes. Additionally, we plan to produce interim financial reports beginning in the second half of fiscal year 2010-2011 to enable City decision makers to evaluate the City's financial condition on an interim basis. As we improve, we will continue to uncover accounting deficiencies and take appropriate corrective actions.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Finding 2010-02 – Reconciliations, Transaction Processing, Account Analysis, and Document Retention

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

- The City's process to identify accrued expenses is not adequate. Our audit procedures identified expenditures related to fiscal year 2010 that were not appropriately recorded as expenditures in fiscal year 2010.
- Certain purchase order expenditure accruals were over two years old and still have not been matched with an actual invoice. As such, the City has likely over accrued for these items and a detailed analysis has not been performed to ascertain if these are still liabilities of the City.
- Certain date related information regarding terminations and new hires in the human resources system did not match information in the personnel files.
- Reconciliations of subsidiary ledgers to General Ledgers and other IT systems to DRMS are either not being completed, not completed timely, or contain significant unreconciled items.
- A listing of internal controls employed by service organizations is not prepared and evaluated for adequacy by the City. The City uses various service organizations to process significant transactions such as health and dental claims and payroll. The City does not review the service organization auditor reports (SAS 70 Reports) to ensure that the service organization has effective internal controls. Further, the City does not evaluate the user controls outlined in the SAS 70 reports to ensure that the City has these controls in place to ensure complete and accurate processing of transactions between the City and the Service Organization.
- Bank, investment, and imprest cash reconciliations are not prepared timely and contain unreasonably aged reconciling items.
- Cash collections are not recorded timely on a consistent basis. As an example, we noted that Detroit Department of Transportation has about a one-week delay in depositing bus fare cash collections into the Department's bank account.
- Capital projects that are complete are not closed out and placed into service categories on a timely basis. Further, we noted capital costs that were recorded as construction work in progress but should be considered completed, put into service and depreciated, or written off as an expense as the cost was not eligible for capitalization.
- Interfund and inter-departmental transactions are not reconciled throughout the year on a timely basis.
- Employees continue to be paid monthly workers compensation benefits beyond their redemption or settlement date.
- A physical inventory count of fixed assets is not routinely completed by all agencies, as indicated in the City's asset management policies.
- Annual employee evaluations are not completed or enforced.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

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

Recommendation

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

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

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

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

Additionally, we recommend performing monthly vendor level contract analysis for each major City vendor. If this is consistently performed, it will enable the analysts to know at any given time, the approximate amount of unbilled goods or services that have been rendered. This would enable the Accounting Department to estimate accruals for each major vendor at year-end within a shortened timeframe thereby facilitating a faster closing of the books.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

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

Views of Responsible Officials

We have reviewed the finding and concur with the recommendation. Presently, we are evaluating the City's diverse accounting systems and operations to consolidate and improve the City's accounting. As discussed previously, the Finance Department will implement training and development programs to improve accounting staff. The Finance Department has improved its financial analysis, which will enable accounting staff to focus on variances to identify errors and problems. During the audit, the accounting staff did a better job of completing reviews and account reconciliations, which provided the auditors with more reliable data than in past audits. Additionally, in concert with previously discussed interim closings and management reporting, the Finance Department will develop account reconciliation policies and procedures to ensure reconciling differences are identified and researched in a timely manner. Finally, with regard to unmatched purchase orders over two years old, the City has already initiated a project to detect and remove old purchase order receipts. This project will be completed by the end of the 2011 fiscal year.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Finding 2010-03 – Information Technology

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

- Administrative access is granted to unauthorized accounts.
- Access to powerful administrator IDs is shared by multiple employees.
- Password parameters are inadequate.
- Segregation of duties conflicts exist between the database administration function and the backend database administration function.
- Periodic reviews of data center access are not performed.
- Periodic reviews of user access are not performed.
- Adequate procedures are not in place to remove user access upon termination.
- Adequate procedures are not in place to remove and review segregation of duties conflicts.
- Automated methods are not in place for tracking of the changes and customizations made to certain applications.
- Program developers have access to move program changes into production for certain applications.
- Error logs are not maintained for a sufficient length of time.
- Backup recoveries were not performed for certain applications.
- Documents supporting adding or modifying user access were not retained.
- Adequate procedures are not in place to log and approve report creations.
- IDs for terminated employees remained active after termination.
- Vendors supporting certain applications can make program changes without approvals.

Recommendation

We recommend the following:

- Access to the backend database should be restricted to database administrators or compensating controls should be implemented to mitigate the risk associated with concurrent access at the front end and backend levels.
- Create and enforce a policy that requires each user to have a unique ID, change the passwords to the default system IDs, restrict access to default and administrative IDs, minimize the use of generic IDs, and turn audit on to log activity.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

- Administrative access to the front-end application should be restricted to application administrators or compensating controls should be implemented to mitigate the risk associated with concurrent access at the front end and backend levels.
- Develop and enforce stronger password parameters such as password length of at least six characters, password expiration every 90-120 days, enforce alpha-numeric password, and suspend IDs after five invalid login attempts.
- Create controls and procedures to suspend or disable separated employees, implement scripts to suspend IDs not used for 45-60 days, implement programs to generate reports showing IDs inactive for longer than 45-60 days, and subsequently manually suspend those IDs.
- Create and enforce a policy that requires review of user access on a periodic basis, correct user access based on review results, and maintain before and after logs to review results.
- Create a matrix to identify application functions that when granted together will give rise to segregation of duties conflict. Follow and enforce the segregation of duties matrix to ensure that segregation of duties conflicts do not exist at the time of role/profile creation.
- Create and enforce a policy to log all confirmation changes, obtain approval from authorized individuals for all configuration changes, and perform appropriate testing on all confirmation changes prior to promoting changes to production.
- Develop and enforce a policy that does not grant access to developers to promote changes into production and access to promote changes into production should be restricted to authorized individuals.
- Implement adequate procedures for retaining backup job logs should for a period of one year in order to cover the entire fiscal year under review.

Views of Responsible Officials

We have reviewed the findings and concur in part with the recommendations.

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

Password

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

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Separation of duties

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

System access

- Findings regarding approvals for granting access and authorizing configuration changes stem from failure to properly maintain the documentation supporting the approvals. Policies and procedures already exist that require such authorization prior to granting/changing access and implementing configuration changes. The City will provide more centralization of IT functions to improve consistency in development and enforcement of such policies. The ITSD will also develop a method for ensuring that documentation of authorizations is maintained and retrievable for audit reviews.
- The City will work with business units to implement a policy for reviewing user access for the systems that they "own." Consolidation of IT services will aid in the successful review and enforcement of user access on a semiannual schedule.
- To mitigate database admin and application admin access to the front end and back end of the database, and to address the issue of tracking changes and customizations, the City will explore implementation of the Oracle GRC (Governance, Risk and Compliance) product or something similar to control and track changes.
- The City has already limited the use of generic IDs and restricted default and administrative IDs for enterprise financial systems. The City will explore the resource issue that currently prohibits turning on system audit capabilities that log all activities. The City will also provide more centralization of IT functions to improve consistency in development and enforcement of policies, which will help with those systems currently outside of centralized IT control.
- Procedures will be implemented to retain backup job logs for at least one year DRMS current retention is one year. ITS is investigating how to secure the proper resource to store all data and logs, new backup software is currently being investigate and funding has been requested in the 2011-2012 Budget.
- For enterprise financial systems, configuration changes are tested and approved prior to production implementation. Procedures and policies exist to govern this. The City will improve maintenance of documentation demonstrating testing and authorization. The City also will provide more centralization of IT functions to improve consistency in development and enforcement of policies for those systems currently outside of centralized IT control.
- Developers do not have access to promote changes to production for systems under centralized IT control. The City will provide more centralization of IT functions to improve consistency in development and enforcement of policies for systems currently outside of centralized IT control.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

- The ITSD and HR Department are currently working together to develop a procedure for notification that an employee has been terminated (voluntary/ involuntary) or suspended so that access to systems can be expeditiously revoked. The process is for the supervisor of the employee to conduct an Exit Interview with the employee, and complete the Exit Checklist form, upon separation. If the employee is not present, the supervisor is still required to complete the existing Discharge/Separation form and to complete the tasks listed on the Exit Checklist Form, which lists “Communication – cancel computer passwords, building access, telephones” under the supervisor section. These forms are then sent to HR Department and ITSD. A provision will be added to the policy that includes the steps to take in the event of an emergency deactivation due to security issues.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Finding 2010-04 – Arbitrage

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

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

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

Recommendation

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

Views of Responsible Officials

We have reviewed the finding and concur with the recommendation for the year ended June 30, 2010. In the current fiscal year (2010-2011), the City has begun implementing procedures to ensure compliance with the arbitrage rebate compliance rules of the Internal Revenue Code. The City has initiated corrective actions with a major focus on tracking of arbitrage liabilities to improve accuracy of budgets and annual financial statements. It has implemented a new Treasury Cash Management System, integrated with its General Ledger, which facilitates compliance with the Arbitrage Rebate Restriction Requirements.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Finding 2010-05 – Bond Ordinances

Bond ordinances require amounts to be held on deposit in a Bond and Interest Redemption Fund such that the aggregate balance is sufficient to provide for payment, when due, of the current principal and interest. During the fiscal year ended June 30, 2010, the balance in the Sewage Disposal Fund's Bond and Interest Redemption Fund was not in compliance with these ordinances. However, the Fund transferred the required amounts on July 2, 2010 and made the principal and interest payments on a timely basis.

Recommendation

The City should implement procedures to monitor ongoing compliance with these requirements and take steps to ensure compliance on a continuous basis.

Views of Responsible Officials

We have reviewed the finding and concur with the recommendation. The Water and Sewage Disposal Funds Cash Management Section has implemented procedures to monitor and ensure that all required reserve balances and transfers are in compliance with the applicable bond ordinance.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

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

Item: 2010-06

Finding Type: Material weakness

Federal Program: All

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

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

Questioned Costs: None

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

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. The Finance Department is in the process of hiring a Grants-General Manager; and through reorganization of the Department, staff will be assigned to assist the General Manager. Their focus will be on Single Audit preparation throughout the year. Documents that are necessary for the audit that are historically prepared on an annual basis will be prepared on a monthly basis.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-07 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Agriculture

Pass-Through Entity: Michigan Department of Community Health

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

CFDA No.: 10.557

Award No.: N/A

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

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

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

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

Condition: During our testwork, we selected a sample of 39 employees to verify the allowability of Direct Payroll Costs and the following exceptions were noted: 9 employees did not certify they worked 100% of their time on the Special Supplemental Nutrition Program for Women (WIC) grant for the year; 1 employee has a net negative charge to the grant. The City indicates that this individual was improperly charged to the grant in the prior year and these amounts are related to correcting that error.

Questioned Costs: \$153,281

Possible Asserted Cause and Effect: Management did not obtain payroll certifications from employees that left during the year. Information related to the individual was obtained during a review of the grant's fourth quarter expenditures. It was necessary to create the negative charge to prevent overcharges to the grant.

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

Views of Responsible Officials: Management concurs. Based on the information provided, the negative payroll charge was required to prevent an overcharge to the grant.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-08 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Agriculture

Pass-Through Entity: Michigan Department of Community Health

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

CFDA No.: 10.557

Award No.: N/A

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

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

Condition: Per review of the fringe benefit calculation, certain amounts charged to the grant in the amount of \$280,616 include principal and interest payments for pension borrowings. Approximately 94.7% of the \$280,616 (or \$265,743) is related to interest and as such will be a questioned cost.

Questioned Costs: \$265,743

Possible Asserted Cause and Effect: After the City's budget was approved in May 2009 for the 2009-2010 fiscal year, the budget and finance department determined that additional funds were due the pension system for POC - UAAL. The Pension Obligation Certificates (POC) were issued in prior years to supplement the City's pension systems for its UAAL. The corresponding amounts charged to the grant were for principal and interest, and are to be ongoing for a number of years.

Recommendation: We recommend that the City does not charge unallowable costs to grant programs without specific approval from the granting agencies of each grant.

Views of Responsible Officials: Management agrees with the finding that the interest portion of the POC UAAL should not have been charged to the grant as stated in OMB Circular A-87. We have requested that HUD review these charges to see if they could be properly charged.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-09 Eligibility

Finding Type: Noncompliance and significant deficiency

Federal Agency: U.S. Department of Agriculture

Pass-Through Entity: Michigan Department of Community Health

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

CFDA No.: 10.557

Award No.: N/A

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

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

Per the State of Michigan MI-WIC Manual section 2.04 A.3: Income shall be documented at each certification. One of the following forms of documentation is required: a. Recent pay/check stub(s); b. W-2 form or copy of the most current Federal income tax form (1040) filed; c. Written verification such as a notarized statement, court order, etc., that confirms a person's cash income; d. Self-declaration of income is allowed: When an applicant is income eligible based on enrollment in a state or federally funded program (adjunctively income eligible) that determines income to be not more than 185% of poverty level; Migrant workers; Homeless persons who cannot provide proof of income; where applicant's family works for cash and has no verifiable proof of income available. Note: Clients with self-declared income who are not adjunctively income eligible must sign a No Proof of Income Attestation form.

Per Section 2.06 A.2. Members of families enrolled in identified eligible programs are required to make a verbal declaration of income, (for reporting purposes only) as well as provide documentation of enrollment as noted below: b. Medicaid: A current acceptance letter to Medicaid or Healthy Kids Program or alternative confirmation of Medicaid eligibility for the applicant or pregnant woman or infant member of the family. Mihealth cards must be verified for current eligibility. Alternate confirmation of current Medicaid includes: 1. MCIR screens (client's Medicaid provider will be listed if current); 2. Medifax3. Blue Cross Blue Shield network access; and 4. Netwerkes

Condition: We selected a sample of 65 individuals receiving benefits and noted the following exceptions: five individuals could not be found on the MI-WIC system, as they do not belong to the local agency; six individuals who were noted as having adjunct eligibility (Medicaid Card) could not be found on the Medicaid system. The message displayed on screen was "recipient file not found." All other records searched displayed either "active record" or "client has inactive record"; two individuals who were noted on the system as having adjunct eligibility (Medicaid) had an invalid Medicaid number; one individual did not provide proof of income, but we were able to verify adjunct eligibility; and one individual did not provide proof of income nor did he/she have adjunct eligibility.

Questioned Costs: None

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Possible Asserted Cause and Effect: Verifying adjunct income and Medicaid eligibility for the applicant via MCIR, Medifax, Blue Cross Blue Shield Network, Access, and Netwerkes is not consistent due to clients providing inaccurate information. Short certification is used versus full certification due to applicants missing written verification. Applicants provide Detroit resident addresses and seek services of their choice in other locations.

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

Views of Responsible Officials: The Program Manager will explore system changes that will expedite verification of eligibility to assure that benefits are provided to eligible applicants.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-10 Procurement, Suspension, and Debarment

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Agriculture

Pass-Through Entity: Michigan Department of Community Health

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

CFDA No.: 10.557

Award No.: N/A

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

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

Per the Comprehensive Planning, Budgeting and Contract (CPBC) Agreement, Part II E., The City, in accordance with the general purposes and objectives of this agreement will: Maintain adequate program and fiscal records and files, including source documentation to support program activities and all expenditures made under the terms of this agreement, as required. Assure that all terms of the agreement will be appropriately adhered to; and, that records and detailed documentation for the project or program identified in this agreement will be maintained for a period of not less than (3) three years from the date of termination, the date of submission of the final expenditure report or until litigation or audit findings have been resolved.

Per the CPBC Agreement, Part II I., Assure that all purchase transactions, whether negotiated or advertised, shall be conducted openly and competitively in accordance with the principals and requirements of OMB Circular A-102 as revised, implemented through applicable portions of the associated "Common Rule" as promulgated by responsible federal Contractor(s), or 2 CFR, Part 215 (OMB Circular A-110) as amended and applicable and that records sufficient to document the significant history of all purchases are maintained for a minimum of three years after the end of the agreement period.

Condition: The fiduciary pays vendors on behalf of the City; however, these purchases are not subject to the purchasing policies of the City. For example, there is one vendor that received approximately \$160,000 of payments between October 2009 and July 2010 for technology staffing services without going through a bidding process. Additionally, the City did not have a comprehensive list of expenditures submitted to the fiduciary for reimbursement. In some cases, money is used to purchase gift cards, which are then used to make purchases not allowing for approval of individual expenditures. Due to the lack of specifics related to compliance responsibilities and the significance of the ambiguity in the contract between the City and the fiduciary, the entire amount of funds paid through the fiduciary is a questioned cost.

Questioned Costs: \$604,652

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Possible Asserted Cause and Effect: The vendor had an existing contract with the Health Department to provide Information Technology services throughout the Department. The vendor had prior knowledge of our system, staff training needs, and the MIWIC system. Due to the short notice of the MIWIC implementation and to continue operations, the vendor was selected to setup MIWIC and train the staff.

Recommendation: We recommend that the department comply with the City of Detroit procurement policies and procedures.

Views of Responsible Officials: Management concurs with this finding. In the future, vendors will be selected according to the bidding process as services are not disrupted and public health is not at risk. The Program Manager has comprehensive list of expenditures for the gift cards and will submit a copy with this response.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2010

Item: 2010-11 Reporting

Finding Type: Noncompliance and significant deficiency

Federal Agency: U.S. Department of Agriculture

Pass-Through Entity: Michigan Department of Community Health

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

CFDA No.: 10.557

Award No.: N/A

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

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

Per the Comprehensive Planning, Budgeting and Contract grant agreement, all FSR's must be prepared in accordance with the Department's FSR instructions and submitted no 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.

Condition: We obtained 4 of 4 quarterly reports submitted to the State and notes that one of four FSRs was prepared incorrectly. Per discussion with the Senior Accountant, the contractor line was populated using the full budget amount as opposed to the amount spent to date. The Senior Accountant further stated that the City is not reimbursed if they spend more than the grant budgeted amount. We note that the correct amount would not have exceeded the grant amount when properly entered. We also note that for two quarters the City used the incorrect indirect cost rate (12.25%), however as the FSRs are cumulative and the final FSR used the correct rate there are no questioned costs related to this finding. We obtained 4 of 4 quarterly reports submitted to the State and note that one of four FSRs was submitted beyond the deadline. The FSR was submitted on February 12, 2010, which is 43 days after the quarter and 13 days after the January 30, 2010 due date.

Questioned Costs: None

Possible Asserted Cause and Effect: The FSR dated February 12, 2010 was late due to the verification process for various CPBC grant expenditures not yet paid through the DRMS system.

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

Views of Responsible Officials: Management concurs with the finding. The FSR dated February 12, 2010 was late due to the verification process for various CPBC grant expenditures not yet paid through the DRMS system. All subsequent FSR's have been submitted by the due date.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-12 Subrecipient Monitoring

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Agriculture

Pass-Through Entity: Michigan Department of Community Health

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

CFDA No.: 10.557

Award No.: N/A

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

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

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

Condition: None of the 4 subrecipient contracts communicate the CFDA number, the name of the federal agency, or allowable activities. Additionally, there are no specific policies and procedures in place for subrecipient monitoring. One of the four the subrecipients attested in writing that they did not need an A-133 Single Audit when in fact they did require one and had obtained one. For 1 of 4 subrecipients there was no evidence that the A-133 Single Audit was reviewed by the City. The onsite reviews did not cover administrative procedures or programmatic requirements. There was no onsite monitoring for 1 of the 4 subrecipients, and no evidence of management review of the onsite fiscal monitoring for the remaining 3 of 4 subrecipients. The onsite monitoring procedures performed over the three subrecipients that were reviewed were not adequately documented. There are no monitoring files maintained to indicate any results or follow up communications. We were unable to obtain evidence of performance monitoring for 3 of the 4 subrecipients. There was little evidence of monitoring to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Questioned Costs: None

Possible Asserted Cause and Effect: No formal policy and procedure for identifying CFDA numbers on all federal grants were developed during that fiscal year. A new policy and procedure will be developed to identify CFDA numbers on all DHWP contracts. Enforcement of monitoring subrecipients was delegated to Fiduciary. DHWP as the grantee will assume this role in the future.

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

Views of Responsible Officials: The Program Manager will complete a quality assurance policy and procedure describing who is responsible for monitoring. DHWP as the grantee will assume the role for subrecipient monitoring. Policies for identifying CFDA numbers on all subrecipient contracts will be implemented for future contracts.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-13 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Material noncompliance and material weakness

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

Pass-Through Entity: N/A

Federal Program: Community Development Block Grant (CDBG)

CFDA No.: 14.218, 14.253

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

Award Year: 7/1/2009-6/30/2010

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

Condition: Employees working 100% on the grant did not provide semiannual certifications attesting to the fact that they worked solely on this grant. Time and Effort reports were submitted for employees working on multiple grants however, payroll costs are not being distributed to the applicable grants as required. As a result, 100% of payroll & fringe costs charged to the Block Grant, amounting to \$7,663,758, are questioned costs. 17 of the 48 employees tested had inaccurate employee history reports on file. All 48 employees tested were paid within guidelines set by the white book. 1 of the 48 employees tested did not obtain proper approval on their timesheet. The timesheet in question also did not match the payroll register for that pay cycle.

Questioned Costs: \$7,663,758

Possible Asserted Cause and Effect: Lack of adequate internal controls. Per Finance's Payroll Audit Division, a flaw in PPS (the City of Detroit's older payroll system), caused the employee history to not reflect the general increases. However, the rates are correct on the employees' records. In relation to the employee certifications, Management did not comply with the requirements as written.

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

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Views of Responsible Officials: As work on other grant activities can be charged to CDBG, some work hours for other grants will continue to be charged to CDBG. However, the department will work to ensure that staff expenses are proportionally charged back to other funding sources, as budgeted.

With regards to the payroll exceptions, it must be noted that the 1 of 48 employee time sheets that did not have proper approval was an employee of Building Safety and Engineering. Also, Payroll Audit is responsible for updating employee history files. We believe those respective departments will enhance their internal controls to avoid such findings in the future.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-14 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Material noncompliance and material weakness

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

Pass-Through Entity: N/A

Federal Program: Community Development Block Grant (CDBG)

CFDA No.: 14.218, 14.253

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

Award Year: 7/1/2009-6/30/2010

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

Per 2 CFR Part 225 Appendix C, D (3), local governments claiming central service costs must develop a plan in accordance with the requirements described in this appendix and maintain the plan and related supporting documentation for audit.

Condition: During our testwork over indirect costs, we noted that there is no evidence that the City of Detroit Planning & Development Department (PDD) Indirect Cost Rate Proposal was approved by HUD. The indirect cost plan allocates costs based on direct payroll and fringe. Because of the payroll finding 2010-13, direct payroll cannot be relied upon. The City is required to have a written Central Services Cost Allocation Plan (CAP) on hand and available for audit if they allocate central services costs. It was noted that the City does allocate costs to PDD and that there was no Central Service CAP for the year under audit.

Questioned Costs: \$5,066,030

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

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

Views of Responsible Officials: The Planning and Development department's Indirect Cost Proposal was submitted to HUD within the required time frame, six months from the end of the fiscal year, per HUD's request. However, there is now confusion from HUD's end as to whether the proposal should come from the department or the City of Detroit, thereby causing a delay in receiving approval of a plan.

The City of Detroit was aware that there was no approved Central Services - Cost Allocation Plan (CAP), and made arrangements to have one completed. However, this was not finalized until after the year being audited.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-15 Cash Management

Finding Type: Material noncompliance and material weakness

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

Pass-Through Entity: N/A

Federal Program: Community Development Block Grant (CDBG)

CFDA No.: 14.218, 14.253

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

Award Year: 7/1/2009-6/30/2010

Requirement: According to Office of Justice 2009 Financial Guide, Part II, Chapter 3: Standards of Financial Management Systems, funds specifically budgeted and/or received for one project may not be used to support another.

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

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

Condition: During our testwork over the Cash Management compliance requirement, we selected 40 expenditures charged to the grant, totaling \$2,199,630, and noted that for 20 out of 40 expenditures, totaling \$872,360, the City did not minimize the time lapse between drawdown and the payment of funds as required. Of the 20 exceptions, the time lapse between drawdown and payment was 4 - 7 days for 8 items and 8 - 13 days for 12 items. We noted two of the expenditures were made to demolition vendors and subsequently reimbursed by funds coming from the State of Michigan - Cities of Promise grant and the Fire Insurance Escrow Account. The CDBG funds were being commingled with these funds.

Questioned Costs: None

Possible Asserted Cause and Effect: IDIS draw downs and issuance of checks are facilitated by different departments. P&DD manages the IDIS draw down system and Finance processes the actual checks. As such, neither agency has full control of this process to minimize the time lapse between payments. For the demolition payments reimbursed with other funds, lack of adequate processes may have led to non-compliance.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Recommendation: We recommend that the centralized finance team work with the Department of Planning and Development to develop procedures to minimize the time lapse from the drawdown of funds to the payment of funds. We also recommend the department strengthen controls to ensure funds budgeted for CDBG are not used to support another project.

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

With regards to the 2 of the 15 OTPS demolition payments reimbursed by funds coming from the State of Michigan - Cities of Promise grant and the Fire Insurance Escrow Account, the Buildings and Safety Engineering Department receives and manages these funds. We are certain they will revise their procedures as well to ensure compliance.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-16 Procurement, Suspension, and Debarment

Finding Type: Material noncompliance and material weakness

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

Pass-Through Entity: N/A

Federal Program: Community Development Block Grant (CDBG)

CFDA No.: 14.218, 14.253

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

Award Year: 7/1/2009-6/30/2010

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

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

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

Condition: During our testwork over the Procurement, Suspension, and Debarment compliance requirement, we selected 6 contracts for review and noted the following: for 1 contract, the city was unable to provide the contract or procurement files.

Questioned Costs: None

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

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

Views of Responsible Officials: Management agrees with the finding. Procedures will be revised to ensure full compliance.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-17 Suspension and Debarment

Finding Type: Material noncompliance and material weakness

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

Pass-Through Entity: N/A

Federal Program: Community Development Block Grant (CDBG)

CFDA No.: 14.218, 14.253

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

Award Year: 7/1/2009-6/30/2010

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

Condition: 2 of 58 subrecipients did not have a signed suspension and debarment certification in the contract; for 4 of 6 vendors selected for testwork, there was not a signed suspension and debarment certification in the contract, nor was there a clause in the contract stating that the vendor was not suspended or debarred.

Questioned Costs: None

Possible Asserted Cause and Effect: Suspension and Debarment requirements were not followed.

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

Views of Responsible Officials: All exceptions are for contracts processed and managed by other city agencies (Buildings Safety and Engineering and Information Technology Services). As P&DD does not review nor process these contractual documents, the department cannot certify that other city agencies are in compliance with required standards.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-18 Reporting

Finding Type: Noncompliance and significant deficiency

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

Pass-Through Entity: N/A

Federal Program: Community Development Block Grant (CDBG)

CFDA No.: 14.218, 14.253

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

Award Year: 7/1/2009-6/30/2010

Requirement: Per 24 CFR 91.520 (a) and (c), Each jurisdiction that has an approved consolidated plan shall annually review and report, in a form prescribed by HUD, on the progress it has made in carrying out its strategic plan and its action plan. The performance report must include a description of the resources made available, the investment of available resources, the geographic distribution and location of investments, the families and persons assisted (including the racial and ethnic status of persons assisted), actions taken to affirmatively further fair housing, and other actions indicated in the strategic plan and the action plan. This performance report shall be submitted to HUD within 90 days after the close of the jurisdiction's program year. For CDBG recipients, the report shall include a description of the use of CDBG funds during the program year and an assessment by the jurisdiction of the relationship of that use to the priorities and specific objectives identified in the plan, giving special attention to the highest priority activities that were identified. This element of the report must specify the nature of and reasons for any changes in its program objectives and indications of how the jurisdiction would change its programs as a result of its experiences. This element of the report also must include the number of extremely low-income, low-income, and moderate-income persons served by each activity where information on income by family size is required to determine the eligibility of the activity.

Condition: During our testwork over the Reporting compliance requirement, we reviewed the CAPER submission letter and noted as of March 28, 2011 the CAPER has not been submitted to HUD in its final form. The final submission was due September 30, 2010.

Questioned Costs: None

Possible Asserted Cause and Effect: HUD reports in the new IDIS are reporting incorrect or incomplete data. HUD is aware of the problem. We will submit a complete report when the system allows it.

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

Views of Responsible Officials: Management agrees with the finding. Procedures will be revised to ensure full compliance. 2009-2010 CAPER revisions will be sent to HUD when their system corrections are made.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-19 Reporting

Finding Type: Noncompliance and significant deficiency

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

Pass-Through Entity: N/A

Federal Program: Community Development Block Grant (CDBG)

CFDA No.: 14.253

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

Award Year: 7/1/2009-6/30/2010

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

Condition: During our testwork over the Reporting compliance requirement, it was noted that for the ARRA report for the quarter ended June 30, 2010, the “Total Federal Amount ARRA Funds Received/Invoiced” documented in the report does not agree with the amount of ARRA funding expended or obligated in the City's General Ledger.

Questioned Costs: None

Possible Asserted Cause and Effect: Management believes that charges were accrued at the end of the year for \$1,272 that were not drawn by June 30th 2010 - DRMS exp = \$5,560 - IDIS = \$4,288

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

Views of Responsible Officials: Accrued charges are never drawn down at the time of accrual. Payments are drawn down only when cash outflow is involved, hence the discrepancy between DRMS and IDIS.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-20 Subrecipient Monitoring

Finding Type: Material noncompliance and material weakness

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

Pass-Through Entity: N/A

Federal Program: Community Development Block Grant (CDBG)

CFDA No.: 14.218, 14.253

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

Award Year: 7/1/2009-6/30/2010

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

Condition: All 58 subrecipient agreements tested did not specify the CFDA number.

Questioned Costs: None

Possible Asserted Cause and Effect: Lack of sufficient procedures.

Recommendation: We recommend management modify the contract with the subrecipient to include the required elements.

Views of Responsible Officials: Management agrees with finding. Since the 2008-09 single audit conducted in the spring of 2010, we have since revised our procedures to ensure compliance with these items.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2010

Item: 2010-21 Cash Management

Finding Type: Material noncompliance and material weakness

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

Pass-Through Entity: N/A

Federal Program: Section 108 Loan Guarantee

CFDA No.: 14.248

Award No.: n/a

Award Year: n/a

Requirement: Per the Loan Guarantee Contract entered into between the City and HUD, advance funds received by the City in excess of the FDIC insurance limit, must be loaned to a developer or “fully and continuously invested in Government Obligations” within 3 days of receiving the funds.

Condition: We reviewed the bank statements related to Section 108 Loan funds and noted that funds held by the City were at-risk, violating cash management requirements.

The City failed to invest these funds in safekeeping accounts within the required period of time. Some funds remained in the checking account for months at a time and other funds were never invested at all.

Questioned Costs: None

Possible Asserted Cause and Effect: For Section 108 project funds that remain with the City, the City's Debt Management department invests these funds based on draw schedules submitted by the developer. Since funds invested in Government Obligations have to be invested for a specific time frame, Debt Management would need these draw schedules to determine the correct time frame for the investments. These draw schedules are not always received from the developers in a timely manner.

Recommendation: We recommend that management strengthen controls to ensure Section 108 Loan funds are properly invested in accordance with the requirements of the program.

Views of Responsible Officials: The Planning and Development department will work more closely with Section 108 developers and Debt Management to ensure that these draw schedules are received timely and funds are invested according to HUD's requirements.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-22 Environmental Review and Required Certification and HUD Approval

Finding Type: Material noncompliance and material weakness

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

Pass-Through Entity: N/A

Federal Program: Section 108 Loan Guarantee

CFDA No.: 14.248

Award No.: n/a

Award Year: n/a

Requirement: Per 24 CFR 58.2 (a) (7) and § 58.4, the City of Detroit receive funds directly from HUD as the Responsible Entity (RE), shall assume the responsibility to complete the environmental review process for all projects/activities, prior to the commitment of funds, even for “non-construction” activities. Completion of the environmental review process includes: 1. Completing the appropriate level of environmental review, 2. Publishing required public notices (when applicable),3. Submitting a Request for Release of Funds and Certification form (HUD 7015.15) to HUD (or the state), when applicable,4. Approval of the Request for Release of Funds (RROF) and related Certification by HUD (or the state), when applicable. This is accomplished with a HUD form 7015.16-Authority to use Grant Funds or equivalent letter.

Per 24 CFR 58.35(b) the Environmental Review Record (ERR) must contain a well organized written record of the process and determinations made under the categorical excluded projects. Moreover, per OMB A-133 Compliance Supplement, CDBG funds (and local funds to be repaid with CDBG funds) cannot be obligated or expended before receipt of HUD's approval of a Request for Release of Funds (RROF) and environmental certification, except for exempt activities under 24 CFR section 58.34 and categorically excluded activities under section 58.35 (b) (24 CAFR section 58.22).

§58.22 Limitations on activities pending clearance.

(a) Neither a recipient nor any participant in the development process, including public or private nonprofit or for-profit entities, or any of their contractors, may commit HUD assistance under a program listed in §58.1(b) on an activity or project until HUD or the State has approved the recipient’s RROF and the related certification have been approved, neither a recipient nor any participant in the development process may commit non-HUD funds on or undertake an activity or project under a program listed in §58.1(b) if the activity or project would have an adverse environmental impact or limit the choice of reasonable alternatives.

(b) If a project or activity is exempt under §58.34, or is categorically excluded (except in extraordinary circumstances) under §58.35(b), no RROF is required and the recipient may undertake the activity immediately after the responsible entity has documented its determination as required in §58.34(b) and §58.35(d), but the recipient must comply with applicable requirements under §58.6.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Condition: During our testwork over the Environmental Review and Required Certification and HUD Approval compliance requirement, we reviewed the Garfield II, Note 2 and 3 and noted the following: there has been no documentation of a environmental review for the fiscal year ended June 30, 2010; therefore, there has not been any Required Certifications and HUD Approvals prior to the commitment of funds and no documentation exists with the determination not to make an environmental review.

Questioned Costs: None

Possible Asserted Cause and Effect: Lack of adequate internal controls.

Recommendation: We recommend evaluating current Environmental Review and Required Certification and HUD Approvals practices to identify areas where internal controls could be strengthened to include monitoring of compliance with environmental review standards.

Views of Responsible Officials: The City of Detroit Planning and Development Department has taken remedial action by instituting new policies and procedures to ensure that this finding does not occur in the future.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-23 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Material noncompliance and material weakness

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

Pass-Through Entity: N/A

Federal Program: Home Investment Partnership Program (HOME)

CFDA No.: 14.239

Award No.: M08-MC260202

Award Year: 2009/2010

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

Per A-87, payroll costs must be adequately documented. Due to the inconsistency relating to employee history reports and timesheets noted above, the supporting documentation does sufficiently support payroll costs for those employees.

Condition: Employees working 100% on the grant did not provide semiannual certifications attesting to the fact that they worked solely on this grant. Time and Effort reports were submitted; however, 2 of the 41 time and effort reports submitted were not properly approved, and a distribution of costs was not done for any employees charging to different grants.

8 of the 41 employees tested had inaccurate payrates in their employee history file. 1 of the 41 employees tested did not obtain proper approval on their timesheet. As a result, 100% of payroll costs charged to HOME are questioned costs, amounting to \$845,545. Of this amount, \$554,930 relates to direct payroll and \$290,615 relates to fringe benefits.

Questioned Costs: \$845,545

Possible Asserted Cause and Effect: Lack of adequate internal controls. Per Finance's Payroll Audit Division, a flaw in PPS (the City of Detroit's older payroll system), caused the employee history to not reflect the general increases. However, the rates are correct on the employees' records. In relation to the employee certifications, Management did not comply with the requirements as written.

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

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Views of Responsible Officials: The department will work to incorporate procedures to ensure that staff expenses are proportionally charged back to other funding sources, as required and that time sheets are fully approved for each employee. With regards to the payroll exceptions, it must be noted that Payroll Audit is responsible for updating employee history files. We believe this respective department will enhance their internal controls, as well to avoid such findings in the future.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-24 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Material noncompliance and material weakness

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

Pass-Through Entity: N/A

Federal Program: Home Investment Partnership Program (HOME)

CFDA No.: 14.239

Award No.: M08-MC260202

Award Year: 2009/2010

Requirement: Per A-87 attachment E, paragraph 1, indirect cost rates will be reviewed, negotiated, and approved by the cognizant Federal agency on a timely basis. The results of each negotiation shall be formalized in a written agreement between the cognizant agency and the governmental unit.

Per A-87, Attachment C, paragraph D, local governments claiming central service costs must develop a plan in accordance with the requirements described in this Circular and maintain the plan and related supporting documentation for audit.

Condition: The City of Detroit Planning and Development Department's Indirect Cost Rate Proposal was not approved by HUD. The indirect cost plan allocates costs based on direct payroll and fringe. Because of the payroll finding direct payroll cannot be relied upon. The City is required to have a written Central Services CAP (CS CAP) on hand and available for audit if they allocate central services costs. The City does allocate costs to PDD and there was no CS CAP for the year under audit. Therefore, these costs are not allowed. As a result, 100% of indirect costs charged to the HOME grant, amounting to \$273,199, will be questioned.

Questioned Costs: \$273,199

Possible Asserted Cause and Effect: The Planning and Development department's Indirect Cost Proposal was submitted to HUD within the required time frame, six months from the end of the fiscal year, per HUD's request. However, there is now confusion from HUD's end as to whether the proposal should come from the department or the City of Detroit, thereby causing a delay in receiving approval of a plan. The City of Detroit was aware that there was no approved Central Services - Cost Allocation Plan (CAP), and made arrangements to have one completed. However, this was not finalized until after the year being audited.

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

Views of Responsible Officials: Overall, P & DD management and the City of Detroit Finance Department agrees with the finding. However, it must be noted that the questionable "indirect costs" referenced above are actually termed distributed costs in our files. The City of Detroit is working with HUD to secure approval of an indirect cost plan. Also, the City of Detroit has developed a Cost Allocation Plan since the year end of the year that was audited.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-25 Reporting

Finding Type: Noncompliance and significant deficiency

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

Pass-Through Entity: N/A

Federal Program: Home Investment Partnership Program (HOME)

CFDA No.: 14.239

Award No.: M08-MC260202

Award Year: 2009/2010

Requirement: Per 24 CFR 91.520 - Performance reports: Each jurisdiction that has an approved consolidated plan shall annually review and report, in a form prescribed by HUD, on the progress it has made in carrying out its strategic plan and its action plan. The performance report must include a description of the resources made available, the investment of available resources, the geographic distribution and location of investments, the families and persons assisted (including the racial and ethnic status of persons assisted), actions taken to affirmatively further fair housing, and other actions indicated in the strategic plan and the action plan. This performance report shall be submitted to HUD within 90 days after the close of the jurisdiction's program year. For HOME participating jurisdictions, the report shall include the results of on-site inspections of affordable rental housing assisted under the program to determine compliance with housing codes and other applicable regulations, an assessment of the jurisdiction's affirmative marketing actions and outreach to minority-owned and women-owned businesses, and data on the amount and use of program income for projects, including the number of projects and owner and tenant characteristics.

Condition: According to the CAPER submission letter as of March 28, 2011, the CAPER has not been submitted to HUD in its final form. The final submission was due September 30, 2010.

Questioned Costs: None

Possible Asserted Cause and Effect: HUD reports in the new IDIS are reporting incorrect or incomplete data. HUD is aware of the problem. We will submit a complete report when the system allows it.

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

Views of Responsible Officials: 2009-2010 CAPER revisions will be sent to HUD when their system corrections are made.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-26 Environmental Review and Required Certification and HUD Approval

Finding Type: Material noncompliance and material weakness

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

Pass-Through Entity: N/A

Federal Program: Home Investment Partnership Program (HOME)

CFDA No.: 14.239

Award No.: M08-MC260202

Award Year: 2009/2010

Requirement: Per 24 CFR 58.2 (a) (7) and § 58.4, the City of Detroit receives funds directly from HUD as the Responsible Entity (RE), the RE shall assume the responsibility to complete the environmental review process for all projects/activities, prior to the commitment of funds, even for “non-construction” activities. Completion of the environmental review process includes:1. Completing the appropriate level of environmental review, 2. Publishing required public notices (when applicable),3. Submitting a Request for Release of Funds and Certification form (HUD 7015.15) to HUD (or the state), when applicable,4. Approval of the Request for Release of Funds (RROF) and related Certification by HUD (or the state), when applicable. This is accomplished with a HUD form 7015.16-Authority to use Grant Funds or equivalent letter.

Per 24 CFR 58.35(b) the Environmental Review Record (ERR) must contain a well organized written record of the process and determinations made under the categorical excluded projects. Moreover, per OMB A-133 Compliance Supplement, CDBG funds (and local funds to be repaid with CDBG funds) cannot be obligated or expended before receipt of HUD's approval of a Request for Release of Funds (RROF) and environmental certification, except for exempt activities under 24 CFR section 58.34 and categorically excluded activities under section 58.35 (b) (24 CAFR section 58.22).

§58.22 Limitations on activities pending clearance.

(a) Neither a recipient nor any participant in the development process, including public or private nonprofit or for-profit entities, or any of their contractors, may commit HUD assistance under a program listed in §58.1(b) on an activity or project until HUD or the State has approved the recipient’s RROF and the related certification have been approved, neither a recipient nor any participant in the development process may commit non-HUD funds on or undertake an activity or project under a program listed in §58.1(b) if the activity or project would have an adverse environmental impact or limit the choice of reasonable alternatives.

(b) If a project or activity is exempt under §58.34, or is categorically excluded (except in extraordinary circumstances) under §58.35(b), no RROF is required and the recipient may undertake the activity immediately after the responsible entity has documented its determination as required in §58.34(b) and §58.35(d), but the recipient must comply with applicable requirements under §58.6.

Condition: 2 of 6 projects had no documentation that an environmental review was conducted prior to the commitment of funds.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Questioned Costs: None

Possible Asserted Cause and Effect: Management believes that this critically important step, was inadvertently missed due to staff shortage and a workload of various programs staff must oversee with different program requirements.

Recommendation: We recommend evaluating current Environmental Review and Required Certification and HUD Approvals practices to identify areas where internal controls could be strengthened to include monitoring of compliance with environmental review standards.

Views of Responsible Officials: The City of Detroit Planning and Development Department is working with the Detroit Field Office of HUD CPD to address these findings. In a letter to the CPD Director of the Detroit Field Office dated March, 1, 2011, P&DD submitted the necessary documentation for the environmental review of the identified projects as part of a corrective action toward this finding. Furthermore, the P&DD took broader remedial action by instituting new policies and procedures to prevent this violation from occurring in the future. The Housing Services Division has implemented policies and procedures to strengthen the internal control process to ensure compliance with Special Test and Provision requirements for Environmental Reviews.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-27 Cash Management

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Labor

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

Federal Program: Trade Adjustment Assistance

CFDA No.: 17.245

Award No.: N/A

Award Year: July 1, 2009 - June 30, 2010

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

Condition: The Cash Requests are based partially on accruals. This results in excess cash being on hand throughout the year. The average daily cash balance outstanding was \$246,440.

Questioned Costs: None

Possible Asserted Cause and Effect: The time between determined expenditures for the administrative costs and the recording of expenses were not minimized.

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

Views of Responsible Officials: The Department of Workforce Development (DWDD) is implementing the following procedure; Internally, staff will be closely monitored to make certain all administrative costs are recorded to the General Ledger within a two-week period.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-28 Cycle Monitoring Reports

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Labor

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

Federal Program: Trade Adjustment Assistance

CFDA No.: 17.245

Award No.: N/A

Award Year: July 1, 2009 - June 30, 2010

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

Condition: DWDD receives three cycle monitoring reports a year from the Michigan Department of Energy, Labor, and Economic Growth (DELEG). Over the past three years, several comments have been repeated throughout these reports and have not been adequately resolved or addressed by DWDD.

Questioned Costs: None

Possible Asserted Cause and Effect: Some of the issues are beyond the control of the department and this has been expressed to the DELEG monitors on all occasions. DELEG is aware of the departments limited control over cutting checks, moving contracts through the City of Detroit approval hierarchy.

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

Views of Responsible Officials: DELEG does perform three cycle monitoring visits and the department has addressed all issues as they arise. Some of the issues are beyond the control of the department and this has been expressed to the DELEG monitors on all occasions. DELEG is aware of the department's limited control over cutting checks, moving contracts through the City of Detroit approval hierarchy. DWDD has taken steps to streamline the contract process in hopes that the contracts will be approved in a more timely fashion.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-29 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Noncompliance and significant deficiency

Federal Agency: U.S. Department of Labor

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

Federal Program: Workforce Investment Act

CFDA No.: 17.258, 17.259, 17.260

Award No.: N/A

Award Year: July 1, 2009 - June 30, 2010

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

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

Condition: During our testwork, we selected 20 direct payroll samples totaling \$37,418 for review and noted for 4 of the 20 items, the hours entered into the WorkBrain system did not agree to the hours entered on DWDD's time summaries.

Questioned Costs: None

Possible Asserted Cause and Effect: Variances between the timesheets printed from the payroll system (WorkBrain) did not agree to the hours manually entered on the time summaries at the department in two instances because DWDD had not yet implemented our new procedures for reporting time paid per WorkBrain. Therefore, staff was rounding hours to the nearest quarter hour, not accounting for time unpaid for tardiness. In the other two instances, time worked over, which was charged against work credit, was not deducted on the time summary report.

Recommendation: We recommend that appropriate reconciliation between electronic time keeping and manual time summaries is performed on a regular basis.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Views of Responsible Officials: New procedures for preparing Time Summary Reports per paid time in WorkBrain were implemented in April 2010. Prior to April 2010, DWDD was rounding all time to the nearest quarter hour. With the exception of pay date April 9, 2010, all of the affected pay periods are before that implementation. The individual selected from April 9, 2010 reported 80:00 hours on his Time Summary Report. Per the WorkBrain and Noetix payroll report, he was paid for 79 hours and 55 minutes, or 79.92 hours. The individual was three minutes late for work on Tuesday, March 23, 2010, and two minutes late for work on Thursday, March 25, 2010. He did not account for the five minutes of unpaid time on his Time Summary Report. Another individual reported 80.00 hours on his Time Summary Report for pay date February 12, 2010. Per the WorkBrain and Noetix payroll report, he was paid for 79 hours and 56 minutes, or 79.93 hours. This individual left work four minutes early on Tuesday, February 2, 2010. He did not account for the four minutes of unpaid time on his Time Summary Report. This would be due to the fact that his time was being rounded to the nearest quarter hour. Another individual reported 80.80 hours on her Time Summary Report for pay date March 12, 2010. She accounted for time that she worked late on March 1, 2010 through March 3, 2010. However, she was not approved to work overtime and was, therefore, not approved for that time in WorkBrain, and not paid for that time. If she had been approved to work late on those days, she would have received work credit in lieu of cash payment. Another individual reported 149.75 hours on her Time Summary Report for pay date December 30, 2009. This included overtime hours worked. Per the PPS report, she was paid for 136.9 hours. For the week of December 7, 2009 to December 13, 2009, She was approved to work up to three hours per day overtime. This included one hour that would be charged as work credit to make up the lunch hour. she reported 1.75 hours for which she was not approved to be paid. For the week of December 14, 2009 to December 19, 2009, She was approved to work one hour over each day of the week, which would be charged as work credit. She reported eight hours of overtime for Saturday, December 19, 2009. A half hour of this time was charged against lunch. Any other variance was due to rounding differences. DWDD did not start utilizing the WorkBrain system until January 2010. Therefore, a minute-by-minute analysis cannot be completed for that individual.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-30 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Significant deficiency

Federal Agency: U.S. Department of Labor

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

Federal Program: Workforce Investment Act

CFDA No.: 17.258, 17.259, 17.260

Award No.: N/A

Award Year: July 1, 2009 - June 30, 2010

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

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

Condition: During our testwork, we selected 25 Individual Training Accounts (ITA) payment samples totaling \$77,998 for review and noted for 1 of the 25 items, the ITA Funding Agreement was not signed by the ITA coordinator.

Questioned Costs: None

Possible Asserted Cause and Effect: This appears to be based on the volume of documents being approved at the time. Going forward, DWDD will ensure all approval signatures are obtained on all documentation.

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

Views of Responsible Officials: DWDD agrees with this finding. The actual enrollment authorization form was signed by the ITA coordinator approving the student for training and detailing the approval limit. However, the funding agreement was not signed by the ITA coordinator once it was received back from training institution.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-31 Cash Management

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Labor

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

Federal Program: Workforce Investment Act

CFDA No.: 17.258, 17.259, 17.260

Award No.: N/A

Award Year: July 1, 2009 - June 30, 2010

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

Condition: The City did not minimize the time lapse between the drawdown and the payment of funds as required. The average daily cash balance outstanding for the year was \$1,243,631.

Questioned Costs: None

Possible Asserted Cause and Effect: Probable cause is the time frame between submission of check request to Accounts Payable and the actual payment being processed in DRMS. Additionally, the time between determined expenditures for the administrative costs and the recording of the expenses were not minimized.

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

Views of Responsible Officials: DWDD is implementing the following procedure: Funds are not requested to pay sub grantees until reviewed/approved by the fiscal unit and forwarded to Central Accounts Payable. DWDD continues to work closely with accounts payable to ensure payments are made timely once a check request is submitted. Internally, staff will be closely monitored to make certain all administrative costs are recorded to the General Ledger within a two-week period.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-32 Equipment and Real Property Management

Finding Type: Noncompliance and significant deficiency

Federal Agency: U.S. Department of Labor

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

Federal Program: Workforce Investment Act

CFDA No.: 17.258, 17.259, 17.260

Award No.: N/A

Award Year: July 1, 2009 - June 30, 2010

Requirement: Equipment and Real Property Management: Per Circular A-122 Paragraph 15b. : (1) Capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except where approved in advance by the awarding agency. (2) Capital expenditures for special purpose equipment are allowable as direct costs, provided that items with a unit cost of \$5000 or more have the prior approval of the awarding agency. (3) Capital expenditures for improvements to land, buildings, or equipment which materially increase their value or useful life are unallowable as a direct cost except with the prior approval of the awarding agency.

Condition: During our testwork, we reviewed 14 asset additions acquired during the audit period and noted that for 8 of the 14 items, which were included on one invoice, the source document for the cost of the asset did not agree to the cost of the asset on the inventory register. Assets were listed on the inventory listing at a cost of \$29,464, however a review of the invoices indicated a purchase price of \$25,271.

Questioned Costs: None

Possible Asserted Cause and Effect: Eight vehicles were purchased in 2009; The purchase price was recorded incorrectly on the inventory listing. All eight items were recorded as \$29,474; the correct price was \$25,781.

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

Views of Responsible Officials: The items were correctly recorded in the City's General Ledger and the correct price was expensed to funding source. DWDD will ensure that the inventory listing is more thoroughly reviewed in the future.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-33 Reporting

Finding Type: Noncompliance and significant deficiency

Federal Agency: U.S. Department of Labor

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

Federal Program: Workforce Investment Act

CFDA No.: 17.258, 17.259, 17.260

Award No.: N/A

Award Year: July 1, 2009 - June 30, 2010

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

Condition: During our testwork, we reviewed all WIA applicable Quarterly Expenditure Reports submitted to the State. For 1 of the 43 Expenditure Reports reviewed, we could not trace the detail supporting the expenditures to the supporting journals, ledgers, and worksheets as of June 30, 2010. These expenditures were journalized in February 2011.

Questioned Costs: None

Possible Asserted Cause and Effect: The journal entries to record expenditures were prepared after June 30, 2010.

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

Views of Responsible Officials: The supporting documentation do relate to the period even though the expenditures posted to the General Ledger after June 30, 2010.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-34 Reporting

Finding Type: Noncompliance and significant deficiency

Federal Agency: U.S. Department of Labor

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

Federal Program: Workforce Investment Act

CFDA No.: 17.258, 17.259, 17.260

Award No.: N/A

Award Year: July 1, 2009 - June 30, 2010

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

Condition: During our testwork, we reviewed all WIA applicable Approval Request Forms and Budget Information Summaries (BIS) submitted to the State. On 2 of the 8 Approval Request Forms obtained, the Chief Elected Official signed but did not date the BIS form, and as such, we noted there was no evidence that the BIS was timely approved by the Chief Elected Official within the appropriate guidelines set forth in each respective Policy Issuance. For 3 of 8 Approval Request Forms, the approvals occurred after the specified date set forth in each respective Policy Issuance.

Questioned Costs: None

Possible Asserted Cause and Effect: For the 2 of the 8 Approval Requests that could not be validated, the deficiency occurred because the form lacked a date next to one signature. For the other 3 of 8, the date of the final signature occurred after the deadline even though the previous signatures occurred earlier.

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

Views of Responsible Officials: The department has developed new procedures that will streamline the approval request process in order to ensure timely completion of the documents.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-35 Subrecipient Monitoring

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Labor

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

Federal Program: Workforce Investment Act

CFDA No.: 17.258, 17.259, 17.260

Award No.: N/A

Award Year: July 1, 2009 - June 30, 2010

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

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

Condition: During our testwork, we selected 33 contracts for testing and noted the following: 30 of 33 contracts were not approved by City Council prior to work commencing.

Questioned Costs: None

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

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

Views of Responsible Officials: We agree with the facts of this finding; however, due to the timing of the grant periods and the timing of the grant information submitted by the State, it is necessary to start the programs and use our award letter as approval.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-36 Cycle Monitoring Reports

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Labor

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

Federal Program: Workforce Investment Act

CFDA No.: 17.258, 17.259, 17.260

Award No.: N/A

Award Year: July 1, 2009 - June 30, 2010

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

Condition: DWDD receives three cycle monitoring reports a year from the Michigan Department of Energy, Labor, and Economic Growth (DELEG). Over the past three years, several comments have been repeated throughout these reports and have not been adequately resolved or addressed by DWDD.

Questioned Costs: None

Possible Asserted Cause and Effect: Some of the issues are beyond the control of the department and this has been expressed to the DELEG monitors on all occasions. DELEG is aware of the departments limited control over cutting checks, moving contracts through the City of Detroit approval hierarchy.

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

Views of Responsible Officials: DELEG does perform three cycle monitoring visits and the department has addressed all issues as they arise. Some of the issues are beyond the control of the department and this has been expressed to the DELEG monitors on all occasions. DELEG is aware of the department's limited control over cutting checks, moving contracts through the City of Detroit approval hierarchy. DWDD has taken steps to streamline the contract process in hopes that the contracts will be approved in a more timely fashion.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-37 Equipment and Real Property Management

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Transportation

Pass-Through Entity: Federal Transit Administration

Federal Program: Federal Transit Cluster

CFDA No.: 20.500, 20.507

Award No.: Various

Award Year: July 1, 2009 - June 30, 2010

Requirement: Equipment and Real Property Management: Per the June 2010 OMB Circular A-133 Compliance Supplement, Part 3 Section F “Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.”

Condition: During our testwork, we obtained the most recent physical inventory conducted at the Department of Transportation (DDOT) and noted there were a number of differences identified during the inventory with no evidence of reconciliation or follow up with the fixed asset ledger. In testing the sample of fixed asset additions, there were two additions from CWIP, totaling \$62,968 that were placed into service in the prior year but not included as additions until the current year. Additionally, there were two items identified, for a total of \$8,189, that were improperly expensed rather than capitalized.

Questioned Costs: None

Possible Asserted Cause and Effect: DDOT physical asset inventory records were completed and reconciled for FY2010. However, the file forwarded had 2006 data (assets) which were disposed of during that time (FY2006). DDOT acknowledges the exclusion. The (2) items that were improperly excluded were expensed during the period and were immaterial to the fixed assets.

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

Views of Responsible Officials: The physical inventory records have been updated to reflect the current asset listing; therefore the issue is resolved. DDOT has implemented a quarterly reconciliation process to ensure all transactions are tracked and recorded in the correct ledgers.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-38 Reporting

Finding Type: Noncompliance and Significant deficiency

Federal Agency: U.S. Department of Transportation

Pass-Through Entity: Federal Transit Administration

Federal Program: Federal Transit Cluster

CFDA No.: 20.500, 20.507

Award No.: Various

Award Year: July 1, 2009 - June 30, 2010

Requirement: Per A-102 Common Rule, nonfederal entities receiving Federal awards must establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements. Per the Federal Financial Report instructions, quarterly and semi-annual interim reports shall be submitted no later than 30 days after the end of each reporting period.

Condition: During our testwork over a sample of Request for Reimbursements (RFRs) and Federal Financial Reports (FFRs), we noted the following: for 11 out of 28 RFRs, the amount submitted for reimbursement did not agree to supporting documentation or reconcile to DRMS.

Questioned Costs: None

Possible Asserted Cause and Effect: Expenses reported in the June 2010 FFR included invoice accruals, which were unmatched Oracle receipts and retainage payable as of June 30, 2010. DDOT paid invoices in different periods, due to the invoice receipt date, and drawdowns are submitted after vendors are paid.

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

Views of Responsible Officials: DDOT will ensure all transfer entries are made in DRMS before the reimbursement request is completed to align expenses to RFRs.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-39 Davis Bacon

Finding Type: Material noncompliance and material weakness

Federal Agency: Environmental Protection Agency

Pass-Through Entity: State of Michigan Municipal Bond Authority

Federal Program: State Revolving Loan

CFDA No.: 66.458

Award No.: 5175-07

Award Year: July 1, 2009 - June 30, 2010

Requirement: Per the State of Michigan letter dated May 26, 2009 informing the City that the SRF 5175-07 was eligible for ARRA funded Principal Forgiveness, Exhibit D, (2) revised May 26, 2009: Consistent with the requirements of Section 1606 of the ARRA, all construction on the project will be undertaken pursuant to written contracts that require contractors and subcontractors maintain compliance with Davis Bacon prevailing wage statute of chapter 31 of title 40, United States Code and mandate compliance with Davis Bacon prevailing wage statute and associated Labor Standards Provisions. Per the compliance supplement for the Davis Bacon Act, Nonfederal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR part 5). Per the compliance supplement for the Davis Bacon Act, 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 DOL regulations (29 CFR part 5).

Condition: Program management did not collect and review signed certifications from its contractors of Davis-Bacon and related Acts for any weeks during construction for the construction contractor related to SRF 5175-07 and 5175-08, ARRA related projects. Program management also did not review payroll submissions to confirm that its contractors' employees are paid weekly, without unauthorized payroll deductions and according to the wage determinations established in the contract. Program management also did not document that wage interviews were conducted periodically to verify that contractors and subcontractors are paying the appropriate wage rates and did not verify that the contractor fringe contributions were made as planned.

Questioned Costs: None

Possible Asserted Cause and Effect: DWSD was not aware of the Davis-Bacon requirement at the start of SRF 5175-07 and 5175-08. This was DWSD's first experience with ARRA funded projects.

Recommendation: Before accepting new funding sources, all potential compliance requirements should be identified and evaluated.

Views of Responsible Officials: DWSD has since secured the services of Michigan Fair Contracting Center to make sure all Davis-Bacon prevailing wage requirements are being addressed. DWSD will be in compliance going forward.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-40 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Noncompliance and significant deficiency

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

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

Federal Program: Temporary Assistance for Needy Families

CFDA No.: 93.558

Award No.: N/A

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

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

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

Condition: During our testwork, we selected 8 direct payroll transactions totaling \$14,709 for review and noted the following: For 2 out of 8 items, the timesheets printed from the payroll system (WorkBrain) did not agree to the hours manually entered on the time summaries at the department.

Questioned Costs: None

Possible Asserted Cause and Effect: Variances between the timesheets printed from the payroll system (WorkBrain) did not agree to the hours manually entered on the time summaries at the department in one instance because DWDD had not yet implemented our new procedures for reporting time paid per WorkBrain. In the other instance, time requested was not properly entered by management. Staff did not request a correction to time, but reported time as requested.

Recommendation: We recommend that appropriate reconciliation between electronic time keeping and manual time summaries is performed on a regular basis.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Views of Responsible Officials: New procedures for preparing Time Summary Reports per paid time in WorkBrain were implemented in April 2010. Both of the affected pay periods are before that implementation. One individual reported 89.25 hours on her Time Summary Report for pay date March 12, 2010. Per WorkBrain, she was paid for 85.26 hours. Civil Service Staff who work a 35-hour work week, with paid lunches, are first required to make up lunch hours (bringing them to 40 worked hours) before they are compensated for overtime hours worked. She worked overtime for one hour on Friday, February 26, 2010. She was not compensated with cash for this hour, as it was makeup time for lunch. She also worked overtime of 8.25 hours on Saturday, March 6, 2010. She did not work overtime on any days throughout the week. Therefore, three hours of the 8.25 hours worked on Saturday were charged against the three paid lunches for Wednesday through Friday. At the time that this Time Summary was prepared, staff was rounding time to the nearest quarter hour. Thus, there is a 0.01 variance. Another individual reported 80.00 hours on his Time Summary Report for pay date January 15, 2010. He left work two hours early on Wednesday, December 30, 2009. He requested C-time for this absence. Upon entry of his c-time, the end time of 16:48 should have been entered. However, 16:28 was entered, instead. Because he requested two hours of c-time to cover this absence, he reported one hour for lunch and two hours for c-time on his Time Summary Report. Thus, there is a variance of 20 minutes, or 0.33 hours.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-41 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Significant deficiency

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

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

Federal Program: Temporary Assistance for Needy Families

CFDA No.: 93.558

Award No.: N/A

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

Requirement: Activities Allowed or Unallowed and Allowable Costs/Cost Principles: Per 2 CFR Part 225, Appendix A, Paragraph C.1 (j), to be allowable under Federal awards, costs must meet the following general criteria: (j) be adequately documented.

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

Condition: During our testwork, we selected 44 subrecipient payments totaling \$3,995,008 for review and noted for 1 of 44 items, totaling \$21,910, DWDD was unable to locate the Check Request Form.

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 Allowable Costs / Cost Principles requirement.

Recommendation: We recommend that documents are retained in accordance with the City's document retention policies.

Views of Responsible Officials: Accounts Payable does not process payments without proper documentation; therefore, a check request was prepared and submitted.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-42 Cash Management

Finding Type: Material noncompliance and material weakness

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

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

Federal Program: Temporary Assistance for Needy Families

CFDA No.: 93.558

Award No.: N/A

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

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

Condition: The City did not minimize the time lapse between the drawdown and the payment of funds as required. The average daily balance outstanding was \$1,243,631.

Questioned Costs: None

Possible Asserted Cause and Effect: Probable cause is the time frame between submission of check request to Accounts Payable and the actual payment being processed in DRMS. Additionally, the time between determined expenditures for the administrative costs and the recording of the expenses were not minimized.

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

Views of Responsible Officials: DWDD is implementing the following procedures: Funds are not requested to pay subgrantees until reviewed/approved by the fiscal unit and forwarded to Central Accounts Payable. DWDD continues to work closely with accounts payable to ensure payments are made timely once a check request is submitted. Internally, staff will be closely monitored to make certain all administrative costs are recorded to the General Ledger within a two-week period.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-43 Equipment and Real Property Management

Finding Type: Noncompliance and significant deficiency

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

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

Federal Program: Temporary Assistance for Needy Families

CFDA No.: 93.558

Award No.: N/A

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

Requirement: Equipment and Real Property Management: Per Circular A-122 Paragraph 15b. : (1) Capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except where approved in advance by the awarding agency. (2) Capital expenditures for special purpose equipment are allowable as direct costs, provided that items with a unit cost of \$5,000 or more have the prior approval of the awarding agency. (3) Capital expenditures for improvements to land, buildings, or equipment which materially increase their value or useful life are unallowable as a direct cost except with the prior approval of the awarding agency.

Condition: During our testwork, we reviewed 14 asset additions acquired during the audit period. For 8 of the 14 items, the source document for the cost of the asset did not agree to the recorded amount of the asset.

Questioned Costs: None

Possible Asserted Cause and Effect: Eight vehicles were purchased in 2009; on one invoice, the purchase price was recorded incorrectly on the inventory listing. All eight items were recorded as \$29,474; the correct price was \$25,781.

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

Views of Responsible Officials: The items were correctly recorded in the City's General Ledger and the correct price was expensed to funding source. DWDD will ensure that the inventory listing is more thoroughly reviewed in the future.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2010

Item: 2010-44 Eligibility

Finding Type: Noncompliance and significant deficiency

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

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

Federal Program: Temporary Assistance for Needy Families

CFDA No.: 93.558

Award No.: N/A

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

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

Policy Issuance 09-26 Change 6: The DHS establishes the minimum required hours of participation for each individual upon referral to the MWA based upon appropriately corresponding federal and state criteria. The federal minimum required weekly hours for each family size are as follows:

Single-parent family with a child under the age of six.....20

Single-parent family without child under the age of six.....30

Two-parent family not using federally funded child day care....35

Two-parent family using federally funded child day care.....55

Condition: During our testwork, we selected 40 ITA payments totaling \$147,222 for review and noted for 1 of 40 items, the ITA Funding Agreement was not signed and approved by the ITA coordinator. Additionally, for 1 of 40 items tested, the participant files did not meet the required hours per the participants family status.

Questioned Costs: None

Possible Asserted Cause and Effect: DWDD believes this is an isolated incident based on the volume of approvals that were being processed at that time.

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

Views of Responsible Officials: DWDD agrees with this finding. The actual enrollment authorization form was signed by the ITA coordinator approving the student for training and detailing the approval limit. However, the funding agreement was not signed by the ITA coordinator once it was received back from training institution.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-45 Subrecipient Monitoring

Finding Type: Material noncompliance and material weakness

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

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

Federal Program: Temporary Assistance for Needy Families

CFDA No.: 93.558

Award No.: N/A

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

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

Condition: During our testwork, we selected 13 contracts with subrecipients for review and noted the following: For 13 of 13 items selected, approval of contracts were signed and approved by the City Council, the President of the Subrecipient organization and the authorized department representatives after the date of which services began.

Questioned Costs: None

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

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

Views of Responsible Officials: We agree with the facts of this finding, however, due to the timing of the grant periods and the timing of the grant information submitted by the State, it is necessary to start the programs and use our award letter as approval.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-46 Cycle Monitoring Reports

Finding Type: Material noncompliance and material weakness

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

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

Federal Program: Temporary Assistance for Needy Families

CFDA No.: 93.558

Award No.: N/A

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

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

Condition: DWDD receives three cycle monitoring reports a year from the Michigan Department of Energy, Labor, and Economic Growth (DELEG). Over the past three years, several comments have been repeated throughout these reports and have not been adequately resolved or addressed by DWDD.

Questioned Costs: None

Possible Asserted Cause and Effect: Some of the issues are beyond the control of the Department and this has been expressed to the DELEG monitors on all occasions. DELEG is aware of the departments limited control over cutting checks, moving contracts through the City of Detroit approval hierarchy.

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

Views of Responsible Officials: DELEG does perform three cycle monitoring visits and the department has addressed all issues as they arise. Some of the issues are beyond the control of the Department and this has been expressed to the DELEG monitors on all occasions. DELEG is aware of the departments limited control over cutting checks, moving contracts through the City of Detroit approval hierarchy. DWDD has taken steps to streamline the contract process in hopes that the contracts will be approved in a more timely fashion.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-47 Davis Bacon

Finding Type: Material noncompliance and material weakness

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

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

Federal Program: Weatherization for Low Income Persons

CFDA No.: 81.042

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

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

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

Condition: During our testwork, we selected 8 construction related contracts to review and noted that for 1 of 8 contracts the submission of weekly certified payroll was not present for the life of the contract.

Questioned Costs: None

Possible Asserted Cause and Effect: Contractor experienced health issues subsequent to award of contract.

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

Views of Responsible Officials: DHS management has re-emphasized to contractor the consequences of non-compliance. As of March 28, 2011 contractor is current with submission of all required documents.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2010

Item: 2010-48 Eligibility

Finding Type: Significant deficiency

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

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

Federal Program: Weatherization for Low Income Persons

CFDA No.: 81.042

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

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

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

Per the June 2010 OMB Circular A-133 Compliance Supplement, the official poverty guideline as revised annually by the Health & Human Services shall be used to determine eligibility for weatherization assistance. The Weatherization Assistance Application (DHS-4283) used to determine if a household is eligible for weatherization services must be in accordance with CSPM 612.2.

Condition: During our testwork over the eligibility compliance requirement, we selected 65 beneficiaries who received program services during the fiscal year 2010, and noted that 1 of the 65 items selected did not include all the required documents in the participants' file.

Questioned Costs: None

Possible Asserted Cause and Effect: Management did not retain documentation in accordance with document retention policies.

Recommendation: We recommend that documents are maintained in accordance with document retention policies.

Views of Responsible Officials: Management agrees with the finding. Firmer internal controls will ensure future compliance.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-49 Procurement, Suspension, and Debarment

Finding Type: Material noncompliance and material weakness

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

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

Federal Program: Weatherization for Low Income Persons

CFDA No.: 81.042

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

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

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

Condition: During our testwork, we selected 6 contracts for review and noted that 6 of 6 contracts were not approved by City Council prior to work commencing.

Questioned Costs: None

Possible Asserted Cause and Effect: Procurement standards were not followed.

Recommendation: We recommend City departments work cooperatively to determine a method to ensure contracts are approved in accordance with the City's procurement policies prior to work commencing.

Views of Responsible Officials: Management agrees with the finding. Citywide internal controls are needed to ensure that all city agencies are in compliance with federal guidelines regarding procurement standards.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-50 Criminal Background Checks

Finding Type: Material noncompliance and material weakness

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

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

Federal Program: Weatherization for Low Income Persons

CFDA No.: 81.042

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

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

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

Condition: Per discussion with the City, criminal background checks for employees of contractors are not performed.

Questioned Costs: None

Possible Asserted Cause and Effect: Insufficient communication between Human Resources and DHS management.

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

Views of Responsible Officials:

DHS management has apprised Human Resources Department of the background check requirement. Effective March 2011 DHS Human Resources Liaison will communicate with Human Resources Department to ensure background checks performed for all new or transfer staff prior to start date at DHS.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-51 Reporting

Finding Type: Material noncompliance and material weakness

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

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

Federal Program: Weatherization for Low Income Persons

CFDA No.: 81.042

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

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

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

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

Per the State of Michigan Department of Human Services Memo dated May 19, 2010, it is required that zip codes for subcontractors/vendors are the complete 9-digit zip code. The Federal Report will not accept 5-digit zip codes.

Condition: During our testwork over the Reporting compliance requirement, we obtained 3 Monthly Programmatic reports and noted mathematical errors for 3 of 3 reports. Also, we noted that the August 2009 and the December 2009 reports were not submitted within 30 days from the end of the the report period.

We obtained 24 of 24 monthly ARRA DOE and DOE Statement of Expenditures and noted the following: the revised versions of January 2010 and March 2010 ARRA DOE Statement of Expenditures did not have a signature of approval and 8 of 24 were not submitted within 30 days from the end of the month's billing period as required and stated within the grant agreement.

We tested 3 of 12 monthly ARRA reports submitted to the State and noted for 2 of 12 reports the department did not enter the complete 9-digit zip code for the subcontractor/vendor as required by the State and 3 of 3 were missing an authorized signature.

Questioned Costs: None

Possible Asserted Cause and Effect: Additional level of staff review is needed. Current DHS software does not support use of nine (9) digit zip codes.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Recommendation: We recommend that reports are reviewed for accuracy by an individual that is knowledgeable of the program requirements but someone other than the individual who prepared the report. We also recommend that reporting checklists be used to monitor the timeliness of report preparation and submission.

Views of Responsible Officials: Staff supervision changed effective November 1, 2010 which will increase accuracy and review of supporting documentation. Effective April 1, 2011 staff will enter nine (9) digit zip codes. DHS will investigate new software which will support use of nine (9) digit zip codes.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-52 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Material noncompliance and material weakness

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

Pass-Through Entity: Michigan Department of Human Services

Federal Program: Community Services Block Grant

CFDA No.: 93.569, 93.710

Award No.: Various

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

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

Condition: Per review of the fringe benefit calculation, certain amounts charged to the grant in the amount of \$405,676 include principal and interest payments for pension borrowings. Approximately 94.7% of the \$405,676 (or \$384,175) is related to interest and as such will be a questioned cost.

Questioned Costs: \$384,175

Possible Asserted Cause and Effect: After the City's budget was approved in May 2009 for the 2009-2010 fiscal year, the budget and finance department determined that additional funds were due the pension system for POC - UAAL. The POC's were issued in prior years to supplement the City's pension systems for its UAAL. The corresponding amounts charged to the grant were for principal and interest, and are to be ongoing for a number of years.

Recommendation: We recommend that the City does not charge unallowable costs to grant programs without specific approval from the granting agencies of each grant.

Views of Responsible Officials: Management agrees with the finding that the interest portion of the POC UAAL should not have been charged to the grant as stated in OMB Circular A-87. We have requested that HUD review these charges to see if they could be properly charged.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-53 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Noncompliance and significant deficiency

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

Pass-Through Entity: Michigan Department of Human Services

Federal Program: Community Services Block Grant

CFDA No.: 93.569, 93.710

Award No.: Various

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

Requirement: Activities Allowed or Unallowed and Allowable Costs/Cost Principles: Per 2 CFR Part 225, Appendix A, Paragraph C.1 (j), to be allowable under Federal awards, costs must meet the following general criteria: (j) be adequately documented.

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

Condition: The City charged \$67,000 in administrative costs to CSBG, which should have been allocated to the TANF grant.

Questioned Costs: \$67,000

Possible Asserted Cause and Effect: TANF and CSBG expenditures were set up in same cost center and appropriation.

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

Views of Responsible Officials: Effective April 1, 2011 all grants will be set up in separate cost centers.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-54 Suspension and Debarment

Finding Type: Noncompliance and significant deficiency

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

Pass-Through Entity: Michigan Department of Human Services

Federal Program: Community Services Block Grant

CFDA No.: 93.569, 93.710

Award No.: Various

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

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

Condition: During our testwork over suspension and debarment, we noted that 1 of 22 subrecipients did not have a signed suspension and debarment certification in the contract.

Questioned Costs: None

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

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

Views of Responsible Officials: DHS management will ensure all contracts issued after January 1, 2011 will include the Suspension and Debarment clause.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-55 Reporting

Finding Type: Material noncompliance and material weakness

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

Pass-Through Entity: Michigan Department of Human Services

Federal Program: Community Services Block Grant

CFDA No.: 93.569, 93.710

Award No.: Various

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

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

Condition: During our testwork over the Reporting compliance requirement, we obtained 12 Statement of Expenditure reports and noted that 4 of the 12 months were submitted beyond the deadline of 30 days from the end of the monthly billing period. The March 2010 report was submitted 114 days after the close of the month, the April 2010 report was submitted 84 days after the close of the month, the May 2010 report was submitted 53 days after the close of the month, and the June 2010 report was submitted 77 days after the close of the month. We also noted that 9 of 9 monthly ARRA-related Statement of Expenditure reports were submitted beyond the deadline; 2 of 9 reports were submitted between 43 - 73 days after the close of the month, 5 of 9 reports were submitted between 104 - 167 days after the close of the month, and 2 of 9 reports were submitted between 198 - 228 days after the close of the month.

Questioned Costs: None

Possible Asserted Cause and Effect: Management believes this is related to the implementation of revised Cost Allocation Procedures and training of newly assigned staff occurred simultaneously.

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

Views of Responsible Officials: DHS management will purchase time management and project management software by July 1, 2011.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-56 Subrecipient Monitoring

Finding Type: Material noncompliance and material weakness

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

Pass-Through Entity: Michigan Department of Human Services

Federal Program: Community Services Block Grant

CFDA No.: 93.569, 93.710

Award No.: Various

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

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

Condition: During our testwork over the Subrecipient Monitoring compliance requirement, we selected 19 subrecipients for testing and noted that 19 subrecipient agreements tested did not specify the CFDA number.

Questioned Costs: None

Possible Asserted Cause and Effect: Contracts for 2010 had already be awarded at the time staff was notified of non-compliance via 2009 Single Audit findings.

Recommendation: We recommend management modify the contract with the subrecipient to include the required elements.

Views of Responsible Officials: All DHS contracts issued after June 1, 2010 will have CFDA included in contracts.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2010

Item: 2010-57 Finding Number Not Used

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-58 Criminal Background Checks

Finding Type: Material noncompliance and material weakness

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

Pass-Through Entity: Michigan Department of Human Services

Federal Program: Community Services Block Grant

CFDA No.: 93.569, 93.710

Award No.: Various

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

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

Condition: During our testwork over the Criminal Background Checks compliance requirement, it was noted that there were 3 employees newly hired or transferred into the CSBG program during the fiscal year. For 3 of 3 new employees no criminal background checks were performed. We also noted that 5 of 24 subrecipient agreements did not include an exhibit or clause whereby the subrecipient was required to certify that they would comply with the background check policy required by the CSBG agreement between the City and the State of Michigan Department of Human Services.

Questioned Costs: None

Possible Asserted Cause and Effect: Insufficient communication between Human Resources and DHS management.

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

Views of Responsible Officials: DHS management has apprised Human Resources Department of the background check requirement. Effective March 2011 the DHS Human Resources Liaison will communicate with Human Resources Department to ensure background checks performed for all new or transfer staff prior to start date at DHS.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-59 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Noncompliance and significant deficiency

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

Pass-Through Entity: N/A

Federal Program: Head Start, Early Head Start

CFDA No.: 93.600, 93.708

Award No.: Various

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

Requirement: Per 2 CFR 225, Appendix A, Paragraph 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 75 subrecipient payments totaling \$20,083,099 for review and noted for 2 of 75 items the reimbursement request and receipt of funds exceeded the invoice amount by \$10,000 and \$500, respectively.

Questioned Costs: \$10,500

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

Recommendation: We recommend preparing reimbursement requests based on appropriate and sufficient supporting documentation.

Views of Responsible Officials: Management agrees with this finding. Firmer internal controls will ensure future compliance.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-60 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Material noncompliance and material weakness

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

Pass-Through Entity: N/A

Federal Program: Head Start, Early Head Start

CFDA No.: 93.600, 93.708

Award No.: Various

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

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

Condition: Per review of the fringe benefit calculation, certain amounts were charged to the grant in the amount of \$237,500 include principal and interest payments for pension borrowings. Approximately 94.7% of the \$237,500 (or \$224,913) is related to interest and as such will be a questioned cost.

Questioned Costs: \$224,913

Possible Asserted Cause and Effect: After the City's budget was approved in May 2009 for the 2009-2010 fiscal year, the budget and finance department determined that additional funds were due the pension system for POC - UAAL. The POC's were issued in prior years to supplement the City's pension systems for its UAAL. The corresponding amounts charged to the grant were for principal and interest, and are to be ongoing for a number of years.

Recommendation: We recommend that the City does not charge unallowable costs to grant programs without specific approval from the granting agencies of each grant.

Views of Responsible Officials: Management agrees with the finding that the interest portion of the POC UAAL should not have been charged to the grant as stated in OMB Circular A-87. We have requested that HUD review these charges to see if they could be properly charged.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-61 Cash Management

Finding Type: Noncompliance and significant deficiency

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

Pass-Through Entity: N/A

Federal Program: Head Start, Early Head Start

CFDA No.: 93.600, 93.708

Award No.: Various

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

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

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

Condition: During our testwork over the Cash Management compliance requirement, we selected 75 expenditures charged to the grant, totaling \$20,083,099, and noted that for 21 out of 75 expenditures, totaling \$4,347,449, the City did not minimize the time lapse between drawdown and the payment of funds as required. Of the 21 exceptions, the time lapse between drawdown and payment was 4 days for 5 items, 5 - 10 days for 14 items, and 17 days for 2 items.

Questioned Costs: None

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

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

Views of Responsible Officials: Management DHS management and Central Finance Accounts Payable to coordinate revision of payment processes to accommodate needs of grantors to be implemented by July 1, 2011.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-62 Subrecipient Monitoring

Finding Type: Material noncompliance and material weakness

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

Pass-Through Entity: N/A

Federal Program: Head Start, Early Head Start

CFDA No.: 93.600, 93.708

Award No.: Various

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

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

Condition: During our testwork over the Subrecipient Monitoring compliance requirement, we selected 8 subrecipients for testing and noted that 8 subrecipient agreements tested did not specify the CFDA number.

Questioned Costs: None

Possible Asserted Cause and Effect: Contracts for 2010 had already be awarded at the time staff was notified of non-compliance via 2009 Single Audit findings.

Recommendation: We recommend management modify the contract with the subrecipient to include the required elements.

Views of Responsible Officials: All DHS contracts issued after June 1, 2010 will have CFDA included in the contracts.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-63 Maintenance of Effort

Finding Type: Material noncompliance and material weakness

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

Pass-Through Entity: N/A

Federal Program: HIV Emergency Relief

CFDA No.: 93.914

Award No.: H89HA00021, H3MHA08480

Award Year: March 1, 2009 – February 28, 2010

Requirement: Per the Ryan White HIV/Aids Program Part A Manual, Section II, Grant Administration, Part 4, Maintenance of Effort, Section A Legislative Background: Sections 2605(a) of the Ryan White legislation states: (1)(A) “that funds received under a grant awarded under this subpart will be utilized to supplement not supplant State funds made available in the year for which the grant is awarded to provide HIV-related services as described in section 2604(b)(1); (B) “that the political subdivisions within the eligible area will maintain the level of expenditures by such political subdivisions for HIV-related services as described in section 2604(b)(1) at a level that is equal to the level of such expenditures by such political subdivisions for the preceding fiscal year; and (C) “that political subdivisions within the eligible area will not use funds received under a grant awarded under this part in maintaining the level of expenditures for HIV-related services as required in subparagraph (B).”

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

Condition: During our testwork, we obtained the supporting detail for the Maintenance of Effort (MOE) expenses submitted to HRSA; however, the City was unable to provide support of the percentages used to determine the amount related to HIV services. The City was unable to provide evidence of management review of the MOE numbers submitted to HRSA.

Questioned Costs: None

Possible Asserted Cause and Effect: The City utilized an estimate of medical services provided by the Detroit Health Department.

Recommendation: We recommend that the department utilize actual numbers to support the Maintenance of Effort requirements, including supporting the percentage allocated to the HIV Emergency Relief program.

Views of Responsible Officials: The percentage used was a conservative estimate of medical services provided by the Detroit Health Department for all HIV/AIDS at risk individuals. Management review and approval process will be implemented.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-64 Procurement, Suspension and Debarment

Finding Type: Material noncompliance and material weakness

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

Pass-Through Entity: N/A

Federal Program: HIV Emergency Relief

CFDA No.: 93.914

Award No.: H89HA00021, H3MHA08480

Award Year: March 1, 2009 – February 28, 2010

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

Condition: During our testwork, we selected 3 contracts for review and noted the following: 2 contracts selected were approved 3 months after the effective date of the contract and one was approved 2 months after the effective date.

Questioned Costs: None

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

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

Views of Responsible Officials: We concur. The contract process is being reviewed to include verification of debarment/sanction information before the award letter and to find ways to shorten the processing time.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-65 Reporting

Finding Type: Noncompliance and significant deficiency

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

Pass-Through Entity: N/A

Federal Program: HIV Emergency Relief

CFDA No.: 93.914

Award No.: H89HA00021, H3MHA08480

Award Year: March 1, 2009 – February 28, 2010

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

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

Condition: During our testwork, we requested all 8 quarterly reports and 3 FFRs for the fiscal year end and noted the following: the City was unable to provide 1 of 8 quarterly reports; 5 of 8 reports were submitted beyond the deadline of 30 days for quarterly reports and 90 days after grant year end for FFRs. The HIV Emergency Assistance (HIV) quarter ended December 31, 2009 was submitted 47 days after the close of the quarter. The MAI quarter report ended December 31, 2009 was submitted 49 days after the quarter end. The MAI quarter ended March 31, 2010 was submitted 47 days after the quarter end. The MAI quarter ended June 30, 2010 was submitted 56 days after quarter end. The FFR was submitted 91 days after the program year end.

Questioned Costs: None

Possible Asserted Cause and Effect: The first FFR for Ryan White Part A under the new PMS system was late due to an old internet browser that didn't allow access to the updated PMS system to complete the FFR submission. After trying unsuccessfully to enter the FFR and trying to reach PMS for technical assistance, it was decided that we should reapply for access to the PMS system. Once the process was complete, the FFR submission was submitted. The MAI grant is grouped with other direct federal grants for the Health department in the PMS system. Generally, when all of the grants necessary expenditure information is available, an FFR is submitted. This grouping of the grants has caused delays since not all of the grants have the expenditure information available by the due date. The late submission of the MAI final FSR was due to questions regarding the final balance amount.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

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

Views of Responsible Officials: We concur with the finding. The FFR's have been submitted by the due date since the first late submission under the new PMS system for Ryan White PART A grant. The MAI portion of Ryan White Part A funding is no longer reported in the PMS system as a separate grant award.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-66 Subrecipient Monitoring

Finding Type: Material noncompliance and material weakness

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

Pass-Through Entity: N/A

Federal Program: HIV Emergency Relief

CFDA No.: 93.914

Award No.: H89HA00021, H3MHA08480

Award Year: March 1, 2009 – February 28, 2010

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

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

Condition: During our testwork, we noted the following: The City does not have any official policies and procedures in place to effectively and efficiently monitor the subrecipient; as of February 14, 2011, the City has not obtained the corrective action plans from the sole subrecipient related to the May 2010 site visit. The onsite monitoring documentation indicates the onsite monitoring occurred in May of 2010; however, the months reviewed were February and June of 2009. These months are outside of the fiscal year of 7/1/09 - 6/30/10 and as such, no onsite monitoring was completed for current year activities. There was no evidence of management review of the onsite review checklist. The Professional Service Contract between the City of Detroit and the subrecipient, contains responsibilities listed for both parties that are ambiguous and do not clearly disclose all of the relevant terms and conditions of the grant agreement from the State of Michigan, including whether the contractor should report expenditures on a cash or accrual basis, what federal program the funding is related to, the CFDA# and pass-through information.

Questioned Costs: None

Possible Asserted Cause and Effect: Management agrees with this finding. DHWP has started ensuring that CFDA#s appear on all Federal grant contracts with Fiduciaries. The Corrective Action Plan from the subrecipient has been received. The onsite monitoring occurred during the fiscal year of the Federal grant. The finding refers to the fiscal year for the City. To our understanding, this is not the requirement.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

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

Views of Responsible Officials: The Department has developed a process to monitor the subrecipient for the FY 2009/2010 fiscal year. The Department is working with the Law and Finance Departments to improve the language of the contract for delineating the responsibilities of the Department and the subrecipient. The contract language changes will be incorporated into the FY 2011/2012 contracts.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-67 Matching

Finding Type: Noncompliance and Significant deficiency

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

Pass-Through Entity: Michigan Department of Community Health

Federal Program: Prevention and Treatment of Substance Abuse

CFDA No.: 93.959

Award No.: 07 B1 MI SAPT, 08 B1 MI SAPT

Award Year: March 1, 2009 – February 28, 2010

Requirement: Pursuant to Section 6213 of Public Act No. 368 of 1978, as amended, Michigan has promulgated match requirement rules. Rules 325.4151 through 325.4153 appear in the 1981 Annual Administrative Code Supplement. In brief, the rule defines allowable matching fund sources and states that the allowable match must equal at least ten percent of each comprehensive CA budget (see Attachment B to the Agreement) - less direct federal and other state funds.

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

Condition: During our testwork over the Matching requirement for the Substance Abuse program, we obtained the matching calculation performed by the City related to the program. There was \$307,715 of matching expenses that the City was unable to provide sufficient support for. The City was unable to provide payroll certifications related to the payroll portion of the matching calculation. Additionally the City was unable to provide sufficient documentation over the legal cost allocated to the program. Finally, the City allocates a portion of Central Services to Substance Abuse; however, the Central Services Cost Allocation plan was not approved by the cognizant agency, and therefore, is not an allowable cost. Even if these unallowable costs were subtracted from the matching expenses, the City still had enough other expenses to meet the requirement.

Questioned Costs: None

Possible Asserted Cause and Effect: The City could potentially be out of compliance with the Matching requirement for the Prevention and Treatment of Substance Abuse Program.

Recommendation: We recommend that the City implements time certification for employees who work 100% of their time on the Substance Abuse Program. Additionally we recommend that the City develop and get approval for a central cost allocation plan as required by A-87.

Views of Responsible Officials: Management concurs with this finding.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-68 Reporting

Finding Type: Noncompliance and significant deficiency

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

Pass-Through Entity: Michigan Department of Community Health

Federal Program: Prevention and Treatment of Substance Abuse

CFDA No.: 93.959

Award No.: 07 B1 MI SAPT, 08 B1 MI SAPT

Award Year: March 1, 2009 – February 28, 2010

Requirement: Per A-102 Common Rule, Nonfederal entities receiving Federal awards must establish and maintain internal controls designed to reasonable ensure compliance with Federal laws, regulations, and program compliance requirements. Per the State of Michigan EGrAMS system, the FSR's are due 30 days after the end of the quarter with the fourth quarter due 60 days after the end of the quarter. According to the OMB Circular A-133 Compliance supplement, the amounts reported in the financial reports should be prepared from, and agree to, the accounting records.

Condition: During our review over the reporting compliance requirement, we selected 4 FSRs and noted that 3 of the 4 FSRs were submitted after the deadline. The September 30, 2009 final FSR was submitted 154 days after the end of the quarter, the December 31, 2009 FSR was submitted 153 days after the Quarter and the March 2010 FSR was submitted 64 days after the Quarter. Further, the final FSR is required to be indicated as the final FSR. The September 30, 2009 FSR was not marked as final. The City did not perform a timely reconciliation between the General Ledger, the FSRs, and the Schedule of Expenditures for Federal Awards (SEFA).

Questioned Costs: None

Possible Asserted Cause and Effect: The retirement of the assigned Principal Accountant for Substance Abuse with responsibility of financial transactions was a major factor contributing to the delays.

Recommendation: We recommend that reporting checklists are utilized to ensure timely report preparation and submission and monitoring thereof.

Views of Responsible Officials: Management concurs with the findings and has replaced the accountant and instituted procedures to address this issue.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Item: 2010-69 Subrecipient Monitoring

Finding Type: Material noncompliance and material weakness

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

Pass-Through Entity: Michigan Department of Community Health

Federal Program: Prevention and Treatment of Substance Abuse

CFDA No.: 93.959

Award No.: 07 B1 MI SAPT, 08 B1 MI SAPT

Award Year: March 1, 2009 – February 28, 2010

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

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

Condition: The Professional Service Contract between the City of Detroit and Clark and Associates, contains responsibilities listed for both parties that are ambiguous and do not clearly disclose all of the relevant terms and conditions of the grant of agreement from the State of Michigan, including whether the contractor should report expenditures on a cash or accrual basis, what federal program the funding is related to, the CFDA# and pass-through information. Additionally, the department does not have written policies or procedures over subrecipient monitoring. The City obtained the Clark and Associates A-133 Single Audit; however, there was no evidence of management review. There was no on-site monitoring performed during the year related to the fiscal year. During the year, there was a program audit completed by an independent auditor. That audit notes that 8 of 9 findings were repeated from the prior year, including findings specific to subrecipients.

Questioned Costs: None

Possible Asserted Cause and Effect: Workforce reduction occurred in the city in 2009 and DHWP was unable to fill positions to perform required finance activities.

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

Views of Responsible Officials: Management concurs. Management would work with its legal advisors to strengthen the responsibilities of each party. A formal review process is being established modeled by Workforce Development.