

CITY OF DETROIT, MICHIGAN

OMB Circular A-133 Single Audit Report

Year ended June 30, 2008

CITY OF DETROIT, MICHIGAN

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

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

Compliance

We have audited the compliance of the City of Detroit, Michigan (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008, except for the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) major federal program. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit, except for the WIC major federal program.

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, 2008. 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.

Except as discussed in the following paragraph, 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.



Disclaimer

As described in finding 2008-57 in the accompanying schedule of findings and questioned costs, we were unable to obtain sufficient documentation supporting the compliance of the City of Detroit with the Special Supplemental Nutrition Program for Women, Infants, and Children regarding the types of compliance requirements referred to above, nor were we able to satisfy ourselves as to the City of Detroit’s compliance with those requirements by other auditing procedures.

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 Community Development Block Grant. 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
Community Development Block Grant	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2008-11
Community Development Block Grant	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2008-12
Community Development Block Grant	Cash Management	2008-13
Community Development Block Grant	Procurement, Suspension, and Debarment	2008-14
Community Development Block Grant	Subrecipient Monitoring	2008-18



Qualifications (Noncompliance) – Table 2

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

Federal program	Compliance requirement	Finding number
Home Investment Partnership Program	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2008-20
Home Investment Partnership Program	Cash Management	2008-21
Home Investment Partnership Program	Cash Management	2008-22
Workforce Investment Act	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2008-25
Workforce Investment Act	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2008-26
Workforce Investment Act	Cash Management	2008-27
Federal Transit Cluster	Equipment and Real Property Management	2008-30
Immunization/Immunization Vaccine for Children	Reporting	2008-32
Immunization/Immunization Vaccine for Children	Special Tests and Provisions – Control, Accountability, and Safeguarding of Vaccines	2008-33
Temporary Assistance for Needy Families	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2008-34
Temporary Assistance for Needy Families	Cash Management	2008-35



Federal program	Compliance requirement	Finding number
Community Services Block Grant	Eligibility	2008-39
Community Services Block Grant	Subrecipient Monitoring	2008-40
Head Start and Early Head Start	Cash Management	2008-41
Head Start and Early Head Start	Procurement, Suspension, and Debarment	2008-42
Head Start and Early Head Start	Subrecipient Monitoring	2008-43
HIV Emergency Relief	Subrecipient Monitoring	2008-46
Prevention and Treatment of Substance Abuse	Reporting	2008-48
Prevention and Treatment of Substance Abuse	Subrecipient Monitoring	2008-50
Maternal and Child Health Services Block Grant	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2008-51
Maternal and Child Health Services Block Grant	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2008-53
Maternal and Child Health Services Block Grant	Procurement, Suspension, and Debarment	2008-54
Maternal and Child Health Services Block Grant	Subrecipient Monitoring	2008-56

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 are applicable to each of its major federal programs included in Table 1 for the year ended June 30, 2008. Also, in our opinion, except for the noncompliance described in Table 2, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major programs included in Table 2 for the year ended June 30, 2008. Since we were unable to obtain sufficient documentation regarding the City's compliance with the requirements of the Special Supplemental Nutrition Program for Women, Infants, and Children regarding the types of compliance requirements referred to above, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the City's compliance with the requirements referred to above. Also, in our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its Section 108 Loans and State Revolving Loan major federal programs for the year ended June 30, 2008. However, as identified in Table 3, the results of our auditing procedures also disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133, and which are described in the accompanying schedule of findings and questioned costs.



Other Instances of Noncompliance – Table 3

Federal program	Compliance requirement	Finding number
Community Development Block Grant	Reporting	2008-15
Community Development Block Grant	Reporting	2008-16
Community Development Block Grant	Reporting	2008-17
Section 108 Loans	Reporting	2008-19
Home Investment Partnership Program	Reporting	2008-23
Home Investment Partnership Program	Reporting	2008-24
Workforce Investment Act	Reporting	2008-29
Temporary Assistance for Needy Families	Reporting	2008-36
Community Services Block Grant	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2008-37
Community Services Block Grant	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2008-38
HIV Emergency Relief	Reporting	2008-45
Maternal and Child Health Services Block Grant	Reporting	2008-55

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.



A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2008-09 through 2008-56 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 2008-09, 2008-10, 2008-47, 2008-49, the items in Table 1, and the items in Table 2 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 20, 2009, 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 99.84% and 97.02% of the assets and expenses, respectively, 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, which represent 95.01% and 35.94% 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 also included an explanatory paragraph stating that the City has an accumulated unreserved undesignated deficit in the General Fund of \$219 million as of June 30, 2008, which has contributed to the City's dependence on short-term borrowing for cash flow purposes. Our report also refers to the adoption of provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, during the year ended June 30, 2008. Our report also refers to the ceasing of reporting regulatory assets and liabilities under Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation*, as of July 1, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



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

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

KPMG LLP

Detroit, Michigan
March 30, 2010 (except for the Schedule of
Expenditures of Federal Awards, Paragraph 12,
as to which date is November 20, 2009)

CITY OF DETROIT, MICHIGAN
Schedule of Expenditures of Federal Awards
Year ended June 30, 2008

Grant title	Grant number	Catalog of federal domestic assistance	2008 Expenditures
Department of Agriculture:			
Via Michigan Department of Education: Summer Food Service Program for Children	26-61146	10.559	\$ 839,793
Via Michigan Department of Community Health: Special Supplemental Nutrition Program for Women, Infants, and Children	20080770	10.557	4,666,274
Via Michigan Dept of Human Services: Supplemental Nutrition Assistance Program Packaged Meals	ES-06-82014	10.561	12,240
Via Michigan Department of Career Development: Supplemental Nutrition Assistance Program:			
Food Stamp Program	06-14	10.561	376,450
Food Stamp Program – Supportive Services (AY 08)	05-18	10.561	3,139
Food Stamp Program	06-14	10.561	6,310
Food Stamp Program – Supportive Services (AY 07)	05-18	10.561	16,835
Total Food Stamp Program			<u>414,974</u>
Via Michigan Department of Education: Emergency Assistance Food Program – TEFAP	820021020	10.568	83,250
Emergency Assistance Food Program – TEFAP	820021020	10.568	27,750
Total Emergency Assistance Food Program			<u>111,000</u>
Total Department of Agriculture			<u>6,032,041</u>
Department of Education:			
Funds for Improvement of Educ. – Mayor’s Time	U215K032278	84.215	55,382
Total Department of Education			<u>55,382</u>
Department of Energy:			
Via Michigan Dept of Human Services Weatherization for Low income Persons	DOE07-82007	81.042	2,046,610
Weatherization for Low income Persons	DOE08-82007	81.042	23,401
Total Department of Energy			<u>2,070,011</u>
Department of Health and Human Services:			
Fatherhood Initiative	90FR0073/01	93.086	520,345
Projects of Reg Sig – Detroit Re-entry	6 U79 SP13331-01-2	93.243	306,337
Tuberculosis Control	U52/CCU500843-24	93.116	377,553
Environmental Health – Asthma	n/a	93.000	4,060
HIV Emergency Relief	H89HA00021	93.914	7,992,259
HIV Emergency Relief – MAI	H3MHA08480	93.914	256,428
Total HIV Emergency Relief			<u>8,248,687</u>
Healthy Start Initiative	H49MC00147	93.926	1,631,174
Head Start	05CH0113/40	93.600	61,272
Early Head Start	05CH0113/42	93.600	10,507,767
Early Head Start	05CH0113/42	93.600	273,623
Early Head Start	05CH8266/01	93.600	1,110,693
Early Head Start	05CH0113/43	93.600	35,227,017
Early Head Start	05CH0113/43	93.600	1,187,628
Total Head Start / Early Head Start			<u>48,368,000</u>
Childhood Lead Poison Prev	5H64000156	93.197	1,311,105
Via Michigan Department of Community Health: CDC Prev: Bioterrorism	20080770	93.283	69
CDC Prev: Bioterrorism	20080770	93.283	144,381
CDC Prev: Bioterrorism Emergency Prep	20080770	93.283	404,702
CDC Prev: Bioterrorism Laboratory 09/07	20080770	93.283	27,995
CDC Prev: Bioterrorism Early Warnings	20080770	93.283	4,640
Cities Readiness Initiatives: Bioterrorism	20080770	93.283	708,904
Pandemic Flu: Bioterrorism	20080770	93.283	242,644
Total CDC Prev: Bioterrorism			<u>1,533,335</u>
Lab Services – STARNs & VARHS	20080770	93.977	181,518
STD Control	20080770	93.977	658,649
Total STARNs & VARHS/STD Control			<u>840,167</u>

CITY OF DETROIT, MICHIGAN
Schedule of Expenditures of Federal Awards
Year ended June 30, 2008

Grant title	Grant number	Catalog of federal domestic assistance	2008 Expenditures
Maternal & Child Health BG	20080770	93.994	2,513,191
Childhood Lead Poison Prev	20080770	93.994	295,725
Crippled Children Service	20080770	93.994	687,107
Total Material & Child Health BG			3,496,023
Family Planning Serv	20080770	93.217	764,622
Immunization Grants	n/a	93.268	\$ 466,404
Immunization Vaccine for Children (VFC)	n/a	93.268	11,201,002
Total Immunizations Grants			11,667,406
Aids/HIV Prevention and Planning – HIV Prev Grant	20080770	93.940	866,583
Aids Counseling & Testing – HIV Prev Grant	20080770	93.940	124,502
Total AIDS/HIV Prevention and Planning			991,085
Aids/HIV Family Services – Pediatric AIDS Health Care	20080770	93.153	55,811
Aids/Hiv Consort – HIV Care Formula Grant	20080770	93.917	222,829
Prevention and Treatment of Substance Abuse	07 B1 MI SAPT, 08 BI MI SAPT	93.959	15,546,709
Infant Mortality	20080770	93.974	45,568
Nurse Family Partnership	20080770	93.778	291,784
Via Michigan Dept of Human Services:			
Community Services Block Grant	07-82007	93.569	1,144,473
Community Services Block Grant-T	08-82007	93.569	13,000
Community Services Block Grant-T	08-82007	93.569	4,265,576
Total Community Services Block Grant			5,423,049
Via Michigan Dept. of Labor & Economic Growth:			
TANF JET	07-20	93.558	11,546,010
TANF-Supportive Services	06-13	93.558	5,871,012
TANF-Supportive Services	07-33	93.558	1,009,102
TANF-Goodwill Pilot	06-25	93.558	680,804
TANF-Goodwill	07-27	93.558	154,345
TANF NWLB	07-27	93.558	334,757
TANF-Goodwill	07-40	93.558	372,729
TANF-Goodwill	06-26	93.558	422,162
Via Michigan Dept of Human Services:			
TANF	07-82007	93.558	223,087
TANF	08-82007	93.558	191,896
Total TANF			20,805,904
Total Department of Health and Human Services			122,451,553
Department of Housing and Urban:			
Community Development Block Grant	B-07-MC-26-0006	14.218	43,164,243
Emergency Shelter Grant	S-06-MC-26-0006	14.231	1,495,055
Section 108 Loans	n/a	14.248	30,571,625
Special HSG Rehab Prog	M-07-MC-26-0202	14.239	7,708,623
HUD Lead Hazard	MILHD003504	14.905	837,413
HUD Lead Hazard II	MLHD0151-06	14.905	534,796
Total HUD Lead Hazard			1,372,209
HOPWA AIDS HOUSING 06/08	MI26H05-F001	14.241	1,640,000
HOPWA/Community Living 09/07	n/a	14.241	514,671
Total HOPWA			2,154,671
Total Department of Housing and Urban			86,466,426
Department of Homeland Security:			
Via State of MI, Department of State Police:			
2005 Urban Area Security Initiative (UASI)	not listed	97.067	1,583,354
2005 Homeland Security Grant – MMRS	not listed	97.067	54,192
2006 Homeland Security Grant – MMRS	not listed	97.067	148,856
Total Department of Homeland Security			1,786,402
Department of Justice:			
Project Safe Neighborhood	2003-GP-CX-0170	16.609	25,895
Project Safe Neighborhood	2003-GP-CX-0170	16.609	24,186

CITY OF DETROIT, MICHIGAN
Schedule of Expenditures of Federal Awards
Year ended June 30, 2008

Grant title	Grant number	Catalog of federal domestic assistance	2008 Expenditures
Total Project Safe Neighborhood			50,081
Great Program	2006-JV-FX-0032	16.737	\$ 74,922
Great Program	2007-JV-FX-0157	16.737	117,885
Total Great Program			192,807
COPS Technology Grant	2004CKWX0344	16.710	218,423
Justice Dept. Community Oriented Policing Service	2006-DD-BX-0213	16.710	16,217
Encourage Arrest	2004-WEAX-0067	16.710	3,311
Total COPS Grant			237,951
DNA Capacity	2005-DA-BX-K020	16.741	243,230
Via Michigan Dept of Human Services:			
Juvenile Accountability Block Grant (07)	JAIBG-07-82007	16.523	198,749
Equitable Sharing Funds	n/a	16.999	46,022
Via Michigan Department of Comm. Health:			
Victim Assistance 2006	2083-10V06	16.575	188,981
Victim Assistance 2007	2083-11V06	16.575	454,600
Total Victims Assistance			643,581
Via Michigan State Police:			
Click it or Ticket	PT-07-14	16.710	130,940
Click it or Ticket	PT-08-23	16.710	248,371
Total Click it or Ticket			379,311
Total Department of Justice			1,991,732
Department of Labor:			
Via Michigan Department of Labor & Economic Growth:			
Trade	03-29	17.245	533,000
Trade	03-29	17.245	1,549,561
Total Trade			2,082,561
Wagner Peyser	06-35	17.207	1,432,226
Wagner Peyser No Worker Left Behind	07-15	17.207	12,921
Total Wagner Peyser			1,445,147
WIA Administration	07-01	17.258, 17.259, 17.260	2,508,843
WIA Statewide No Worker Left Behind	07-01	17.258, 17.259, 17.260	728,435
WIA Statewide Youth Activity High Concentration	07-02	17.258, 17.259, 17.260	62,246
WIA Statewide – Capacity Building	06-36	17.258, 17.259, 17.260	24,000
WIA One Stop Operation	07-03	17.258, 17.259, 17.260	227,523
WIA Statewide Goodwill	07-27	17.258, 17.259, 17.260	156,222
WIA Statewide Work first Support	06-13	17.258, 17.259, 17.260	1,631,889
WIA Adult	07-01	17.258	7,595,501
WIA Youth	07-01	17.259	5,597,175
WIA Dislocated Worker	07-01	17.260	6,108,726
WIA Rapid Response DW Incumbent	07-09	17.260	236,321
WIA Dislocated Worker NWLB	07-14	17.260	306,239
Dreaming While Achieving (DWA) 06/07	n/a	17.259	3,141
Total WIA Grants			25,186,261
Work Incentive Grant DPM	n/a	17.266	67,981
Total Department of Labor			28,781,950
Environmental Protection Agency:			
Via Michigan Department of Environmental Quality:			
State Revolving Loan-5143-02	5143-02	66.458	288,749
State Revolving Loan-5175-02	5175-02	66.458	6,452
State Revolving Loan-5175-06	5175-06	66.458	5,682,431
State Revolving Loan-5204-03	5204-03	66.458	24,450
State Revolving Loan-5204-06	5204-06	66.458	69,841
Total State Revolving Loan			6,071,923

CITY OF DETROIT, MICHIGAN
Schedule of Expenditures of Federal Awards
Year ended June 30, 2008

<u>Grant title</u>	<u>Grant number</u>	<u>Catalog of federal domestic assistance</u>	<u>2008 Expenditures</u>
Drinking Water Revolving Fund-7161-01	7161-01	66.468	\$ 218,282
Drinking Water Revolving Fund-7162-01	7162-01	66.468	789,187
Drinking Water Revolving Fund-7178-01	7178-01	66.468	991,922
Total Drinking Water Revolving Fund			<u>1,999,391</u>
Total Department of Environmental Quality			<u>8,071,314</u>
Department of Transportation:			
Federal Transit Administration:			
Federal Transit Capital Investment – Facility Construction	MI-90-X325	20.500	1,779,299
Federal Transit Capital Investment – Bus Shelter	MI-90-X341	20.500	(460)
Federal Transit Capital Investment – Facility Construction	MI-90-X347	20.500	1,319,921
Federal Transit Capital Investment – Bus Shelters & Bus Stop-8 Mile	MI-90-X374	20.500	967,583
Federal Transit Capital Investment – Bus Lease	MI-90-X463	20.500	3,125,000
Federal Transit Capital Investment – Center City Loop – Rail Study	MI-17-X001	20.500	859,405
Federal Transit Capital Investment – Facility Construction	MI-03-0177	20.500	843,371
Federal Transit Capital Investment – Rosa Parks Transit Center	MI-03-0196	20.500	1,731,945
Federal Transit Capital Investment – Bus Lease	MI-03-0219	20.500	83,060
Federal Transit Capital Investment – Facility Renovation	MI-03-0227	20.500	400,327
Federal Transit Capital Investment – Federal Bus Lease	MI-03-0231	20.500	405,845
Federal Transit Capital Investment – Fare Collection Equipment	MI-04-0006	20.500	761,428
Federal Transit Capital Investment – Fare Collection Equipment	MI-04-0023	20.500	802,560
Federal Transit Formula Grants – Facility Construction	MI-90-X337	20.507	1,503,183
Federal Transit Formula Grants – Bus Shelter & Bus Signage	MI-90-X359	20.507	19,003
Federal Transit Formula Grants – Communication/ Service	MI-90-X383	20.507	457,707
Federal Transit Formula Grants – Rosa Parks Transit Center	MI-90-X421	20.507	4,440,134
Federal Transit Formula Grants – Facility Improvements	MI-90-X422	20.507	2,758,179
Federal Transit Formula Grants – Engineering Services	MI-90-X434	20.507	540,320
Federal Transit Formula Grants – Engineering/Communications	MI-90-X464	20.507	6,913,148
Federal Transit Formula Grants – Engineering/Communications	MI-90-X502	20.507	978,628
Federal Transit Formula Grants – Preventive Maintenance	MI-90-X533	20.507	280,693
Federal Transit Formula Grants – Preventive Maintenance	MI-90-X563	20.507	12,000,000
Total Federal Transit Cluster			<u>42,970,279</u>
Job Access & Reverse Commute	MI-37-X014	20.516	119,434
Job Access & Reverse Commute	MI-37-X020	20.516	600,939
Total Job Access & Reverse Commute			<u>720,373</u>
Via Michigan Department of Transportation – Bureau of Aeronautics Land Acquisition	E-26-0027-3305	20.106	<u>1,823,318</u>
Total Department of Transportation			<u>45,513,970</u>
Total			<u>\$ 303,220,781</u>

See accompanying notes to schedule of expenditures of federal awards.

CITY OF DETROIT, MICHIGAN

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

(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, \$110,150,673 of federal awards was provided to subrecipients.

(4) Noncash Transactions

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

(5) Highway and Construction Program

The City participates in various road, street, and bridge construction and repair projects. The projects are funded through an award granted to the State of Michigan Department of Transportation (the State), which administers the grant for the City. The City identifies the projects needed in the locality, and the State performs the procurement, payment, and cash management functions on behalf of the City. The award is managed directly by the State and has not been included in the tests of compliance with laws and regulations associated with the City's Single Audit. The award is approximately \$17.2 million for the year ended June 30, 2008.



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Detroit, MI 48226-4429

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

The Honorable Mayor 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, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 20, 2009. Our report was modified to include a reference to other auditors and to emphasize the City has an accumulated unreserved undesignated deficit in the General Fund of \$219 million as of June 30, 2008, which has contributed to the City's dependence on short-term borrowing for cash flow purposes. Our report also emphasized, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, during the year ended June 30, 2008 and the City ceased reporting regulatory assets and liabilities under Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation*, as of July 1, 2007. 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 Detroit Brownfield Redevelopment Authority, Detroit Public Library, Detroit Transportation Corporation, Downtown Development Authority, Eastern Market Corporation, Economic Development Corporation, Greater Detroit Resource Recovery Authority, Local Development Finance Authority, Museum of African American History, the General Retirement System, and the Policemen and Firemen Retirement System, as described in our report on the City's basic financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of Detroit Brownfield Redevelopment Authority, Detroit Public Library, Downtown Development Authority, Eastern Market Corporation, Greater Detroit Resource Recovery Authority, Local Development Finance Authority, Museum of African American History, General Retirement System, and Policemen and Firemen Retirement System were not audited in accordance with *Government Auditing Standards*.

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 opinion 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. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as findings 2008-1, 2008-2, 2008-3, and 2008-4 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe the significant deficiencies described above are 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 2008-5, 2008-6, 2008-7, and 2008-8.

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

This report is intended solely for the information and use of the Mayor, City Council, 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
November 20, 2009

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Section I – Summary of Auditors’ Results

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

<u>Unqualified</u>	<u>Qualified</u>	<u>Adverse</u>	<u>Disclaim</u>
Section 108 Loan (CFDA No. 14.248)	Home Investment Partnership Program (CFDA No. 14.239)	Community Development Block Grant (CFDA No. 14.218)	Special Supplemental Nutrition Program For Women, Infants, and Children (CFDA No. 10.557)
State Revolving Loan (CFDA No. 66.458)	Workforce Investment Act (CFDA No. 17.258, 17.259 17.260) Federal Transit Cluster (CFDA No. 20.500, 20.507) Immunization/Immunization Vaccine for Children (CFDA No. 93.268) Temporary Assistance for Needy Families (CFDA No. 93.558) Community Services Block Grant (CFDA No. 93.569) Head Start and Early Head Start (CFDA No. 93.600) HIV Emergency Relief (CFDA No. 93.914) Prevention and Treatment of Substance Abuse (CFDA No. 93.959) Maternal and Child Health Service Block Grant (CFDA No. 93.994)		

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

- (h) Any audit findings that are required to be reported under Section 510(a) of OMB Circular A-133: **Yes**
- (i) Major programs: Community Development Block Grant (CFDA NO. 14.218); 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); Federal Transit Cluster (CFDA NO. 20.500, 20.507); State Revolving Loan Fund (CFDA NO. 66.458); Immunization/Immunization Vaccine for Children (CFDA NO. 93.268); Temporary Assistance For Needy Families (CFDA NO. 93.558); Community Services Block Grant (CFDA NO. 93.569); Head Start and Early Head Start (CFDA NO. 93.600); HIV Emergency Relief (CFDA NO. 93.914); Prevention and Treatment of Substance Abuse (CFDA NO. 93.959); Maternal and Child Health Services Block Grant (CFDA NO. 93.994); and Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA NO. 10.557).
- (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, 2008

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

Finding 2008-01 – Financial Closing and Reporting

Deficiencies exist in the processes to evaluate accounts, record entries into the general ledger, and prepare financial statements. These deficiencies include the following:

- The process to close the books and 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.
- The process to identify significant transactions throughout the City's fiscal year to determine the appropriate accounting treatment does not result in timely consideration as to 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).
- The process to close the books and prepare financial statements includes the recording of a significant number of manual postclosing entries.
- 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. 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 closing entries and financial statements does not utilize enough adequately trained and appropriately experienced employees to prepare the financial statements or monitor reporting issues throughout the year. There is inadequate supervisory review and approval of accounting transactions.
- 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.
- The process for establishing legal case reserves and tracking the status of cases is predominantly manual in nature and very time-consuming. The volume of open litigation along with the frequency in status changes for the cases increases the difficulty in maintaining an updated case reserve listing without significant manual intervention.
- The process to determine the proper classification of grant revenues did not originally include an appropriate determination of whether the grant was from a State or Federal source.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

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 and financial reporting process. 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. We also 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.

Views of Responsible Officials

We have reviewed the finding and concur with the recommendation. However, due to turnover and lack of trained and developed accounting staff, the recommendation for this finding and the other findings will take some time to fully implement. Layoffs and turnover in accounting and management staff and lack of training and staff development over the past several years has contributed to the City's accounting and financial reporting problems.

The City is presently rebuilding the accounting division and making improvements to the accounting and financial reporting systems. The City will continue to add qualified staff and make improvements including adopting the recommendations herein. New accounting tools, such as "GL Wand", have been obtained that will facilitate the timely completion of financial reports in the future.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Finding 2008-02 – Authorization, Approval, and Segregation of Duties

Internal control policies and procedures are intended to be designed to mitigate risks to the City. Control activities that do not operate as intended represent failed control activities and increase risks to the City. Deficiencies exist in the areas of authorization, approval, and segregation of duties. These deficiencies include the following:

- Appropriate approvals and segregation of duties did not exist for a significant number of journal entries during the year. Journal entries lacked supervisory approval and in some cases were prepared, posted, and approved by the same individual.
- Appropriate authorizations and approvals did not exist for certain purchase orders selected for testing.
- Authorization to open, close, or change bank accounts is not properly followed.
- Approvals on employee timesheets did not exist for a number of timesheets.
- An appropriate segregation of duties does not exist for the Gas and Weight Tax revenue collections as the same individual opens the mail, logs the checks, and prepares the journal entry to record the receipt.
- Approvals indicating supervisory review of reconciliations and analyses are not consistently performed or documented.
- Timely supervisory approval of bank reconciliations did not exist for certain accounts.

Recommendation

We recommend management conduct a knowledge and competencies assessment of supervisory personnel to ensure supervisory level accounting and finance personnel are knowledgeable in internal control activities and the financial closing policies of the City. We further recommend management implement new procedures to monitor internal control activities to determine if policies are being adhered to throughout the year.

Views of Responsible Officials

We have reviewed the finding and concur with the recommendation. Improvements have been made in the past year (fiscal year 2008 – 09), in properly segregating duties and approving journal entries. The City has contracted with a local accounting firm to provide training to City supervisory accounting personnel. The Finance Department will work toward creating training programs and developing competent accounting supervisors. Also, the Department will implement new procedures to monitor internal control activities.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Finding 2008-03 – Reconciliations, Transaction Processing, 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. Performing reconciliations of data reported from different systems is an integral part of ensuring transactional data integrity and accurate financial reporting. Deficiencies exist in the areas of transaction processing, data integrity, reconciliation performance, and document retention. Those deficiencies include the following:

- Data provided to the actuaries that assist in estimating workers' compensation liabilities is not tested for accuracy and reconciled to supporting data.
- A comprehensive listing of covenants and terms related to financing arrangements is not maintained and reconciled to original supporting documents.
- A listing of internal controls employed by service organizations is not prepared and evaluated for adequacy. Various service organizations process transactions for the City on a contractual basis.
- Bank, investment, imprest, and petty cash reconciliations are not prepared timely, and reconciling differences are not fully investigated and resolved in a timely manner.
- Data in the human resources system did not match data in the employee personnel files.
- Cash collections and accounts receivable data, which is processed by third-party service providers, is not reviewed and tested for accuracy.
- Income tax returns are not reconciled to available data regarding State and Federal filers to identify nonfilers of City of Detroit returns.
- Cash collections are not recorded timely on a consistent basis.
- Historical data for Water and Sewer accounts receivable was not maintained as the files were inadvertently overwritten.
- Capital projects that are complete are not closed out and placed into service categories on a timely basis.
- Additions to capital projects are not adequately reviewed to ensure that additions are capital in nature. As a result, certain operating expenses were incorrectly recorded as capital assets.
- Interfund and interdepartmental transactions are not reconciled throughout the year on a timely basis.
- A significant number of bank reconciling items are over one-year old and have not been investigated and resolved.

Recommendation

We recommend management develop reconciliation policies and procedures that include thresholds based on the type and purpose of the reconciliation to ensure reconciling differences are appropriately identified and researched. The policies should require reconciling items are cleared within 30 days of identification and documentation is prepared to support and explain the reconciling differences and the related resolution.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Views of Responsible Officials

We have reviewed the finding and concur with the recommendation. As discussed previously, the Finance Department will implement training and development programs to improve accounting staff. The Department has improved its financial analysis, which will enable accounting staff to focus on variances to identify errors and problems. During the audit, the accounting staff did better reviews and reconciliations, which provided the auditors with more reliable data than in past audits. In addition, the Department will develop reconciliation policies and procedures to ensure reconciling differences are identified and researched in a timely manner.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Finding 2008-04 – 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:

- Access to powerful administrator IDs is shared by multiple employees.
- ID's for terminated employees remained active after termination.
- Periodic reviews of user access are not performed.
- Password parameters are inadequate.
- Documents supporting adding, deleting, or modifying user access were not retained.
- Adequate procedures are not in place to log and approve configuration changes for certain applications.
- Program developers have access to move program changes into production for certain applications.
- Vendors supporting certain applications can make program changes without approvals.
- Certain tickets related to problems and incidents were not resolved in a timely manner.

Recommendation

We recommend the following:

- Develop and enforce stronger password parameters such as password length of at least 6 characters, password expiration every 90 – 120 days, enforce alpha-numeric password, and suspend IDs after 5 invalid log-in attempts.
- 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.
- 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.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

- Implement and enforce adequate procedures to log and track problems and incidents.

Views of Responsible Officials

We have reviewed the finding and concur with the recommendation. Finance Department staff are presently working with Information Technology staff on implementing the Information Technology recommendations.

In the current year, the City has changed the password parameters and controls for key financial systems. In addition, the City has identified systems that are in the process of being retired, for which parameters will not be changed. The City will continue to work toward improving information technology controls.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Finding 2008-05 – Arbitrage

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

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

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

Recommendation

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

Views of Responsible Officials

We have reviewed the finding and concur with the recommendation. The City has a new Treasury Cash Management System that will facilitate compliance with the Arbitrage Rules. Also, the City's Treasury Department has added a new cash manager that will be responsible for compliance with the Arbitrage Rules. Finance personnel are currently working with City attorneys to develop and implement procedures to ensure compliance with the Arbitrage Rules.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Finding 2008-06 – Filing of Financial Statements

The City did not file audited financial statements by the required deadline. The City submitted the June 30, 2008 financial statements on November 20, 2009 and has not yet submitted the June 30, 2009 financial statements. In discussing this with City officials, the stated changes in personnel along with increasingly complex transactions and reporting standards have made it difficult for the City to modify its closing procedures to accommodate the changing conditions

Michigan Compiled Laws Section 141.424 requires each local unit file the annual financial report with the State Treasurer within six months of the local unit's year-end.

The Treasurer has the authority when audited financials are not submitted within the six-month period to withhold the local government's State Revenue Sharing distribution. Accordingly, the Treasurer has withheld \$23.0 million revenue sharing associated with the fiscal year ended June 30, 2008. The Secretary of State has the authority to suspend the City's certificate of motor vehicle self-insurance when required financials with application are not submitted 30 days prior before the desired effective date of the certificate. Failure to adhere to the requirement may result in the cancellation of the certificate of motor vehicle self-insurance. However, the Secretary of State has continued to extend the City's certificate of motor vehicle self-insurance, on a month-to-month basis contingent on the City's continuing ability to meet plans to correct these deficiencies.

Recommendation

We recommend management develop a comprehensive plan to effectuate a timely closing of the books and preparation of financial statements.

Views of Responsible Officials

We have reviewed the finding and concur with the recommendation. The Finance Department added new contractual staff and new accounting staff in 2008 and 2009 to more timely complete the June 30, 2007 and June 30, 2008 audits. Improvements have been made and are expected to continue. However, the department does not anticipate meeting the required deadline until December 31, 2010 when it expects to have the June 30, 2010 annual financial report filed on time.

The Department has year-end closing procedures and has tools such as the PBC (Prepared By Client) list with staff assignments and due dates, which will enable the City to file timely financial statements. The Department will prepare a comprehensive plan to complete and file the June 30, 2009 annual financial report by June 30, 2010 and the June 30, 2010 annual financial report by December 31, 2010.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Finding 2008-07 – Escheatment Law

The City has not filed the required annual report of unclaimed property to the State of Michigan. Additionally, the City has not remitted escheatable property to the State. In discussing this with City officials, the stated changes in personnel combined with the lack of written City policies and procedures regarding the monitoring and calculating of escheatment rules caused the City to fail to comply with the rules.

The Uniform Unclaimed Property Act (Public Act 29 of 1995) requires the Michigan Holder Transmittal Annual Report of Unclaimed Property be submitted annually by November 1.

Any holder of unclaimed property who fails to file a report of unclaimed property is subject to fines and penalties as prescribed in Public Act 29 of 1995.

Recommendation

We recommend management conduct an assessment and evaluation of unclaimed property held and file the required report within the annual required deadlines.

Views of Responsible Officials

We have reviewed the finding and concur with the recommendation. The Finance Department's Treasury Division is currently in the process of conducting an assessment and evaluation of unclaimed property in accordance with the Unclaimed Property Act 29 of 1995, Escheat Law. Our assessment and evaluation includes a 60 days' notification period prior to escheatment to the State of Michigan. Once due diligence is complete and the backlog of unclaimed property is either claimed or escheated, we will implement new procedures to conduct annual evaluations and submit the Michigan Holder Transmittal Annual Report of Unclaimed Property by November 1 of each year.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Finding 2008-08 – Bond Ordinances

The Water and Sewerage Disposal Fund revenue bond ordinances require amounts be set aside 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 fiscal 2008, the City did not make the required transfers and, at June 30, 2008, the balance in the Bond and Interest Redemption Fund was not sufficient. The City transferred the amounts needed on July 1, 2008 and made the payments on a timely basis. Additionally, the revenue bond ordinances require (1) amounts be set aside in the Senior Lien Bond Account equal to the maximum annual debt service on all senior lien bonds outstanding, and (2) monthly deposits be set aside in an amount equal to one-twelfth of 3% of the budgeted operation and maintenance expense of each fund for the fiscal year until the aggregate amount funded totals at least 15% of that year's budgeted operating and maintenance costs. The Sewerage Disposal Fund's Senior Lien Bond Account and its Extraordinary Repair and Replacement Reserve Fund were underfunded by approximately \$7.4 million and \$2.3 million, respectively, at June 30, 2008.

During the year, the City identified certain expenditures made by the Water and Sewerage Disposal Funds that potentially should not have been funded by bond proceeds. The City is currently unable to determine whether there were any legal violations or implications as to the tax-exempt nature of the bonds. The City does not believe the outcome of this matter will have a material impact on the financial statements.

Recommendation

The City should identify all applicable material legal requirements contained in laws, regulations, grants, and contracts. Additionally, 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. With the new Treasury Cash Management System, which includes a debt management component, the City will better be able to comply with the legal requirements for its debt. Also, the City's Treasury Division has added a new cash manager that will be responsible for compliance with all debt requirements. The City will adopt the recommendation and implement procedures to monitor compliance with debt legal requirements on a continuous basis.

The Water and Sewerage 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. Also, the funds are consulting with bond counsel to review expenditures related to its capital program to determine their impact, if any, on the tax status of related revenue bonds.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Section III – Findings and Questioned Costs Relating to Federal Awards

Item: 2008-09

Finding Type: Material weakness

Federal Program: All

Requirement: Office of Management and Budget (OMB) Circular A-133 Section 320 states that the audit shall be completed and the data collection form and reporting package shall be submitted within the earlier of 30 days after receipt of the auditors' report, or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

Condition: The City did not submit their Single Audit reporting package (Single Audit Report, Data Collection Form, Status of Prior Year Findings, and a Corrective Action Plan) and data collection report within the required time period.

Questioned Costs: No

Possible Asserted Cause and Effect: Internal controls were not properly designed, executed, and monitored to ensure a timely preparation of reports and records for audit purposes. As a result, management did not comply with the submission requirements of OMB Circular A-133. Layoffs and reduction in accounting personnel in prior years resulted in late submissions.

Recommendation: We recommend that management expand the central grant management processes and strengthen the related internal control procedures to ensure that the City is able to prepare for audits more timely and become in compliance with the submission requirements of OMB Circular A-133.

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, 2008

Item: 2008-10

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 a year after fiscal year-end and errors that required adjustments to the SEFA were discovered throughout this process.

Questioned Costs: No

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. Layoffs and reduction in accounting personnel in prior years resulted in reconciliations not being completed on time.

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

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. 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, 2008

Item: 2008-11 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Material noncompliance and material weakness

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

Pass-Through Entity: N/A

Federal Program: Community Development Block Grant (CDBG)

CFDA No.: 14.218

Award No.: B-07-MC-26-0006

Award Year: July 1, 2007 – June 30, 2008

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. In addition, Appendix B, paragraph 8(h)(3), where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee. 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 40 direct payroll transactions totaling \$77,168 for review and noted the following: for 40 of 40 items tested, there was not a certification performed for all employees that worked solely on the program. As a result, the entire payroll expense of \$3,871,829 and fringe expense of \$1,142,440 is a questioned cost. For 2 of 30 items, the time sheet was not provided.

Questioned Costs: \$5,014,269

Possible Asserted Cause and Effect: Internal controls over payroll certifications, time data, and employee pay rates were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Allowable Costs/Cost Principles requirements. The Accounting Manager stated that the City was going to implement a new computerized time reporting and payroll system that would correct the payroll certification problem. This implementation of the new system was delayed beyond the control of the Accounting Manager.

Recommendation: We recommend that management obtain, on a semiannual basis, a signed certification from employees who work solely on the federal program.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Views of Responsible Officials: Management has developed a form to capture certifications semiannually for employees who work solely on an award. Personnel Activity Distribution Reports were also developed for persons that work on multiple grants. However, the form must be revised to capture more required information. The certification will be based on eligible cost objective.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-12 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Material noncompliance and material weakness

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

Pass-Through Entity: N/A

Federal Program: Community Development Block Grant (CDBG)

CFDA No.: 14.218

Award No.: B-07-MC-26-0006

Award Year: July 1, 2007 – June 30, 2008

Requirement: Per Circular A-87 Attachment E, D.2.b, a governmental unit for which a cognizant agency assignment has been specifically designated must submit its indirect cost rate proposal to its cognizant agency.

Condition: During our testwork we selected 40 indirect payroll transactions totaling \$82,865 for review and noted the following: The Indirect Cost Proposal was not properly submitted to and approved by HUD; Additionally, for 2 of 40 items selected, the City was unable to provide the employee time sheet.

Questioned Costs: \$5,169,850

Possible Asserted Cause and Effect: The City charged indirect costs to the program but did not certify and submit the indirect cost allocation plan to HUD for approval.

Recommendation: We recommend that management strengthen the internal control process to ensure retention of documents that support payroll costs. Additionally, we recommend that the City not charge indirect costs to federal programs without prior written approval from HUD.

Views of Responsible Officials: As recommended, policies and procedures will be established to strengthen the internal control process to ensure compliance with the Allowable Costs/Cost Principles requirements. The Human Resource Department has implemented a new online time capture system (i.e., Workbrain) to store approved time sheets.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-13 Cash Management

Finding Type: Material noncompliance and material weakness

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

Pass-Through Entity: N/A

Federal Program: Community Development Block Grant (CDBG)

CFDA No.: 14.218

Award No.: B-07-MC-26-0006

Award Year: July 1, 2007 – June 30, 2008

Requirement: Per 24 CFR Part 85.20 (7) 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, we selected 40 expenditure transactions totaling \$3,422,140 and noted the following: For 19 of 40 items totaling \$2,702,770, the City did not minimize the time lapse between drawdown and the payment of funds as required. Of the 19, 8 exceeded the minimum time lapse by 7 to 10 days, 10 exceeded the minimum time lapse by 11 to 19 days, and 1 exceeded the minimum time lapse by 57 days.

Questioned Costs: No

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

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

Views of Responsible Officials: Every effort will be made from the department level to minimize the time lapse from IDIS drawdown to the disbursement of funds. Also, the department will work closely with the Finance Department's Accounts Payable Section to ensure that checks are issued timely after funds are drawn down.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-14 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

Award No.: B-07-MC-26-0006

Award Year: July 1, 2007 – June 30, 2008

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, we selected 30 procurements for review and noted the following: 2 of 30 procurements did not contain the required disclosures for suspension and debarment in the contracts. In addition, no other procedures were performed to ensure the contractors were not suspended or debarred.

Questioned Costs: No

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

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

Views of Responsible Officials: As recommended, policies and procedures will be established to strengthen the internal control process to ensure compliance with the Procurement and Suspension and Debarment requirements.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-15 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

Award No.: B-07-MC-26-0006

Award Year: July 1, 2007 – June 30, 2008

Requirement: Reporting: Per 24 CFR Part 85.41(c)(4) requires that grantees must submit the Federal Cash Transaction Reports no later than 15 working days following the end of each quarter.

Condition: Four quarterly Federal Cash Transaction Reports were selected for testing and two of the four of the reports were submitted after the required due date. The first quarter report was submitted two days late. The fourth quarter report was submitted three days late.

Questioned Costs: No

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

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

Views of Responsible Officials: As recommended, policies and procedures will be established to strengthen the internal control process to comply with the reporting requirements by ensuring that the report is submitted within the 15 business days required by HUD.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-16 Reporting

Finding Type: Noncompliance and significant deficiency

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

Pass-Through Entity: N/A

Federal Program: Community Development Block Grant (CDBG)

CFDA No.: 14.218

Award No.: B-07-MC-26-0006

Award Year: July 1, 2007 – June 30, 2008

Requirement: Per 24 CFR Part 91.520 (a) General. 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.

Condition: During our testwork, we noted that the Consolidated Annual Performance and Evaluation Report was submitted 80 days after the required due date.

Questioned Costs: No

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

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

Views of Responsible Officials: As recommended, policies and procedures will be established to strengthen the internal control process to ensure compliance with the Reporting requirements. The Planning and Development Department will submit its Consolidated Annual Performance and Evaluation Report (CAPER) by the mandated due date (within 90 days after the close of the jurisdiction's program year – 24 CFR 91.520) or seek a waiver from HUD to delay report submission (HUD Waiver Authority – 24 CFR 91.600).

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-17 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

Award No.: B-07-MC-26-0006

Award Year: July 1, 2007 – June 30, 2008

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

Condition: During our testwork, we noted that the HUD 60002, Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons was submitted 25 days after the required due date.

Questioned Costs: No

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

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

Views of Responsible Officials: As recommended, policies and procedures will be established to strengthen the internal control process to ensure compliance with the Reporting requirements.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-18 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

Award No.: B-07-MC-26-0006

Award Year: July 1, 2007 – June 30, 2008

Requirement: Subrecipient Monitoring: Per OMB Circular A-133 Subpart D(d) (1), (3), and (4), A pass-through entity shall perform the following for the 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. When some of this information is not available, the pass-through entity shall provide the best information available to describe the federal award. a pass-through entity shall perform the following for the federal awards it makes: (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 \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) 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, we selected 40 subrecipients and noted the following: 6 of 40 subrecipient files did not contain the subrecipient's OMB Circular A-133 report or the required desk review checklist used to document the review of the subrecipient's OMB Circular A-133 report; 6 of 40 subrecipient files did not contain the required evidence of an on-site review; 40 of 40 subrecipient grant agreements did not contain the required communication of the CFDA number; 4 of 40 subrecipients did not have evidence that the subrecipient organization and its principals are not suspended or debarred included in the grant agreement or monitoring file.

Questioned Costs: No

Possible Asserted Cause and Effect: Internal Controls were not properly designed, executed, or monitored to ensure effectiveness. Additionally, we recommend that the CFDA numbers are formally communicated to the subrecipients on a periodic basis. As a result, management did not comply with the Subrecipient Monitoring requirement.

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

Views of Responsible Officials: As recommended, policies and procedures will be established to strengthen the internal control process to ensure compliance with the Subrecipient Monitoring requirements.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-19 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: Section 108 Loans

CFDA No.: 14.248

Award No.: N/A

Award Year: N/A

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

Condition: During our testwork, we noted that the HUD 60002, Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons was submitted 25 days after the required due date.

Questioned Costs: No

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

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

Views of Responsible Officials: As recommended, policies and procedures will be established to strengthen the internal control process to ensure compliance with the Reporting requirements.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-20 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Material noncompliance and material weakness

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

Pass-Through Entity: N/A

Federal Program: Special HSG Rehab Program (HOME Investment Partnership Program)

CFDA No.: 14.239

Award No.: M-07-MC-26-0202

Award Year: July 1, 2007 – June 30, 2008

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. In addition, Appendix B, Paragraph 8(h)(3), Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employee worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee. 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 40 direct payroll transactions totaling \$69,406 for review and noted the following: for 40 of 40 items tested, there was not a payroll certification performed for employees that worked solely on the program. As a result, the entire payroll expense of \$512,120 and fringe expense of \$215,043 is a questioned cost; additionally, for 2 of 40 items no documentary support was provided; for 1 of 40 items the time sheet was not provided.

Questioned Costs: \$727,163

Possible Asserted Cause and Effect: Internal controls over payroll certifications, time data, and employee pay rates were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Allowable Costs/Cost Principles requirements. The Accounting Manager stated that the City was going to implement a new computerized time reporting and payroll system that would correct the payroll certification problem. This implementation of the new system was delayed beyond the control of the Accounting Manager.

Recommendation: We recommend that management obtain, on a semiannual basis, a signed certification from employees who work solely on the federal program.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Views of Responsible Officials: Management developed a form to capture certifications semiannually for employees who work solely on an award. Personnel Activity Distribution Reports were also developed for persons that work on multiple grants. However, the form must be revised to capture more required information. The certification will be based on eligible cost objective.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-21 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: Special HSG Rehab Program (HOME Investment Partnership Program)

CFDA No.: 14.239

Award No.: M-07-MC-26-0202

Award Year: July 1, 2007 – June 30, 2008

Requirement: Cash Management: Per 24 CFR 92.502 (c)(2), HOME funds drawn from the United States Treasury account must be expended for eligible costs within 15 days. Any interest earned within the 15-day period may be retained by the participating jurisdiction as HOME funds. Any funds that are drawn down and not expended for eligible costs within 15 days of the disbursement must be returned to HUD for deposit in the participating jurisdiction's United States Treasury account of the HOME Investment Trust Fund. 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.

Condition: The City prepared a reconciliation between the IDIS and the DRMS General Ledger System with an unsupported amount of \$149,634. Of this unsupported variance, \$146,490, is the result of an overestimation of monthly payroll expenditures. The overdraw occurred for several years before being detected around March of 2008. Upon detection of the error, the department offset future payroll related draws to repay the funds. The repayment of funds was completed in May of 2009. The remaining \$3,144 is an unreconciled difference.

Questioned Costs: \$3,144

Possible Asserted Cause and Effect: Internal controls over the reconciliation of the subsidiary ledger to the general ledger were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Cash Management compliance requirement.

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

Views of Responsible Officials: All surplus administrative funds have been depleted and draws for administrative costs have been based on actual PPS and DRMS reports, rather than estimations.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-22 Cash Management

Finding Type: Material noncompliance and material weakness

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

Pass-Through Entity: N/A

Federal Program: Special HSG Rehab Program (HOME Investment Partnership Program)

CFDA No.: 14.239

Award No.: M-07-MC-26-0202

Award Year: July 1, 2007 – June 30, 2008

Requirement: Cash Management: Per 24 CFR 92.502 (c)(2), HOME funds drawn from the United States Treasury account must be expended for eligible costs within 15 days. Any interest earned within the 15-day period may be retained by the participating jurisdiction as HOME funds. Any funds that are drawn down and not expended for eligible costs within 15 days of the disbursement must be returned to HUD for deposit in the participating jurisdiction's United States Treasury account of the HOME Investment Trust Fund.

Condition: During our testwork, we selected 40 expenditure transactions totaling \$158,490 for testing and noted the following: For 13 of 40 items totaling \$2,806 the City did not minimize the time lapse between draw down and the payment of funds as required. The 13 had a time lapse ranging from 16 to 43 days.

Questioned Costs: No

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

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

Views of Responsible Officials: Every effort will be made from the department level to minimize the time lapse from IDIS drawdown to the disbursement of funds. Also, the department will work closely with the Finance Department's Accounts Payable Section to ensure that checks are issued timely after funds are drawn down.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-23 Reporting

Finding Type: Noncompliance and significant deficiency

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

Pass-Through Entity: N/A

Federal Program: Special HSG Rehab Program (HOME Investment Partnership Program)

CFDA No.: 14.239

Award No.: M-07-MC-26-0202

Award Year: July 1, 2007 – June 30, 2008

Requirement: Reporting: Per 24 CFR Part 91.520 (a) General, 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.

Condition: During our testwork, we noted that the Consolidated Annual Performance and Evaluation Report (CAPER) was submitted 80 days after the required due date.

Questioned Costs: No

Possible Asserted Cause and Effect: Internal controls over the completion and submission of the CAPER were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Reporting requirement.

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

Views of Responsible Officials: As recommended, policies and procedures will be established to strengthen the internal control process to ensure compliance with the Reporting requirements. The Planning and Development Department will submit its CAPER by the mandated due date (within 90 days after the close of the jurisdiction's program year – 24 CFR 91.520) or seek a waiver from HUD to delay report submission (HUD Waiver Authority – 24 CFR 91.600).

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-24 Reporting

Finding Type: Noncompliance and significant deficiency

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

Pass-Through Entity: N/A

Federal Program: Special HSG Rehab Program (HOME Investment Partnership Program)

CFDA No.: 14.239

Award No.: M-07-MC-26-0202

Award Year: July 1, 2007 – June 30, 2008

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

Condition: During our testwork, we noted that the HUD 60002, Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons was submitted 25 days after the required due date.

Questioned Costs: No

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

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

Views of Responsible Officials: As recommended, policies and procedures will be established to strengthen the internal control process to ensure compliance with the Reporting requirements.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-25 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Labor

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

Federal Program: Workforce Investment Act

CFDA No.: 17.258, 17.259, 17.260

Award No.: N/A

Award Year: July 1, 2007 – June 30, 2008

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 30 direct payroll transactions totaling \$60,975 for review and noted the following: for 1 of 30 items the City was unable to provide the time sheet; for 2 of 40 items the amount of overtime worked was not correctly documented.

Questioned Costs: \$1,778

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 management strengthen the internal control process to ensure retention of documents that support payroll costs.

Views of Responsible Officials: As recommended, policies and procedures will be established to strengthen the internal control process to ensure compliance with the Allowable Costs/Cost Principles requirements. The Human Resource Department has implemented a new online time capture system (i.e., Workbrain) to store approved time sheets.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-26 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Labor

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

Federal Program: Workforce Investment Act

CFDA No.: 17.258, 17.259, 17.260

Award No.: N/A

Award Year: July 1, 2007 – June 30, 2008

Requirement: Activities Allowed or Unallowed/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.

Condition: During our testwork, we selected 40 items totaling \$1,360,892 and noted the following: For 3 of 40 items totaling \$413,567 the City was unable to provide adequate supporting documentation.

Questioned Costs: \$413,567

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 management strengthen the internal control process to ensure compliance with the Allowable Costs/Cost Principles requirements.

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

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-27 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: Workforce Investment Act

CFDA No.: 17.258, 17.259, 17.260

Award No.: N/A

Award Year: July 1, 2007 – June 30, 2008

Requirement: 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. 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 40 cash reimbursement requests totaling \$1,320,260 and noted that for 10 of 40 cash drawdowns totaling \$76,479, the City did not minimize the time lapse between the drawdown and the payment of funds as required. Of the 10, 5 exceeded the minimum time lapse by 5 to 16 days, 3 exceeded the time lapse by 20 to 24 days, and 2 exceeded the minimum time lapse by 49 to 59 days. In addition, 1 of 40 Cash Analysis Forms was not properly reviewed and approved as evidenced by signature and 3 of 40 invoices were not available for testing.

Questioned Costs: No

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

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

Views of Responsible Officials: DWDD has continued to monitor and update its cash management procedures in efforts to minimize the time between receipt of funds and disbursement of fund. Once it was recognized that the payments would not be processed as submitted, the invoices were removed from subsequent cash analysis and the overestimates were offset in future cash requests, in accordance with both Policy Issuances 03-29 and 08-01.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2008

Item: 2008-28 Eligibility

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, 2007 – June 30, 2008

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

Condition: During our testwork, we selected 30 individuals for testing and noted the following: for 1 of 30 items the Registration Form was not properly reviewed and approved by the intake worker as evidenced by signature.

Questioned Costs: No

Possible Asserted Cause and Effect: The established policy of signing the registration form was not followed by the intake worker.

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

Views of Responsible Officials: New staff have been trained in the policies and procedures set forth under WIA, making special note of the fact that all registration forms must be signed by both the participant and the case manager. In addition, another level of review has been put in place with the MIS staff reviewing the registration for required signatures prior to input into the Management Information System.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-29 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, 2007 – June 30, 2008

Requirement: 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 work sheets. All costs reported must have adequate documentation on file.

Condition: During our testwork, we selected 46 Financial Status Reports (FSRs) for review and noted the following: 46 of 46 FSRs did not report program income as required; however, it was shown net of the expenditures of the FSR.

Questioned Costs: No

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

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

Views of Responsible Officials: This department addressed this issue during the January 2009 MDELEG Cycle visit. The department has implemented a monthly allocation schedule to account for program income. All program income was properly reflected in the FY 2009 FSRs.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-30 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, 2007 – June 30, 2008

Requirement: Per the March 2008 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 requested a copy of the most recent physical asset inventory records. According to these records there were items that were not found. The client was unable to provide a reconciliation from the physical count to accounting records to resolve these differences.

Questioned Costs: No

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 Equipment and Real Property Management requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Equipment and Real Property Management requirements.

Views of Responsible Officials: DDOT did complete the FY2008 Fixed Asset Physical Inventory; however, the Reconciliation was not submitted on time to the auditors. The Department will change the Physical Inventory Process for FY 2010 to ensure accurate and timely submission.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-31 Eligibility

Finding Type: Significant deficiency

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

Pass-Through Entity: Michigan Department of Community Health

Federal Program: Immunization/Vaccine Provided

CFDA No.: 93.268

Award No.: N/A

Award Year: October 1, 2007 – September 30, 2008

Requirement: Eligibility: 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 grant agreement/contract with the Michigan Department of Community Health, eligibility will be determined for all recipients of vaccines.

Condition: During our testwork, we selected 40 patient immunization records noting the following: 1 of 40 immunization records was not properly authorized as it did not contain the required parental signature; 2 of 40 items did not contain evidence of eligibility on the determination form; 2 of 40 items did not include the birthdate of the individual receiving vaccines as required. There are no questioned costs related to this as the department was able to show where the eligibility information was entered into the MICRS system.

Questioned Costs: No

Possible Asserted Cause and Effect: Internal controls over the eligibility requirements were not properly designed, executed, or monitored to ensure effectiveness. As a result, citizens who are not eligible may be receiving vaccines.

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

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

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-32 Reporting

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: Immunization/Vaccine Provided

CFDA No.: 93.268

Award No.: N/A

Award Year: October 1, 2007 – September 30, 2008

Requirement: Reporting: Per the Comprehensive Planning, Budgeting and Contract grant agreement, all FSRs 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. The final total contractor FSR and Output Measures report (HR-977) is due January 31st after the agreement period-end date.

Condition: During our testwork, we selected 4 quarterly FSRs and noted that 3 of the FSRs were submitted after the required due date. The December 2007 FSR was submitted March 28, 2008, 58 days after the deadline; the March 2008 FSR was submitted May 21 2008, 21 days after the deadline and the June 2008 FSR was submitted September 10, 2008, 42 days after the deadline.

Questioned Costs: No

Possible Asserted Cause and Effect: Internal controls over the timely submission of the quarterly Financial Status Reports were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Reporting requirement.

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

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

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-33 Special Tests and Provisions – Control, Accountability and Safeguarding of Vaccines

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: Immunization/Vaccine Provided

CFDA No.: 93.268

Award No.: N/A

Award Year: October 1, 2007 – September 30, 2008

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

Condition: During our testwork, we reviewed 40 vaccines lots and noted the following: for 3 of 40 items tested the required shipping document was not available for review; for 13 of 40 items tested, we were unable to agree the lot number to the monthly inventory report; for 1 of 40 items tested the lot number on the Vacman report did not agree to the lot number on the monthly inventory report or shipping document.

Questioned Costs: No

Possible Asserted Cause and Effect: Internal controls over the tracking vaccines received were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not maintain Accountability, and Safeguarding of Vaccines. Due to staff turnover in the Immunization Program, some vaccine shipping slips may have been misfiled and not included in the monthly inventory log.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Control, Accountability and Safeguarding of Vaccines by cross training personnel to handle documentation requirements so turnover does not break down the controls.

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

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-34 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 Labor and Economic Growth

Federal Program: Temporary Assistance for Needy Families

CFDA No.: 93.558

Award No.: N/A

Award Year: October 1, 2007 – September 30, 2008

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 30 direct payroll transactions totaling \$60,975 for review and noted the following: for 1 of 30 items the City was unable to provide the time sheet; for 2 of 40 items the amount of overtime worked was not correctly documented.

Questioned Costs: \$1,778

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 management strengthen the internal control process to ensure compliance with the Allowable Costs/Cost Principles requirements.

Views of Responsible Officials: As recommended, policies and procedures will be established to strengthen the internal control process to ensure compliance with the Allowable Costs/Cost Principles requirements. The Human Resource Department has implemented a new online time capture system (i.e., Workbrain) to store approved time sheets.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-35 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 and Economic Growth

Federal Program: Temporary Assistance for Needy Families

CFDA No.: 93.558

Award No.: N/A

Award Year: October 1, 2007 – September 30, 2008

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

Condition: During our testwork, we selected 30 cash reimbursement requests totaling \$2,256,142 and noted that for 6 of 30 cash drawdowns, the required time lapse was not minimized between the request for reimbursement and the payment of funds totaling \$496,169. Of the 6, 2 exceeded the time lapse by 9 to 27 days, 3 exceeded the time lapse by 37 to 44 days, and 1 exceeded the time lapse by 166 days.

Questioned Costs: No

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

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

Views of Responsible Officials: DWDD has continued to monitor and update its cash management procedures in efforts to minimize the time between receipt of funds and disbursement of fund. Once it was recognized that the payments would not be processed as submitted, the invoices were removed from subsequent cash analysis and the overestimates were offset in future cash requests, in accordance with both Policy Issuances 03-29 and 08-01.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-36 Reporting

Finding Type: Noncompliance and significant deficiency

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

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

Federal Program: Temporary Assistance for Needy Families

CFDA No.: 93.558

Award No.: N/A

Award Year: October 1, 2007 – September 30, 2008

Requirement: 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 work sheets. All costs reported must have adequate documentation on file.

Condition: During our testwork, we selected 13 quarterly Financial Status Reports (FSRs) for review and noted that 1 of 13 FSRs was not submitted by the required due date. The August 2007 FSR was submitted on September 21, 2007, one day after the deadline. In addition, 13 of 13 FSRs did not report program income as required.

Questioned Costs: No

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

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

Views of Responsible Officials: This department addressed this issue during a MDELEG Cycle visit. The department has implemented a monthly allocation schedule to account for program income. All program income was properly reflected in the FY 2009 FSRs.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-37 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 Health and Human Services

Federal Program: Community Services Block Grant

CFDA No.: 93.569

Award No.: 07-82007, 08-82007

Award Year: October 1, 2007 – September 30, 2008

Requirement: Activities Allowed or Unallowed and Allowable Costs/Cost Principles: Per 2 CFR 225 Appendix A, Part C, 1(j), to be allowable under federal awards, costs must meet the following general criteria: (j) be adequately documented. 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 60 invoices for testing, totaling \$432,293, and noted the following: 1 of 60 invoices, totaling \$1,682 was not available for review.

Questioned Costs: \$1,682

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 management strengthen the internal control process to ensure compliance with the Allowable Costs/Cost Principles requirement.

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

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-38 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 Health and Human Services

Federal Program: Community Services Block Grant

CFDA No.: 93.569

Award No.: 07-82007, 08-82007

Award Year: October 1, 2007 – September 30, 2008

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. In addition, Appendix B, Paragraph 8(h)(3), where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employee worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee. 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 40 direct payroll transactions, totaling \$105,386, for review and noted the following: for 1 of 40 items, totaling \$154, the employee history files were not available for review.

Questioned Costs: No

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 management strengthen the internal control process to ensure compliance with the Allowable Costs/Cost Principles requirement.

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

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-39 Eligibility

Finding Type: Material noncompliance and material weakness

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

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

Federal Program: Community Services Block Grant

CFDA No.: 93.569

Award No.: 07-82007, 08-82007

Award Year: October 1, 2007 – September 30, 2008

Requirement: Eligibility: A-102 Common Rule requires nonfederal 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 40 recipients that received services during the fiscal year and noted the following: 5 of 40 eligibility files were not available for review; 4 of 40 items did not contain proper documentation.

Questioned Costs: No

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 Eligibility requirement.

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

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

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-40 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 Health and Human Services

Federal Program: Community Services Block Grant

CFDA No.: 93.569

Award No.: 07-82007, 08-82007

Award Year: October 1, 2007 – September 30, 2008

Requirement: Subrecipient Monitoring: Per OMB Circular A-133 Subpart D(d) (3) and (4), pass-through entity responsibilities: a pass-through entity shall perform the following for federal awards it makes: (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 we selected 29 subrecipient on-site visits for 13 subrecipients and noted the following: 5 of 13 subrecipients subrecipients were not monitored through an on-site visit in accordance with the department's policies; 1 of 29 the subrecipient files did not contain all of the required documentation such as significant correspondence and results of audits; 29 of 29 subrecipient's files did not contain the required desk review checklist used to document the review of the subrecipient's OMB Circular A-133 Report; 13 of 13 subrecipient grant agreements did not contain the required communication of the CFDA number.

Questioned Costs: No

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

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

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

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-41 Cash Management

Finding Type: Material noncompliance and material weakness

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

Pass-Through Entity: N/A

Federal Program: Head Start, Early Head Start

CFDA No.: 93.600

Award No.: 05CH0113/40, 05CH0113/42, 05CH8266/01, 05CH0113/43

Award Year: November 1, 2007 – October 31, 2008

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

Condition: During our testwork, we selected 40 cash advance requests and noted the following: 24 of 40 requests did not minimize the time lapse between the advance and the disbursement of funds. 19 of the items were paid in 10 days or less of receipt of funds, 3 were paid between 11 and 15 days after receipt of funds and 2 were paid 25 days after receipt of funds.

Questioned Costs: No

Possible Asserted Cause and Effect: Internal controls over the Cash Management process are not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Cash Management requirement.

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

Views of Responsible Officials: Every effort will be made from the department level to minimize the time lapse from drawing down to the disbursement of funds. Also, the department will work closely with the Finance Department's Accounts Payable Section to ensure that checks are issued timely after funds are drawn down.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-42 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: Head Start, Early Head Start

CFDA No.: 93.600

Award No.: 05CH0113/40, 05CH0113/42, 05CH8266/01, 05CH0113/43

Award Year: November 1, 2007 – October 31, 2008

Requirement: Procurement, Suspension, and Debarment: 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 45 CFR 74.43, all procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. The recipient shall be alert to organizational conflicts of interest as well as noncompetitive practices among contractors that may restrict or eliminate competition or otherwise restrain trade. In order to ensure objective contractor performance and eliminate unfair competitive advantage, contractors that develop or draft grant applications, or contract specifications, requirements, statements of work, invitations for bids and/or requests for proposals shall be excluded from competing for such procurements. Awards shall be made to the bidder or offeror whose bid or offer is responsive to the solicitation and is most advantageous to the recipient, price, quality and other factors considered. Solicitations shall clearly set forth all requirements that the bidder or offeror shall fulfill in order for the bid or offer to be evaluated by the recipient. Any and all bids or offers may be rejected when it is in the recipient's interest to do so. Per OMB Circular A-133 Subpart B Section .200: (a) Audit required. nonfederal entities that expend \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in a year in federal awards shall have a single or program-specific audit conducted for that year in accordance with the provisions of this part. Guidance on determining federal awards expended is provided in §__.205.

Condition: During our review of contracts, we noted the following: one contract renewal had not been competitively bid in several years, the contract was to provide mental health services to Head Start enrollees; one two-year contractor replied to the RFP with a bid of \$353,805; however, the final contract was transposed and approved at \$535,805. Each contract had outdated contract language as follows, "If the Contractor expends \$300,000 or more in federal awards during the Contractor's fiscal year, the Contractor shall have a single or program-specific audit conducted for that fiscal year in accordance with the provision of OMB Circular A-133, 'Audits of States, Local Governments, and Non-Profit Organizations'."

Questioned Costs: No

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

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

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

Views of Responsible Officials: DHS management agrees with the Noncompetitive bid use of one contractor to provide mental health services to Head Start enrollees. Procedures will be modified during the 2010 – 11 program year to ensure contracts are issued using a competitive bid process. DHS management agrees that a transposition was made in entering the CPO contract amount and has implemented a review process/procedure effective March 16, 2010 to minimize reoccurrence. The contract in question was for \$353,805 over a three (3) year period and therefore does not fall within the parameters of OMB Circular A-133 Subpart B Section 200, which requires a single or program audit.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-43 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

Award No.: 05CH0113/40, 05CH0113/42, 05CH8266/01, 05CH0113/43

Award Year: November 1, 2007 – October 31, 2008

Requirement: Subrecipient Monitoring: 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 all 7 subrecipients to test Subrecipient Monitoring and noted the following: the City does not use a desk review checklist to review the OMB Circular A-133 reports of subrecipients; for 1 of 7 items selected, the City did not obtain, review or follow up on OMB Circular A-133 report findings as required, when the report was obtained during our audit, it was noted that there were findings directly related to the Head Start program.

Questioned Costs: No

Possible Asserted Cause and Effect: Internal controls over the Reporting process are not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Subrecipient Monitoring requirement.

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

Views of Responsible Officials: DHS management is in agreement with finding. This was brought to management's attention during the 2006/2007 audit in May 2009. Procedure changes were made during the 2009/2010 fiscal year to implement a desk review process.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-44 Procurement, Suspension, and Debarment

Finding Type: 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, 2007 – February 28, 2008

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

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

Questioned Costs: No

Possible Asserted Cause and Effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness.

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

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

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-45 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, 2007 – February 28, 2008

Requirement: Reporting: 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 grant agreement the City has 45 days after the quarter to submit the PSC-272.

Condition: During our testwork, we obtained 4 of 4 Federal Cash Transaction Reports (PSC-272) for the fiscal year and noted the following: the September 30, 2007 report was submitted on November 16, 2007, 47 days after the quarter-end.

Questioned Costs: No

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

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

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

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-46 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, 2007 – February 28, 2008

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 perform on-site monitoring of the subrecipient; we obtained and reviewed 2 of 2 subrecipient A-133 reports required to be monitored by the department and noted that there was no evidence of management review and that the wrong CFDA number was used on both reports, both reports should refer to the HIV Grants using CFDA number 93.914; currently they refer to 93.915. Additionally the department did not obtain the entire subrecipient reporting package including the corrective action plan and status of prior year findings. During our audit, we also noted that the contract with the subrecipient did not contain the required contract language with regards to the CFDA title or number, award name, or the name of the federal agency.

Questioned Costs: No

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

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

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

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-47 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: 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, 2007 – February 28, 2008

Requirement: Activities Allowed or Unallowed and Allowable Costs/Cost Principles: 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 24 Check Request disbursement forms, totaling \$22,699,306, and noted the following: 14 of 24, totaling \$14,882,016, did not contain the required signature of the preparer on the document; 1 of 24 totaling \$1,280,758, did not contain the preparer's signature as evidence of segregation of duties between the preparer and reviewer.

Questioned Costs: No

Possible Asserted Cause and Effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness.

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

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

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-48 Reporting

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, 2007 – February 28, 2008

Requirement: Reporting: 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 testwork over the Revenue and Expenditures Report (RER), we noted that the RER's did not agree to the Schedule of Expenditures for Federal Awards nor was there a reconciliation prepared to the General Ledger.

Questioned Costs: No

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

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

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

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2008

Item: 2008-49 Subrecipient Monitoring

Finding Type: 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, 2007 – February 28, 2008

Requirement: Subrecipient Monitoring: 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 over Subrecipient Monitoring, we noted 2 of 3 financial on-site reviews were not reviewed and approved as evidenced by a signature.

Questioned Costs: No

Possible Asserted Cause and Effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness.

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

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

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-50 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, 2007 – February 28, 2008

Requirement: Subrecipient Monitoring: Per Circular A-133 Subpart D(d) (1), (3), and (4), A pass-through entity shall perform the following for the 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. When some of this information is not available, the pass-through entity shall provide the best information available to describe the federal award. A pass-through entity shall perform the following for the federal awards it makes: (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 \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) 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 review of the Professional Service Contract between the City and Clark and Associates, we noted that the contract did not clearly disclose all of the relevant terms and conditions of the grant agreement with the State of Michigan.

Questioned Costs: No

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

Recommendation: We recommend that the contract specifies all relevant terms and conditions of the grant agreement with the State of Michigan.

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

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-51 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 Community Health

Federal Program: Maternal and Child Health Services Block Grant

CFDA No.: 93.994

Award No.: Various

Award Year: October 1, 2007 – September 30, 2008

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. In addition, Appendix B, Paragraph 8(h)(s), Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employee worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee. 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: We selected a sample of 30 payroll items for testing, and noted the following: for 4 of 30 items the time sheet was not available for testing; for 1 of 30 items the Time and Attendance (Greenbar) report does not identify the employee pay rate or general ledger account number; for 2 of 30 items the Greenbar was missing an approval signature.

Questioned Costs: \$10,318

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

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

Views of Responsible Officials: As recommended, policies and procedures will be established to strengthen the internal control process to ensure compliance with the Allowable Costs/Cost Principles requirements. The Human Resource Department has implemented a new online time capture system (i.e., Workbrain) to store approved time sheets.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-52 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 Community Health

Federal Program: Maternal and Child Health Services Block Grant

CFDA No.: 93.994

Award No.: Various

Award Year: October 1, 2007 – September 30, 2008

Requirement: Activities Allowed or Unallowed and Allowable Costs/Cost Principles: 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.

Condition: We selected 30 subrecipient payments for testing, noting that for 1 of 30 items tested the department was unable to provide a check request form.

Questioned Costs: No

Possible Asserted Cause and Effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness.

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

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

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-53 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 Community Health

Federal Program: Maternal and Child Health Services Block Grant

CFDA No.: 93.994

Award No.: Various

Award Year: October 1, 2007 – September 30, 2008

Requirement: OMB Circular A-87 Attachment E specifies that a governmental unit for which a cognizant agency has been specifically designated must submit its indirect cost rate proposal to its cognizant agency.

Condition: The cost allocation plan used by the department to allocate indirect costs was not submitted to the federal government. Additionally, we selected 40 items to sample to test the base costs of the indirect cost rate plan and noted the following: for 1 of 40 items tested the invoice was missing the approval signature; for 1 of 40 items, the check request form is missing the general ledger cost center number; for 1 of 40 items tested, the payroll time sheet is missing; for 1 of 40 items tested the square footage calculation is not supportable; and for 8 of 40 items, no supporting documentation was provided.

Questioned Costs: No

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

Recommendation: We recommend that the City submits its indirect cost rate proposal to its cognizant agency.

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

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-54 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 Community Health

Federal Program: Maternal and Child Health Services Block Grant

CFDA No.: 93.994

Award No.: Various

Award Year: October 1, 2007 – September 30, 2008

Requirement: Procurement, Suspension, and Debarment: 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 2 of 2 contracts for review and noted 1 contract was signed 30 days after the contract effective date, and 1 contract was signed 40 days after the contract effective date. Additionally, 2 of 2 contracts reviewed did not contain documented rationale to limit competition, and no evidence of a competitive bid process was noted.

Questioned Costs: No

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

Recommendation: We recommend that contracts are fully executed and signed prior the contract effective date and that rationale for limiting competition is properly documented.

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

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-55 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: Maternal and Child Health Services Block Grant

CFDA No.: 93.994

Award No.: Various

Award Year: October 1, 2007 – September 30, 2008

Requirement: Reporting: 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 45 CFR (a)(1)(IV): Recipient shall submit the SF-269 no later than 30 days after the end of each specified reporting period for quarterly and semiannual FSRs and no later than 90 calendar days for annual and final reports.

Condition: During our testwork, we selected 4 quarterly FSRs and noted that 3 of the 4 FSRs were submitted after the due date. The December 2007 FSR was submitted on March 28, 2008, 58 days after the deadline; The March 2008 FSR was submitted on May 21, 2008, 21 days after the deadline; The June 2008 FSR was submitted on September 10, 2008, 72 days after the deadline.

Questioned Costs: No

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

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

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

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Item: 2008-56 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 Community Health

Federal Program: Maternal and Child Health Services Block Grant

CFDA No.: 93.994

Award No.: Various

Award Year: October 1, 2007 – September 30, 2008

Requirement: Subrecipient Monitoring: Per Circular A-133 Subpart D(d) (1), (3), and (4), A pass-through entity shall perform the following for the 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. When some of this information is not available, the pass-through entity shall provide the best information available to describe the federal award. a pass-through entity shall perform the following for the federal awards it makes: (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 \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) 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 test work, we noted that the department does not formally monitor subrecipients or perform on-site visits. Additionally we tested 2 of 2 subrecipient contracts noting that the CFDA number for the grant did not appear on the subrecipient contract.

Questioned Costs: No

Possible Asserted Cause and Effect: Internal controls were not properly designed, executed, or monitored to ensure that an appropriate monitoring of subrecipients occurred. As a result, management did not comply with the Subrecipient Monitoring requirement.

Recommendation: We recommend that management monitor subrecipients and include CFDA numbers in subrecipient contracts.

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

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Responses

Year ended June 30, 2008

Item: 2008-57

Finding Type: Disclaimer

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.: 20080770

Award Year: October 1, 2007 – September 30, 2008

Requirement: The City is required to comply with all program requirements in accordance with the OMB Circulars, grant agreements, and relevant laws and regulations.

Condition: We were not able to obtain a complete set of records and information regarding compliance or potential noncompliance related to this program due to an ongoing investigation that had not reached its final conclusion.