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Mark W. Lockridge  
AUDITOR GENERAL

**MEMORANDUM**

**DATE:** April 12, 2017

**TO:** Honorable City Council

**FROM:** Mark W. Lockridge, CPA   
Auditor General

**RE:** Special Report Highlighting Concerns Relative to the City's Demolition Programs

**CC:** Mayor Mike Duggan  
John Hill, Chief Financial Officer  
Tyrone Clifton, Director, Detroit Building Authority  
Carrie Lewand-Monroe, Executive Director, Detroit Land Bank Authority  
Erica Ward Gerson, Board Chair, Detroit Land Bank Authority

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Attached for your review is our comments relative to the Detroit Land Bank Authority's response to our Memorandum: Special Report Highlighting Concerns Relative To The City's Demolition Program (March 2017).

Copies of all of the Office of the Auditor General reports can be found on the City's Website: View City of Detroit Reports at <http://www.detroitmi.gov/How-Do-I/View-City-of-Detroit-Reports/Auditor-General-Audits>.

## OFFICE OF THE AUDITOR GENERAL

### COMMENTS TO THE DETROIT LAND BANK AUTHORITY'S RESPONSE TO OUR SPECIAL REPORT (MARCH 2017)

#### **Purpose**

The purpose of this memorandum is to respond to the letter that I received from Erica Ward Gerson, Board Chair of the Detroit Land Bank Authority (Land Bank) on April 4, 2017, in reference to the Office of the Auditor General's (OAG) Special Report Highlighting Concerns Relative to the City's Demolition Programs. Over the past 14 years that I have been a part of the OAG, we have never issued an audit report without giving the audited entity an opportunity to respond before we issued the report. And we have not done that in this instance as well.

Moreover, when we issue an audit report or even special report we issue it directly to City Council, the responsible officials, the Administration, and the City Clerk's Office, generally in that order. That is to say that the Detroit Land Bank Authority and Detroit Building Authority Officials would have received a copy of the report prior to it becoming a public document. Anyone, including the media can obtain copies of our reports once it is delivered to the City Clerk's Office. We do not issue any reports to the media as Ms. Gerson's response suggests.

When the OAG issues an Early Communication of Deficiencies we know that the report will contain at a minimum, only the first element of a finding - the Condition, which is the only element of a finding that is required under the United States Government Accountability Office (GAO), Government Auditing Standards GAS § 6.78.

For example, in 2008, when Auditor General Loren E. Monroe issued an Early Communication of Deficiencies regarding the Lack of Internal Controls over the City's Fuels Supply, the report contained a purpose, background, a list of the unacceptable conditions and recommendations. It was appropriately issued without seeking the views of responsible officials due to the nature of the conditions and the urgent need for corrective action. Then, in 2010 we issued the full audit report entitled Audit of the General Services Department, which of course included: our audit purpose, scope, objectives, methodology and conclusion; background; our audit findings and recommendations; and responses from the General Services Department and the Detroit Police Department. All of our audit reports include these attributes. Copies of all of the Office of the Auditor General Reports can be found on the City's website.

The primary reason that I issued the "Special Report Highlighting Concerns Relative to the City's Demolition Programs" was to report on dangerous conditions that posed a risk to the residents of Detroit. As Auditor General of the City of Detroit, I took an oath to safeguard the City's assets to the best of my ability with the powers and duties bestowed upon me. In my view the residents of the City of Detroit represent the City's most valuable assets. When an unacceptable condition comes to my attention that poses significant risks to the City's assets, I have a duty to communicate it regardless of when our fieldwork and audit report are completed. At that point, my concern is toward mitigating or eliminating the condition(s) that put our assets at risk as soon as possible.

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The very reason for §6.78 of GAO Standards is to give internal auditors a means to report significant issues without obtaining all that is required in an audit finding. An "audit finding" includes a Condition, Criteria, Cause, Effect and Recommendations, those will follow in the audit report. As stated in § 6.78 of the United States Government Accountability Office's (GAO) Government Auditing Standards (GAS) "...early communication is important to allow management to take prompt corrective action..."

All throughout Ms. Gerson's response to our Special Report, she makes reference to GAO Standards stating in her conclusion that my "Office's conduct in connection with the Report repeatedly violated no fewer than six standards of professional conduct, see GAO Standards § 6.37, 6.47, 6.56, 6.61(e), 7.32, 7.33, and severely undermined the Report's accuracy and credibility." In response to her conclusion, I say that in no way does our Special Report violate any GAO Standards, and has no effect on the accuracy and credibility of our Report. All of the references that she cites in her response pertains to a complete audit report. Ms. Gerson has mistakenly referred to GAO Reporting Standards for Performance Audits in reference to the Special Report as opposed to Field Work Standards for Performance Audits upon which the Special Report was communicated.

The problem with all of the references that Ms. Gerson made regarding GAO standards, is that they are all taken out of context and have no bearing or pose no limitation on an "Early Communication of Deficiencies" § 6.78, which is the GAO Standard upon which our Special Report was issued. An Early Communication of Deficiencies, if necessary, precedes the audit report and hopefully precludes what otherwise might be reported later had the early communication not been sent.

All entities under this demolition audit can be certain that we will provide a draft of the audit report and allow a reasonable amount of time upon which to respond (usually a minimum of two weeks) before we issue a final report for distribution as we always do. We expect to issue an audit report on the city's demolition activities in the near future. At that time we will meet with the Auditees' to discuss any of the findings, and to resolve all matters that can be resolved prior to issuance. Ms. Gerson is more than welcome to attend the Land Bank's discussion and reviews.

I'm not sure why Ms. Gerson cited Field Work Standard § 6.47 of the United States GAO, Government Auditing Standards on page one of her response. We fulfilled those standards when we had our entrance conferences at the onset of the audit (See **Appendix A**, for the dates of the entrance conferences and number of organization/agency attendees.) We communicated an overview of the objectives, scope, and methodology and the timing of the performance audit and planned reporting (See **Appendix B** for the Land Bank Entrance Conference agenda.) The Special Report we issued was not a part of planned reporting but rather an early communication of dangerous conditions and other conditions worthy of early communication prior to the release of the audit report.

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The issuance of the "Special Report Highlighting Concerns Relative to the City's Demolition Programs" on March 22, 2017 does not constitute an "audit report" in terms of GAO standards, but rather an "Early Communication of Deficiencies" as described in Chapter 6 Field Work Standards for Performance Audits.

§ 6.78 Auditors report deficiencies in internal control, fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse. For some matters, early communication to those charged with governance or management may be important because of their relative significance and the urgency for corrective follow-up action. Further, when a control deficiency results in noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse, early communication is important to allow management to take prompt corrective action to prevent further noncompliance. When a deficiency is communicated early, the reporting requirements in paragraphs 7.18 through 7.23 still apply.

Notice that § 7.18 through 7.23 have nothing to do with obtaining the views of responsible officials prior to communicating the deficiencies nor does it require that I consult with any attorneys. It does not even require a criteria as Ms. Gerson referred to several times as a violation of GAO standards. "Early Communication" means prior to the completion of the audit field work and the audit report.

The references Ms. Gerson made to § 7.32 and 7.33 of GAO Reporting Standards are not applicable to the Early Communication of Deficiencies under § 6.78. Again, there is no provision in GAO Field Work Standards that requires the views of responsible officials, prior to communicating those deficiencies. Since our field work is not yet completed, fieldwork standards apply. The fact that the Special Report contained only a fraction of what is included in a completed audit report indicated that the report was not an audit report. That is the reason we named it a Special Report so that it would not be confused with an audit report.

As I stated before, I stand by all of the communications of our concerns in our Special Report, and by our comments to the Land Bank's response as follows:

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### COMMENTS TO THE DETROIT LAND BANK AUTHORITY'S RESPONSE TO OUR SPECIAL REPORT (MARCH 2017)

#### I. Dissolution of the Approval Committee

**OAG Concerns:** The Demolition Program Manager, (i.e. – the Detroit Building Authority (DBA)), was unaware of the change to a vital process that was established to insure demolition costs were appropriate and properly funded; processes are changing rapidly as a result of the Land Bank and/or DBA's reactions to pressures or events from external organizations such as the Michigan Homeowner Assistance Nonprofit Housing Corporation (MHA), the Michigan State Housing Development Authority (MSHDA), attorneys, etc.

On March 14, 2017, the Land Bank's Board of Directors passed a resolution (Resolution # 03-01-2017), which stated "In short ... resolves the legal challenges the Plaintiff seeks to redress in this matter", and dissolved the Approval Committee. The Resolution set forth the following:

- The Approval Committee formed pursuant to the Hardest Hit Fund Program (HHF) Policy Resolution (also known as the "Demolition Program Policy"), was dissolved and terminated;
- The Land Bank's Executive Director was authorized to execute any ancillary agreements, and documents necessary or appropriate in connection with the HHF Program, provided that they are "in substantial compliance" with the Land Bank's policies;
- The policy adopted in the HHF Policy Resolution is hereby rescinded in favor of a revised policy (entitled the "First Amended Demolition Program Policy");
- The Land Bank agreed to comply with the Open Meetings Act for all matters to be reviewed by a committee.

#### ➤ **Land Bank's Response:** The response states (in part) that:

- A. DLBA's Creation and Dissolution of the Approval Committee Was Entirely Appropriate and that [it] was briefly in place to review certain properties that were scheduled to be demolished through the federal HHF program;
- B. Lest there be any doubt, the Approval Committee has been completely dissolved. It has not met since prior to March 14. Nor, since that time, have its former members, acting in their previous capacity as Approval Committee members, provided their advice on contracting;
- C. DLBA has taken steps to clarify any uncertainty regarding the status of the Approval Committee;
- D. Full briefings on the Approval Committee's dissolution have taken place for senior DLBA and DBA staff, as well as the Committee's former members.

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- ❖ **OAG Comments:** On August 15, 2016, the U. S. Treasury Department's (Treasury) notified the Michigan State Housing Development Authority (MSHDA) and suspended demolition activities in Detroit. As you will recall, City Council, OAG, and the general public were only made aware of the suspension when Mayor Mike Duggan announced the reinstatement of the HHF at a press conference on October 17, 2016.

According to the suspension memorandum, the Treasury's decision to suspend funding was based on information provided by MSHDA concerning their investigation and audit of HHF expenditures.

We would like to point out that to date, the Land Bank nor MSHDA has provided us with the specifics or details that "led to, gave rise to, and/or likely supported" the suspension of the demolition program. According to the Land Bank's General Counsel, the only information they received from MSHDA was information released in the external audit report (by Experis) related to the \$1.0 million dollars of inappropriate costs relating to "smoothing" and the reallocation of costs. We requested and have not been provided with specific details regarding the \$6.2 million of additional costs that the Land Bank has entered into arbitration with MSHDA. We were told by the Land Bank's General Counsel that there is no other detail, no actual listings by address, no details by contract, which make up the items that MSHDA has deemed disallowed costs and are requesting reimbursement. To date, the City (alone) has transferred monies from the General Fund to a MSHDA controlled bank account to establish the Land Bank's \$10 Million Escrow Fund Account.

On October 14, 2016, the Treasury authorized MSHDA and MHA to resume the HHF blight elimination activities through a "Reimbursement Agreement" and changes to the Land Bank's program activities to include:

- Quality-control audits to ensure compliance;
- A \$5-million escrow account established by the Land Bank to cover any costs deemed ineligible by the U.S. Treasury;
- A 50-house limit on new bid requests;
- A requirement to disclose all subcontractors and cap their markup at 10%.

The Land Bank adopted a "Demolition Program Policy" which established the Approval Committee. As stated in the policy, the three member committee shall:

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- Approve changes to the Demolition Program procedures developed by DLBA management so long as such changes remain consistent with these Policies; and
- Approve the demolition of any property with estimated or actual costs of \$35,000 or more or with total costs that fall outside an "estimated reasonableness range," as such range is determined by the Approval Committee.

#### DLBA's Rapidly Changing Processes

In response to our report, the Land Bank now states that they have "taken steps to clarify any uncertainty regarding the status of the Approval Committee," and that "full briefings on the Approval Committee's dissolution have taken place for senior DLBA and DBA staff, as well as the Committee's former members." These actions however, violate the Demolition Program Policy which required that the very same Approval Committee that was dissolved, actually "approve" changes to the Demolition Program procedures.

Yes, we are concerned that processes have changed rapidly and are not being disseminated effectively to the Demolition Program Manager. As an example, while reviewing current operational process flowcharts provided to us by DBA, we still see the "Approval Committee" as being functionally active in the funding and approval process for properties being reviewed for demolition. We have not been provided with substantive documentation which shows how properties outside the "reasonable" range of costs will be handled.

#### DBA's Purported Lack of Awareness of A Vital Process

The Approval Committee is comprised of three representatives: one (each) from the City of Detroit Office of the Chief Financial Officer (OCFO), Land Bank, and DBA.

As stated in the Special Report, we met with DBA's Executive Director and the Chief Financial Officer on March 16, 2017 and sought their opinion on the dissolution of the Approval Committee. We did not just meet with "staff members" of the DBA, but met with the Director of DBA, and the CFO who stated that they were a member of the Approval Committee. Again, key representatives to the Approval Committee were completely unaware of the policy change and in fact stated that "the committee was very much intact, still in force, and that they would continue to meet and review funding for properties whose costs exceed the thresholds." The CFO went on to say, that "they had just met last week!"

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Since it represented a policy change, the decision to dissolve the committee is a decision that should have been made by and agreed to by all of the members of the Approval Committee, and not one made solely by the Board of Directors of the Land Bank. We assert that it is not sufficient for the "demolition operation manager to be well aware of the Approval Committee's dissolution" when at least one of the actual members of the committee was not aware that their services were no longer needed in an official capacity.

#### OAG Findings Are Not Based On A "Single Interview"

We began the Audit of Citywide Demolition in October of 2015. This audit is very complex as it involves several organizations and agencies (herein referred to as the "Auditees"), including two external organizations (DBA and the Land Bank) and at least five internal City agencies:

- Building Safety, Engineering and Environmental Department (BSEED);
- Housing Revitalization Department (HRD);
- General Services Division (GSD);
- Offices in the Office of Chief Financial Officer (OCFO);
- Office of Contracting and Procurement (OCP);
- Office of Financial Planning and Analysis (OFP&A);
- Office of the Chief Assessor.

Even prior to the formal audit request from City Council President Brenda Jones, we began amassing and retaining copies of demolition related reports and news articles from the local and national media. To date we have conducted separate Entrance Conferences with the Land Bank, DBA, and BSEED's Management. We have conducted over 75 intensive Internal Control Questionnaires (ICQ's) with all top and middle level management, as well as staff persons at various levels who are actively involved in demolition activities.

We requested, subpoenaed, and received hundreds of documents from the Auditees and other sources ranging from formal and informal policies and procedures, organizational charts, memorandums of understandings, State, and Federal demolition compliance requirements, funding sources and amounts, legal filings, internal and external audit reports, to contracts prices and amounts paid to contractors for all demolitions.



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#### Demolition Operations Manager

In the Land Bank's response to our Special Report, they repeatedly referred to the "demolitions operations manager" as being the person we should have interviewed to gain the correct answers to our questions and concerns:

- The demolition operation manager was (and is) well aware of the Approval Committee's dissolution. Your office could have ascertained that fact had it interviewed him, as the management official with "direct knowledge";
- But your office could have learned the rest of the story had it (a) interviewed other DBA employees (including, for example, its demolition operations manager Tim Palazzolo);
- The DBA employee who is responsible for bundling properties for bid is Tim Palazzolo, its demolition operations manager. It is Mr. Palazzolo who is responsible for knowing whether certain properties have been enjoined from being put out for bid. And Mr. Palazzolo was, at all times, fully aware of the Farrow lawsuit and the Temporary Restraining Order. Yet, when preparing the Special Report, your office never once asked Mr. Palazzolo about the Farrow lawsuit or how it had affected bidding.

Mr. Palazzolo was hired by DBA February 20, 2015 as a personal services contractor responsible for the "ground oversight of demolition contractor's activities to insure compliance with the terms of their contract." However, in a subsequent amendment to his contract, Mr. Palazzolo's position was changed to "Demolition Supervision."

The Land Bank asserts that it is Mr. Palazzolo who is "the management official" but his position and title are not clear even within the ranks of DBA, as indicated by the conflicting information we received from both DBA management and Mr. Palazzolo:

- During the meeting with DBA's Director and CFO on March 16, 2017 referenced above, while discussing DBA's fiscal year 2017-2018 Budget Request, we were told that Mr. Palazzolo "was a contractor now he is in position as the Deputy Director of Demolition." The Director repeatedly stated – as to make it very clear – and emphasized "that he is not the Deputy Director of DBA, but only the Deputy Director of Demolition."
- On March 22, 2017, and in a subsequent interview with Mr. Palazzolo, we learned that he had been the Functional Operational Manager for the Demolition Program as of August, 2016 and according to him, was

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- recently appointed to the position of Deputy Director of the DBA three weeks ago by the DBA Board during their meeting.”
- We have requested copies of the Commissioners minutes to confirm the appointment.
- Yet that same day, we received a payroll roster from DBA's CFO, in support of DBA's request for increased funding for fiscal year 2017-2018, and it still listed Mr. Palazzolo's position as Demolition Operations Manager.

Notwithstanding the lack of clarity on Mr. Palazzolo's title/position, and not taking away from his contributions to DBA's demolition program, we are professionally skeptical at the Land Bank's suggestion that he speaks entirely for DBA as the program manager of the City's demolition activities and/or in lieu of DBA's management.

#### II. Actions Surrounding the 19 Properties in Group #3.14.17A Were Appropriate – Front End Status of Properties

**OAG Concerns:** The RFP solicited bids for debris removal, open hole completion and site finalization for nineteen (19) properties. We determined that the structures on the properties were knocked down in July 2016, approximately eight months ago, and still remain with open holes.

- **Land Bank's Response:** Thus, like virtually any business entity, DLBA does not allow contractors to begin work under a contract until (1) a contract is actually executed, and (2) DLBA has issued a Notice to Proceed. Nor could DLBA allow such work to begin prior to contract execution. The Michigan Housing Authority (MHA) and the Michigan State Housing Authority (MSHDA)-the State partners that run the HHF program-expressly make the award of a contract a prerequisite to beginning any "actual demolition activities."
- ❖ **OAG Comments:** We believe the heart of this issue lies with what constitutes an "award notice" and when exactly is the contract awarded to allow a contractor to perform work. Since the onset of our audit we have been working to define the actual awarding of a contract for both the Land Bank and the City of Detroit demolition contracts.

#### Notice Of Awards

Rickman Enterprises (herein referred to as Rickman), received notification in the form of emails, dated July 19, 2016, which informed them they had been awarded the contracts that contained the 19 properties, pending bond and insurance. The wording from one of the emails relating to this group of properties contains the following statements:

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#### **Subject: Contract Award RFP Group 6.22.16A**

"Congratulations. Rickman Enterprise, Inc. is hereby awarded the demolition RFP Groups 6.22.16A package. The contract is attached for your review. Contract language is fixed with the only variables associated with award entity being property list and contract amount. Your Company has 5 business days from this notice to obtain your 100% Performance Bond and Certificate of Insurance. Failure to meet this requirement will void your Contract Award and the Contract will be awarded to the next qualified lowest bidder."

#### **Roderick Rickman**

**From:** Martha Delgado [mdelgado@detroitlandbank.org]  
**Sent:** Tuesday, July 19, 2016 5:51 PM  
**To:** Roderick Rickman; Phil Yoder; David MacDonald  
**Cc:** Pura Bascos, James Wright, Tyla Tinsley, Tom Fet, Greg Holman  
**Subject:** Contract Award RFP Group 6.22.16A  
**Attachments:** Contract Award-HHF -Master Revised 5.25.16 w/MLB-Rickman 6.22.16A.pdf

Congratulations. Rickman Enterprise Inc., is hereby awarded the Demolition RFP Groups 6.22.16A package. The contract is attached for your review. Contract language is fixed with the only variables associated with award entity being property list and contract amount.

*Your Company has 5 business days from this notice to obtain your 100% Performance Bond and Certificate of Insurance. Failure to meet this requirement will void your Contract Award and the Contract will be awarded to the next qualified lowest bidder.*

NOTE: Certificate of Insurance must indicate the Detroit Land Bank Authority and the Detroit Building Authority as certificate holders. Certificate must also have the box adjacent to Workman Compensation notated as instructed.

After review and acquirement of Performance Bond and Certificate of Insurance, contact DLBA offices to schedule execution of contract.

*Martha S. Delgado*



DETROIT LAND BANK AUTHORITY  
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As further evidence that Rickman had been awarded the 19 properties, their statuses were changed from "Demo Pipeline" to "Demo Contracted" in the Land Bank's demolition management database (Sales Force) on July 13, 2016. The DBA staff person responsible for making these changes in Sales Force, stated that changes were made upon receipt of similar emails from the Land Bank to the contractor notifying them of the award.

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Rickman Enterprises staff indicated this was the standard practice in place and how they were notified to begin work. According to the contractor, it wasn't until they received the email notifying them they had been awarded the RFP group (contract) that they would begin the procurement process to obtain the necessary bonds and insurance. This step required an outlay of funds by the contractor. The contractor would not purchase the bonds and insurance if they were not assured they had been awarded the contract. By sending the "Notice of Award" email instructing the contractor to obtain the performance bond and insurance, the Land Bank is constructively notifying the contractor is to begin work.

#### Stop Work Order

The Land Bank ordered Rickman Enterprises to halt work on July 26, 2016. At that point the 19 properties were already demolished.

Once the "Stop Work Order" was issued, the Land Bank states it was waiting to move forward with work until MHA/MSHDA gave its express approval. The go-ahead came on December 5, 2016 in an email. The Land Bank did not put out an RFP for the work to be finished until March 14, 2017, four months after receiving the "go ahead" from MHA/MSHDA.

It should be noted that we were in communication with MSHDA concerning the 19 properties. They indicated that only one of the nineteen properties was in the MATT System (MSHDA's computer system for reviewing documentation and approving HHF demolitions). Per the Blight Manual, the 19 properties should have been at Stage II (Demolition in Process) at the time the demolition RFP's were awarded. The OAG has attempted to obtain more detailed information from MSHDA for the last two weeks but our requests have gone unanswered.

The response from the Land Bank's Board Chairperson indicates that "since the stop work order DLBA and DBA have taken steps to ensure that any danger the holes pose is mitigated and we will continue our vigilance on that front." The response further states that DBA field inspectors visited the sites regularly and that the field inspectors submitted photographs of the properties at least four times. We could not verify this to be true.

Our review of information in Sales Force found that since September 20, 2016, only two of the nineteen properties (or only 10%) showed pictures of four site visits since demolition. Additionally, 12 of the 19 properties (or 63%) had no site visit photographs included in their case files.

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The DBA and the Land Bank have asked Rickman Enterprises to maintain the properties since they were demolished and after the stop work order was issued. To date Rickman Enterprises has received no compensation for the demolition and maintenance of the sites. The Land Bank continues to state that it will not pay them for the demolitions. The original and total bid price for the abatement and demolition of the 19 houses was over \$250,000.

#### Farrow Group Lawsuit

As stated in our original report, the Land Bank is involved in an ongoing lawsuit with the Farrow Group. The issues stated in the lawsuit are similar to the questions raised surrounding the demolition of the 19 properties done by Rickman Enterprises. In this case according to the lawsuit, although the Farrow Group did not begin the actual abatement and demolition, they did begin administering the contract and preparing for the work by ramping up and purchasing equipment necessary to complete the work.

Subsequent to our report, on March 30, 2017, the Farrow Group was awarded by the Court Preliminary Injunction which continued to restrain the Land Bank from soliciting bids for demolition on the specifically named 153 properties. The court records state, "This Order does not resolve the last pending claim and does not resolve the case."

### **III. Request for Proposal for Debris Removal, Open Hole Completion and Site Finalization – Front End Status of Properties**

**OAG Concerns:** First and foremost, there are (at least) nineteen properties that present a clear and present danger to the community. We are concerned that there may be additional sites across the City in this same hazardous condition, which puts all the residents of Detroit at risk.

➤ **Land Bank's Response:** The response states the following:

#### 1. Dangerous Holes:

- DLBA agrees that the holes need to be filled. And we note that since the issuance of the Report, the issues flagged have been at least partially resolved. Since issuing the stop-work order, DLBA and DBA have taken steps to ensure that any danger the holes pose is mitigated-and we will continue our vigilance on that front.
- To the best of our knowledge, there are no analogous sites. The 19 properties you have identified contain open holes due to an unfortunate (but contained) series of events-namely, Rickman's decision to proceed on demolition without a contract. We are unaware of any similar issues on other properties."

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- ❖ **OAG Comments:** DBA's Compliance Manager informed us that "they were not aware of any documented procedures on handling stop-work orders." This may explain why the 19 properties remained with open holes for almost a year, posing danger to our residents in the community.

We obtained several Open Hole Aging Reports from DBA that are system generated from Salesforce. These reports reflect the status of demolished City and Land Bank properties at various times:

#### **A. Properties Over 30 Days Since Knock Down (Demolished) With No Winter/Final Inspection**

Per DBA management, the properties listed on this report indicate that the property has been demolished, the hole has been backfilled, however, no Winter or Final Grade Inspection has been completed. Highlights of the reports listing "Properties Over 30 Days Since Knock Down With No Winter/Final Inspection" are:

- On the report dated 9/26/2016, there were 307 properties with no Winter/Final Inspection;
- On the report dated 11/14/2016, there were 180 properties with no Winter/Final Inspection. The exception period for a property on this report ranged from a low of 46 days to a high of 432 days.

#### **B. Properties With Open Holes Over 30 Days**

Per DBA management, this report list properties with open holes over thirty days old (i.e. - the property has been demolished and there has not been an open hole inspection completed nor backfill completed.)

- On the report dated 9/26/2016 there are 38 properties with open holes with a range of days from a low of 46 days to a high of 146 days. Only 10 out of the 38 properties were assigned to Rickman Enterprises.
- On the report dated 3/31/2017, there are 10 properties with open holes with a range of days from a low of 32 days to a high of 322 days.

We are awaiting responses for the statuses on these properties as it relates to their final inspection and closure dates. It should be noted that both the Land Bank and City's demolition contracts "Scope of Services" require that "Open Holes should be backfilled with 48 hours after the Open Hole Inspection."

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The evidence presented indicates that there is non-compliance with contract program requirements. We are concerned that there is inadequate program management and oversight by DBA who is the contracted Demolition Program Manager.

#### **IV. Request for Proposal for Debris Removal, Open Hole Completion and Site Finalization – Site Finalization and Funding For Back End Demolition Activities**

The Land Bank awarded RFP #3.14.17A for Debris Removal, Open Hole Completion and Site Finalization of Residential Properties for the 19 properties to Rickman Enterprises. The contract is for \$104,420 which is \$5,495.79 per property. Rickman was not the low-bidder, but was awarded the contract because they received equalization points for being a Detroit-based business. At the time the Special Report was released, we were in the process of determining the funding for the RFP for the "Back End" demolition activities.

- **Land Bank's Response:** The Detroit Land Bank Authority (Land Bank) stated, "6As to the "back end" activities (filling the holes and grading them) that work will be paid for using DBA's Quality of Life funds. 7No charge will be incurred by the City, nor will any HHF funds be used."
- ❖ **OAG Comments:** In its response, the Land Bank states that "no City of Detroit funds will be used for completing the Back End demolition activities." However, the accounting (i.e. funding) source named in the response is City funds appropriated to cover blight elimination of City-owned commercial, industrial, and school properties.

According to the City's approved "Eighth Amended Plan of Adjustment" Blight remediation funding was earmarked specifically for blight removal activities "to prevent uncoordinated efforts" that would reduce "inefficient application of scarce resources," and approximately \$440.3 million was set aside specifically for blight remediation over ten years.

The accounting information identified in the Land Bank's response to pay for the Back End site finalization for the 19 residential properties demolished by Rickman, is related to \$5.3 million awarded to the DBA on April 17, 2015, for "Securing Blighted City Owned Commercial Properties." Specifically, the funds were earmarked for securing, and performing environmental testing of high priority City-owned vacant commercial, industrial, and school properties.

According to a report provided by the City's Financial Planning & Analysis Division, as of December 31, 2016, there were no funds remaining available for additional expenditures against the funding source (i.e. Business Case) identified in the Land Bank's response.

**Office of the Auditor General  
Audit of City Demolition**

**Overview of Entrance Conferences**

<b>Organization/Agency</b>	<b>Date of Conference</b>	<b>Number of Organization/Agency Attendees</b>
Detroit Land Bank Authority	October 21, 2015	6
Detroit Building Authority	October 22, 2015	6
Building Safety Engineering and Environmental Department	November 11, 2015	4



**Detroit Land Bank Authority's Entrance Conference Agenda**

**OFFICE OF THE AUDITOR GENERAL  
City of Detroit**

**ENTRANCE CONFERENCE AGENDA**

Detroit Land Bank Authority

**Audit Assignment: # 15-03-13: Audit of Citywide Demolition Activity**

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**Audit Scope:** The audit will be a **limited scope performance audit** will encompass the Detroit Land Bank Authority, herein referred to as Land Bank, the Detroit Building Authority (DBA), and the City of Detroit's Building Safety Engineering and Environmental Department (BSEED). The Audit will focus on the citywide demolition activity administered by these agencies for the period January 1, 2014 through September 30, 2015. The Office of the Auditor General reserves the right to examine prior fiscal years outside of the aforementioned scope based on information discovered during the audit.

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**Preliminary  
Audit  
Objective(s):**

**Objectives:**

- To determine if the Land Bank is in compliance with the terms of the Memorandum of Understanding, and all amendments between the Land Bank and the City.
  - To determine if the DBA is in compliance with the Memorandum of Understanding between the DBA and the City.
  - To determine if the Land Bank is in compliance with all contracts between the DBA and the City related to demolition activity.
  - To determine if there is proper oversight of demolition contracts.
  - To analyze and report on the cost of Citywide demolition activities, including all revenues and expenditures.
  - To determine if the City's Fire Insurance Escrow Fund is being used in accordance with related laws and if there are proper controls in place for the related funds.
  - To determine if BSEED's dangerous buildings and demolition processes are in compliance with relevant laws and policies.
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**Attendees:**

**See List of Attendees**

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**A-6, 1/2**

## Detroit Land Bank Authority's Entrance Conference Agenda

OFFICE OF THE AUDITOR GENERAL  
City of Detroit

Place: Detroit Land Bank Authority  
500 Griswold, Guardian Building, 11<sup>th</sup> Floor  
Detroit, MI 48226

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Date and Time: October 21, 2015 at 10:30 AM

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- Agenda:
- A. Introduction of the Audit Team and Key Auditee Contacts
  - B. Audit Scope and Preliminary Audit Objectives
  - C. Previous Audits or Studies Related to Audit Objectives
  - D. Changes in Personnel, Procedures, and Computer Systems
  - E. Logistical Considerations:
    - Protocols
    - On-site Timing and Hours
    - Work Area
    - Auditee Assistance and Availability
  - F. Audit Process
    - Fieldwork Through Report Distribution
    - Tentative Schedule and Format of Progress Meetings



A-6, 2/2