




Mark W. Lockridge, Auditor General

MEMORANDUM

DATE : July 28, 2020

TO : Honorable City Council
Arthur Jemison, Group Executive, and Chief of Services and Infrastructure
LaJuan Counts Director, Demolition Department

FROM: Mark W. Lockridge, CPA ^{DS}
Auditor General

RE : **AMENDED** Office of the Auditor General's Review of Departments
Responses to the Audit of Demolition Activities Interim Report on Contract
Administration for City-funded Demolitions

CC : Mayor Mike Duggan
David Bell, Director,
Buildings, Safety Engineering, and Environmental Department
Tyrone Clifton, Director, Detroit Building Authority
Boysie Jackson, Chief Procurement Officer, Office of the
Chief Financial Officer, Office of Contracting and Procurement
David Massaron, Chief Financial Officer, Office of the Chief Financial
Officer
John Naglick, Chief Deputy CFO/Finance Director, Office of the
Chief Financial Officer
Donald Rencher, Director, Housing, and Revitalization Department
Saskia Thompson, Executive Director, Detroit Land Bank Authority
David Whitaker, Director, City Council Legislative Policy Division

The Office of the Auditor General has reviewed the Department responses to our Audit of Demolition Activities Interim Report on Contract Administration for City-funded Demolitions (November 2019). This memorandum includes our review of the responses, and follow-up questions that we respectfully request the Department to address. **Attachment A has been amended to include the Department Responses Implementation Tracker which was inadvertently omitted from the prior published memorandum.**

We would like to thank LaJuan Counts, Director of the City's newly formed Demolition Department for her diligent and directed efforts to provide us with the responses referenced in this review. We also want to commend the Administration for their efforts and progress to correct conditions, and for the implementation of some of our recommendations.

Copies of all of the Office of the Auditor General reports can be found on the City's Website: <https://www.detroitmi.gov/government/auditor-general>.

**REVIEW OF THE DEPARTMENT RESPONSES
AUDIT OF DEMOLITION ACTIVITIES INTERIM REPORT ON
CONTRACT ADMINISTRATION FOR
CITY-FUNDED RESIDENTIAL DEMOLITIONS (NOVEMBER 2019)**

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REVIEW OF RESPONSES AND FOLLOW-UP QUESTIONS

Finding No. 1- Did Not Meet Contract Performance And Timeline Requirements

The Demolition Department revised the Scope of Services to include a defined contractor expectations, revised project timeframes, and a revised Discipline Policy for enforcement. Improvements to the operation of the Compliance Division were completed to ensure the oversight of the contractor compliance (See Attachment B).

OAG Review Comments and Questions

- The new demolition scope of services does speak to timelines and other contractor expectations. However, they do not speak to the discipline policies, as this is a separate document.
 - A. Where will the discipline policies and procedures be included as enforceable contract services requirements?
- The Administration acknowledged that “a serious communication deficiency existed between the Demolition Department and our stakeholders” and implemented changes in February 2020 to address the issue. It was noted stated that “Policy/protocol changes that impact contractors are formally issued in writing and reinforced during the Weekly Demo Contractor Meetings.”
 - B. Explain how contractors are notified “formally in writing?”
 - C. What mechanism is in place to make sure contractors are operating under the latest and most current policies and protocols in effect?
 - D. What is the Demolition Department formal change control mechanism?

Finding No. 2 - Did Not Comply With City Policies And Procedures, And State, Local, And Other Requirements Related To City-Funded Residential Demolitions And Their Contracts

The Demolition Department has established a network of contacts with each of the agencies involved and reviewed the policies and procedures to ensure our consistent standards and practices. Enforcement of health and safety protocols continue to be a top priority for the Demolition Department and have reinforced that priority by revising the Discipline Policy, improving the process procedures for the Compliance Divisions, requiring visual inspections at various stages throughout the demolitions (See Attachment B).

OAG Review Comments and Questions

- The Department Responses include a draft organization chart and the above response reference improvements to the Compliance Division’s “process and procedures.” However, the actual process and procedures were not provided.
 - E. Please provide the procedural documents for our review, so that we can determine if they will work to mitigate the conditions in the finding if implemented.

Finding No. 3 - Lack Of Documentation To Support Authorization Of Payment - All supporting documentation for the authorization of contractor payments is now accessible via Salesforce. Revisions to the contractor invoice submittal process have been implemented to ensure the required department review and approvals take place prior to the contractor uploading to Oracle. In addition to invoices and supporting documentation being available in Salesforce, this information is also available in the OCFO's Oracle Cloud ERP system (See Attachment B).

The Administration also provided the following additional responses, and the separate related policy (See Attachment A):

A new "Data and Documentation Policy and Protocols" provides clear and defined expectations of the required reporting, submitted photos, and related entries necessary for the approval of a contractor payment. The understanding is that this information is absolutely necessary for the department to approve a contractor payment.

OAG Review Comments and Questions

- Our review of the "Request for Payments" in the new "Demolition Only" Scope of Services includes the following language (only):

The Contractor must completely and correctly submit any and all request(s) for payment in the form and manner prescribed by the Owner. The request for payment must include any and all supporting documentation required or requested by the Owner. Payment for each assigned site is based upon (a) the Owner-approved prices and (b) the review and approval of all necessary documentation to substantiate satisfactory completion of the work for each and every assigned site.

- There is no mention of the "Data and Documentation Policy and Protocols," and none of the specific documents required for payment are included in the scope of services. Instead it is a standalone policy document.
 - F. Where and how are the specific payment requirements communicated to the contractor?
 - G. Who's responsible for insuring that all data is entered in Salesforce prior to payment?
 - H. Does the information feed from Salesforce to Oracle ERP? Is this a manual process or automated interface? Who is responsible for input and data integrity in the Demolition Department? In the Divisions within the Office of the Chief Financial Officer (OCFO)?
 - I. Does payment information flow from Oracle ERP to Salesforce? If yes, is this a manual process or automated interface? Who is responsible for input and data integrity in the Demolition Department? In the Divisions within the Office of the Chief Financial Officer (OCFO)?

Finding No. 4 - Contract Files Are Not Centralized And Data Related To Demolitions Is Inconsistent And Unreliable

- Due to the volume of information generated and with the number of demolitions performed, it is necessary to have an electronic data management system to house all of this information. The Demolition Department has committed to ensuring that all of the demolition activity information is entered into Salesforce. Process changes have been implemented over the last four months to ensure that the information is being entered (See Attachment B).

The Administration also provided the following additional response and a stated implementation date of 08/28/2020 (See Attachment A):

The Demolition Department has determined that Salesforce is the best system match for the program's needs, and is committed to the buildout of Salesforce that is required to exceed the system needs of the City. The Demolition Department has also accepted the responsibility of ushering other departments into the process of entering their required data into Salesforce. Salesforce also allows for transparency by allowing access to all available demolition information to departments, agencies, individuals with authorization. This process will require a significant amount of time and funding that was not budgeted due to the City's recent budget shortfalls. A task that can be addressed despite the budget, is for the Demolition Department to receive Salesforce rights access to address the Demolition Department work tickets that require attention.

OAG Review Comments and Questions

- We continue to have concerns relating to Salesforce, particularly, ownership of the database and ultimate responsibility for data integrity issues. We feel the above responses do not adequately address, mitigate, or resolve our concerns.
- According to new Demolition Department's organization chart, there is staff that has previous experience with Salesforce and Oracle ERP. We agree that significant amount of time and funding is required to adequately "build out" Salesforce to meet the reporting requirements of the Neighborhood Improvement Bond Proposal N.
 - J. When will the combined Standard Operating Procedures for all parties involved in the data entry and payment process be made available?
 - K. How will abatement, dirt, and other costs that are procured on a City-wide basis be allocated to each property in Salesforce?
 - L. Who is responsible for the reconciliation of actual and total costs paid to contractors compared to the amounts reported in Salesforce on a per property basis? What is the process and procedures?
 - M. What is the Department of Innovation and Technology (DoIT) role in insuring the security of vendor payment information in Salesforce?

Finding No. 5 - Demolition Cost Were Not Recovered From Property Owners - The authority to recover demolition cost from the property owners is the responsibility of the Law Department. The Demolition Department has made process improvements in regards to documentation retention to support the Law Department in their efforts to recover demolition cost as they deem feasible (See Attachment B).

OAG Review Comment

- We acknowledge the Law Department's recent legal action taken to recover the cost of a commercial demolition.

Finding No. 6 - DBA Did Not Fulfill Its Duties As The Program Manager Over City-Funded Demolitions - To address this shortfall, the Administration consolidated the demolition program under a single department with City oversight and management. The restructure of the process and policies, increased monitoring of field operations and improved compliance efforts were all implemented to ensure the proper management of the program and City-funds (See Attachment B).

OAG Review Comment and Questions

- We acknowledge the Administration's acceptance of our recommendation to consolidate city-wide demolitions into a single organization and under the City's control. We welcome the opportunity and look forward to working with the newly formed Demolition Department.
- According to the draft organization chart, the Field Liaisons have been moved from the Detroit Building Authority (DBA) to the City's Demolition Department.
- Previously, with DBA as Program Managers, some requirements were mandated to facilitate Hardest Hit Fund (HHF) demolitions and the subsequent release of federal funds. For example, the cost of sidewalk repairs is borne by the demolition contractor.
 - N. We would like to see the procedures for the Field Liaisons including the number and timing of site visits, supporting documentation, etc.
 - O. Will the Demolition Department produce a comprehensive document of policies, procedures, and other documents relative to "all things demolition?"
 - P. If yes, will the manual be available to all stakeholders and how?
 - Q. What requirements remain, and/or what requirements have been eliminated because they were unique to federally funded demolitions but were incorporated into policies and procedures that governed both HHF and City-funded demolitions?

QUESTION RELATING TO DEMOLITION CONTRACTS AND THE ENFORCEMENT OF EXECUTIVE ORDER 2016-1

The following question relates to the proposed resolution before City Council, "Resolution Supporting The Administration's Commitment To The Goals Of The Neighborhood Improvement Plan, To Be Supported In Part By Proposal N The Neighborhood Improvement Bonds" (See Attachment C):

Resolution Line Item #10.2. states:

10. RESOLVED, the Neighborhood Improvement Plan will provide employment opportunities for Detroiters, including the following:

2. For all bids awarded under the Neighborhood Improvement Plan, the administration has agreed to extend the application of Executive Order 2016-1, regardless of the size of the rehabilitation or demolition contract.

However, Executive Order 2016-1 (EO2016-1) specifically refers to "publicly funded construction projects":

WHEREAS, it is the policy of this Administration to encourage and maximize the utilization of Detroit residents on all City contracts and all projects benefited by City subsidies. An important component of the economic revitalization of Detroit is the employment of Detroit residents. Accordingly, this Executive Order directs any entity entering into a publicly-funded construction project to implement specific residency targets for its workforce, as follows:

(1) A "publicly-funded construction project," for purposes of this Executive Order, means (a) any construction contract for more than \$3,000,000.00 (Three Million Dollars) made by the City with any person or entity; and (b) any construction project for which the City, affiliated public or quasi-public entities of the City, or any of their agents or contractors provides funds or financial assistance via any of the following methods, where total assistance from the City or its affiliated entities is over \$3,000,000.00 (Three Million Dollars):

- (1) The sale or transfer of land below its appraised value;
- (2) Direct monetary support;
- (3) Public contributions originated by the State of Michigan or its agencies, the United States government or its agencies, or any other non-City government entity, and for which City approval is required and obtained; or
- (4) Tax increment financing. For purposes of calculating the total assistance directly provided through tax increment financing, tax revenue that would have accrued to all government entities shall be counted.

OAG Review Comment and Questions

- Upon review of the revised Demolition Contracts Scope of Services, we did not find any specific language that specifically addresses the hiring requirements for demolition contractors.
 - R. Given that EO2016-1 specifically applies to publicly funded construction projects, and the requirement is not included in the scope of services, please advise how the Administration plans to enforce the commitment in the NIB Resolution stated above for demolition contracts.

SUMMARY LIST OF REVIEW QUESTIONS

- A. How will the discipline policies and procedures be included as enforceable contract services requirements?
- B. Explain how contractors are notified “formally in writing?”
- C. What mechanism is in place to make sure contractors are operating under the latest and most current policies and protocols in effect?
- D. What is the Demolition Department formal change control mechanism?
- E. Please provide the procedural documents for our review, so that we can determine if they will work to mitigate the conditions in the finding if implemented.
- F. Where and how are the specific payment requirements communicated to the contractor?
- G. Who’s responsible for insuring that all data is entered in Salesforce prior to payment?
- H. Does the information feed from Salesforce to Oracle ERP? If yes, is this a manual process or automated interface? Who is responsible for input and data integrity in the Demolition Department? In the Divisions within the Office of the Chief Financial Officer (OCFO)?
- I. Does payment information flow from Oracle ERP to Salesforce? If yes, is this a manual process or automated interface? Who is responsible for input and data integrity in the Demolition Department? In the Divisions within the OCFO?
- J. When will the combined Standard Operating Procedures for all parties involved in the data entry and payment process be made available?
- K. How will abatement, dirt, and other costs that are procured on a City-wide basis be allocated to each property in Salesforce?
- L. Who is responsible for the reconciliation of actual and total costs paid to contractors compared to the amounts reported in Salesforce on a per property basis? What is the process and procedures?
- M. What is the Department of Innovation and Technology (DoIT) role in insuring the security of vendor payment information in Salesforce?
- N. We would like to see the procedures for the Field Liaisons including the number and timing of site visits, supporting documentation, etc.
- O. Will the Demolition Department produce a comprehensive document of policies, procedures, and other documents relative to “all things demolition?”
- P. If yes, will the manual be available to all stakeholders and how?
- Q. What requirements remain, and/or what requirements have been eliminated because they were unique to federally funded demolitions but were incorporated into policies and procedures that governed both HHF and City-funded demolitions?
- R. Given that EO2016-1 specifically applies to publicly funded construction projects, and the requirement is not included in the scope of services, please advise how the Administration plans to enforce the commitment in the NIB Resolution stated above for demolition contracts

OFFICE OF THE AUDITOR GENERAL
AUDIT OF DEMOLITION ACTIVITIES INTERIM REPORT ON
CONTRACT ADMINISTRATION FOR CITY-FUNDED RESIDENTIAL DEMOLITIONS
NOVEMBER 2019

Implementation Tracking of Departmental Responses

FINDING #	AUDIT FINDING	RECOMMENDATIONS		DEPARTMENT RESPONSE(S)	ESTIMATED/ PLANNED IMPLEMENTATION DATE	CONTACT PERSON	IMPLEMENTATION CONTACT NUMBER
		REF.	SPECIFIC RECOMMENDATION				
1.	Did Not Meet Contract Performance and Timeline Requirements	A	Review each of the contract's performance and timeline requirements to determine if the criteria is feasible, reasonable, attainable, and if it complies with all state and local regulations;	Reviews and assessments were performed on the scope of services for: <ul style="list-style-type: none">• Complete Demolitions• Demo Only• Emergency Demolitions. Based on those actions, these documents were revised and updated to address: <ul style="list-style-type: none">(1) The contractor performance and timeline expectations and provides defined contractor milestones;(2) Revision of the Discipline Policy for enforcement of the Scope of Services Operational changes made based on those reviews and assessments: <ul style="list-style-type: none">(3) Realigned the Demolition Department staff of the Compliance Division to ensure the necessary oversight of contractors;(4) Created a missing line of communication between Field Operations and Compliance. Currently revising and updating the scope of services for: <ul style="list-style-type: none">• Abatements Only <i>Policies included</i>	07/01/2020	LaJuan Counts Timothy Palazzolo	313.224.1160 313.224.1849
					08/28/2020	LaJuan Counts Timothy Palazzolo	313.224.1160 313.224.1849

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		B	When necessary, document and update policy and procedural changes. Communicate updated policies and procedures to all parties/stakeholders involved with the demolition and demolition related activities	<p>Understanding that a serious communication deficiency existed between the Demolition Department and our stakeholders, resulted in almost immediate changes to address the lack of communication in general between the Demolition Department and all of our stakeholders.</p> <p>(1) Beginning 2/3/2020, the Demolition Department began internal weekly update meetings with all of the Division Leads (Planning & Strategy, Field Operation, Compliance & Media/Data), the Deputy Director and Director. The purpose of these meetings is generally to serve as a way to update the entire department. These meetings also support how policy/protocol changes have been introduced, discussed, updated or created.</p> <p>(2) Policy/protocol changes that impact contractors are formally issued in writing and reinforced during the Weekly Demo Contractor Meetings. The Demo Contractor Meeting is a meeting that is open to any contractor currently active in the program, DLBA staff, BSEED staff, MSHDA representatives, OCP staff, DoN's staff, DEGC staff, CRIO staff, OIG staff and any other City department representative with an interest in Demolition. We have recently extended invitations to all City Council Members and/or their representatives. The purpose of these meetings is to ensure</p>	<p>02/03/2020</p> <p>02/19/2020</p>	<p>LaJuan Counts Timothy Palazzolo</p> <p>LaJuan Counts Tom Fett</p>	<p>313.224.1160 313.224.1849</p> <p>313.224.1160 313.224.1839</p>
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				consistency of information shared with contractors in the program. (3) Beginning June 4 th , the Demolition Department began attending the monthly District Meetings sponsored by the Department of Neighborhoods. The intent is to make the Demolition Department available to Residents to answer questions or concerns; to deliver update information about potential/actual projects in their districts; educate the residents of what they should expect during the demolition process and who to contact in the event of any issues or concerns.	06/04/2020	LaJuan Counts	313.224.1160
				(4) The Demolition Department committed to each City Council Member to be available for any of their hosted District events. To date Demolition has attended events sponsored by Council Member Tate and Council Member McCalister.	01/25/2020	LaJuan Counts	313.224.1160
				(5) Since 1/27/2020, there have been three occasions when the Demolition Department has contacted City Council Members directly to update them on issues occurring in Demolition.	01/27/2020	LaJuan Counts	313.224.1160
				(6) In March 2020, the Demolition Department created a newsletter to City Council as an additional way to provide a more frequent means of update. Typical information provided is HHF progress, challenges faces,	03/06/2020	LaJuan Counts Brian Farkas	313.224.1160 313.224-1862

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				contractor metrics and demo highlights. <i>Presentations and Newsletters included</i>			
		C	Determine current monitoring capabilities and responsible parties	Environmental Survey – 3 rd Party Vendor/Demo Dept PAV's – 3 rd Party Vendor Demo/Wetting Observations – Demo Dept Site Protection/Fencing – Demo Dept Open Hole Inspection – BSEED Backfill Observations* - BSEED Winter Grade Inspections – BSEED Final Grade Inspections – BSEED Contract Compliance/Invoices – Demo Dept After reviewing and assessing the work flow with BSEED, an agreement was made between the two departments that inspections requiring Code Compliance would be the responsibility of BSEED and inspections require Contract Compliance would be the responsibility of Demolition Department. <i>*Backfill Observations are not a Code requirement and upon completion of the final HHF backfill, this oversight function will return to the Demolition Department.</i>	03/01/2020	LaJuan Counts Timothy Palazzolo	313.402.6352 313.224.1849

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		D	Ensure that responsible employees and other relevant parties are adequately trained in the policies, procedures, and processes. The training should include documenting the risks of noncompliance and provide an understanding of the risks that existing controls mitigate.	<p>The Demolition Department has begun the process of providing update training for our staff.</p> <ol style="list-style-type: none">1. Planning & Strategy was the first division to complete a training to update the staff on policy & procedures that would: remain the same but require consistency across the staff; change and require direction on the new process and format; eliminated and would now longer we utilized.2. A training session for Field Operations is scheduled for August to: review the changes to the policies and procedure; review and update the required documentation and reporting; updates on expectations for demo observations for consistency across the staff3. Similar training is still required for Compliance and Data	<p>04/10/2020</p> <p>08/03/2020</p> <p>08/28/2020</p>	<p>LaJuan Counts Tyler Tinsey</p> <p>LaJuan Counts Tom Fett</p> <p>LaJuan Counts Nicole Hardaway- Johnson</p>	<p>313.224.1160 313.224.1840</p> <p>313.224.1160 313.224.1839</p> <p>313.224.1160 313.224.1871</p>

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2	Did Not Comply With City Policies and Procedures, State, Local, and Other Requirements Related to City-funded Residential Demolitions and Their Contracts	A	We recommend that the City and DBA conduct a thorough review of the contract requirements for City-funded residential demolitions	The Demolition Department agreed with this finding and in February and March 2020, reviewed and accessed all of the demolition scope of services. During this process areas of past failures were considered and policies or protocols were either created or revised to prevent repeats of those past failures. The results were new Scope of Services for the following: <div><div>1. Complete Demolition</div><div>2. Demolition Only</div><div>3. Emergency Demolitions</div></div> The process continues in the creation of the Abatement Only Scope of Services.	07/01/2020	LaJuan Counts Timothy Palazzolo	313.224.1160 313.224.1848
		B	Management should develop and ensure that plans, policies, procedures, rules, and standards result in uniform actions among interdependent organizations:	The Demolition Department established internally the point of contact for information both in and out of the department. Then identified all of the departments/agency's necessary to successfully complete demolitions. The current task consists of developing and maintaining open lines of communication and interaction.	02/24/2020	LaJuan Counts	313.224.1160
3.	Lack of Documentation to Support Authorization of Payment	A	Align document requirements for payment processing that are stated in the contract scope of services, with the actual requirements for payment processing as directed by the OCFO's Accounts Payable Division	The Demolition Department will make contact with the appropriate OCFO contact to review and assess our payment process against the OCFO's requirements to ensure that both processes are aligned.	08/14/2020	LaJuan Counts Timothy Palazzolo	313.224.1160 313.224.1848

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		B	Utilize capabilities afforded by the City's new Enterprise Resource Planning (ERP) System to meet the needs of the OCFO for payments. According to Plante Moran's "Best Practices for Michigan Local Government Business Processes-Electronic Invoice Package	The Demolition Department will make contact with the appropriate OCFO contact to understand the capabilities of the City's ERP system, and how we can support or improve the OCFO's payment needs.	08/14/2020	LaJuan Counts Timothy Palazzolo	313.224.1160 313.224.1848
		C	Where applicable, revise the scope of services and contract language to clearly differentiate between internal department needs and documents necessary for payment	A new Data and Documentation Policy and Protocols provides clear and defined expectations of the required reporting, submitted photos, and related entries necessary for the approval of a contractor payment. The understanding is that this information is absolutely necessary for the department to approve a contractor payment. <i>Policy included</i>	07/01/2020	LaJuan Counts Timothy Palazzolo	313.224.1160 313.224-1848

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4.	Contract Files Are Not Centralized and Data Related to Demolitions is Inconsistent and Unreliable	A	We recommend that the City develop a strategic and comprehensive approach to electronic file management for the administration of demolition contracts	The Demolition Department has determined that Salesforce is the best system match for the program’s needs, and is committed to the buildout of Salesforce that is required to exceed the system needs of the City. The Demolition Department has also accepted the responsibility of ushering other departments into the process of entering their required data into Salesforce. Salesforce also allows for transparency by allowing access to all available demolition information to departments, agencies, individuals with authorization. This process will require a significant amount of time and funding that was not budgeted due to the City’s recent budget shortfalls. A task that can be addressed despite the budget, is for the Demolition Department to receive Salesforce rights access to address the Demolition Department work tickets that require attention.	08/28/2020	LaJuan Counts Brian Farkas	313.402.6352 313.224-1862
5.	Demolition Costs Were Not Recovered From Property Owners	A	The City follow the administration and enforcement rules of the City’s Building Code related to the recovery of demolition costs. The City should establish guidelines and identify when it is feasible to attempt to recover residential demolition costs similar to the program in place for commercial properties. This might include targeting landlords who own multiple properties that have been demolished	The authority to recover demolition cost rests with the Law Department. The Law Department makes decisions to recover demolition cost pursuant to their internal policies. No planned action to be taken.	07/17/2020	LaJuan Counts	313.402.6352

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		B	The City investigate the feasibility of a change (increase) to the percentage of insurance proceeds to be held in fire insurance escrow account to offset more of the rising costs of residential demolitions	The responsibility, authority or controls of this fund does not rest with the Demolition Department. This finding would require participation of several departments of which the Demolition Department could participate. The Demolition Department will initiate the task by gathering the key departments together and beginning the conversation.	09/01/2020	LaJuan Counts Timothy Palazzolo	313.402.6352 313.224.1849
		C	DBA adhere to the DMA and fulfill their responsibilities set forth therein and recover the cost of demolition	The Demolition Department has made changes to the policies and protocols of document retention to assist the Law Department with cost recovery if it is determined to be feasible.	07/01/2020	LaJuan Counts Timothy Palazzolo	313.224.1160
		C	The City establish a program for the oversight of private demolitions	The Demolition Department believes the oversight of private demolitions to be function requiring Code Compliance. Code Compliance is outside of the authority of the Demolition Department. No planned action to be taken.	07/17/2020	LaJuan Counts	313.224.1160

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Implementation Tracking of Departmental Responses

FINDING #	AUDIT FINDING	RECOMMENDATIONS		DEPARTMENT RESPONSE(S)	ESTIMATED/ PLANNED IMPLEMENTATION DATE	CONTACT PERSON	IMPLEMENTATION CONTACT NUMBER
		REF.	SPECIFIC RECOMMENDATION				
6	DBA Did Not Fulfill Its Duties As The Program Manager Over City-funded Demolitions	A	We recommend that the administration consider bringing the program management of demolition under the auspices of the City, and under a single organization versus the current matrix organization structure	The Administration took action and consolidation of the demolition program into a single organization under City management. The Detroit Demolition Department was approved as a department by City Council on 06/09/2020. The new department was structured in an organization that: increase field operation oversight and contractor controls; improves contract compliance monitoring and enforcement; create active and open lines of communication both internally and externally; presents the department to the public and the residents as a resource that serves them; all while operating as openly and transparently as possible.	06/09/2020	LaJuan Counts	313.224.1160



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TO: Irvin Corley, Executive Policy Manager
Detroit City Council Legislative Policy Division

FROM: Arthur Jemison, Group Executive
Planning, Housing & Development

LaJuan Counts, Director
Demolition Department

DATE: July 14, 2020

RE: **Neighborhood Improvement Bond Meeting Questions**

Please find the following responses to questions/issues presented in your July 13, 2020 email:

1. Has the Administration addressed the AG's audit findings regarding demolition?

The Demolition Department has incorporated the Auditor General's findings into the policies and procedures across the department's operations.

Finding No. 1- Did Not Meet Contract Performance and Timeline Requirements - The Demolition Department revised the Scope of Services to include a defined contractor expectations, revised project timeframes and a revised Discipline Policy for enforcement. Improvements to the operation of the Compliance Division were completed to ensure the oversight of the contractor compliance.

Finding No. 2 - Did Not Comply With City Policies and Procedures, and State, Local, and Other Requirements Related to City-funded Residential Demolitions and their Contracts - The Demolition Department has established a network of contacts with each of the agencies involved and reviewed the policies and procedures to ensure our consistent standards and practices. Enforcement of health and safety protocols continue to be a top priority for the Demolition Department and have reinforced that priority by revising the Discipline Policy, improving the process procedures for the Compliance Divisions, requiring visual inspections at various stages throughout the demolitions.

Finding No. 3 - Lack of Documentation to Support Authorization of Payment - All supporting documentation for the authorization of contractor payments is now accessible via Salesforce. Revisions to the contractor invoice submittal process have been implemented to ensure the required department review and approvals take place prior to the contractor uploading to Oracle. In addition to invoices and supporting documentation being available in Salesforce, this information is also available in the OCFO's Oracle Cloud ERP system.

Finding No. 4 - Contract Files are not centralized and Data Related to Demolitions is Inconsistent and Unreliable - Due to the volume of information generated and with the number of demolitions performed, it is necessary to have an electronic data management system to house all of this information. The Demolition Department has committed to ensuring that all of the demolition activity information is entered into Salesforce. Process changes have been implemented over the last four months to ensure that the information is being entered.

Finding No. 5 - Demolition cost were not recovered from Property Owners - The authority to recover demolition cost from the property owners is the responsibility of the Law Department. The Demolition Department has made process improvements in regards to documentation retention to support the Law Department in their efforts to recover demolition cost as they deem feasible.

Finding No. 6 - DBA did not fulfill its duties as the Program Manager over City-funded demolitions - To address this shortfall, the Administration consolidated the demolition program under a single department



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with City oversight and management. The restructure of the process and policies, increased monitoring of field operations and improved compliance efforts were all implemented to ensure the proper management of the program and City-funds.

2. Is the Administration still committed to promises outlined in the supplemental reso regarding the demolition bond program?

Yes. In fact, the City has worked on all the items in the list in the pre-Covid-19 budget would have allowed us to substantially complete all the items on the list. The new post Covid budget means that we cannot fund performance of a small number of specific items such as: a program to address private trees that threaten private houses; or a fifth annual cut of grass around the City. We could not continue some of these because they came from the general fund and could not be funded by bonds or CDBG.

We are prepared to complete a new resolution formalizing the elements of the plan we prepared and other items when the resolution is ready for passage.

3. Would the newly created Demolition Department run the demolition program supported by bonds, if approved by Council and the voters?

Yes. The new Demolition Department would require additional staff to support the bond program but the policies, procedures and oversight would be the same.

4. If so, if the bonds are approved by Council and the voters, would the Administration come back to Council with a budget amendment to beef up the Demolition Department to appropriately run the demolition program augmented by the bonds?

Yes. The current Demolition Department is staffed/budgeted to manage the execution of approximately 300 Emergency Demolitions only. Operations to manage the oversight of approximately 1,600 additional demolitions per year, would require a significant increase to staff and demolition supportive services and a budget amendment would be required.

5. Will the Detroit Land Bank Authority (DLBA) still mainly use Salesforce software to run the demolition program?

The Demolition Department will assume the responsibility of managing the demolition information entered and maintained into Salesforce. Demolition will continue with build out plans for Salesforce with the intent of providing the most centralized data management system possible for this program.

6. Promises made to bond investors that the bonds will be properly monitored to avoid jeopardizing tax exempt status.

The OCFO administers all outstanding bond issues to ensure that all compliance with the terms of the bonds are met. The spending of tax exempt bond proceeds are closely monitored to make sure that the tax exempt status of the bonds is not jeopardized.

Last fall, the OCFO provided LPD with a memorandum dated October 15, 2019, regarding the Plan to Monitor Use of Demolition Bond Proceeds for Compliance with Federal Tax Laws. Since then, the Demolition Department has been created within the City. While the City still plans to track the required information in the Salesforce database as specified in the memorandum, the plan will no longer rely on HRD and DBA to enter the expenditure date for each demolition into the database. Rather, this responsibility will fall to the Demolition Department.

Standard Operating Procedures to monitor the post issuance-compliance requirements related to the blight remediation bonds will be developed and implemented by the OCFO.



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New Issues

1. How receptive is current bond market and investors for these bonds? Is there an appetite for these bonds?

With respect to current market conditions for bond issuance, the primary market has continued to rebound following the COVID-19 related market disruption in March 2020. The municipal market has now seen ten consecutive weeks of normalization and improvement, where it continues to evolve into one of the healthiest post-COVID-19 positions; having successfully priced elevated supply levels that were above initial estimates over the past several weeks. Investors continue to digest a variety of transactions across size, complexity and credit quality, further affirming the market's normalization and consistency. Of importance for the City's UTGO Bonds, high yield/lower rated bonds saw continued strong performance and demand in June with investors seeking lower-rated transactions to pick up additional yield. Favorable supply/demand dynamics that ushered in June are setting the table for a summer that is shaping up to experience above average supply from transactions that were side-lined during the height of COVID-19 volatility; including the return of taxable advance refundings on low absolute rates.

2. Is the composition of the bonds still 75% tax-exempt and 25% taxable? Please send updated bond scenario per your bond advisor/OCFO.

For modeling, we are assuming a 64% tax-exempt/ 36% taxable composition for the bonds. The debt capacity analysis prepared by PRAG, the City's financial advisor, assumes \$175 million of issuance in 2021 and \$50 million of issuance in 2023 (attached). The total of \$225 million that was modeled is less than the \$250 million in the resolution to provide room to issue additional bonds if market conditions at the time of issuance permit. The City is able to issue the \$225 million in blight bonds in fiscal years 2021 to 2023 and remain within the City's existing 9 mills while also preserving debt capacity for future capital projects.

3. What's the likely interest rates associated with tax-exempt and taxable unlimited tax general obligation bonds?

The interest rates on the bonds would of course depend on market conditions at the time the bonds are priced and issued. The debt capacity analysis prepared by PRAG assumed that the bonds would have varying interest rates based on the maturity of the bonds. We anticipate issuing 30-year serial bonds, so the interest rates on the earlier maturities would be lower than the later maturities. Based on the City's bond rating, we would expect the bonds to price at a spread above the rates for investment grade securities. Given that interest rates on the bonds will not be locked in until the City issues the bonds, the debt capacity analysis includes projected interest rates with cushion above existing market rates to account for market volatility between now and when the bonds are expected to price. The City's financial advisor conservatively projects that the tax-exempt bonds to be issued in 2021 would have an interest rate of 3.64%-5.33%, based on the individual maturities. The taxable bonds to be issued in 2021 are projected to have an interest rate of 4.62%-6.18% based on the individual maturities. The tax-exempt bonds to be issued in 2023 are projected to have an interest rate of 4.04%-5.73% based on the individual maturities. The taxable bonds to be issued in 2023 are projected to have an interest rate of 5.02%-6.58% based on the individual maturities.

4. What's the rating agencies now saying about the possibility of these bonds?

The rating agencies would provide a rating on the UTGO bonds at the time of issuance, but do not determine the possibility for the bonds. The market ultimately determines the demand for bonds and pricing at the time they are offered in the market. The projected bond pricing and debt service figures and related debt capacity analysis is based on conservative interest rates based on the City's current bond



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rating which is three steps below investment grade by both Moody's and S&P. As part of the process of rating bonds, the rating agencies consider a variety of factors including the City's overall debt load and "debt capacity." OCFO recognizes this and has prioritized working with the City's financial advisor to structure the blight bonds within the City's 9 mills and to amortize the bonds in years where the City's existing debt is maturing to achieve an overall level to declining annual debt repayment structure.

cc:

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July 20th, 2020

Resolution Supporting the Administration's Commitment to the goals of the Neighborhood Improvement Plan, to be Supported in Part by Proposal N, the Neighborhood Improvement Bonds

WHEREAS, the Mayor has requested the City Council to approve a ballot initiative by which the City shall borrow an amount not to exceed \$250,000,000 and issue Unlimited Tax General Obligation Bonds of the City for the purpose of Neighborhood Improvement through the preservation and rehabilitation of as many vacant houses as possible, the demolition of abandoned houses that cannot be saved, and improvement from related blight remediation activities (the "Neighborhood Improvement Plan"; and

WHEREAS, the City of Detroit is experiencing historically high unemployment rates and economic hardship on Detroit businesses; and

WHEREAS, the \$250 million Neighborhood Improvement Bonds provide a much needed opportunity for stimulus for Detroit businesses and employment opportunity for Detroit residents under the commitments specified in this resolution; and

WHEREAS, in consideration of the City Council's approval of the proposed Neighborhood Improvement Bond Resolution the Administration agrees to undertake the items within the resolve of this resolution and City Council agrees that its ongoing oversight of the implementation of the Neighborhood Improvement Plan will assure that its implementation will follow the seven goals specified herein; BE IT THEREFORE

1. RESOLVED, the City of Detroit will implement the Neighborhood Improvement Plan operated to accomplish seven primary goals as proposed by the Mayor and agreed to by City Council:

1. Save every house possible from demolition by prioritizing the rehab of vacant homes.
2. Give preference to Detroit companies in all rehabilitation and demolition related contracts with a goal of 50%+ work performed by Detroit contractors.
3. Give preference to companies who commit to train and employee Detroiters with a goal of getting these companies to employ at least 51% Detroit residents
4. Partner with Detroit Community Development Organizations (CDO's) and other qualified groups to rehab homes and redevelop property in the neighborhoods
5. Give preference to Detroit residents to acquire and reuse the properties in their neighborhoods
6. Combine the Neighborhood Improvement Bonds with other funding sources for broader neighborhood redevelopment
7. Bring Accountability for the Demolition back under the oversight of City Government.



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8. Keep the property tax rate at current levels while supporting a \$250 million reinvestment in the neighborhoods
2. RESOLVED, Subject to state law and City ordinance, the administration will operate the securing of vacant houses for rehabilitation and for demolition of abandoned houses through a Detroit Vacant House Management Department. The changes will be proposed in an Executive Organization Plan amendment submitted to City Council before the end of the Council Session in November 2020 and will modify the existing Detroit Demolition Department to become the Detroit Vacant House Management Department. The Detroit Vacant House Management Department will be responsible for securing or demolishing vacant houses, but will not be engaged in the sale or ultimate redevelopment of those houses.
 3. RESOLVED, the City will create a Neighborhood Improvement Plan Advisory Board made up of three members appointed by the Mayor, three members appointed by City Council, and one jointly appointed member. The Board will review and monitor the goals of the final resolution, review the Quarterly Reports from the Vacant House Management Department and provide recommendations to the Administration and City Council.
 4. RESOLVED, by the end of Council Session in November, 2020, the Vacant House Management Department and DLBA will submit a plan to City Council to provide for the following:
 1. A process of identifying all public owned vacant properties that have potential to be rehabbed and occupied if they are promptly secured
 2. A plan for securing all publicly owned salvageable vacant houses from further deterioration, including a plan to clean out debris, to install exterior security materials sufficient to strongly deter entrance from trespassers or vandals, and to protect the interiors from ongoing water damage from leaking roofs or other sources.
 5. RESOLVED the Office of Contracting and Procurement agrees to submit non-emergency residential demolition contracts in packages not to exceed 2,000 properties bi-annually.
 6. RESOLVED Through the use of the equalization ordinances and aggressive work by Civil Rights, Inclusion & Opportunity Department to qualify contractors for the exterior security of houses or for demolition, over 50% of the contracts will be won by a contractor with one of the following certifications: Detroit Based Businesses, Detroit Headquartered Businesses, Detroit Small Businesses, Detroit Resident Businesses, Detroit Based Micro Businesses, Minority-Owned Business Enterprises, Women-Owned Business Enterprises, Mentor Ventures, and Joint Ventures. Special packages may be brought to City Council outside of the biannual process to address emergency, public safety or economic development needs. For bond offerings from this authorization, the City will endeavor to contract with minority owned and operated professional services providers, including but not limited to legal services, bond underwriting and financial advisory services. If there is insufficient capacity, the Office of Procurement and the Civil



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Rights, Inclusion & Opportunity Department will report to the City Council on actions they will take to attract and certify additional demolition businesses in the future.

7. RESOLVED, within each procurement for house security services or demolitions, the Office of Contracting and Procurement will set aside contracts for certified Detroit Small Businesses and Detroit Based Micro Businesses. The Office of Procurement intends to set aside 30% of the contracts for certified Detroit Small Businesses and Detroit Based Micro Businesses in the procurement to be awarded in January 2020 and will report to the Administration and City Council following the completion of the procurement. If there is insufficient capacity to meet the 30% set aside in the January 2020 procurement, the Office of Contracting and Procurement and the Civil Rights, Inclusion & Opportunity Department will report to City Council on actions they will take to attract and certify additional Detroit Small Businesses and Detroit Based Micro Businesses in house security or demolition in the future.

8. RESOLVED, Prior to the submission of a house security or demolition bid package, the Office of Contracting and Procurement agrees to submit a bi-annual employment report for all house security or demolition contractors that are not certified as a Detroit Resident Business including the number of employees and the number of Detroit-resident employees at the time of bidding.

9. RESOLVED, by December 31, representatives from the OCFO and CRIO will work with the Budget, Finance and Audit Standing Committee to review the existing ordinance, develop outcome metrics and recommend changes to the ordinance to better meet the objectives of the Administration and City Council.

10. RESOLVED, the Neighborhood Improvement Plan will provide employment opportunities for Detroiters, including the following:

1. For employees hired directly by the Vacant House Management Department, every effort will be made to hire Detroiters with the expectation of a success rate comparable to the General Service Department's performance in hiring Detroiters in the recent citywide board-up effort.
2. For all bids awarded under the Neighborhood Improvement Plan, the administration has agreed to extend the application of Executive Order 2016-1, regardless of the size of the rehabilitation or demolition contract.
3. Detroit Employment Solutions Corporation agrees to schedule a meeting with house securing and demolition contractors that have been pre-qualified to determine the hiring and training needs of each contractor to inform a gap analysis for implementation of the Blight Elimination Strategy within one (1) month of the approval of this agreement.

11. RESOLVED, within one (1) month of approval of this agreement, the Detroit Employment Solutions Corporation agrees to implement a Neighborhood Improvement Employment Outreach marketing plan that may include, but not limited to the following: outdoor signage; digital and social media outreach across Detroit at Work and all city channels; outreach to our community



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partners including City Council, Faith-based, community partners, Detroit Public Community School District, Department of Neighborhoods; Detroit at Work website banners and landing page highlighting details and how to sign up and find our more information (detroitatwork.com averages 50,000 visits a month); Detroit at Work newsletter with over 120,000 Detroiters subscribing; press conference to announce efforts and garner media partners stories, including ethnic media; and translation of marketing materials.

12. RESOLVED, the Office of Contracting and Procurement, Detroit Employment Solutions Corporation, the Vacant House Management Department, and the Civil Rights, Inclusion & Opportunity Department agree to host employment fairs for contractors that do not qualify for the Detroit Resident Business certification. The Office of Contracting and Procurement will encourage those house security and demolition businesses that do not qualify for this certification to attend.

13. RESOLVED, in consultation with the City Council, City and Detroit Land Bank Authority (DLBA) will work together to accomplish the following:

1. Evaluate and recommend new discount programs for Detroit residents
2. Evaluate and recommend methods to make it easier for Detroiters to acquire vacant land and housing (such as the Building Blocks Program) and
3. Make recommendations on the future of all vacant lots currently in the DLBA's inventory as well as future vacant lots resulting from the blight bond initiative.
4. Continue to implement the Building Blocks program across the City as structures and land are made available for sale.
5. Implement the Vacant Land Policies Approved by the DLBA Board in March of 2020.
6. Implement Rehab Academy

14. RESOLVED, in partnership with the DLBA, the City will pursue a goal of converting the secured houses into rehabilitation as quickly as possible, with a goal of increasing the number of rehabs to 2,500 per year. This will vary based on housing market conditions, but the City will use multiple strategies to achieve this goal including sales, affordable housing subsidies (with a 50% AMI target), encouraging bank lending for home repair, rehabilitation subsidies, coordinated demolition strategies, expanding programs such as Rehabbed and Ready, planning support, and other initiatives.

15. RESOLVED, the City and DLBA agree to maximize the use of Community Development Organizations such as Detroit 21 and other non-profits, including churches, to develop community partnerships to speed up the renovation of the secured vacant houses.

16. RESOLVED, the City will have a rehab and marketing strategy that is aimed at assisting lower income residents (targeting households below 50% AMI) and seniors in purchasing rehabbed or partially rehabbed houses.



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17. RESOLVED, the City will use sustainable renovation standards to provide future property owners with low utility costs, to include but not limited to, high efficiency systems (such as furnace, water heater) and updated windows.

18. RESOLVED, the Vacant House Management Department will submit quarterly reports detailing the following: number of homes secured, number of houses demolished, proof of field liaisons' visits to each property, proof that all securing and demolition work was monitored - including the backfill activity, any ongoing investigations or litigation, and any violations issued.

19. RESOLVED, the Vacant House Management Department will conduct a deconstruction pilot which preserves reusable materials that are then made available for purchase by residents engaged in rehabilitation or construction of their homes, to determine the feasibility of incorporating deconstruction into the demolition program on a larger scale.

20. RESOLVED, Planning and Development Department will complete neighborhood plans driven by the community, including those neighborhoods most impacted by abandoned structures and vacant land, and update the master plan for the City over the next five years with community input.

21. RESOLVED, in the areas most affected by demolition of vacant and abandoned structures, the City will be investigating four primary areas for neighborhood planning: the history of the neighborhood; tactical historic preservation opportunities; housing rehabilitation opportunities for vacant properties; interim and medium-term open space strategies. These pillars will help the city and neighbors plan for redevelopment while also creating amenities, prevent illegal dumping and making the neighborhood more attractive. The City will continue to use at least six large community meetings as part of its community engagement in the manner it has conducted its prior neighborhood plans.

22. RESOLVED, through community meetings, the Planning and Development Department will develop side-lot, landscape and interim use strategies for areas that will remain vacant for the medium term. The City and DLBA will create land use policies that promote and protect public space and explore shared land ownership models such as land trusts.

23. The Neighborhood Improvement Plan will include efforts to address non-structural blight, including alley clean-ups, vacant lot cutting, and dead tree removal, and efforts to discourage illegal dumping.

24. RESOLVED, the City will continue to partner with nonprofits and philanthropies to provide information about pathways out of foreclosure through Make it Home, Homeowner Property Tax Exemption Program, Pay as You Stay, and Right of First Refusal. These efforts will be extended in an unprecedented door-to-door community outreach campaign through a new established Detroit Community Health Corps.



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25. RESOLVED, the City's Mayor's office and applicable department and affiliates will conduct a Community Outreach Plan exceeding the requirements of the proposed Community Engagement Ordinance, the Plan will include but not be limited to:

- a. 7 Charter mandated meetings by the Mayor (Aug-Sep)
- b. 4 Virtual info sessions
- c. 7 Council District meetings (Councilmember hosted)
- d. 1 Mayor Public Address via TV (pre-Election day)

26. RESOLVED, the City OCP will consider a procurement for Project Manager / Contract Manager to provide support such as certified soil, insurance, equipment leasing, etc. for certified Detroit-Based, Detroit headquartered and small businesses.

27. RESOLVED, HRD agrees to use future CARES Act CDBG, HOME, future non-CARES Act CDBG or other eligible funds to support the Detroit Housing Compact / Building the Engine Community Development home rehabilitation pilot program. HRD, the Detroit 21 and the Housing Compact members will work together through August 2020 to complete due diligence on the program to help redevelop vacant DLBA structures to be included in the City's HUD Annual Action Plan.