




## Office of the Auditor General

Mark W. Lockridge, Auditor General

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### MEMORANDUM

**DATE:** February 23, 2021  
**TO:** Honorable City Council  
**FROM:** Mark W. Lockridge, CPA   
Auditor General  
**RE:** Office of the Auditor General, Fiscal Year 2020-21 Second Quarter Report  
**CC:** **Irv Corley, Executive Policy Manager, Legislative Policy Division**  
**David Whitaker, Director Legislative Policy Division**

Honorable Council Members,

Attached for your review is the Office of the Auditor General's (OAG) Fiscal Year 2020-21 Second Quarter Report. This report includes the first 6-months of Fiscal Year 2021 and contains a review of our Fiscal Year 2020-21 Adopted Budget and COVID19 Budget Response; the OAG's role in the Revenue Estimating Conference; an overview of all our audit activities, and Claims Hearings Activities.

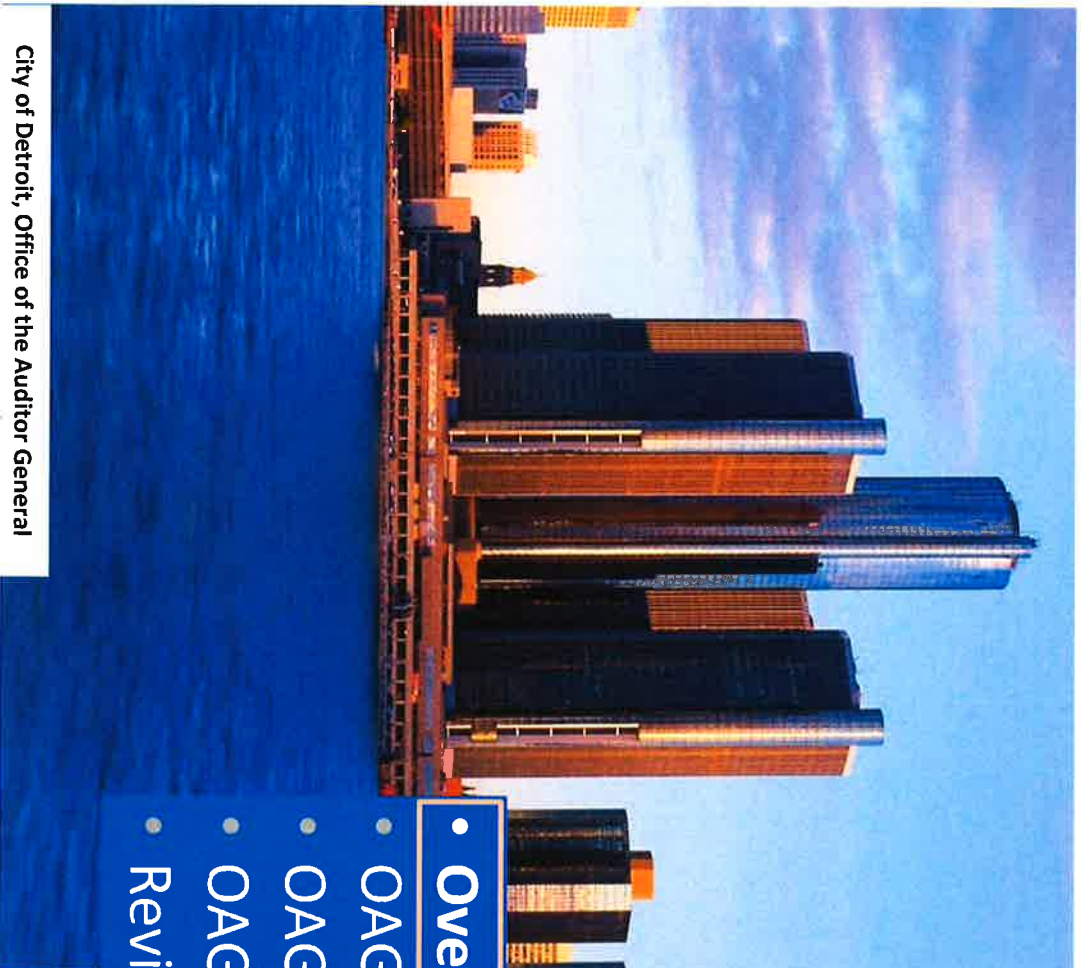
Please let me know if you have any questions, comments or concerns regarding the information as reflected in the report, and I will respond in a timely manner. Thank you for your continued support and recognition of the value of an effective internal audit shop that is the Office of the Auditor General of the City of Detroit.

Copies of all of the Office of the Auditor General Reports can be found on our website at <https://detroitmi.gov/government/office-auditor-general>.

**Office of the  
Auditor General  
(OAG)  
City of Detroit, Michigan**

Second Quarter Report  
Fiscal Year 2020-21





# Agenda

- **Overview and Status of Audit Activities**
- OAG Revenue Consensus Activities
- OAG Claims Hearings Activities
- OAG Budget Review
- Review / Q&A

## Audits Completed

FY 2021 — Audits Completed Through Dec 31, 2020

- Audit of the **Department of Public Works (DPW)**
- Limited Scope Forensic Audit of **Detroit Land Bank**
- Audit of **Demolition Activities Interim Report** on Contract Administration for City-funded Demolitions

## Audits Completed (continued)

FY 2021 — Audits Completed Through Dec 31, 2020

- OAG Review of Department’s Responses to Audit of Demolition Activities Interim Report on Contract Administration for City-funded Demolitions

(continued) 4

## Audits Completed (continued)

FY 2021 — Audits Completed Through Dec 31, 2020

- Audit of the **Public Lighting Department (PLD)** –  
**Second and Final Interim Audit Report on  
Operational Revenues**
  - Will initiate and complete Audit of **capital assets and  
PLD decommissioning** in future audit

## Audits in Process

Status of Audits Through Dec 31, 2020

<b>AUDIT</b>	<b>Public Lighting Authority (PLA) Audit of Revenues and Expenditures</b>
<b>SOURCE</b>	City Council Request
<b>AUDIT TYPE</b>	Performance
<b>SCOPE</b>	July 1, 2015—June 30, 2020
<b>STATUS</b>	<ul style="list-style-type: none"> <li>• Planning and Audit Risk Assessment completed</li> <li>• Estimated date to complete Fieldwork, May 31, 2021</li> <li>• Target Audit Report Date, June 2021</li> </ul>

(continued)

## **Audits in Process** (continued)

**Status of Audits Through Dec 31, 2020**

AUDIT	Audit of Civil Rights, Inclusion and Opportunity Department (CRIO)
<b>SOURCE</b>	<b>City Council Request</b>
<b>AUDIT TYPE</b>	Financial and Operational
<b>SCOPE</b>	December 1, 2016 – June 30, 2020
<b>STATUS</b>	<ul style="list-style-type: none"> <li>• 1st Interim Report on Compliance Fee Dollars</li> <li>• 2nd Interim Report on DESC - Target Date - March 2021</li> <li>• Final Report on CRIO – Target Date – May 2021</li> </ul>

(continued)      **7**



## Audits in Process (continued)

Status of Audits Through Dec 31, 2020

### Audit of Media Services

<b>AUDIT</b>	<b>Audit of Media Services</b>
<b>SOURCE</b>	<b>OAG Annual Audit Plan</b>
<b>AUDIT TYPE</b>	Performance
<b>SCOPE</b>	July 1, 2017 – June 30, 2020
<b>STATUS</b>	<ul style="list-style-type: none"><li>• Wrap-up and Draft Report Stage</li><li>• Target Audit Report date by End of February 2021</li></ul>

# Audits in Process (continued)

Status of Audits Through Dec 31, 2020

## Detroit Transportation Corporation (People Mover)

<b>AUDIT</b>	<b>OAG Annual Audit Plan</b>
<b>SOURCE</b>	Follow-up and Performance
<b>AUDIT TYPE</b>	July 1, 2018 – June 30, 2021
<b>SCOPE</b>	<ul style="list-style-type: none"> <li>• Extended scope due to new Director and COVID-19</li> <li>• In Fieldwork Stage</li> <li>• No end of Fieldwork or Audit Report date</li> <li>• Resources needed for Revenue Consensus</li> </ul>
<b>STATUS</b>	(continued)

**AUDIT ACTIVITIES**

**REVENUE CONSENSUS**

**CLAIMS HEARINGS**

**BUDGET REVIEW**

# **Audits Not Yet Started**

Status of Audits Through Dec 31, 2020

Audit	Source
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**Police Commissioners**

City Council Request, March 2020

**Special Operations Imprest Cash**

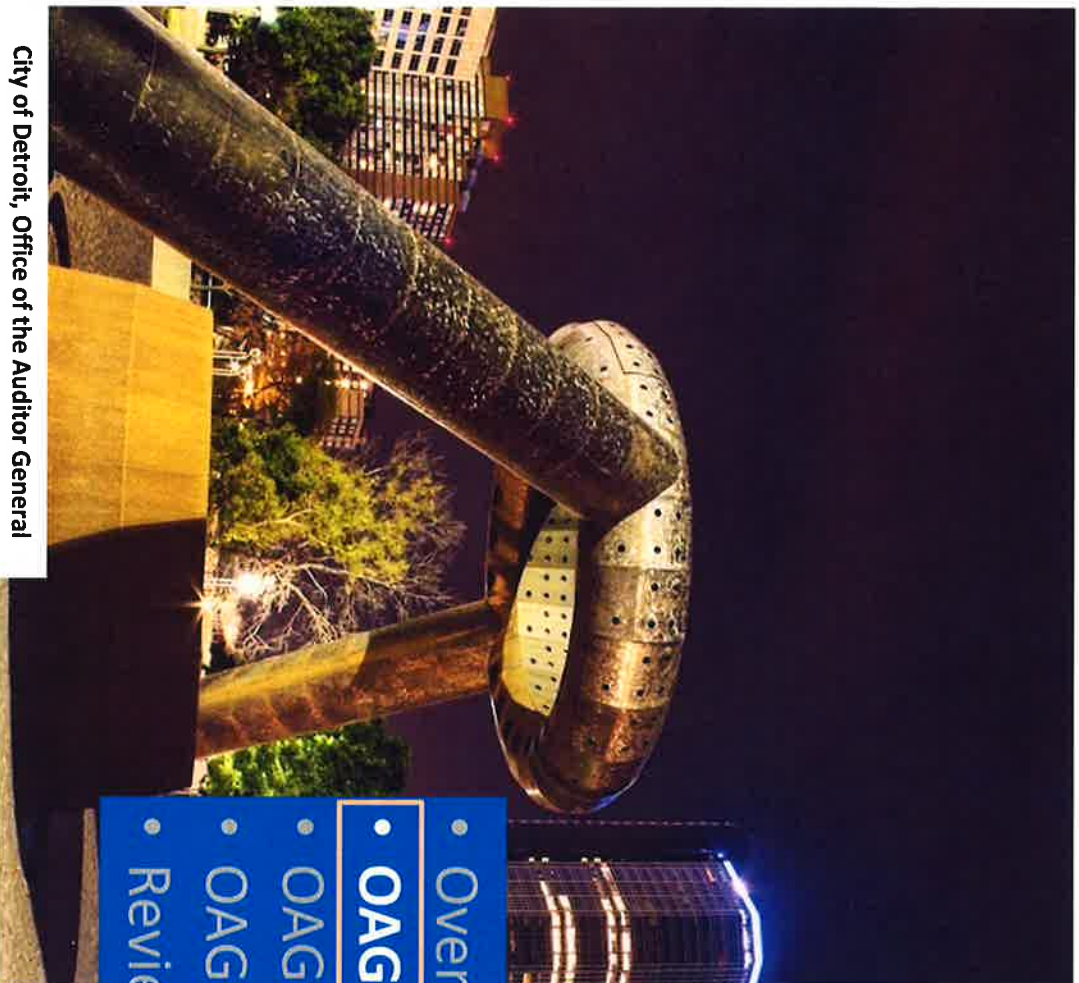
OAG FY 2020 Annual Audit Plan

**Police Drug Law Enforcement Fund**

OAG FY 2020 Annual Audit Plan

**OCFO Assessment Division**

City Council Request, July 2020



City of Detroit, Office of the Auditor General

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AUDIT ACTIVITIES

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# Revenue Consensus

## September 2020

2021 JANUARY											
MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY	SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
							1	2			
3	4	5	6	7	8	9					
10	11	12	13	14	15	16					
17	18	19	20	21	22	23					
24	25	26	27	28	29	30					
31											

**2020**  
**Participation**  
**Schedule**

**Participants**

- January **Office of the Auditor General**
- May **Legislative Policy Division**
- September **Office of the Chief Financial Officer**

**NOTE:** Our office rotates staff to participate in these meetings. The staff members pause their audits to work exclusively on the consensus.

AUDIT ACTIVITIES

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## Data Collection Information Sources

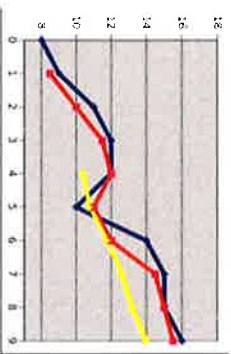
BUDGET  
DEPARTMENT

ORACLE

OTHER  
DEPARTMENTS

OUTSIDE SOURCES:  
• STATE OF MICHIGAN  
• ECONOMIC OUTLOOK FORECAST

# Data Collection/Forecast Methods



**TREND-LINE**  
 Predicts future revenues based on existing or historical data

**MOVING AVERAGE**  
 Gives an overall idea of the trends in revenue over a period of time

**JUDGMENTAL**  
 Evaluation by a person with knowledge and expertise to formulate a forecast regarding a specific company or market

**NOTE ON JUDGMENTAL:**  
 Judgement is used when no historical precedents exist (e.g., COVID). A judgmental approach can be quick to adjust to changes, information or events.

## Covid-19 Impact on OAG



- Due to **Covid-19**, the September consensus was challenging for our team
- As a result of the **Stay Home/Stay Safe** initiative, our revenues were significantly impacted
- To assist our staff assigned to revenue consensus for this quarter, they attended **training sessions** concerning the implications of Covid-19 on the economic outlook and revenues for municipalities



AUDIT ACTIVITIES

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# Covid-19 Budget Training

## COURSE OBJECTIVES



- To identify tools to make **projections based on the impact of Covid-19 on revenues**
- To identify how Covid-19 has had and will have an impact on the **economic forecast now and in the foreseeable future**

# Covid-19 Budget Training

## COURSE TOPICS



- **Federal Economic Outlook** — The Impact of Covid-19 / The State of Michigan's Economy
- **Revenue Impact of Covid-19** on Local Government and How to Prepare for What is Next
- **State & Local Tax Implications and Guidance** Regarding Impact from Covid-19
- **Impact of Covid-19 and Sales Tax Revenues** on State Government

## Outcome

- Our team **met with the other principals** on Sep 10, 2020, to discuss and agree on the **City's Budget**.
- We determined that the **City's estimates** were **reasonable and in-line** with our forecast.
- The **City's budget** was **conservative and inclusive** of the financial challenges impacting the city, state and country.
- A **unanimous consensus** on revenue estimates were reached by the principals.





# Agenda

- Overview and Status of Audit Activities
- OAG Revenue Consensus Activities
- **OAG Claims Hearings Activities**
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- Review / Q&A

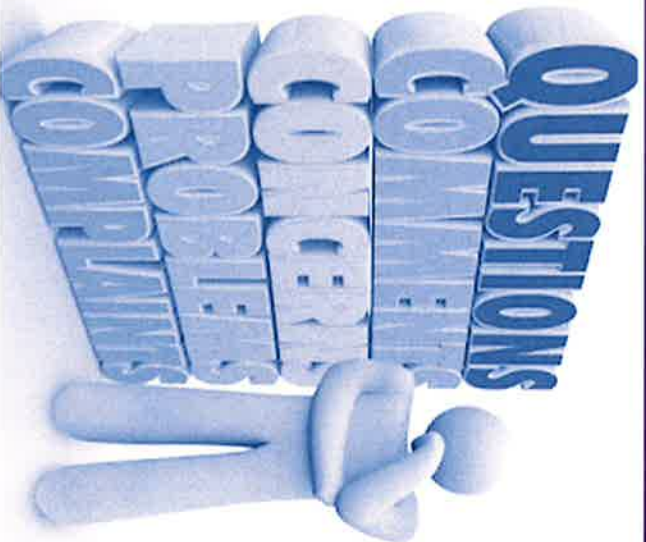
AUDIT ACTIVITIES

REVENUE CONSENSUS

CLAIMS HEARINGS

BUDGET REVIEW

## OAG Claims Hearings Activities



- City Ordinance ARTICLE IV. - LIABILITY AND SURETY BONDS DIVISION 2. - CLAIMS AGAINST CITY Section. 2-4-20 (6)
- Claims outcomes during 1st and 2nd Quarters FY 2020-21

AUDIT ACTIVITIES

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## Claims Hearings

### OFFICE OF THE AUDITOR GENERAL

Standard Operating Procedures Manual

General Policy Claims Process

City Ordinance ARTICLE IV. - LIABILITY AND SURETY BONDS DIVISION 2. - CLAIMS AGAINST CITY Section. 2-4-20 (6)

(6) The auditor general, or his designated representative or representatives, **upon receipt of notice** from the law department of the claimant's decision **to appeal the decision** of the law department, shall **hold a hearing**, as to such disputed claim within **forty-five (45) days** of the receipt of notice from the law department.

During the 1<sup>st</sup> and 2<sup>nd</sup> Quarter of Fiscal Year 2020-21, the Office of the Auditor General **settled the following claims appeals** against the City:

**AUDIT ACTIVITIES**

**REVENUE CONSENSUS**

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**BUDGET REVIEW**

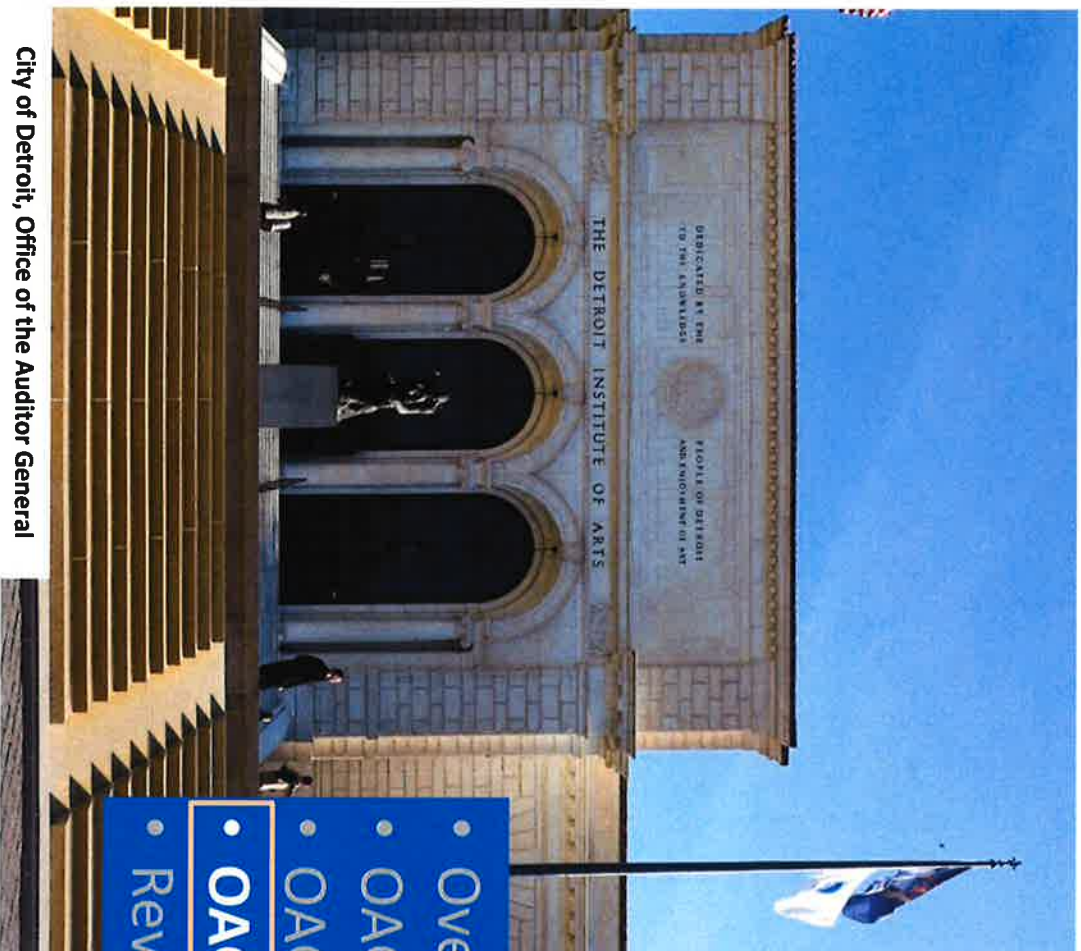
	Claim #	Amount of Claim	Nature of Claim	Hearing Date	Hearing Result	
The Office of the Auditor General settled these claims appeals against the City of Detroit in the 1 <sup>st</sup> and 2 <sup>nd</sup> Quarters of Fiscal Year 2020-21	1	C18-02132	\$ 25,000	Personal Injury	8/27/2020	Denied
	2	C19-02808	\$ 10,000	Personal Injury	8/27/2020	Denied
	3	C19-02728	\$ 7,814	Personal Injury	10/08/2020	Denied
	4	C19-02716	\$ 3,820	Personal Injury	10/08/2020	Awarded \$ 380.62
	5	C19-02186	\$ 9,000	Personal Injury	11/19/2020	Denied
	6	C19-02602	\$ 7,500	Property Damage	8/27/2020	Awarded
	7	C19-02706	\$ 2,300	Property Damage	10/08/2020	Denied
	8	C19-02457	\$ 250	Property Damage	10/08/2020	Denied
	9	C19-03033	\$ 3,471	Property Damage	11/19/2020	Denied
	10	C19-03065	Unknown	Property Damage	11/19/2020	Denied
	11	C19-02830	\$ 90,896	Business Interruption / Loss Revenues	-- TBD --	-- TBD --

## Claims Hearings—Online

- Due to the pandemic, the OAG has held **hearings in its conference room** if the Claimant declines to attend the hearing via Zoom from their place of residence
- **Claimants physically come to the OAG** where the hearing is held **via Zoom** on TV in the conference room
- **The actual hearing panel hears the Claimant from their respective homes** during this COVID period







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**AUDIT ACTIVITIES**

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# **Fiscal Year 2020-21 OAG Budget Review**

**FY 2020-21 Adopted Budget**

**VS.**

**FY 2020-21 COVID Revised Budget**

AUDIT ACTIVITIES

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**FISCAL YEAR 2020-21 BUDGET REVIEW**

**FY 2020-21 Adopted Budget Vs. FY 2020-21 COVID Revised Budget**

<b>\$ 4,114,387</b>	<b>FY 2020-21 OAG Adopted Budget</b>
<b><u>3,695,972</u></b>	<b>FY 2020-21 OAG Reduced Budget</b>
<b><u>\$ (418,415)</u></b>	<b>Total Dollar (\$) Reduction</b>
<b>(10.2%)</b>	<b>Total Percent (%) Reduction</b>

The AG contributed significant savings in response to the City's impact of COVID-19 on revenues. Our FY2020-21 budget was reduced by **\$418,415 (or 10%)** through savings in the annual CAFR costs and the foregoing of funding for **two (2) FTEs**.

**NOTE: OAG was never fully funded for the 14 FTE in its Adopted Budget for FY 2020-21.**

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**FISCAL YEAR 2020-21 BUDGET REVIEW**

**FY 2020-21 Covid Reduced Budget Vs. FY 2020-21 Plante & Moran Contract**

<b>\$ 3,695,972</b>	<b>FY 2020-21 OAG Covid Reduced Budget</b>
<b><u>1,798,750</u></b>	<b>FY 2020-21 Plante &amp; Moran Contract Amount</b>
<b><u>\$ 1,897,222</u></b>	<b>Budget less Plante &amp; Moran Contract</b>
<b>(48.7%)</b>	<b>Plante &amp; Moran Percentage (%) of Total Budget</b>

In the current FY 2020-21, the Plante & Moran Contract represents **48.7%** of the Total OAG Budget.

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**FISCAL YEAR 2020-21 BUDGET REVIEW**

**FY 2020-21 COVID Revised Budget Vs. Funds Available December 31, 2020**

<b>\$ 3,695,972</b>	<b>FY 2020-21 COVID Revised Adopted Budget</b>
<b><u>1,032,977</u></b>	<b>FY 2020-21 Funds Available at Dec 31, 2020</b>
<b><u>\$ 2,662,995</u></b>	<b>Funds Already Used</b>
<b>72.1%</b>	<b>Burn Percentage (%)</b>

In the current FY 2020-21, **72.1%** of OAG budget was **depleted** at the half-year point due primarily to paying Plante & Moran within the first six (6) months.

**NOTE: OAG proposal to suspend hiring of three (3) FTEs was implemented for potential savings of \$243,000 in FY 2020-21.**

AUDIT ACTIVITIES

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## FY 2020-21 Adopted Budget FTE vs FY 2020-21 Actual FTE

NOTE:

OAG is in the process of recruiting an Auditor II and promoting an Auditor III from within the Department.

JOB TITLE	Adopted Budget FY21	FTE Hiring Suspension due to COVID	COVID Reduced FTEs	Reinstated Funds for One Suspended Position FY21
Supervisory Auditor IV	2	0	2	2
Auditor IV	1	-1	0	1
Auditor III	3	0	3	4
Auditor II	5	-2	3	4
Administration	3	0	3	3
<b>Total OAG</b>	<b>14</b>	<b>-3</b>	<b>11</b>	<b>12</b>

**AUDIT ACTIVITIES**

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# Fiscal Year 2021-22 OAG Budget Review

**FY 2021-22 Baseline Budget**

**VS.**

**FY 2021-22 Revised Final Budget Request**

AUDIT ACTIVITIES

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**FISCAL YEAR 2021 BUDGET REVIEW**

**FY 2021-22 Baseline Budget vs. FY 2021-22 Revised Final Budget Request**

<b>\$ 3,739,914</b>	<b>FY 2021-22 OAG Revised Department Request</b>
<b><u>3,649,569</u></b>	<b>FY 2021-22 Budget Dept's Baseline Budget for OAG</b>
<b><u>\$ 90,345</u></b>	<b>FY 2021-22 Total Dollar (\$) OAG Department Requested Increase</b>
<b>1.2%</b>	<b>FY 2021-22 Percent (%) Increase Requested</b>

The FY2021-22 Baseline and Requested budgets maintain the savings in annual CAFR costs and the underfunding of FTEs. The OAG requested **\$90,345** more than the prescribed baseline budget.



AUDIT ACTIVITIES

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**BUDGET REVIEW**

**FISCAL YEAR 2021-22 BUDGET REVIEW**  
**FY 2021-22 Baseline Budget vs. FY 2021-22 Revised Final Budget Request**

**\$ 170,360**

**OAG Budget Request Increase of \$90,345 explained:**

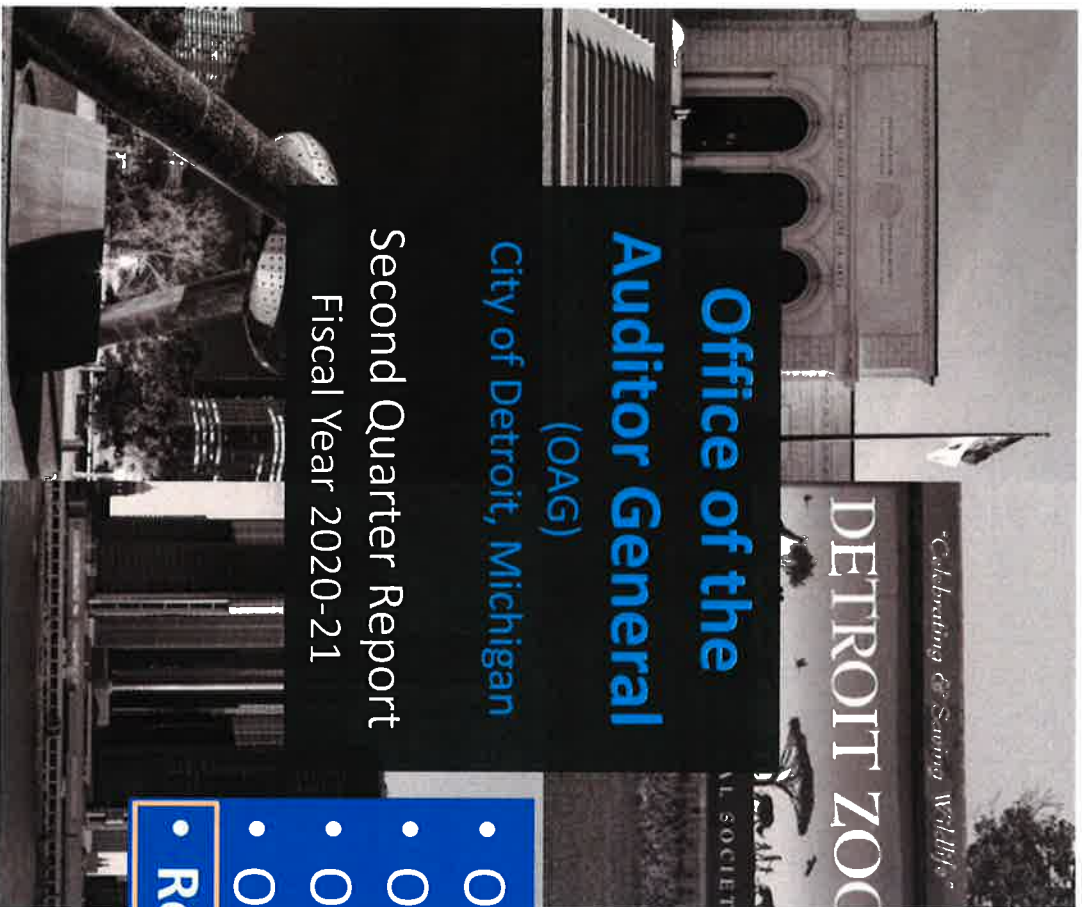
**Net Increase in OAG Procurement Plan**

**80,015**

**A Decrease in Total Salaries and Benefits**

**\$ 90,345**

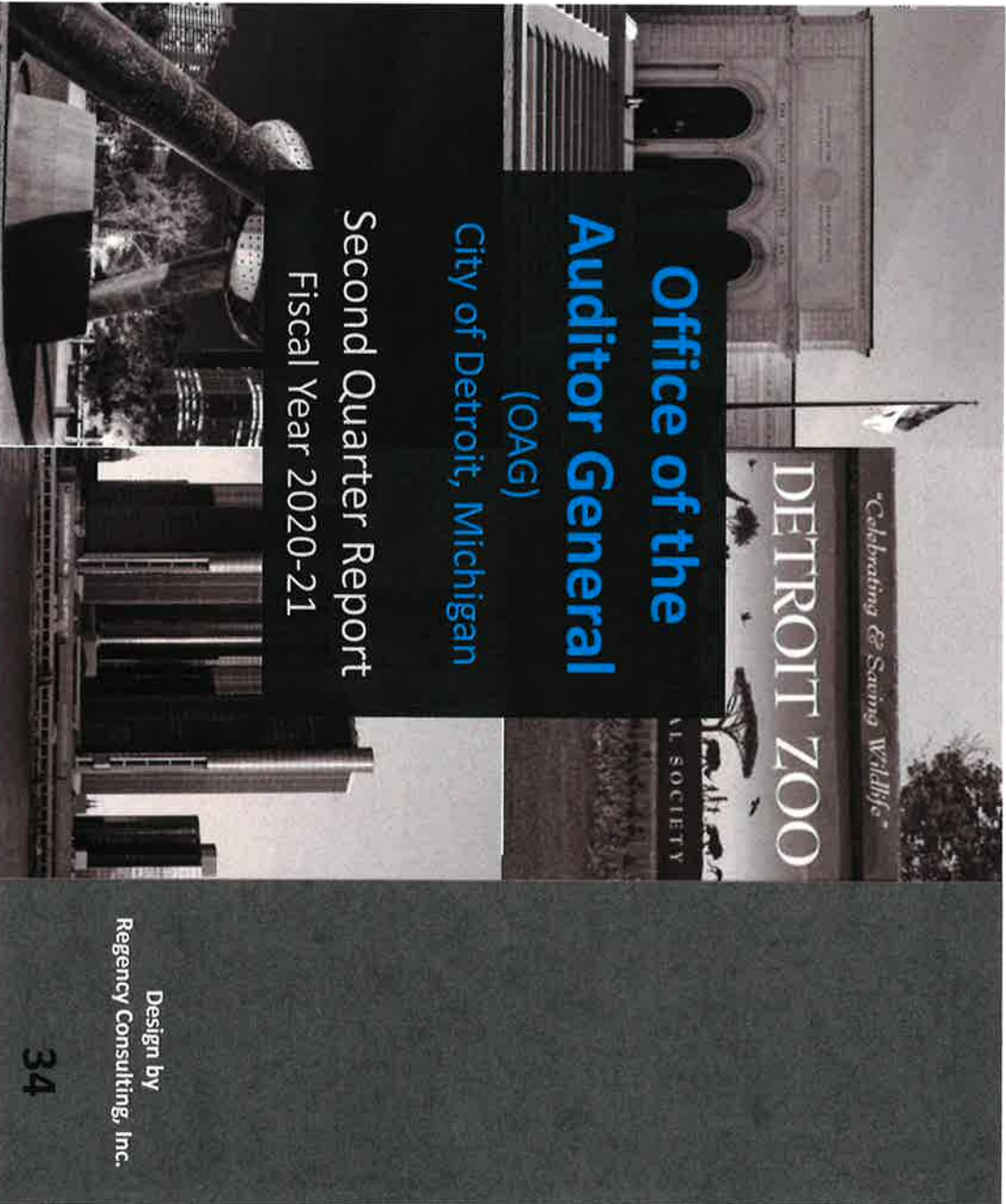
**FY 2021-22 Total Dollar (\$) Request Increase**



# Review / Q&A

- Overview and Status of Audit Activities
- OAG Revenue Consensus Activities
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- OAG Budget Review
- **Review / Q&A**

**Thanks for  
attending**



City of Detroit, Office of the Auditor General