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MEMORANDUM

TO: Irv Corley, Jr., Executive Policy Manager, LPD
FROM: John Naglick, Jr. Chief Deputy CFO/ Finance Director
DATE: June 22, 2021
RE: Response to Review of Fiscal Year 2020 Comprehensive Annual Financial Report – Follow-Up Questions

1. We noted a Fund Balance discrepancy issue on page 27 of the FY 2020 CAFR. The FY 2020 General Fund beginning Fund Balance in the Oracle system was different than the FY 2019 published CAFR ending fund balance by $1,746,331 (See Attachment VII). How was the General Fund FY 2020 CAFR beginning fund balanced calculated? Was the ending FY 2019 CAFR General Fund ending fund balance wrong?

Response: It appears that LPD did not include all the Comprehensive Annual Financial Report General Fund(s) in their analysis. They are missing the following Funds:

- 2492 - Fire Recovery Fund
- 3709 - ARRA - DOJ - COPS Hiring 2009 Police
- 6010 - Motor Vehicle Fund

Accounts excluded by LPD:
2492-000000-362100Fund BalanceO2492GF (123,601)
3709-000000-362100Fund BalanceO3709GF (307,588)
6010-000000-362100Fund BalanceO6010GF (1,315,147)
Total (1,746,336)

LPD's Follow Up:
Thank you for clarifying the General Fund group roll up. We have below two follow up questions:

(a). It has been more than 12 years since Congress passed the American Recovery and Reinvestment Act (ARRA) of 2009 during the Obama Administration, does the $307,587.87 Fund Balance in Fund 3709 ARRA-DOJ-COPS Hiring 2009 Police represent grant monies received from the Federal Government that the City has not used yet?

(b). Fund 6010 Motor Vehicle Fund has not had any activity for at least several years, but it has Fund Balance of $1,315,147. Is there a plan to use these funds for vehicle purchases?

OCFO's Response to LPD Follow Up:
(a). The DPD grants was on high-risk status resulting from an audit conducted prior to the creation of the Office of Grants Accounting. The U.S. Department of Justice requested the return of funds from the Police COPS 2009 prior to the creation of the Office of Grants Accounting. The funds were returned, and the balance should have been cleared. OGA will resolve and clear the balance before FY21 close.

(b). Fund 6010 rolls up to the General Fund class and is no longer in active use. The $1.3 million fund balance is entirely a "due from" Fund 1000 balance. Since both funds are part of the General Fund class, it is net zero between fund 1000 and fund 6010. During FY21, we have written off this due to/due from between Funds 1000 and 6010. The net effect is still zero, but this clears the balance sheet items for each fund individually.

5. Attachment VI shows LPD's calculation of the $22.8 million in excess utility users tax payments to the Public Lighting Authority (PLA) through FY 2020. Utility users tax payments are used strictly for the use of making debt service (principal and interest) payments. On page 30, the 2020 CAFR shows a $39.2 million unrestricted surplus figure for the PLA, which appears to be misleading. After review of FY 2019 CAFR, LPD requested that OCFO team work with PLA's CFO to show excess utility users tax payments to PLA as restricted for debt service in future PLA financial statements that are eventually incorporated into the City's CAFR. Response LPD received was that PLA agreed to work with their auditors to classify the excess utility users tax amount as restricted for debt service in their future audited financial statements. However, FY 2020 again does not show the excess utility users tax amount as restricted for debt service. Has OCFO brought this to the attention of PLA's CFO? Attachment IX represents PLA's FY 2019 calculation of the excess utility users tax payments. Does the amount of excess UUT allocated to PLA can be used for operating or is it restricted for future PLA debt service payments? Please update this schedule to include FY 2020 activity.

Response Provided by the PLA: The PLA will discuss the matter with its external auditor and may be able to insert a separate line item in the year-end financial statements to identify the amount of cash that is restricted.

LPD's Follow Up:
We included attachment IX for FY 2019 and requested updated version for FY 2020. Could you please provide the updated schedule for FY 2020?

OCFO's Response to LPD Follow Up:
LPD's Attachment VI already shows the FY 2020 amounts. Specifically, utility users tax revenue of $12,500,000 and debt service of $8,460,999 which results is $4,039,001 being added to the excess utility users tax shown on Attachment IX. Please note that the PLA had $3,545,000 of principal due on July 1, 2020, which falls into FY 2021. So, the excess utility users tax was actually only $494,001.

8. What is driving the huge $288.1 million deficit in the Transportation Fund (DDOT) (pages 29 and 56 of 2020 CAFR)? Are there any plans to reduce this deficit?

Response: DDOT has operated within the budgeted subsidy (transfer In) from the City of Detroit's general fund. The transportation fund accumulated deficit is caused by the recording of the portion of the net pension liability that applies to DDOT in this fund. That liability will be paid down as part of the City's overall pension funding requirements to the retirement systems. In addition, local operating assistance (City's Contribution) is gross of a $19.3 million reduction in outstanding inter-agency receivable balances.

LPD's Follow Up:
We are not able to follow the second part of your response regarding the $19.3 million. How did the inter-agency receivable affect the unrestricted net deficit? Did DDOT write-off inter-agency receivable (Due From) that the General Fund owed to DDOT?

OCFO's Response to LPD Follow Up:
This non-cash $19.3 million reduction in outstanding inter-agency receivable balances per GASB was written off to transfers-in/transfers-out for DDOT and the General Fund. This journal entry reduced the fund balance of DDOT with an offsetting increase to the General Fund balance.

26. On page 54 of the FY 2020 CAFR (Note 1), the City disclosed that it restated its FY 2020 beginning governmental activities net position reducing it by approximately $99.0 million to correct a misstatement resulting from land parcels that were not removed from the City's capital assets upon sale or transfer. Please explain what led to OCFO's internal controls not catching such a large error.

Response: The $99 million prior year restatement is attributed to a write-off of land assets that the City did not own as of 6.30.2020 (Note, some of this land has not been owned by the City for over a decade). This includes land for Comerica Park (Detroit/Wayne Stadium Authority), land transferred to the EDC, etc. Over the last several years, the OCFO has hired a third-party vendor to perform City-wide physical inventories (in an effort to ensure validity, accuracy, and completeness of Capital Assets), however the lack of documents/systems being properly updated with historical sales and transfers of land, made their audit of land somewhat compromised.

Going forward, the OCFO has implemented new Capital Assets policies and procedures that include performing year-end physical inventories on a bi-annual basis and ensuring land transactions and ownership are reviewed and properly accounted for annually.

LPD's Follow Up:
Who will perform the bi-annual capital assets physical inventory (City staff or third-party entity)? When will this start?

OCFO's Response to LPD Follow Up:

As LPD recalls, for FY 2016 and FY 2018, the OCFO hired a third-party vendor AssetWorks to perform city-wide capital asset physical inventories. Each inventory was based on the City's records and was certified by AssetWorks. All adjustments identified, as a result of these inventories, were made to the Oracle Cloud - Capital Assets system. Note, no physical inventory was done in FY 2020 or FY2021, due to the pandemic. The OCFO did/will perform alternative procedures to validate year-to-year activity. Once the pandemic is behind us, we will go back to having bi-annual capital assets physical inventories. Note, this will most likely be done via a third-party entity.

ATTACHMENT VI

Public Lighting Authority

Excess Subsidy and Utility User Tax (FY 2013-FY 2020)

	2013 & 2014	2015	2016	2017	2018	2019	2020	Total
Utility User Tax	$ 18,749,994	12,500,000	12,500,000	12,500,000	12,500,000	12,500,000	12,500,000	$ 93,749,994
City Subsidy	757,500	5,527,177	8,886,743	10,039,058	10,302,828	10,099,883	10,453,826	56,067,015
Other Revenue	2,660	1,246,321	1,142,791	1,072,660	835,724	136,841	2,526,574	6,963,571
Total Revenue	19,510,154	19,273,498	22,529,534	23,611,718	23,638,552	22,736,724	25,480,400	156,780,580
Operating Expense	1,466,532	5,589,821	8,157,578	7,813,490	12,711,589	13,958,851	14,830,343	64,528,204
Other Expense				10,493	(205,540)	(526,096)	(1,028,201)	(1,749,344)
Debt Service	585,489	8,997,509	8,600,792	8,509,892	8,385,092	8,255,294	8,086,541	51,420,609
Bond Issuance	916,636	2,119,241		5,000	5,000	-	-	3,045,877
Total Expense	2,968,657	16,706,571	16,758,370	16,338,875	20,896,141	21,688,049	21,888,683	117,245,346
Surplus/(Deficit)	**$ 16,541,497**	**2,566,927**	**5,771,164**	**7,272,843**	**2,742,411**	**1,048,675**	**3,591,717**	**$ 39,535,234**
Principal Paid		2,970,000	3,030,000	3,120,000	3,245,000	3,749,458	374,458	16,488,916
Excess UUT	17,247,869	(1,586,750)	869,208	865,108	864,908	495,248	4,039,001	**$ 22,794,592**

Attachment IX

Debt Service

	2013	2014	2015	2016	2017	2018	2019	Total
Utility User Tax	$ 1,200,000.00	$ 17,549,994.00	$ 12,500,000.00	$ 12,500,000.00	$ 12,500,000.00	$ 12,500,000.00	$ 12,500,000.00	$ 81,249,994.00
Debt Service								
Interest	$ -	$ 585,489.00	$ 9,039,171.00	$ 8,975,250.00	$ 8,884,350.00	$ 8,759,550.00	$ 8,629,750.00	$ 44,873,560.00
Principal			$ 2,970,000.00	$ 3,030,000.00	$ 3,120,000.00	$ 3,245,000.00	$ 3,375,000.00	$ 15,740,000.00
Issuance Cost		$ 916,636.00	$ 2,109,741.00					$ 3,026,377.00
Trustee Fees		$ 2,500.00	$ 9,500.00	$ 3,500.00	$ 3,500.00	$ 3,500.00		$ 22,500.00
Bond Rating Fees					$ 5,000.00	$ 5,000.00		$ 10,000.00
Total Debt Service	$ -	$ 1,504,625.00	$ 14,128,412.00	$ 12,008,750.00	$ 12,012,850.00	$ 12,013,050.00	$ 12,004,750.00	$ 63,672,437.00
Excess UUT	$ 1,200,000.00	$ 16,045,369.00	$ (1,628,412.00)	$ 491,250.00	$ 487,150.00	$ 486,950.00	$ 495,250.00	$ 17,577,557.00

Required Reserve Accounts by Michigan Finance Authority

Reserve Account -1039353		$ 12,009,171.00
Min Interest Account - 1039354		$ 2,352,153.00
Min Principal Account - 1039355		$ 772,847.00
Total	See attached bank statements	$ 15,134,171.00

Allocated to PLA

2013-2015	$ 482,786.00	##
2015-2016	$ 491,250.00	
2016-2017	$ 487,150.00	
2017-2018	$ 486,950.00	
2018-2019	$ 495,250.00	
Total	$ 2,443,386.00	

2013-2015 Allocated for PLA (##)

2012-13	$ 1,200,000.00	
2013-14	$ 16,045,369.00	
2014-15	$ (1,628,412.00)	
Funds transferred to Wilmington	$ (15,134,171.00)	Jul-14
Total	$ 482,786.00	##

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