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TO: Mark Lockridge
Auditor General

FROM: David Whitaker, Director 
Legislative Policy Division Staff

DATE: March 21, 2022

RE: 2022-2023 Budget Analysis

Attached is our budget analysis regarding your department's budget for the 2022-2023 Fiscal Year.

Please be prepared to respond to the issues/questions raised in our analysis during your scheduled hearing on **Wednesday, March 30, 2022, at 2:00 p.m.** We would then appreciate a written response to the issues/questions at your earliest convenience before or after your budget hearing. Please forward a copy of your responses to the Council members, the City Clerk's Office, and the Legislative Policy Division.

Please contact us if you have any questions regarding our budget analysis.

Thank you for your cooperation in this matter.

DW:dh:ss
Attachments:
Issues and Questions

cc: Councilmembers
Auditor General's Office
Jay Rising, Chief Financial Officer
Tanya Stoudemire, Chief Deputy CFO
Steve Watson, Budget Director
James George, Agency CFO
James Tatum, Budget Analyst
Gail Fulton, Mayor's Office

Auditor General (50)

FY 2022-2023 Budget Analysis by the Legislative Policy Division

The mission of the Office of the Auditor General (OAG) is to act as an independent, full-service auditing function to examine and evaluate the City's activities in order to improve the accountability for public funds and to improve the operations of City government. The agency promotes the economy, efficiency, and effectiveness of city government and helps to protect against fraud, waste, and abuse by conducting independent audits, investigations, and evaluations, while adhering to the professional standards of the auditing profession.

The OAG's primary responsibilities are the examination and evaluation of processes that pose the most risks to the City's interest, the adequacy and effectiveness of the City's system of internal control and the quality of performance in carrying out assigned responsibilities. This entails the following:

- A review of the reliability and integrity of financial and operating data and the means used to identify, measure, classify and report such information.
- A review of the systems established to ensure compliance with those policies, plans, procedures, laws and regulations that could have a significant impact on operations and reports.
- A review of the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- An appraisal of the economy and efficiency with which resources are employed.
- A review of operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operation or programs are being carried out as planned.

The Auditor General is also a member of the Risk Management Council, which evaluates the effectiveness of the City's overall risk management function and performs evaluations of the administration and effectiveness of risk management functions in each City agency.

Agency Goals

1. Improve the auditing and consulting capabilities of the OAG staff;
2. Promote an atmosphere of mutual trust, honesty, and integrity among staff and constituents;
3. Improve the quality and timeliness of all external as well as internal reporting;
4. Complete an optimal number of audits, investigations, and special projects;
5. Identify and report opportunities for expense savings and revenues increases.

The Mayor has recommended a slight increase for the Auditor General of \$118,187 (3%) for FY 2023, increasing from \$3,927,093 to \$4,045,280. The Mayor has not changed level of FTE's, leaving it at 14 in FY 2023. As of 1/1/22, the OAG had 13 actual employees, with 1 vacancy.

Mayor's FY 2023 Recommendations

	FY 2022	Mayor Recm'd FY 2023	Change	Percent Change
500010 - OAG Administration	\$763,034	\$696,599	-\$66,435	-8.7%
500020 - Auditing Operations	\$1,455,059	\$1,439,681	-\$15,378	-1.1%
500025 - Auditing - CAFR	<u>\$1,709,000</u>	<u>\$1,909,000</u>	<u>\$200,000</u>	<u>11.7%</u>
28500 - Internal Controls Auditing	\$3,927,093	\$4,045,280	\$118,187	3.0%

¹ 28500 - Internal Controls Auditing, is the OAG's one appropriation.

Issues and Questions

- 1) Please describe the department's new expense initiatives, new capital funding requests, operational reform and savings proposals, and new revenue initiatives/proposals to be implemented in FY 2023. Please provide which appropriation/cost center the new initiative/request/proposal is impacting in FY 2023.
- 2) Is the FY 2023 budgeted level of \$1,909,000, a \$200,000 increase over the current fiscal year, which includes the cost of the City's Annual Comprehensive Financial Report (ACFR), a sufficient amount to cover it and the rest of the items budgeted under **500025 - Auditing - CAFR**?
- 3) The GASB² on January 12, 2021, agreed to draw up a proposal to change the name Comprehensive Annual Financial Report (CAFR) to Annual Comprehensive Financial Report (ACFR), to eliminate the chords of an offensive slur directed at Black South Africans.³ Is the OCFO willing to change the naming of "500025 - Auditing - CAFR" to "500025 - Auditing - ACFR," to be consistent with this change?
- 4) The Mayor again recommends 14 FTEs for the Auditor General's Office. What was the level of FTEs requested by the Auditor General's Office for FY 2023?
- 5) Is 14 FTEs a sufficient level of employees for the Auditor General's Office to provide an optimal level of auditing services of the City of Detroit governmental operations, including the auditing of the City's components units, such as the Detroit Economic Growth Corporation, etc.?
- 6) The City of Detroit has received sizable dollars from Federal programs, like the \$826 M from the American Rescue Plan Act (ARPA), and the \$175 M received thus far from the up to \$250 M in Neighborhood Improvement Plan Bonds. Does the Auditor General's Office need to add more staff or more contractual dollars to hire outside audit help to audit these programs to ensure the dollars are appropriately being spent?
- 7) What major audits do you foresee coming up in FY 2023?

² Governmental Accounting Standards Board (GASB) is the independent, private- sector that establishes accounting and financial reporting standards for U.S. state and local governments.

³ **GASB Advances Talks to Eliminate Offensive Slur from Acronym for Comprehensive Annual Financial Report** Thomson Reuters, January 15, 2021, Denise Lugo Editor, Accounting and Compliance Alert

AUDITOR GENERAL (50)

Department Overview

MISSION:

The Office of the Auditor General (OAG) is an independent, full-service auditing function to examine and evaluate City activities in order to improve accountability for public funds and to improve operations of City government. The agency promotes the economy, efficiency, and effectiveness of city government and helps to protect against fraud, waste, and abuse by conducting independent audits, investigations, and evaluations while adhering to the professional standards of the auditing profession.

OAG responsibilities and authority are stated in Section 7.5-105 of the Charter to make audits of the financial transactions, performance, and operations of city agencies with a focus on high-risk areas; to perform financial analysis of agencies; to make a report of the financial position of the City after the close of each fiscal year; to investigate the administration and operation of City agencies; to settle all disputed claims in favor of or against the City as provided by ordinance, and to make reports to City agencies of irregularities of practice and erroneous accounting methods. OAG prepares written reports of audit findings and recommendations to the City Council, the Mayor and the management of each agency, and performs special projects and other work. The OAG participates in the City's independent biannual Revenue Estimating Conference process. The annual financial audit of the City's Annual Comprehensive Financial Report (ACFR) and its Federal financial assistance programs are performed by outside auditors hired by the OAG.

STRATEGIC PRIORITIES:

1. Improve the auditing and consulting capabilities of the OAG staff.
2. Promote an atmosphere of mutual trust, honesty, and integrity among staff and constituents.
3. Improve the quality and timeliness of all external as well as internal reporting.
4. Complete an optimal number of audits, investigations, and special projects.
5. Identify and report opportunities for expense savings and revenues increases.

Operating Programs

- **Internal Controls Auditing** investigates the administration and operation of City agencies.
 - Public Claims Hearings promote an atmosphere of mutual trust and accountability among constituents.
 - Budget Analysis/Revenue Consensus identifies and reports opportunities for expense savings and revenues increases.

AUDITOR GENERAL (50)

- **Annual ACFR Oversight** facilitates the annual financial audit of the City’s ACFR and Federal financial programs.

Performance Metrics

Performance Metric	FY2021-2022 projection	FY2022-2023 target
Effective Governance		
<i>Number of audits started</i>	4	6
<i>Number of audits completed</i>	6	7
<i>Compliance with external audit reporting requirements</i>	2	2

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Department Name: Office of the Auditor General
Department #: 50

Budget Summary:

	FY2021 Actual		FY2022 Adopted		FY2023 Mayor Recommend	
	General Fund	All Funds	General Fund	All Funds	General Fund	All Funds
Total Revenues	-	-	-	-	-	-
Total Expenditures	3,270,070	3,270,070	3,927,093	3,927,093	4,045,280	4,045,280
Net Tax Cost	3,270,070	3,270,070	3,927,093	3,927,093	4,045,280	4,045,280

	FY2024 Forecast		FY2025 Forecast		FY2026 Forecast	
	General Fund	All Funds	General Fund	All Funds	General Fund	All Funds
Total Revenues	-	-	-	-	-	-
Total Expenditures	4,100,015	4,100,015	4,189,965	4,189,965	4,257,752	4,257,752
Net Tax Cost	4,100,015	4,100,015	4,189,965	4,189,965	4,257,752	4,257,752

Positions (by FTE):	1/1/2022 Actual	FY2022 Adopted	FY2023 Mayor Recommend	FY2024 Forecast	FY2025 Forecast	FY2026 Forecast
General Fund	13	14	14	14	14	14
Non-General Fund	-	-	-	-	-	-
Total Positions	13	14	14	14	14	14

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**CITY OF DETROIT
 BUDGET DEVELOPMENT
 EXPENDITURES BY SUMMARY CATEGORY - ALL FUNDS
 DEPARTMENT 50 - OFFICE OF THE AUDITOR GENERAL**

Department # - Department Name Summary Category	FY2022 Adopted	FY2023 Mayor Recommend	FY2024 Forecast	FY2025 Forecast	FY2026 Forecast
50 - Office of the Auditor General	3,927,093	4,045,280	4,100,015	4,189,965	4,257,752
Salaries & Wages	1,276,239	1,238,845	1,263,622	1,288,895	1,301,784
Employee Benefits	436,204	424,177	396,961	403,092	408,031
Professional & Contractual Services	1,951,088	2,155,088	2,206,810	2,259,773	2,304,968
Operating Supplies	119,898	83,506	85,510	87,562	89,313
Operating Services	126,764	126,764	129,806	132,922	135,581
Other Expenses	16,900	16,900	17,306	17,721	18,075
Grand Total	3,927,093	4,045,280	4,100,015	4,189,965	4,257,752

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**CITY OF DETROIT
BUDGET DEVELOPMENT
EXPENDITURES BY SUMMARY CATEGORY - FUND DETAIL
DEPARTMENT 50 - OFFICE OF THE AUDITOR GENERAL**

Department # - Department Name Fund # - Fund Name Summary Category	FY2022 Adopted	FY2023 Mayor Recommend	FY2024 Forecast	FY2025 Forecast	FY2026 Forecast
50 - Office of the Auditor General	3,927,093	4,045,280	4,100,015	4,189,965	4,257,752
1000 - General Fund	3,927,093	4,045,280	4,100,015	4,189,965	4,257,752
Salaries & Wages	1,276,239	1,238,845	1,263,622	1,288,895	1,301,784
Employee Benefits	436,204	424,177	396,961	403,092	408,031
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Operating Supplies	119,898	83,506	85,510	87,562	89,313
Operating Services	126,764	126,764	129,806	132,922	135,581
Other Expenses	16,900	16,900	17,306	17,721	18,075
Grand Total	3,927,093	4,045,280	4,100,015	4,189,965	4,257,752

**CITY OF DETROIT
BUDGET DEVELOPMENT
FINANCIAL DETAIL BY DEPARTMENT, FUND, APPROPRIATION, & COST CENTER - EXPENDITURES
DEPARTMENT 50 - OFFICE OF THE AUDITOR GENERAL**

Department # - Department Name Fund # - Fund Name Appropriation # - Appropriation Name Cost Center # - Cost Center Name	FY2022 Adopted	FY2023 Mayor Recommend	FY2024 Forecast	FY2025 Forecast	FY2026 Forecast
50 - Office of the Auditor General	3,927,093	4,045,280	4,100,015	4,189,965	4,257,752
1000 - General Fund	3,927,093	4,045,280	4,100,015	4,189,965	4,257,752
28500 - Internal Controls Auditing	3,927,093	4,045,280	4,100,015	4,189,965	4,257,752
500010 - OAG Administration	763,034	696,599	698,907	713,258	722,881
500020 - Auditing Operations	1,455,059	1,439,681	1,446,292	1,474,976	1,493,106
500025 - Auditing - CAFR	1,709,000	1,909,000	1,954,816	2,001,731	2,041,765
Grand Total	3,927,093	4,045,280	4,100,015	4,189,965	4,257,752

**CITY OF DETROIT
BUDGET DEVELOPMENT
POSITION DETAIL BY DEPARTMENT, FUND, APPROPRIATION, & COST CENTER
DEPARTMENT 50 - OFFICE OF THE AUDITOR GENERAL**

Department # - Department Name					
Fund # - Fund Name					
Appropriation # - Appropriation Name	FY2022	FY2023	FY2024	FY2025	FY2026
Cost Center # - Cost Center Name	Adopted	Mayor	Forecast	Forecast	Forecast
Job Code - Job Title		Recommend			
50 - Office of the Auditor General	14	14	14	14	14
1000 - General Fund	14	14	14	14	14
28500 - Internal Controls Auditing	14	14	14	14	14
500010 - OAG Administration	3	3	3	3	3
010101 - Deputy Auditor General	0	1	1	1	1
010106 - Auditor General	1	1	1	1	1
13201124 - Auditor Manager IV	1	0	0	0	0
43013376 - Executive Administrative Assistant II	1	1	1	1	1
500020 - Auditing Operations	11	11	11	11	11
13201102 - Auditor II	3	4	4	4	4
13201103 - Auditor III	4	4	4	4	4
13201104 - Auditor IV	2	1	1	1	1
13201112 - Supervisory Auditor IV	2	2	2	2	2
13201124 - Auditor Manager IV	0	0	0	0	0
Grand Total	14	14	14	14	14

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