



Office of the Auditor General

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MEMORANDUM

DATE : March 29, 2023
TO : Detroit City Councilmember Latisha Johnson
FROM: Laura Goodspeed, CPA *LG*
Deputy Auditor General
RE : Response to the Office of the Auditor General Budget Questions
CC : Honorable City Council Members
City Clerk
Jay Rising, Chief Financial Officer, Office of the Chief Financial Officer
Tanya Stoudemire, Chief Deputy Chief Financial Officer, Office of the Chief Financial Officer
Steve Watson, Deputy Chief Financial Officer, Budget Department, Office of the Chief Financial Officer
James George, Agency Chief Financial Officer, Office of Departmental and Financial Services, Office of the Chief Financial Officer
Rachel Schafer, Budget Analyst, Office of the Chief Financial Officer
Gail Fulton, Liaison, Mayor's Office
David Whitaker, Director, Legislative Policy Division

The following are our responses to the memorandum from City Councilmember Latisha Johnson "Budget Questions" dated March 27, 2023.

1. If OAG did not base its audits on a risk-based assessment, how many departments would you want to audit in FY 2024 and why?
 - [Sec. 7.5-105. Powers and Duties of the 2012 City Charter](#)
 - The Auditor General Shall Make audits of the financial transactions, performance and operations of City agencies based on an annual risk-based audit plan prepared by the Auditor General, or as otherwise directed by the City Council.
 - The risk-based audit plan only affects the selection of which audit will be performed annually, not the number of audits performed.
 - Audits requested by City Council affects the selection and sometimes the duration of the audit. For example, City Council



requested that the OAG audit “All demolition activities of the city.” To our surprise the audit was the equivalent of performing seven or eight audits because “all demolition activities of the city” transcended across five city departments and four outside agencies such as the Land Bank. The actual time spent on the audit was approximately four years and took five years to complete. We published seven audit reports over the five-year period.

- For FY24 we expect to publish six to seven audits based on our current plan which includes audits of:
 - ARPA Renew Detroit Program
 - Board of Police Commissioners
 - Human Resources Employee Services
 - DPD Drug Law Enforcement Fund (by Ordinance)
 - DPD Special Operations /Secret Service Fund (by Ordinance)
 - Payroll Audit
2. Does the OAG believe a risk-based audit of the City’s ARPA funds and related programing is appropriate?
- For clarity, the assessment of “risk” is performed at two levels:
 - In the selection of audits to be performed in the annual risk-based plan, and
 - In the selection of which transactional and operational activities to focus most auditing procedures.
 - Yes, a risk-based audit is appropriate. Other than an audit that is limited to compliance with certain laws, regulations, rules or agreed upon procedures, all audits are risk-based.
 - While our selection of which ARPA funded program to audit is overall “risk-based,” we are cognizant of the initiatives that are important to this City Council. We requested and received some insight from LPD on programs that matter to City Council and will consider those in our selection process. We plan to audit ARPA funded programs from “a people perspective” by concentrating on the effectiveness and efficiency of the program, and its ability to achieve stated objectives and deliver much needed services to Detroit residents.
 - An audit that is risk-based, simply means that the greatest focus of the audit is based on those areas deemed to pose the greatest negative impact on the financial and operational activities of the auditee:
 - For example, all city departments potentially have activity in all major transaction cycles including: Revenue cycle, Expenditure cycle, Human Resource cycle, and Financing Cycle.



- The greatest risk in an audit of the City Treasurer might be the revenue and financing cycle. Whereas an audit of GSD might prove the greatest risk lies in its contracts and expenditures.
- In the selection of which transactional and operational activities to focus most auditing procedures.
- You should note that OAG’s contract with Plante Moran includes the “Single Audit” of Expenditures of Federal Awards granted to the City annually. In FY 2022, the Single Audit included a “Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance.” That audit included more than \$56.0 million associated with Direct Programs funded by the Department of the Treasury and the Michigan Department of Health and Human Services (COVID-19 Coronavirus Relief Fund, Emergency Rental Assistance Program (ERAP), Coronavirus State and Local Fiscal Recovery Funds and COVID-19 Immunization and Vaccines for Children.) We expect that the FY2023 Single Audit will provide additional coverage of ARPA dollars, and will include major programs funded by ARPA.

3. OAG indicates one of the office’s goals is to “expand . . . activities to include Enterprise-wide Risk Management.” What does this entail and how is it different from current practices?

- The Institute of Internal Auditors (IIA) provides guidance on Enterprise Risk Management. The IIA prescribes the use of the Committee of Sponsoring Organizations’ (COSO) framework for ERM which identifies eight components of ERM: internal environment, objective setting, event identification, risk assessment, risk response, control activities, information and communication, and monitoring.
- With the necessary addition of resources, we plan to add more value through greater utilization of our cutting-edge audit software and experienced staff. Our audit software will enable us to perform City-wide assessments and summarize operational, financial, and strategic related risks the City faces as a whole.
- We envision our Enterprise-wide Risk Management audit activities to focus on City-wide resource planning, priorities, and performance, and the five strategic outcomes noted in the Mayor’s FY24 Proposed Budget:

Over the past three years, the City of Detroit has introduced new methods of resource planning to better align the budget with strategic priorities and align resources with results. The City’s budgets for the General Fund and many special revenue and enterprise funds are now organized around Strategic Outcomes, which represent the long-term vision of City leadership to deliver superior City services and improve the quality of life for Detroiters. Every year, the City establishes key priorities and initiatives that fall under one or more of these strategic outcomes.



The FY 2024 budget classifies agency appropriations to a strategic outcome or one of its components. The strategic outcomes are:

- Safer Neighborhoods
- Vibrant and Beautiful City
- Economic Equity and Opportunity
- Effective Governance
- Efficient and Innovative Operations