



CITY OF DETROIT, MICHIGAN

OMB Circular A-133 Single Audit Report

June 30, 2007

CITY OF DETROIT, MICHIGAN
OMB Circular A-133 Single Audit Report

Table of Contents

	Page(s)
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and Schedule of Expenditures of Federal Awards	1 – 8
Schedule of Expenditures of Federal Awards	9 – 12
Notes to the Schedule of Expenditures of Federal Awards	13
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	14 – 15
Schedule of Findings and Questioned Costs	16 – 81



KPMG LLP
Suite 1200
150 West Jefferson
Detroit, MI 48226-4429

**Report on Compliance with Requirements Applicable to Each Major Program and
on Internal Control over Compliance in Accordance with OMB Circular A-133 and
Schedule of Expenditures of Federal Awards**

The Honorable Mayor
and Members of the City Council
City of Detroit, Michigan:

Compliance

We have audited the compliance of the City of Detroit, Michigan (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007, except for the Urban Area Security Initiative (UASI) major federal program. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit, except for the UASI major federal program.

The City's basic financial statements include operations of the Detroit Brownfield Redevelopment Authority, Detroit Public Library, Detroit Transportation Corporation, Downtown Development Authority, Eastern Market Corporation, Economic Development Corporation, Greater Detroit Resource Recovery Authority, Local Development Finance Authority, and Museum of African American History as discretely presented component units, which received federal awards which are not included in the schedule of expenditures of federal awards for the year ended June 30, 2007. Our audit, described below, did not include the operations of the Detroit Brownfield Redevelopment Authority, Detroit Public Library, Detroit Transportation Corporation, Downtown Development Authority, Eastern Market Corporation, Economic Development Corporation, Greater Detroit Resource Recovery Authority, Local Development Finance Authority, and Museum of African American History because the component units engaged other auditors to perform audits in accordance with OMB Circular A-133.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.



Disclaimer

As described in finding 2007-56 in the accompanying schedule of findings and questioned costs, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the compliance of the City of Detroit with the requirements referred to above that are applicable to its Urban Area Security Initiative major federal program for the year ended June 30, 2007.

Adverse (Noncompliance) – Table 1

As identified in Table 1 and described in the accompanying schedule of findings and questioned costs, the City did not comply with certain compliance requirements that are applicable to certain of its major federal programs. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to the identified major federal programs.

Federal program	Compliance requirement	Finding number
Community Development Block Grant	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2007-10
Community Development Block Grant	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2007-11
Community Development Block Grant	Cash Management	2007-12
Community Development Block Grant	Reporting	2007-14
Community Development Block Grant	Reporting	2007-15
Community Development Block Grant	Subrecipient Monitoring	2007-16
Immunization/Immunization Vaccine for Children	Eligibility	2007-34
Immunization/Immunization Vaccine for Children	Reporting	2007-35



Federal program	Compliance requirement	Finding number
Immunization/Immunization Vaccine for Children	Reporting	2007-36
Immunization/Immunization Vaccine for Children	Special Tests and Provisions - Control, Accountability, and Safeguarding of Vaccines	2007-37
Community Services Block Grant	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2007-42
Community Services Block Grant	Cash Management	2007-44
Community Services Block Grant	Eligibility	2007-45
Community Services Block Grant	Subrecipient Monitoring	2007-47

Qualifications (Noncompliance) – Table 2

As identified in Table 2 and described in the accompanying schedule of findings and questioned costs, the City did not comply with certain compliance requirements that are applicable to certain of its major federal programs. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to the identified major federal programs.



Federal program	Compliance requirement	Finding number
Section 108 Loans	Reporting	2007-18
Home Investment Partnership Program	Allowable Costs/Cost Principles	2007-19
Home Investment Partnership Program	Cash Management	2007-20
Home Investment Partnership Program	Procurement, Suspension, and Debarment	2007-21
Home Investment Partnerships Program	Reporting	2007-23
Home Investment Partnership Program	Special Tests and Provisions - Environmental Reviews	2007-24
Workforce Investment Act	Activities Allowed or Unallowed	2007-25
Workforce Investment Act	Cash Management	2007-26
Workforce Investment Act	Reporting	2007-27
Workforce Investment Act	Subrecipient Monitoring	2007-28
State Revolving Loan/ Drinking Water	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2007-30
State Revolving Loan/ Drinking Water	Cash Management	2007-31
State Revolving Loan/ Drinking Water	Procurement, Suspension, and Debarment	2007-32
State Revolving Loan/ Drinking Water	Reporting	2007-33



Federal program	Compliance requirement	Finding number
Temporary Assistance for Needy Families	Allowable Costs/Cost Principles	2007-38
Temporary Assistance for Needy Families	Cash Management	2007-39
Head Start/ Early Head Start	Cash Management	2007-48
HIV Emergency Relief	Procurement, Suspension, and Debarment	2007-49
HIV Emergency Relief	Reporting	2007-50
HIV Emergency Relief	Matching, Level of Effort, Earmarking	2007-51
Prevention and Treatment of Substance Abuse	Reporting	2007-55

In our opinion, because of the effects of the noncompliance described in Table 1, the City did not comply in all material respects, with the requirements referred to above that are applicable to each of its major federal programs included in Table 1 for the year ended June 30, 2007. Also, in our opinion, except for the noncompliance described in Table 2, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major programs included in Table 2 for the year ended June 30, 2007. Also, in our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its Federal Transit Cluster major federal program for the year ended June 30, 2007. As identified in Table 3, the results of our auditing procedures also disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs.



Other Instances of Noncompliance – Table 3

<u>Federal program</u>	<u>Compliance requirement</u>	<u>Finding number</u>
Community Development Block Grant	Reporting	2007-13
Home Investment Partnerships Program	Reporting	2007-22
Temporary Assistance for Needy Families	Reporting	2007-40
Temporary Assistance for Needy Families	Subrecipient Monitoring	2007-41
Community Services Block Grant	Reporting	2007-46
HIV Emergency Relief	Reporting	2007-52
HIV Emergency Relief	Subrecipient Monitoring	2007-53

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies,



that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2007-08 through 2007-56 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 2007-08, 2007-09, 2007-17, 2007-52, 2007-56 the items in Table 1, and the items in Table 2 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 25, 2009, which included a reference to the reports of other auditors. Our report on the basic financial statements was modified to recognize that we did not audit the financial statements of the Detroit Brownfield Redevelopment Authority, Detroit Public Library, Detroit Transportation Corporation, Downtown Development Authority, Eastern Market Corporation, Economic Development Corporation, Greater Detroit Resource Recovery Authority, Local Development Finance Authority, and Museum of African American History, which represent 99.8% and 96.0% of the assets and revenues, respectively, of the aggregate discretely presented component units. We also did not audit the financial statements of the General Retirement System and the Policemen and Firemen Retirement System, which represent 96.2% and 65.9% of the assets and revenues/additions, respectively, of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon were furnished to us, and our opinions, insofar as they relate to the amounts included in the aggregate discretely presented component units and the aggregate remaining fund information, are based on the reports of the other auditors. Our report also included an emphasis paragraph stating that subsequent to June 30, 2007, significant financial uncertainties have arisen and downgrades in the City's credit ratings have occurred affecting the City's access to capital and certain interest rate swap agreements. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses, and accordingly, we express no opinion on them.



This report is intended solely for the information and use of the Mayor, City Council, management, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Detroit, Michigan
July 31, 2009 (except for the
Schedule of Expenditures of
Federal Awards, Paragraph 12,
as to which the date is
February 25, 2009)

CITY OF DETROIT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2007

Grant title	Grant number	Catalog of federal domestic assistance	2007 expenditures
Department of Agriculture:			
Via Michigan Department of Education: Summer Food Service Program for Children	26-61146	10.559	\$ 860,893
Via Michigan Department of Community Health: Special Supplemental Nutrition Program for Women, Infants, and Children	n/a	10.557	2,897,356
Via Michigan Family Independence Agency Packaged Meals	ES-06-82014	10.561	12,118
Via Michigan Department of Career Development: Food Stamp Program – Supportive Services	05-18	10.561	324,327
Food Stamp Program – Supportive Services	05-18	10.561	10,930
Food Stamp Program	06-14	10.561	910,777
Food Stamp Program	06-14	10.561	16,468
Via Michigan Department of Education: TEFAP	820021020	10.568	63,867
TEFAP	820021020	10.568	24,818
			5,121,554
Department of Education:			
Mayor's Time	U215K032278	84.215	58,754
			58,754
Department of Energy:			
Via Michigan Family Independence Agency Weatherization	DOE-06-82007	81.042	2,228,890
Weatherization	DOE-05-82007	81.042	7,013
			2,235,903
Department of Health and Human Services:			
Detroit Re-entry	6 U79 SP13331-01-2	93.243	158,845
Tuberculosis Outreach Assistance	U52/CCU500843	93.116	489,814
HIV Emergency Relief	5H89HA00021	93.914	7,494,085
Healthy Start Initiative	HSP26-C001-01	93.926	1,727,783
Head Start	05CH0113/41	93.600	357,555
Head Start	05CH0113/40	93.600	237,432
Head Start	05CH0113/40	93.600	(18,319)
Early Head Start	05CH0113/41	93.600	9,809,929
Early Head Start	05CH0113/42	93.600	32,914,871
Early Head Start	05CH0113/42	93.600	1,141,185
Early Head Start	05CH8266/01	93.600	2,110,773
Via Michigan Department of Community Health:			
Bioterrorism	n/a	93.283	336,279
Bioterrorism – Food Borne	n/a	93.283	36,610
Bioterrorism – Lab Services	n/a	93.283	21,502
Child Health BG	n/a	93.994	1,127,604
Childhood Lead Poison	H64/CCH507996-08	93.197	1,134,082
Childhood Lead	n/a	93.197	411,520
Family Planning	n/a	93.217	200,986
Immunization	n/a	93.268	466,404
Immunization Vaccine For Children (VFC)	n/a	93.268	6,933,559
AIDS/HIV Consort	n/a	93.917	291,618
AIDS/HIV Prevention and Planning	n/a	93.940	507,061
AIDS/HIV Family Services	n/a	93.917	68,457
AIDS Counseling & Testing	n/a	93.940	33,389
Prevention and Treatment of Substance Abuse	n/a	93.959	12,431,839
Substance Abuse Projects of Regional & National Significance (SIG)	n/a	93.243	310,000
STD Control	n/a	93.977	550,697
Crippled Children Service	n/a	93.994	772,017
Cities Readiness Initiatives	n/a	93.283	129,005
Primary Care – CHAS	n/a	93.991	54,795
AIDS/HIV Rapid Testing	n/a	93.243	30,334
Infant Mortality	n/a	93.974	89,409
Fatherhood Initiative	90FR0073/01	93.000	67,225
Via Michigan Family Independence Agency TANF	06-82007	93.558	238,948

CITY OF DETROIT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2007

Grant title	Grant number	Catalog of federal domestic assistance	2007 expenditures
TANF	07-82007	93.558	\$ 274,491
WX-LIHEAP	06-82007	93.568	996,001
Community Services Block Grant	06-82007	93.569	1,858,499
Community Services Block Grant	07-82007	93.569	5,044,458
Community Services Block Grant-T	07-82007	93.569	19,212
Via Michigan Dept. of Labor & Economic Growth:			
TANF Work First	05-19	93.558	6,695,038
TANF Work First	06-13	93.558	13,510,841
TANF JET Pilot	05-28	93.558	383,040
TANF-Supportive Services	06-25	93.558	837,796
TANF-Supportive Services	05-20	93.558	203,347
TANF-Goodwill	05-14	93.558	125,570
TANF-Goodwill	06-26	93.558	260,000
			112,875,586
Department of Housing and Urban:			
Community Development Block Grant	B-06-MC-26-0006	14.218	41,880,104
Emergency Shelter Grant	S-06-MC-26-0006	14.231	1,553,328
Section 108 Loans	n/a	14.248	18,434,903
HOME Investment Partnership	M-06-MC-26-0202	14.239	10,754,576
Supportive Housing Program	MI-28-15-307	14.235	165,481
HUD Lead Hazard	MILHD003504	14.905	774,703
Housing Opportunities for Persona with Aids	n/a	14.241	139,456
Housing Opporunities for Persona with Aids	MI26H05-F001	14.241	1,597,000
Mexican Town Welcome Ctr.	n/a	14.251	250,000
			75,549,551
Department of Interior:			
Anna Scripps Whitcomb conservatory Renovation	26-04-ML-0118	15.929	262,798
Restoration of Peterson Playground	26CTY126O0101	15.929	13,735
			276,533
Department of Homeland Security:			
Children's Safety House	2004-FP-02844	97.095	35,000
Children's Safety House	2004-FP-02844	97.095	350,700
Children's Safety House	2004-FG-19658	97.095	66,500
Via State of MI, Department of State Police:			
Pre-Disaster Mitigation	n/a	97.047	69,300
Hurricane Katrina	FEMA-3225-EM	97.036	20,341
2004 Urban Area Security Initiative (UASI)	n/a	97.008	4,456,744
2005 Urban Area Security Initiative (UASI)	n/a	97.067	2,458,132
			7,456,717
Department of Justice:			
Project Safe Neighborhood	2003-GP-CX-0570	16.609	148,927
Local Law Enforcement Block Grant (BJA IX)	2004-LB-BX-1452	16.592	1,034,031
Encourage Arrest	2004-WEAX-0067	16.710	44,647
Project Safe Neighborhood	2003-GP-CX-0170	16.609	193,065
Great Program	2004-JV-FX-0032	16.737	175,078
Operation Take back	2006-DD-BX-0186	16.710	281,290
COPS Technology Grant	2004CKWX0344	16.710	74,180
Justice Dept. Community Oriented Policing Service	98 ULWX0057	16.710	3,390
DNA Capacity	2005-DA-BX-K020	16.741	91,572
Via Michigan Family Independence Agency			
JAIBG	05-82007	16.523	198,751
JAIBG	05-82007	16.523	79,024
Equitable Sharing Funds	n/a	16.999	265,131
Via Michigan Department of Comm. Health:			
Victim Asst. 05	20083-9-2003	16.575	163,157
Victim Assistance	20083-108V06	16.575	511,130
Via Michigan State Police:			
Click it or Ticket	20083-10V06	16.710	174,913
Click it or Ticket	PT-07-14	16.710	169,131
Via State Office of Drug Control Policy:			
Justice Assistance Grant (JAG)	2005-DJ-BX-0565	16.738	1,673,479
			5,280,896

CITY OF DETROIT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2007

Grant title	Grant number	Catalog of federal domestic assistance	2007 expenditures
Department of Labor			
Adult with disabilities	E-9-4-2-0094-D5	17.720	\$ 92,212
Via Michigan Department of Labor & Economic Growth:			
Wagner Peyner-Employment Services	05-04	17.207	1,869,122
Trade	05-17	17.245	123,695
Trade	04-15	17.245	555,408
WIA Youth	05-34	17.259	6,747,292
WIA Administration	05-34	17.258, 17.259, 17.260	2,448,289
WIA Statewide HI C Youth activity	05-40	17.258, 17.259, 17.260	93,369
WIA Statewide One Stop Operation	05-37	17.258, 17.259, 17.260	272,477
WIA Adult	05-34	17.258	5,725,947
WIA Dislocated Worker	05-34	17.260	7,247,275
WIA Statewide Displaced Homemaker	05-43	17.258, 17.259, 17.260	65,121
WIA Statewide-Capacity Building	05-39	17.258, 17.259, 17.260	72,000
WIA Performance Incentive	06-24	17.258, 17.259, 17.260	132,324
WAIT Rapid Response DEW Incur. War	05-42	17.260	204,931
WAIT Rapid Response DW Scholarships	06-06	17.260	359,313
WIA SW Goodwill	06-26	17.258, 17.259, 17.260	195,278
Work Incentive Grant DPN	06-08	17.266	60,000
Reed Act-Work First (AY 04)	05-19	17.225	825,220
			27,089,273
Environmental Protection Agency:			
Via Michigan Department of Environmental Quality:			
State Revolving Loan	5175-02	66.458	280,738
State Revolving Loan	5175-05	66.458	2,226,077
State Revolving Loan	5204-03	66.458	554,615
State Revolving Loan	5204-04	66.458	3,173,568
State Revolving Loan	5204-05	66.458	69,669
State Revolving Loan	5204-06	66.458	413,574
State Revolving Loan	5228-01	66.458	185,222
Drinking Water	7161-01	66.468	3,022,112
Drinking Water	7162-01	66.468	1,809,518
Drinking Water	7178-01	66.468	973,977
Great Cities Riverfront	BP-96564201-0	66.436	27,030
Brownfield Pilot	BP-985204-01	66.818	3,545
Great Cities Clean Diesel Retrofit	X9-96538601-1	66.034	93,882
			12,833,527
Department of Transportation:			
Federal Transit-Formula Grants – Communication/Service Vehicle	MI-90-X337	20.507	203,849
Federal Transit-Formula Grants – Bus Shelter	MI-90-X341	20.507	15,163
Highway Planning & Construction – Outreach Activities	MI-90-X347	20.205	19,569
Federal Transit-Formula Grants – Service Vehicle/Shelter & Signage	MI-90-X359	20.507	114,329
Highway Planning & Construction – Bus Shelter	MI-90-X374	20.205	595,186
Federal Transit-Formula Grants – Engineering/Facility/Equip	MI-90-X383	20.507	1,063,636
Federal Transit-Formula Grants – Engineering/Communication	MI-90-X411	20.507	384,700
Highway – Planning & Construction – Bus Purchase & Lease	MI-90-X412	20.205	503,233
Federal Transit-Formula Grants – Downtown Transit Center	MI-90-X421	20.507	411,708
Federal Transit-Formula Grants – Facility Improvemen	MI-90-X422	20.507	1,871,566
Federal Transit-Formula Grants – Engineering/Communication	MI-90-X434	20.507	1,128,599
Federal Transit-Formula Grants – Preventive maint/Facility/etc	MI-90-X464	20.507	1,789,776
Federal Transit-Formula Grants – Engineering/Communication	MI-90-X502	20.507	4,673,639
Federal Transit-Formula Grants – Preventive Maint.	MI-90-X533	20.507	16,484,322
Federal Transit-Capital Investment Grants – Buses	MI-03-0180	20.500	61,896
Federal Transit-Capital Investment Grants – Downtown Transit Center	MI-03-0196	20.500	289,368
Federal Transit-Capital Investment Grants – Bus Lease	MI-03-0204	20.500	1,399,028
Federal Transit-Capital Investment Grants – Bus Lease	MI-03-0219	20.500	1,818,745
Job Access and Reverse Commute – Center City Loop – Study	MI-70-X001	20.516	97,786
Job Access and Reverse Commute – Center City Loop – Study	MI-15-X002	20.516	750,000
Job Access and Reverse Commute – Center City Loop – Study	MI-17-X001	20.516	124,523
Job Access and Reverse Commute – (E&TD)	MI-37-X009	20.516	182,258

CITY OF DETROIT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2007

<u>Grant title</u>	<u>Grant number</u>	<u>Catalog of federal domestic assistance</u>	<u>2007 expenditures</u>
Job Access and Reverse Commute	MI-37-X014	16.710	\$ 609,424
Public Transportation Research – Unified Work Program Via Michigan Department of Transportation	MI-37-X014	20.514	305,490
Federal Transit-Capital Investment Grants – Vehicles Via Michigan Department of Transportation – Bureau of Aeronautics	2002-0576	20.500	239,231
Land Acquisition	F-26-0027-3104	20.106	<u>583,215</u>
			<u>35,720,239</u>
Total			\$ <u>284,498,533</u>

See accompanying notes to schedule of expenditures of federal awards.

CITY OF DETROIT, MICHIGAN

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

(1) General

The accompanying schedule of expenditures of federal awards (the SEFA) presents federal financial assistance for the City of Detroit, Michigan (the City). The reporting entity for the City is defined in Section I, note A to the City's basic financial statements. Federal financial assistance received directly from federal agencies, including federal financial assistance passed through other government agencies, is included in the SEFA.

(2) Basis of Presentation

The accompanying SEFA includes the federal grant activity of the City and is presented on the modified accrual basis of accounting. The information in the SEFA is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

(3) Subrecipient Awards

Of the federal expenditures presented in the SEFA, \$93,419,288 of federal awards was provided to subrecipients.

(4) Noncash Transactions

The value of the noncash assistance received was determined in accordance with the provisions of OMB Circular A-133.

(5) Highway and Construction Program

The City participates in various road, street, and bridge construction and repair projects. The projects are funded through an award granted to the State of Michigan Department of Transportation (the State), which administers the grant for the City. The City identifies the projects needed in the locality, and the State performs the procurement, payment, and cash management functions on behalf of the City. The award is managed directly by the State and has not been included in the tests of compliance with laws and regulations associated with the City's Single Audit. The award is approximately \$12.9 million for the year ended June 30, 2007.



KPMG LLP
Suite 1200
150 West Jefferson
Detroit, MI 48226-4429

**Report on Internal Control over Financial
Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
*Government Auditing Standards***

The Honorable Mayor
and Members of the City Council
City of Detroit, Michigan:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Detroit, Michigan (the City), as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 25, 2009, which included a reference to the reports of other auditors. We did not audit the financial statements of Detroit Brownfield Redevelopment Authority, Detroit Public Library, Detroit Transportation Corporation, Downtown Development Authority, Eastern Market Corporation, Economic Development Corporation, Greater Detroit Resource Recovery Authority, Local Development Finance Authority, and Museum of African American History, which represent 99.8% and 96.0% of the assets and revenues, respectively, of the aggregate discretely presented component units. We also did not audit the financial statements of the General Retirement System and the Policemen and Firemen Retirement System, which represent 96.2% and 65.9% of the assets and revenues/additions, respectively, of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon were furnished to us, and our opinions, insofar as they relate to the amounts included in the aggregate discretely presented component units and aggregate remaining fund information, are based on the reports of the other auditors. Our report also emphasized that subsequent to June 30, 2007, significant financial uncertainties have arisen and downgrades in the City's credit ratings have occurred affecting the City's access to capital and certain interest rate swap agreements as discussed in note IV to the basic financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants and other matters did not include the entities audited by other auditors referred to in the previous paragraph. The findings, if any, of those other auditors are not included herein.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.



Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and responses as findings 2007-1, 2007-2, 2007-3, and 2007-4 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as findings 2007-5, 2007-6, and 2007-7.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Mayor, City Council, City management, federal awarding and pass-through agencies, and the Treasurer of the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Detroit, Michigan
February 25, 2009

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Section I – Summary of Auditors’ Results

- (a) The type of report issued on the basic financial statements: **Unqualified opinion**
- (b) Significant deficiencies in internal control were disclosed by the audit of the financial statements: **Yes**
- (c) Material weaknesses: **Yes**
- (d) Noncompliance that is material to the financial statements: **Yes**
- (e) Significant deficiencies in internal control over major programs were disclosed by the audit: **Yes**
- (f) Material weaknesses: **Yes**
- (g) The type of report issued on compliance for major programs: (each major program listed separately in the table below)

<u>Unqualified</u>	<u>Qualified</u>	<u>Adverse</u>	<u>Disclaim</u>
Federal Transit Cluster (CFDA #20.500, 20.507)	Home Investment Partnership Program (CFDA #14.239)	Community Development Block Grant (CFDA #14.218)	Urban Area Security Initiative (CFDA# 97.008, 97.067)
	Temporary Assistance For Needy Families (CFDA #93.558)	Immunization/Immunization Vaccine for Children (CFDA #93.268)	
	State Revolving Loan/ Drinking Water (CFDA #66.458, 66.468)	Community Services Block Grant (CFDA #93.569)	
	HIV Emergency Relief (CFDA #93.914)		
	Workforce Investment Act (CFDA # 17.258,17.259, 17.260)		
	Head Start and Early Head Start (CFDA #93.600)		
	Prevention and Treatment of Substance Abuse (CFDA# 93.959)		
	Section 108 Loans (CFDA# 14.248)		

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

- (h) Any audit findings that are required to be reported under Section 510(a) of OMB Circular A-133: **Yes**
- (i) Major programs: Community Development Block Grant (CFDA # 14.218); Section 108 Loans (CFDA 14.248); Home Investment Partnership Program (CFDA # 14.239); Workforce Investment Act (CFDA # 17.258, 17.259, 17.260); Federal Transit Cluster (CFDA # 20.500, 20.507); State Revolving Loan Fund/Drinking Water (CFDA #66.458, 66.468); Immunization/Immunization Vaccine for Children (CFDA #93.268); Temporary Assistance For Needy Families (CFDA # 93.558); Prevention and Treatment of Substance Abuse (CFDA # 93.959); HIV Emergency Relief (CFDA # 93.914); Head Start and Early Head Start (CFDA #93.600); Community Services Block Grant (CFDA # 93.569); Urban Area Security Initiative (CFDA #97.008, 97.067)
- (j) Dollar threshold used to distinguish between Type A and Type B programs: \$3,000,000
- (k) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: No

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Section II – Summary of Findings Relating to the Financial Statements that are Required to be Reported in Accordance with *Government Auditing Standards*.

Finding 2007-01 – Financial Closing and Reporting

Deficiencies exist in the processes to evaluate accounts, record entries into the general ledger, and prepare financial statements. These deficiencies include the following:

- The process to close the books and prepare closing entries and financial statements relies partly upon decentralized accounting staff and software applications other than the City's DRMS general ledger. The process requires a significant amount of manual intervention.
- The process to identify significant transactions throughout the City's fiscal year to determine the appropriate accounting treatment does not result in timely consideration as to how to record or report such transactions. These transactions often are not identified until the end of the fiscal year during the financial reporting process. There is inadequate communication between various City departments on transactions and on how they affect the individual stand-alone financial reports and the Comprehensive Annual Financial Report (CAFR).
- The process to close the books and prepare financial statements includes the recording of a significant number of manual post-closing entries.
- The process to close the books and evaluate accounts occurs only on an annual basis instead of monthly or quarterly. As a result, certain key account reconciliations and account evaluations are not performed timely and require an extended amount of time to complete during the year-end closing process. Information necessary to effectuate a timely and accurate closing of the books is sometimes not communicated between certain departments and agencies of the City.
- The process to close the books and prepare closing entries and financial statements does not utilize enough adequately trained and appropriately experienced employees to prepare the financial statements or monitor reporting issues throughout the year. There is inadequate supervisory review and approval of accounting transactions.
- The established internal control procedures for tracking and recording capital asset activities are not consistently followed. The Disposal and Transfer Form and the Asset Acquisition Form are not completed consistently and timely throughout the year and at year-end. Physical inventories of capital assets are not being performed annually as required by City policy.
- The process for establishing legal case reserves and tracking the status of cases is predominantly manual in nature and very time-consuming. The volume of open litigation along with the frequency in status changes for the cases increases the difficulty in maintaining an updated case reserve listing without significant manual intervention.
- The process for establishing liabilities for employee health care did not originally include an estimate of the incurred but not reported claims.
- The process for recording debt transactions throughout the year did not originally include an appropriate consideration of generally accepted accounting principles. Numerous errors were identified in the area of accrued interest, accreted interest, and accounting for debt refundings, including related premiums, discounts, issuance costs, and swap termination payments or receipts.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

- The process to determine the proper accounting treatments for leases did not originally include consideration of whether the lease was operating or capital.
- The process to determine the proper classification of grant revenues did not originally include an appropriate determination of whether the grant was from a State or Federal source.
- The process to record wagering tax revenues and related accounts receivable and deferred revenue did not include an appropriate consideration of the correct year in which the revenue should be recognized.
- The process to record revenue from the sales of City property did not include an appropriate consideration of the correct year in which the revenue should be recognized.

Recommendation

We recommend management continue to develop and refine its financial reporting systems and processes. Refinements should include assignment of accounts and reporting units to qualified personnel to conduct detailed analysis of accounts throughout the year and financial reporting process. We further recommend management conduct a thorough assessment of the adequacy and completeness of the City's accounting and financial reporting policies and procedures. Based on the results of the assessment, determine the need to develop new policies and procedures and/or reinforce the existing policies and procedures to personnel. We also recommend management evaluate the City's organizational structure and personnel composition to determine the adequacy of the accounting related skills and knowledge of assigned personnel in relation to their assigned duties.

Views of Responsible Officials

We have reviewed the finding and concur with the recommendation. However, due to turnover and lack of accounting staff and training and development programs the recommendation for this finding and the other findings will take some time to fully implement. Layoffs and turnover in accounting and management staff in 2006 and 2007 and lack of training and staff development over the past years has contributed to the City's accounting and financial reporting problems. The City is presently rebuilding the accounting division and making improvements to the accounting and financial reporting systems. The City will continue to add qualified staff and make improvements including adopting the recommendations herein. New accounting tools have been obtained that will facilitate the timely completion of financial reports in the future.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Finding 2007-02 – Authorization, Approval, and Segregation of Duties

Internal control policies and procedures are intended to be designed to mitigate risks to the City. Control activities that don't operate as intended represent failed control activities and increase risks to the City. Deficiencies exist in the areas of authorization, approval and segregation of duties. These deficiencies include the following:

- Appropriate approvals and segregation of duties did not exist for a significant number of journal entries during the year. Journal entries lacked supervisory approval and in some cases were prepared, posted, and approved by the same individual.
- Appropriate authorizations and approvals did not exist for 9 out of 40 purchase orders selected for testing.
- Authorization to open, close, or change bank accounts is not clearly defined in written policies.
- Approvals on employee timesheets did not exist for a significant number of timesheets selected for testing.
- An appropriate segregation of duties does not exist for certain revenue collections as the same individual opens the mail, logs the checks, and prepares the journal entry to record the receipt.
- Approvals indicating supervisory review of reconciliations and analyses are not consistently performed or documented.
- Timely supervisory approval of bank reconciliations did not exist for certain accounts.
- Approvals indicating supervisory review did not exist for certain cash collections reconciliations and accounts receivable accounts.

Recommendation

We recommend management conduct a training needs analysis of supervisory personnel to ensure supervisory level accounting and finance personnel are knowledgeable in internal control activities and the financial closing policies of the City. We further recommend management implement new procedures to monitor internal control activities to determine if policies are being adhered to throughout the year.

Views of Responsible Officials

We have reviewed the finding and concur with the recommendation. The City has contracted with a local accounting firm to provide training to City supervisory accounting personnel. The Finance Department will work toward creating training programs and developing competent accounting supervisors. Also, the Department will implement new procedures to monitor internal control activities.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Finding 2007-03 – Reconciliations, Transaction Processing, and Document Retention

Operations of the City are carried out by numerous City departments utilizing a variety of people, processes, and systems. This type of environment requires diligence in ensuring accurate information is processed and shared. Performing reconciliations of data reported from different systems is an integral part of ensuring transactional data integrity and accurate financial reporting. Deficiencies exist in the areas of transaction processing, data integrity, reconciliation performance, and document retention. Those deficiencies include the following:

- Data provided to the actuaries that assist in estimating workers' compensation liabilities is not tested for accuracy and reconciled to supporting data.
- A comprehensive listing of covenants related to financing arrangements is not maintained and reconciled to original supporting documents.
- A listing of internal controls employed by service organizations is not prepared and evaluated for adequacy. Various service organizations process transactions for the City on a contractual basis.
- Bank, investment, imprest, and petty cash reconciliations are not prepared timely, and reconciling differences are not fully investigated and resolved in a timely manner.
- Timesheet payroll records are not appropriately retained as certain requested files were missing.
- Data in the human resources system did not match data in the employee personnel files.
- IRS Form 941 for the payment of payroll taxes was not completely reconciled to the payroll registers.
- Cash collections and accounts receivable data which is processed by third party service providers is not reviewed and tested for accuracy.
- Income tax returns are not processed timely.
- Income tax returns are not reconciled to available data regarding State and Federal filers to identify nonfilers of City of Detroit returns.
- Cash collections are not recorded timely on a consistent basis.
- Electrical meter data sheets are not reconciled to the amount billed per the invoices to ensure all meter data sheets generate bills and all bills are recorded in DRMS. Additionally, manual meter reading documents that are used to generate invoices are not retained in the files.
- Historical data for Water and Sewer accounts receivable was not maintained as the files were inadvertently over-written.
- Capital projects that are complete are not closed out and placed into service categories on a timely basis.
- Interfund and inter-departmental transactions are not reconciled throughout the year on a timely basis.
- Alarms that occur on bus fare boxes are not investigated when tripped.
- A significant number of bank reconciling items are over one year old and have not been investigated and resolved.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

- Accounts payable Parking Department subledgers maintained outside of DRMS are not reconciled to DRMS.

Recommendation

We recommend management develop reconciliation policies and procedures which include thresholds based on the type and purpose of the reconciliation to ensure reconciling differences are appropriately identified and researched. The policies should require reconciling items are cleared within 30 days of identification and documentation is prepared to support and explain the reconciling differences and the related resolution.

Views of Responsible Officials

We have reviewed the finding and concur with the recommendation. As discussed previously, the Finance Department will implement training and development programs to improve accounting staff. The Department has improved its financial analysis, which will enable accounting staff to focus on variances to identify errors and problems. During the audit the accounting staff did better reviews and reconciliations, which provided the auditors with more reliable data than in past audits. In addition, the Department will develop reconciliation policies and procedures to ensure reconciling differences are identified and researched.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Finding 2007-04 – Information Technology

General controls and application controls work together to ensure the completeness, accuracy, and validity of financial and other information in the systems. Deficiencies exist in the areas of general and application controls. Those deficiencies include the following:

- Access to powerful administrator ID's is shared by multiple employees.
- ID's for terminated employees remained active after termination.
- Periodic reviews of user access are not performed.
- Password parameters are inadequate.
- Documents supporting adding, deleting, or modifying user access were not retained.
- Adequate procedures are not in place to log and approve configuration changes for certain applications.
- Program developers have access to move program changes into production for certain applications.
- Vendors supporting certain applications can make program changes without approvals.
- Certain tickets related to problems and incidents were not resolved in a timely manner.

Recommendation

We recommend the following:

- Develop and enforce stronger password parameters such as password length of at least 6 characters, password expiration every 90-120 days, enforce alpha-numeric password and suspend ids after 5 invalid login attempts.
- Create and enforce a policy that requires each user to have a unique id, change the passwords to the default system ids, restrict access to default and administrative ID's, minimize the use of generic ids, turn audit on to log activity.
- Create controls and procedures to suspend or disable separated employees, implement scripts to suspend ids not used for 45-60 days, implement programs to generate reports showing ids inactive for longer than 45-60 days and subsequently manually suspend those ids.
- Create and enforce a policy that requires review of user access on a periodic basis, correct user access based on review results and maintain before and after logs to review results.
- Create a matrix to identify application functions that when granted together will give rise to segregation of duties conflict. Follow and enforce the segregation of duties matrix to ensure that segregation of duties conflicts do not exist at the time of role/profile creation.
- Create and enforce a policy to log all confirmation changes, obtain approval from authorized individuals for all configuration changes and perform appropriate testing on all confirmation changes prior to promoting changes to production.
- Develop and enforce a policy that does not grant access to developers to promote changes into production and access to promote changes into production should be restricted to authorized individuals.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

- Implement and enforce adequate procedures to log and track problems and incidents.

Views of Responsible Officials

We have reviewed the finding and concur with the recommendation. Finance Department staff are presently working with Information Technology staff on implementing the Information Technology recommendations. Improvements were made during the audit and the City will continue to work toward improving information technology controls.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Finding 2007-05 – Arbitrage

The City has not implemented the necessary procedures to ensure compliance with the arbitrage rebate rules of Section 148(f) of the Internal Revenue Code of 1986 applicable to the City's outstanding tax exempt obligations. In discussing this with City officials, they stated the lack of written City policies and procedures regarding the monitoring and calculating of arbitrage rebates caused the City to fail to comply with the rebate rules.

Internal Revenue Code § 148(f) requires certain earnings on non-purpose investments allocable to the gross proceeds of a bond issue be paid to the United States to prevent the bonds in the issue from being arbitrage bonds. Section 148 of the Internal Revenue Code requires compliance with the rules be ascertained by conducting a series of steps to calculate the amount to be rebated.

Nonpayment of rebates when due could result in the loss of tax-exemption for interest on the bonds or in the payment of penalty and interest.

Recommendation

We recommend Management conduct all necessary activities to calculate rebates, submit filings, and pay rebates and/or penalties and interest owed. We further recommend Management develop and implement new written policies and procedures to ensure compliance is maintained on a go-forward basis.

Views of Responsible Officials

We have reviewed the finding and concur with the recommendation. The Finance Department will implement the recommendation.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Finding 2007-06 – Filing of Financial Statements

The City did not file audited financial statements by the required deadline. The City submitted the June 30, 2007 financial statements on February 27, 2009 and has not yet submitted the June 30, 2008 financial statements. In discussing this with City officials, the stated changes in personnel along with increasingly complex transactions and reporting standards have made it difficult for the City to modify its closing procedures to accommodate the changing conditions

Michigan Compiled Laws Section 141.424 requires each local unit file the annual financial report with the State Treasurer within 6 months of the local unit's year end.

The Treasurer has the authority when audited financials are not submitted within the six-month period to withhold the local government's State Revenue Sharing distribution. Accordingly, the treasurer has withheld a portion of the City's December 2007, February 2008, April 2008, June 2008, August 2008, November 2008, and February 2009 State Revenue Sharing funds. The Secretary of State has the authority to suspend the City's certificate of motor vehicle self-insurance when required financials, with application are not submitted 30 days prior before the desired effective date of the certificate. Failure to adhere to the requirement may result in the cancellation of the certificate of motor vehicle self-insurance. However, the Secretary of State has continued to extend the City's certificate of motor vehicle self-insurance, on a month-to-month basis contingent on the City continuing ability to meet plans to correct these deficiencies.

Recommendation

We recommend Management develops a comprehensive plan to effectuate a timely closing of the books and preparation of financial statements.

Views of Responsible Officials

We have reviewed the finding and concur with the recommendation. The Finance Department added new contractual staff and new accounting staff in 2008 to more timely complete the June 30, 2007 and June 30, 2008 audits. Improvements have been made and are expected to continue. However, the department does not anticipate meeting the required deadline until December 31, 2010 when it expects to have the June 30, 2010 annual financial report filed on time. The Department has year-end closing procedures and has tools such as the PBC (Prepared By Client) list with staff assignments and due dates, which will enable the City to file timely financial statements. The Department will prepare a comprehensive plan to complete and file the June 30, 2008 annual financial report by September 30, 2009 and the June 30, 2009 annual financial report by March 31, 2010.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Finding 2007-07 – Escheatment Law

The City has not filed the required annual report of unclaimed property to the State of Michigan. Additionally, the City has not remitted escheatable property to the State. In discussing this with City officials, the stated changes in personnel combined with the lack of written City policies and procedures regarding the monitoring and calculating of escheatment rules caused the City to fail to comply with the rules.

The Uniform Unclaimed Property Act (Public Act 29 of 1995) requires the Michigan Holder Transmittal Annual Report of Unclaimed Property be submitted annually by November 1.

Any holder of unclaimed property who fails to file a report of unclaimed property is subject to fines and penalties as prescribed in Public Act 29 of 1995.

Recommendation

We recommend Management conducts an assessment and evaluation of unclaimed property held and file the required report within the annual required deadlines.

Views of Responsible Officials

We have reviewed the finding and concur with the recommendation. The Finance Department's Treasury Division will implement new procedures for escheatment to ensure assessments and evaluations of unclaimed property held are conducted annually and that the Michigan Holder Transmittal Annual Report of Unclaimed Property is filed by the deadline.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Section III – Findings and Questioned Costs Relating to Federal Awards

Item: 2007-08 Finding Type: Material weakness

Federal Programs: All

Requirement: Office of Management and Budget (OMB) Circular A-133 section 320 states that the audit shall be completed and the data collection form and reporting package shall be submitted within the earlier of 30 days after receipt of the auditors' report, or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

Condition: The City did not submit their Single Audit reporting package (Single Audit Report, Data Collection Form, Status of Prior Year Findings, and a Corrective Action Plan) and data collection report within the required time period.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls were not properly designed, executed, and monitored to ensure a timely preparation of reports and records for audit purposes. As a result, management did not comply with the submission requirements of OMB A-133. Layoffs and reduction in accounting personnel in prior years resulted in late submissions.

Recommendation: We recommend that management expand the central grant management processes and strengthen the related internal control procedures to ensure that the City is able to prepare for audits more timely and become in compliance with the submission requirements of OMB A-133.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations. In the 2009-2010 fiscal year, the Grants Management Section of the Finance Department will be reestablished.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-09

Finding Type: Material weakness

Federal Programs: All

Requirement: A reconciliation of the Schedule of Expenditures of Federal Awards (SEFA) to the General Ledger should be performed throughout the year in order to ensure the SEFA is complete and accurate.

Condition: There were several significant unreconciled differences between the SEFA and the General Ledger. The City's attempt to complete the reconciliation continued more than a year after fiscal year end and errors that required adjustments to the SEFA were discovered throughout this process.

Questioned Costs: None

Possible Asserted Cause and Effect: The internal control procedures were not adequately designed to identify all sources of federal funds on a timely basis. The internal control procedures that should have been in operation were not followed or monitored properly to perform a complete and accurate reconciliation of the SEFA to the General Ledger on a timely basis. Unreconciled differences between the SEFA, the General Ledger, and supporting documentation could result in errors in the financial statements or SEFA. Layoffs and reduction in accounting personnel in prior years resulted in reconciliations not being completed on time.

Recommendation: Management should redesign the internal controls over the SEFA preparation and reconciliation process. The process should include procedures to identify all sources of federal funds and the related federal compliance requirements. The process should also include procedures to compare source documentation (e.g., federal draw down requests, grant agreements, deposits of federal funds, etc.) to the recorded information for completeness and consistency.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations. In the 2009-2010 fiscal year, the Grants Management Section of the Finance Department will be reestablished.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-10 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Pass-Through Entity: N/A

Federal Program: Community Development Block Grant (CDBG)

CFDA No.: 14.218

Award No.: B-05-MC-26-0006, B-98-MC-26-006A

Award Year: July 1, 2006 - June 30, 2007

Requirement: Activities Allowed or Unallowed and Allowable Costs/Cost Principles: Per 2 CFR Part 225 Appendix B, Paragraph 8 (h)(1), Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit. In addition, Appendix B, Paragraph 8(h)(3), Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employee worked solely on that program for the period covered by the certification. These certifications' will be prepared at least semiannually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee. Per 2 CFR Part 225, Appendix A, Paragraph C.1(j), to be allowable under Federal awards, costs must meet the following general criteria: (j) be adequately documented. Per A-102 Common Rule, Non-federal entities receiving Federal awards must establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Condition: During our testwork, we selected 30 payroll transactions totaling \$58,188 for review and noted the following: There was not a certification performed for employee's that worked solely on the program, as a result the entire payroll expense of \$5,891,900 and fringe expense of 2,632,274 for a total of \$8,524,174 is a questioned cost as A-87 requires payroll certifications to be performed to support the amount of payroll expense charged to the grant; For 2 of 30 items selected the timesheet was not signed by a supervisor; For 1 of 30 payroll items the employee was paid for a mandatory day off without pay (DOWOP); For 1 of 30 payroll items the employee timesheet indicated that 45 minutes of PTO was taken, however the pay register did not account for this time; For 1 of 30 items selected the pay rate on the pay register was less than the pay rate in the employee history file. Additionally the City was unable to provide 5 Payroll Personnel System (PPS) pay registers totaling \$440,850.

Questioned Costs: \$8,524,174

Possible Asserted Cause and Effect: *Unsigned timesheets: Possible occurrence attributed to paper documents forwarded to Payroll before supervisor's authorization to comply with deadline for payroll submission. Failure to submit documents on time risk underpayment of staff wages. *Other Payroll Discrepancies: The payment for DOWOP and incorrect pay rate and time allocation are possibly attributed to errors by the Payroll team in Human Resources, who is responsible for processing time keeping. *Missing Payroll Registers: Copies not forwarded to Planning & Development Department (P&DD) from the Human Resources Department. * Missing Payroll Certifications: The Accounting

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Manager stated that the City was going to implement a new computerized time reporting and payroll system that would correct the payroll certification problem. This implementation of the new system was delayed beyond the control of the Accounting Manager.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Activities Allowed or Unallowed and Allowable Costs/Cost Principles requirements.

Views of Responsible Officials: *Unsigned timesheets: Concur with possible occurrence. *Other Payroll Discrepancies: Human Resources is responsible for processing employee work hours and as such, noted errors are not attributed to any actions of P & DD. *Missing Payroll Registers: Documents are forwarded to P & DD as a courtesy and are not forwarded timely, if at all. Moreover, all original documents are generated, managed, and stored by Human Resources. Official copies should be obtained from Human Resources. *Missing Payroll Certifications: Procedures have been implemented as of July 1, 2007.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-11 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Pass-Through Entity: N/A

Federal Program: Community Development Block Grant (CDBG)

CFDA No.: 14.218

Award No.: B-05-MC-26-0006, B-98-MC-26-006A

Award Year: July 1, 2006 - June 30, 2007

Requirement: Activities Allowed or Unallowed and Allowable Costs/Cost Principles: Per 2CFR Part 225, Appendix B, Paragraph 8 (h)(1), Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit. In addition, per 2CFR Part 225, Appendix B, Paragraph (h)(4): Where employees work on multiple activities or cost objectives, a distribution of their salaries and wages will be supported by personnel activity reports or equivalent documentation, which meets the standards in subsection 8.h.(5) unless a statistical sampling system (see subsection (8.h.6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on: (a) More than one Federal award, (b) A Federal award and a non-Federal award, (c) An Indirect cost activity and a direct cost activity, (d) Two or more indirect activities that are allocated using different allocation bases, or (e) An unallowable activity and a direct or indirect cost activity. Per Section 8.h.(5): Personnel activity reports or equivalent documentation must meet the following standards: (a) They must reflect an after-the-fact distribution of the actual activity of each employee, (b) They must account for the total activity for which each employee is compensated, (c) They must be prepared at least monthly and must coincide with one or more pay periods, and (d) They must be signed by the employee.

Condition: During our testwork, we selected 30 indirect payroll transactions totaling \$61,356 for review and noted the following: The department does not require employees to perform time and effort reporting when working on multiple grants as a result the entire indirect payroll of \$4,066,312 is a questioned cost as A-87 requires payroll certifications to be performed to support the amount of payroll expense charged to the grant; For 1 of 30 items selected the employee took 8 hours of vacation, however it was not reflected on the pay register; For 2 of 30 items selected the pay rate on the pay register was less than what was recorded in the employee file.

Questioned Costs: \$4,066,312

Possible Asserted Cause and Effect: *Unsigned timesheets: Possible occurrence attributed to paper documents forwarded to Payroll before supervisor's authorization to comply with deadline for payroll submission. Failure to submit documents on time risk underpayment of staff wages.*Other Payroll Discrepancies: The payment for DOWOP and incorrect pay rate and time allocation are possibly attributed to errors by the Payroll team in Human Resources, who is responsible for processing time keeping.*Missing Payroll Registers: Copies not forwarded to P & DD from Human Resources. * Missing Payroll Certifications: The Accounting Manager stated than the City was going to implement a new

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

computerized time reporting and payroll system that would correct the payroll certification problem. This implementation of the new system was delayed beyond the control of the Accounting Manager.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Activities Allowed or Unallowed and Allowable Costs/Cost Principles requirements.

Views of Responsible Officials: *Unsigned timesheets: Concur with possible occurrence. *Other Payroll Discrepancies: Human Resources is responsible for processing employee work hours and as such, noted errors are not attributed to any actions of P & DD.*Missing Payroll Registers: Documents are forwarded to P & DD as a courtesy and are not forwarded timely, if at all. Moreover, all original documents are generated, managed, and stored by Human Resources. Official copies should be obtained from Human Resources. *Missing Payroll Certifications: Procedures have been implemented as of July 1, 2007.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-12 Cash Management

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Pass-Through Entity: N/A

Federal Program: Community Development Block Grant (CDBG)

CFDA No.: 14.218

Award No.: B-05-MC-26-0006, B-98-MC-26-006A

Award Year: July 1, 2006 - June 30, 2007

Requirement: Cash Management: Per 24 CFR Part 85.20 (7), Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements.

Condition: During our testwork, we selected 30 Integrated Disbursement and Information System (IDIS) drawdowns totaling \$264,415 for testing and noted the following: For 22 of 30 IDIS drawdowns totaling \$82,673, the City did not minimize the time lapse between drawdown and the payment of funds as required. Of the 22, 11 had a time lapse between 8 and 20 days, 8 had a time lapse between 21 and 93 days, and 3 had a time lapse between 119 and 372 days. For 2 of 30 items selected the City was unable to provide supporting documentation for a total of \$568 of draws.

Questioned Costs: \$568

Possible Asserted Cause and Effect: Internal controls over the time lapse between the drawdown request and the payment of funds were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Cash Management compliance requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Cash Management requirement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations. Drawdown requests and payment of funds will be more closely monitored effective July 1, 2007.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-13 Reporting

Finding Type: Noncompliance and significant deficiency

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Pass-Through Entity: N/A

Federal Program: Community Development Block Grant (CDBG)

CFDA No.: 14.218

Award No.: B-05-MC-26-0006, B-98-MC-26-006A

Award Year: July 1, 2006 - June 30, 2007

Requirement: Reporting: Per 24 CFR Part 91.520 (a) General, each jurisdiction that has an approved consolidated plan shall annually review and report, in a form prescribed by HUD, on the progress it has made in carrying out its strategic plan and its action plan. The performance report must include a description of the resources made available, the investment of available resources, the geographic distribution and location of investments, the families and persons assisted (including the racial and ethnic status of persons assisted), actions taken to affirmatively further fair housing, and other actions indicated in the strategic plan and the action plan. This performance report shall be submitted to HUD within 90 days after the close of the jurisdiction's program year.

Condition: During our testwork, we noted that the Consolidated Annual Performance and Evaluation Report was submitted 4 days after the required due date.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls over the timely completion and submission of the Consolidated Annual Performance and Evaluation Report were not properly executed or monitored. As a result, management did not comply with the Reporting compliance requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Reporting requirements.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations. This minor 4 day error will not occur again.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-14 Reporting

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Pass-Through Entity: N/A

Federal Program: Community Development Block Grant (CDBG)

CFDA No.: 14.218

Award No.: B-05-MC-26-0006, B-98-MC-26-006A

Award Year: July 1, 2006 - June 30, 2007

Requirement: Reporting: Per 24 CFR sections 135.90 and the OMB A-133 Compliance Supplement, for each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction, the recipient must submit Form HUD 60002, Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons to the Assistant Secretary for Fair Housing and Equal Opportunity annually.

Condition: During our testwork, we noted that the required form HUD 60002, Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons was not completed and submitted for the fiscal year ended June 30, 2007.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls over the completion and submission of the required forms were not properly designed, executed, or monitored. As a result, management did not comply with the Reporting compliance requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Reporting requirements.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations. The Unit acquired one staff person to design and implement the Section 3 monitoring program. Required reports will be submitted when they are due.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-15 Reporting

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Pass-Through Entity: N/A

Federal Program: Community Development Block Grant (CDBG)

CFDA No.: 14.218

Award No.: B-05-MC-26-0006, B-98-MC-26-006A

Award Year: July 1, 2006 - June 30, 2007

Requirement: Reporting: Per 24 CFR Part 85.41 (c)(4) requires that grantees must submit the Federal Cash Transaction reports no later than 15 working days following the end of each quarter.

Condition: Four quarterly Federal Cash Transaction reports were selected for testing and all four of the Federal Cash Transaction reports were submitted after the required due date. The first quarter report was submitted 5 days late. The second quarter report was submitted 7 days late. The third quarter report was submitted 11 days late. The fourth quarter report did not contain evidence of the date of submission.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls over the cash transactions reports were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Reporting compliance requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Reporting requirements.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations. The report is due by the 15th business day of the month. The date will vary every quarter depending on the way the calendar days fall. Staff will ensure the report is submitted within the 15 business days required by HUD. Staff will also ensure that report is dated by management.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-16 Subrecipient Monitoring

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Pass-Through Entity: N/A

Federal Program: Community Development Block Grant (CDBG)

CFDA No.: 14.218

Award No.: B-05-MC-26-0006, B-98-MC-26-006A

Award Year: July 1, 2006 - June 30, 2007

Requirement: Subrecipient Monitoring: Per Circular A-133 Subpart D(d) (3)&(4), Pass-through entity responsibilities: A pass-through entity shall perform the following for Federal awards it makes: (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. (4) Ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

Condition: During our testwork, we selected 30 subrecipients and noted the following: 2 of 30 subrecipient grant agreements were not available for review and 3 of 30 grant agreements did not contain evidence of the required review by the Director; 28 of 30 subrecipient grant agreements did not contain the required communication of the CFDA number; 26 of 30 subrecipient files did not contain all required documentation such as significant correspondence and results of audits; 12 of 30 subrecipient files did not contain the required desk review checklist used to document the review of the subrecipient's OMB Circular A-133 Report. 6 of 30 subrecipient files did not contain the required evidence of an on-site review; 10 of 30 subrecipients were not monitored through an on-site visit in accordance with the department's policies; 3 of 30 subrecipients did not have evidence that the subrecipient organization and its principals are not suspended or debarred included in the grant agreement or monitoring file. Of these 3 subrecipients, 2 related to the grant agreements not being provided and 1 related to evidence the suspension and debarment verification not being included in the grant agreement or monitoring file.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls over the subrecipient monitoring compliance requirement were not properly designed, executed, or monitored. As a result, management did not comply with the Subrecipient Monitoring compliance requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Subrecipient Monitoring requirement.

Views of Responsible Officials: We will take appropriate action to ensure reviews/approval signature of the Director for all grant agreements. We have always used the sample checklist and boilerplate approved by HUD that to date has not required the CFDA number. We will take the appropriate action to ensure all files contain the required documentation. We will create an Audit Certification form to evidence review

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

of all A-133 reports submitted to us by the Subrecipients. All Subrecipients will be monitored in accordance with our preestablished selection criteria. The CFDA number will be included in contracts for fiscal year 2010.

There are instances when we may have placed a copy of the grant agreement in our files that didn't contain the director's approval/signature and forgot to replace it with a copy of the executed contract.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-17 Reporting

Finding Type: Material weakness

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Pass-Through Entity: N/A

Federal Program: Community Development Block Grant (CDBG)

CFDA No.: 14.218

Award No.: B-05-MC-26-0006, B-98-MC-26-006A

Award Year: July 1, 2006 - June 30, 2007

Requirement: Reporting: Per the OMB A-133 Compliance Supplement and 24 CFR 85.20 (b)(1), financial reporting must be accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant of subgrant. A-102 Common Rule requires non-Federal entities receiving Federal Awards establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Condition: The internal control to reconcile IDIS (the subsidiary ledger) and DRMS (the general ledger) was not performed timely to prevent, detect, and correct errors. In addition, the reconciliation noted an unreconciled difference of \$2,544.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls over the reconciliation of the subsidiary ledger to the general ledger were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Reporting compliance requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure reconciliations are prepared, reviewed, and all errors are investigated and resolved timely.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations. Internal controls to reconcile IDIS (the subsidiary ledger) and DRMS (the general ledger) will be performed timely to prevent, detect, and correct errors.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-18 Reporting

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Pass-Through Entity: N/A

Federal Program: Section 108 Loans

CFDA No.: 14.248

Award No.: n/a

Award Year: n/a

Requirement: Reporting: Per 24 CFR sections 135.90 and the OMB A-133 Compliance Supplement, for each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction, the recipient must submit Form HUD 60002, Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons to the Assistant Secretary for Fair Housing and Equal Opportunity annually.

Condition: During our testwork, we noted through inquiries with management that the Form HUD 60002, Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons was not completed and submitted for the fiscal year ended June 30, 2007.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Reporting compliance requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Reporting requirements.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations. The Unit acquired one staff person to design and implement the Section 3 monitoring program. A Section 3 monitoring report was submitted for 2007-2008. The department routinely submitted the Contractor/Subcontractor reports to HUD that we thought satisfied the Section 3 requirement.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-19 Allowable Costs/Cost Principles

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Pass-Through Entity: N/A

Federal Program: HOME Investment Partnership Program

CFDA No.: 14.239

Award No.: M-03-MC-260202

Award Year: July 1, 2006 - June 30, 2007

Requirement: Allowable Costs/Cost Principles: Per 2 CFR Part 225 Appendix B, Paragraph 8 (h)(1), Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit. In addition, Appendix B, Paragraph 8(h)(3), Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employee worked solely on that program for the period covered by the certification. These certifications' will be prepared at least semiannually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee. Per 2 CFR Part 225, Appendix A, Paragraph C.1(j), to be allowable under Federal awards, costs must meet the following general criteria: (j) be adequately documented. Per A-102 Common Rule, Non-federal entities receiving Federal awards must establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Condition: During our testwork, we selected 30 direct payroll transactions totaling \$45,942 for review and noted the following: for 30 of 30 items tested there was not a payroll certification performed for employee's that worked solely on the program, as a result the entire payroll expense of \$347,822 and fringe expense of \$147,191 is a questioned cost; for 4 of 30 items the correct pay rate per the employee history file was not used to calculate the gross pay; for 1 of 30 items the timesheet showed one hour of compensatory time and the biweekly Time and Attendance Report did not reflect this time.

Questioned Costs: \$495,013

Possible Asserted Cause and Effect: Internal controls over payroll certifications, time data, and employee pay rates were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Allowable Costs/Cost Principles requirements. The Accounting Manager stated than the City was going to implement a new computerized time reporting and payroll system that would correct the payroll certification problem. This implementation of the new system was delayed beyond the control of the Accounting Manager.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Allowable Costs/Cost Principles requirements.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations. *Payroll Discrepancies: Possibly attributed to errors by the Payroll team in Human Resources, who is responsible for processing time keeping. The department has initiated the use of the Personnel Activity Report (PAR) form along with implementing a new certification process July 1, 2007.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-20 Cash Management - Reconciliation

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Pass-Through Entity: N/A

Federal Program: HOME Investment Partnership Program

CFDA No.: 14.239

Award No.: M-03-MC-260202

Award Year: July 1, 2006 - June 30, 2007

Requirement: Cash Management: Per 24 CFR 92.502 (c)(2), HOME funds drawn from the United States Treasury account must be expended for eligible costs within 15 days. Any interest earned within the 15 day period may be retained by the participating jurisdiction as HOME funds. Any funds that are drawn down and not expended for eligible costs within 15 days of the disbursement must be returned to HUD for deposit in the participating jurisdiction's United States Treasury account of the HOME Investment Trust Fund.

Condition: The City prepared a reconciliation between the IDIS and the DRMS General Ledger System with an unsupported amount of \$373,162. This unsupported variance is the result of an overestimation of monthly payroll expenditures. The overdraw occurred for several years before being detected around March of 2008. Upon detection of the error, the department offset future payroll related draws to repay the funds. The repayment of funds was completed in May of 2009.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls over the reconciliation of the subsidiary ledger to the general ledger were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Cash Management compliance requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Cash Management requirements.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations. Reconciliations between the IDIS and the DRMS General Ledger System will be performed more timely to determine if there are any unsupported amounts.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-21 Procurement, Suspension, and Debarment

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Pass-Through Entity: N/A

Federal Program: HOME Investment Partnership Program

CFDA No.: 14.239

Award No.: M-03-MC-260202

Award Year: July 1, 2006 - June 30, 2007

Requirement: Procurement, Suspension, and Debarment: Per 2 CFR 180.300, when you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified.

Condition: During our testwork, we selected 32 contracts for review and noted that 16 of 32 contracts did not contain the required disclosures for suspension and debarment in the contracts. In addition, no other procedures were performed to ensure the contractors were not Suspended or Debarred.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls over the Suspension and Debarment compliance requirement were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Procurement, Suspension, and Debarment requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Suspension and Debarment requirements.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations. Procedures to ensure that contractors have not been Suspended or Debarred have already been implemented. The Labor Standards Unit implemented the suspension and debarment website search in 2004. Department wide implementation will become effective with future contracts.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-22 Reporting

Finding Type: Noncompliance and significant deficiency

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Pass-Through Entity: N/A

Federal Program: HOME Investment Partnership Program

CFDA No.: 14.239

Award No.: M-03-MC-260202

Award Year: July 1, 2006 - June 30, 2007

Requirement: Reporting: Per 24 CFR Part 91.520 (a) General, each jurisdiction that has an approved consolidated plan shall annually review and report, in a form prescribed by HUD, on the progress it has made in carrying out its strategic plan and its action plan. The performance report must include a description of the resources made available, the investment of available resources, the geographic distribution and location of investments, the families and persons assisted (including the racial and ethnic status of persons assisted), actions taken to affirmatively further fair housing, and other actions indicated in the strategic plan and the action plan. This performance report shall be submitted to HUD within 90 days after the close of the jurisdiction's program year.

Condition: During our testwork, we noted that the Consolidated Annual Performance and Evaluation Report was submitted 4 days after the required due date.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls over the completion and submission of the CAPER were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Reporting requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Reporting requirement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations. All reports will be submitted by the required due dates.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-23 Reporting

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Pass-Through Entity: N/A

Federal Program: HOME Investment Partnership Program

CFDA No.: 14.239

Award No.: M-03-MC-260202

Award Year: July 1, 2006 - June 30, 2007

Requirement: Reporting: Per 24 CFR sections 135.90 and the OMB A-133 Compliance Supplement, for each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction, the recipient must submit Form HUD 60002, Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons to the Assistant Secretary for Fair Housing and Equal Opportunity annually.

Condition: During our testwork, we noted through discussions with management that the Form HUD 60002, Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons was not completed and submitted for the fiscal year ended June 30, 2007.

Questioned Costs: None

Possible Asserted Cause and Effect: The department did not have sufficient controls in place to ensure required reports are properly completed and submitted.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Reporting requirements.

Views of Responsible Officials: The department routinely submitted the Contractor/Subcontractor reports to HUD that we thought satisfied the requirement. The Unit acquired one staff person to design and implement the Section 3 monitoring program. A Section 3 monitoring report was submitted for 2007-2008.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-24 Special Tests and Provisions - Environmental Reviews

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Housing and Urban Development (HUD)

Pass-Through Entity: N/A

Federal Program: HOME Investment Partnership Program

CFDA No.: 14.239

Award No.: M-03-MC-260202

Award Year: July 1, 2006 - June 30, 2007

Requirement: Special Tests and Provisions, Environmental Reviews: Per 24 CFR Part 92.352, the jurisdiction (e.g., the participating jurisdiction or State recipient) or insular area must assume responsibility for environmental review, decision-making, and action for each activity that it carries out with HOME funds, in accordance with the requirements imposed on a recipient under 24 CFR part 58. No funds may be committed to a HOME activity or project before the completion of the environmental review and approval of the request for release of funds and related certification, except as authorized by 24 CFR part 58.

Condition: During our testwork, we selected 35 projects and reviewed the supporting documentation related to the required environmental review. We noted for 5 of 35 projects, there was not any evidence available of an environmental review having been conducted. Management indicated that the reviews had been performed but they were unable to locate the documentation.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls over the environmental review process were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Special Tests and Provisions - Environmental Review requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with Special Test and Provision requirement for Environmental Reviews.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations. Environmental reviews will be performed and documentation will be provided as required.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-25 Activities Allowed or Unallowed

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Labor

Pass-Through Entity: Michigan Department of Labor & Economic Growth

Federal Program: Workforce Investment Act

CFDA No.: 17.258, 17.259, 17.260

Award No.: Various

Award Year: July 1, 2006 - June 30, 2007

Requirement: Activities Allowed and Unallowed: Per 2 CFR 225 Appendix A, Part C, 1(j), To be allowable under Federal awards, costs must meet the following general criteria: (j), Be adequately documented.

Condition: During our testwork over the cost allocation plan, we selected 30 items totaling \$2,181,641 and noted for 2 of 30 invoices totaling \$24,494 were not available for review.

Questioned Costs: \$24,494

Possible Asserted Cause and Effect: Internal controls over the document retention were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Activities Allowed or Unallowed requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Activities Allowed or Unallowed requirement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-26 Cash Management

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Labor

Pass-Through Entity: Michigan Department of Labor & Economic Growth

Federal Program: Workforce Investment Act

CFDA No.: 17.258, 17.259, 17.260

Award No.: Various

Award Year: July 1, 2006 - June 30, 2007

Requirement: Cash Management: Per OMB Circular A-102, Grants and Cooperative Agreements with State and Local Governments Attachment (1)(a), agency methods and procedures for transferring funds shall minimize the time elapsing between transfer to recipients of grants and cooperative agreements and the recipient's need for the funds.

Condition: During our testwork, we selected 30 cash reimbursement requests totaling \$10,440,743 and noted that for 20 of 30 cash drawdown the required time lapse was not minimized between the request for reimbursement and the payment of funds totaling \$9,651,768.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls over Cash Management were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Cash Management requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Cash Management requirement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-27 Reporting

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Labor

Pass-Through Entity: Michigan Department of Labor & Economic Growth

Federal Program: Workforce Investment Act

CFDA No.: 17.258, 17.259, 17.260

Award No.: Various

Award Year: July 1, 2006 - June 30, 2007

Requirement: Reporting: Per the Bureau of Workforce Programs Policy Issuance 06-26 and 03-38, Detroit Workforce Development Department shall submit to the Michigan Department of Labor & Economic Growth, Bureau of Financial and Administrative Services, a Quarterly Expenditure Report documenting expenses associated with the allocated funds. Quarterly Expenditure Reports are due on the 15th of the month following the end of each quarter. The program requires quarterly reports and a final closeout report prepared on an accrued basis. These fiscal reports must be traceable to journals, ledgers, and work sheets. All costs reported must have adequate documentation on file.

Condition: During our testwork, we selected 30 Financial Status Reports (FSR's) for review and noted the following: 1 of 30 FSRs selected the supporting documentation was not available for our review; 1 of 30 FSRs selected did not contain the required management signature evidencing management review.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls over Reporting were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Reporting requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Reporting requirement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-28 Subrecipient Monitoring

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Labor

Pass-Through Entity: Michigan Department of Labor & Economic Growth

Federal Program: Workforce Investment Act

CFDA No.: 17.258, 17.259, 17.260

Award No.: Various

Award Year: July 1, 2006 - June 30, 2007

Requirement: Subrecipient Monitoring: Per Circular A-133 Subpart D(d) (3)&(4), Pass-through entity responsibilities: A pass-through entity shall perform the following for Federal awards it makes: (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. (4) Ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

Condition: During our testwork, we selected 29 monitoring reports performed during the year and noted the following: 2 of 29 items selected the required management decision on subrecipient findings was not available for review; 1 of 29 items selected the required supporting documentation over management's follow up on subrecipient findings was not available for review.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls over Subrecipient monitoring were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Subrecipient Monitoring requirements.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Subrecipient Monitoring requirements.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-29 Matching, Level of Effort, Earmarking

Finding Type: Significant deficiency

Federal Agency: U.S. Department of Transportation

Pass-Through Entity: N/A

Federal Program: Federal Transit Cluster

CFDA No.: 20.500, 20.507

Award No.: MI-90-X337, MI-90-X341, MI-90-X347, MI-90-X359, MI-90-X374, MI-90-X383, MI-90-X411, MI-90-X412, MI-90-X421, MI-90-X422, MI-90-X434, MI-90-X464, MI-90-X502, MI-90-X533, MI-03-0180, MI-03-0196, MI-03-0204, MI-03-0219, MI-02-0576

Award Year: October 1, 2006 - September 30, 2007

Requirement: Matching, Level of Effort, Earmarking: Per A-102 Common Rule, Nonfederal entities receiving Federal awards must establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Condition: During our testwork, we selected 15 cash receipt journal entry forms for testing and noted the following: 3 of 15 cash receipts journal entry forms did not contain the required signatures by the preparer.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls over the cash receipt journal entry forms were not properly designed, executed, or monitored to ensure effectiveness.

Recommendation: We recommend that management strengthen the internal control process over the cash receipts journal entry forms.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-30 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Material noncompliance and material weakness

Federal Agency: Environmental Protection Agency

Pass-Through Entity: State of Michigan Municipal Bond Authority

Federal Program: State Revolving Loan / Drinking Water

CFDA No.: 66.458

Award No.: 5143-02, 5175-02, 5175-05, 5204-03, 5204-04, 5204-05, 5204-06, 5228-01, 7161-01, 7162-01, 7178-01

Award Year: NA

Requirement: Activities Allowed or Unallowed and Allowable Costs/Cost Principles: Per 2 CFR 225 Appendix A, Part C, 1(j), To be allowable under Federal awards, costs must meet the following general criteria: (j), Be adequately documented. A-102 requires nonfederal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with laws, regulations, and program compliance requirements.

Condition: During our testwork, we selected 30 invoices for testing and noted the following: 8 of 30 invoices, totaling \$9,192,661, did not contain proper evidence of review; 1 of 30 invoices was recorded twice in error.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Activities Allowed or Unallowed and Allowable Costs/Cost Principles requirements.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Activities Allowed or Unallowed and Allowable Costs/Cost Principles requirements.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-31 Cash Management

Finding Type: Material noncompliance and material weakness

Federal Agency: Environmental Protection Agency

Pass-Through Entity: State of Michigan Municipal Bond Authority

Federal Program: State Revolving Loan / Drinking Water

CFDA No.: 66.458

Award No.: 5143-02, 5175-02, 5175-05, 5204-03, 5204-04, 5204-05, 5204-06, 5228-01, 7161-01, 7162-01, 7178-01

Award Year: NA

Requirement: Cash Management: Per OMB Circular A-102, Grants and Cooperative Agreements with State and Local Governments, when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government.

Condition: During our testwork, we selected 30 Request for Reimbursement Forms, totaling \$27,274,714, and noted for 12 of 30 items selected for testing, totaling \$3,939,031, the funds were not paid before the submission of the reimbursement request. In addition, we noted that a reconciliation of expenditures paid per the general ledger to the amounts being requested for reimbursement was not performed.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls over the request for reimbursement process were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Cash Management requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Cash Management requirement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations to ensure that Cash Management requirements are met.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-32 Procurement, Suspension, and Debarment

Finding Type: Material noncompliance and material weakness

Federal Agency: Environmental Protection Agency

Pass-Through Entity: State of Michigan Municipal Bond Authority

Federal Program: State Revolving Loan / Drinking Water

CFDA No.: 66.458

Award No.: 5143-02, 5175-02, 5175-05, 5204-03, 5204-04, 5204-05, 5204-06, 5228-01, 7161-01, 7162-01, 7178-01

Award Year: NA

Requirement: Procurement, Suspension, and Debarment: According to 40 CFR 31.35, grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party that is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal Assistance programs under Executive Order 12549, "Debarment Suspension". A-102 Common Rule requires nonfederal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Condition: During our testwork, we noted that there was not a process in place to monitor and verify that contract recipients are not suspended or debarred on an ongoing basis after the initial awarding of the contract.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls over the monitoring of contractors was not properly designed, executed, or monitored to ensure effectiveness.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Procurement, Suspension, and Debarment requirements.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations to ensure that contract recipients are not suspended or debarred.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-33 Reporting

Finding Type: Material noncompliance and material weakness

Federal Agency: Environmental Protection Agency

Pass-Through Entity: State of Michigan Municipal Bond Authority

Federal Program: State Revolving Loan / Drinking Water

CFDA No.: 66.458

Award No.: 5143-02, 5175-02, 5175-05, 5204-03, 5204-04, 5204-05, 5204-06, 5228-01, 7161-01, 7162-01, 7178-01

Award Year: NA

Requirement: Reporting: Per Circular No. A-133, Subpart B .205, The determination of when an award is expended should be based on when the activity related to the award occurs.

Condition: During our testwork, we selected 44 Request for Reimbursement of Funds reports and noted 3 of 44 items were charged to the previous fiscal year in error and not reported on the prior year SEFA. In Addition, 3 of 44 items were charged to the next fiscal year in error and then subsequently corrected based on our audit work.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls over the Schedule of Expenditures of Federal Awards were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Reporting requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Reporting requirements.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations and reconcile future expenditures to ensure that the proper matching occurs.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-34 Eligibility

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Community Health

Federal Program: Immunization / Immunization Vaccine for Children

CFDA No.: 93.268

Award No.: NA

Award Year: October 1, 2006 - September 30, 2007

Requirement: Eligibility: Per the grant agreement/contract with the Michigan Department of Community Health, eligibility will be determined for all recipients of vaccines. Additionally, per the contract with the Michigan Department Community Health, Part II Section 1-E Record Maintenance/Retention, the Department is required to maintain adequate program and fiscal records and files, including source documentation to support program activities and all expenditures for a period of not less than three years.

Condition: During our testwork, we selected 30 patient immunization records noting the following: 1 of 30 immunization records was not properly authorized as it did not contain the required parental signature. In addition, 1 of 30 items did not contain a completed eligibility determination form.

Questioned Costs: \$100

Possible Asserted Cause and Effect: Internal controls over the eligibility requirements were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Eligibility requirements.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Eligibility requirements

Views of Responsible Officials: The Department acknowledges that an employee failed to obtain a parent signature on a form and check a box on a form that reflects eligibility. The Department acknowledges this finding and has implemented written policies and procedures requiring completing all immunization records accurately and completely. The Department requires immunization eligibility verification in all vaccine clinics. In July 2009, the Department will reissue this requirement and review the policy with all Immunization and Clinic staff.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-35 Reporting

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Community Health

Federal Program: Immunization / Immunization Vaccine for Children

CFDA No.: 93.268

Award No.: NA

Award Year: October 1, 2006 - September 30, 2007

Requirement: Reporting: Per the Comprehensive Planning, Budgeting and Contract grant agreement, all FSR's must be prepared in accordance with the Department's FSR instructions and submitted no later than 30 days after the close of the first three fiscal quarters. The reports are due 1/30/xx, 4/30/xx, and 7/30/xx. The final total contractor FSR and Output Measures report (HR-977) is due January 31st after the agreement period end date.

Condition: During our testwork, we selected 4 quarterly FSRs and noted that all 4 of the FSRs were submitted after the required due date. The September 2006 FSR was submitted on January 30 2007, 30 days after the deadline; the December 2006 FSR was submitted February 16 2007, 17 days after the deadline; the March 2007 FSR was submitted May 7 2007, 8 days after the deadline and the June 2007 FSR was submitted August 16 2007, 47 days after the deadline.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls over the timely submission of the quarterly Financial Status Reports were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Reporting requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Reporting requirements.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-36 Reporting

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Community Health

Federal Program: Immunization / Immunization Vaccine for Children

CFDA No.: 93.268

Award No.: NA

Award Year: October 1, 2006 - September 30, 2007

Requirement: Reporting: Per Circular No. A-133, Subpart B .205, The determination of when an award is expended should be based on when the activity related to the award occurs.

Condition: During our testwork, we noted that an inaccurate listing of vaccine values was used to report the value of vaccines received on the SEFA. The difference between the listing utilized by the City and the information provided by the Michigan Department of Community Health was \$874,374.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls over the valuation of the vaccine listing were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Reporting requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Reporting requirement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We have already implemented the recommendations.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-37 Special Tests and Provisions - Control, Accountability, and Safeguarding of Vaccines

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Community Health

Federal Program: Immunization / Immunization Vaccine for Children

CFDA No.: 93.268

Award No.: NA

Award Year: October 1, 2006 - September 30, 2007

Requirement: Special Tests and Provisions - Control, Accountability, and Safeguarding of Vaccines: Per A-102 Common Rule, effective control and accountability must be maintained for all vaccines. Vaccines must be adequately safeguarded and used solely for authorized purposes.

Condition: During our testwork, we reviewed 30 vaccines shipped from the Michigan Department of Community Health and noted the following: for 3 of 30 items selected the required shipping invoice was not provided for review; for 22 of 30 items selected the shipments as identified by Lot Number were not properly included in the monthly inventory logs.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls over the tracking vaccines received were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Control, Accountability, and Safeguarding of Vaccine Special Tests and Provisions compliance requirement. Due to staff turnover in the Immunization Program, some vaccine shipping slips may have been misfiled and not included in the monthly inventory log.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Control, Accountability and Safeguarding of Vaccine Special Test and Provision requirement.

Views of Responsible Officials: The Immunization Program follows the State requirements for Vaccine Inventory and record keeping and has complied with state reviewed inventory standards and reporting. The Auditors' testwork of this requirement followed a new standard therefore, a condition was found. In 2008, the state implemented a new electronic vaccine inventory and tracking system called the Vaccine Inventory Management System. This new system records all shipments electronically and therefore, all invoices and/or shipping reports are maintained as electronic records. The Immunization Program has implemented this system and is currently complying with inventory requirements.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-38 Allowable Costs/Cost Principles

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Labor & Economic Growth

Federal Program: Temporary Assistance for Needy Families

CFDA No.: 93.558

Award No.: 05-19, 06-13, 05-28, 06-25, 05-20, 05-14, 06-26

Award Year: October 1, 2006 - September 30, 2007

Requirement: Allowable Costs/Cost Principles: Per 2 CFR 225 Appendix A, Part C, 1(j), To be allowable under Federal awards, costs must meet the following general criteria: (j), Be adequately documented.

Condition: During our testwork over the cost allocation plan, we selected 30 items, totaling \$2,181,641, and noted for 2 of 30 invoices, totaling \$24,494, were not available for review.

Questioned Costs: \$24,494

Possible Asserted Cause and Effect: Internal controls over the document retention were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Allowable Costs/Cost requirements.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Allowable Costs/Cost Principle requirements.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-39 Cash Management

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Labor & Economic Growth

Federal Program: Temporary Assistance for Needy Families

CFDA No.: 93.558

Award No.: 05-19, 06-13, 05-28, 06-25, 05-20, 05-14, 06-26

Award Year: October 1, 2006 - September 30, 2007

Requirement: Cash Management: Per OMB Circular A-102, Grants and Cooperative Agreements with State and Local Governments Attachment (1)(a), agency methods and procedures for transferring funds shall minimize the time elapsing between transfer to recipients of grants and cooperative agreements and the recipient's need for the funds.

Condition: During our testwork over the TANF program, we selected 30 cash reimbursement requests, totaling \$18,724,438, and noted the following: for 1 of 30 cash reimbursement requests, totaling \$543,490, did not have adequate supporting documentation to support the amount being reimbursed; for 20 of 30 cash reimbursement requests, totaling \$15,323,744, the time lapse between the payment of funds and the submission of the reimbursement request was not minimized as required.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls over cash management were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Cash Management requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Cash management requirement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-40 Reporting

Finding Type: Noncompliance and significant deficiency

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Labor & Economic Growth

Federal Program: Temporary Assistance for Needy Families

CFDA No.: 93.558

Award No.: 05-19, 06-13, 05-28, 06-25, 05-20, 05-14, 06-26

Award Year: October 1, 2006 - September 30, 2007

Requirement: Reporting: Per the Michigan Department of Career Development/Office of Workforce Development Policy Issuance 03-38, The program requires quarterly reports and a final closeout report prepared on an accrued basis. These fiscal reports must be traceable to journals, ledgers, and work sheets. All costs reported must have adequate documentation on file.

Condition: During our testwork, we selected 16 quarterly Financial Status Reports for review. For 1 of 16 quarterly reports we noted that there was not adequate supporting documentation of the expenditures paid.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls over the Quarterly Financial Status Reports were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Reporting requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Reporting requirement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-41 Subrecipient Monitoring

Finding Type: Noncompliance and significant deficiency

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Labor & Economic Growth

Federal Program: Temporary Assistance for Needy Families

CFDA No.: 93.558

Award No.: 05-19, 06-13, 05-28, 06-25, 05-20, 05-14, 06-26

Award Year: October 1, 2006 - September 30, 2007

Requirement: Subrecipient Monitoring: Per Circular A-133 Subpart D (3)&(4), Pass-through entity responsibilities: A pass-through entity shall perform the following for Federal awards it makes: (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. (4) Ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

Condition: During our testwork, we selected 28 subrecipient files for review. We noted for 1 of 28 subrecipients files did not contain the required the A-133 compliance requirement to complete a single audit. In addition, the City did not follow up with the subrecipient, or make a management decision as to ensure compliance.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Subrecipient Monitoring requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Subrecipient Monitoring requirement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-42 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Family Independence Agency

Federal Program: Community Services Block Grant (CSBG)

CFDA No.: 93.569

Award No.: 06-82007, 06-82007

Award Year: October 1, 2006 - September 30, 2007

Requirement: Activities Allowed or Unallowed and Allowable Costs/Cost Principles: Per 2 CFR Part 225 Appendix B, Paragraph 8 (h)(1), Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit. In addition, Appendix B, Paragraph 8(h)(3), Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employee worked solely on that program for the period covered by the certification. These certifications' will be prepared at least semiannually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee. Per 2 CFR Part 225, Appendix A, Paragraph C.1(j), to be allowable under Federal awards, costs must meet the following general criteria: (j) be adequately documented. Per A-102 Common Rule, Nonfederal entities receiving Federal awards must establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements.

Condition: During our testwork, we selected 30 payroll transactions and noted the following: 25 employees did not have the required time certification; 1 employees time and effort reporting was not properly authorized. As a result, payroll expense in the amount of 2,132,106 and fringe benefit expense in the amount of 1,479,069 (Total 3,611,175) are questioned costs, as OMB Circular A-87 requires payroll certification to be performed to properly authorize the amount of payroll expense charged to the grant.

Questioned Costs: \$3,611,175

Possible Asserted Cause and Effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Allowable Costs/Cost Principle requirement. The Accounting Manager stated that the City was going to implement a new computerized time reporting and payroll system that would correct the payroll certification problem. This implementation of the new system was delayed beyond the control of the Accounting Manager.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Allowable Costs/Cost Principle requirement.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Views of Responsible Officials: DHS will ensure that an adequate process is developed to ensure personnel activity reports are prepared for all employees. Effective July 1, 2007, procedures have been implemented for payroll certifications.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-43 Allowable Costs/Cost Principles

Finding Type: Significant deficiency

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Family Independence Agency

Federal Program: Community Services Block Grant (CSBG)

CFDA No.: 93.569

Award No.: 06-82007, 06-82007

Award Year: October 1, 2006 - September 30, 2007

Requirement: Allowable Costs/Cost Principles: Per 2 CFR Part 225 Appendix A, Paragraph C.1(j), to be allowable under Federal awards, costs must meet the following general criteria: (j) be adequately documented. Per A-102 Common Rule, Nonfederal entities receiving Federal awards must establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Condition: During our testwork, we noted that there is not a reconciliation of the total indirect costs incurred by the department and the allocation of the costs to the various grant programs based on the cost allocation plan.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls over the cost allocation process were not properly designed, executed, or monitored to ensure a complete and accurate allocation was made to the various grant programs.

Recommendation: We recommend that management strengthen the internal control process to ensure internal controls are designed and operating effectively to prevent, detect, and correct errors.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-44 Cash Management

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Family Independence Agency

Federal Program: Community Services Block Grant (CSBG)

CFDA No.: 93.569

Award No.: 06-82007, 06-82007

Award Year: October 1, 2006 - September 30, 2007

Requirement: Cash Management: Per OMB Circular A-102, Grants and Cooperative Agreements with State and Local Governments Attachment (1)(a), agency methods and procedures for transferring funds shall minimize the time elapsing between transfer to recipients of grants and cooperative agreements and the recipient's need for the funds.

Condition: During our testwork, we selected 30 expense transactions and noted that the request for reimbursement was made prior to payment of the expenditures for 4 of 30 items tested. The 4 items were submitted for reimbursement between 4 and 20 days prior to payment.

Questioned Costs: None

Possible Asserted Cause and Effect: The department receives an advance of 20% for the CSBG program, which is typically more than \$1 million dollars. Also, the bank account in question contains several other programs and the revenues from those grants are included in the monthly balances.

Recommendation: We recommend that management strengthen the internal control process to ensure expenditures are paid before the submission for reimbursement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. The department submits cost reimbursements on an actual basis.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-45 Eligibility

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Family Independence Agency

Federal Program: Community Services Block Grant (CSBG)

CFDA No.: 93.569

Award No.: 06-82007, 06-82007

Award Year: October 1, 2006 - September 30, 2007

Requirement: Eligibility: A-102 Common Rule requires nonfederal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Condition: During our testwork, we requested a complete listing of recipients that received services during the fiscal year. It was noted that the system used to track services provided to recipients was not able to provide sufficient information to verify completeness of the recipient file. Additionally, for 2 of 35 items selected, the eligibility file was not available for review.

Questioned Costs: None

Possible Asserted Cause and Effect: Missing eligibility files were not able to be located.

Recommendation: We recommend that management strengthen the internal control process to ensure a compliance with the Eligibility requirement.

Views of Responsible Officials: Auditors were initially provided client listing of all clients (27,220) which represented all programs and funding sources. At the request of the auditors, this listing was revised to only include CSBG funded programs and consisted of 3,747 clients. The inclusion of all programs as opposed to CSBG only funded programs was an isolated incident, which was corrected with the subsequent client listing provided.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-46 Reporting

Finding Type: Noncompliance and significant deficiency

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Family Independence Agency

Federal Program: Community Services Block Grant (CSBG)

CFDA No.: 93.569

Award No.: 06-82007, 06-82007

Award Year: October 1, 2006 - September 30, 2007

Requirement: Reporting: Per the grant agreement with the Department of Human Services, "The DHS-1070A shall be submitted to DHS within 30 days from the end of the monthly billing period. For the month of September, billings shall be submitted as reasonably directed by the contract administrator to meet fiscal year ends closing deadlines... In no event shall DHS make a payment to the Grantee for billings submitted more than 90 days after the end of a billing period."

Condition: During our testwork, we selected for review all 12 monthly FSRs and noted that for 1 FSR (September '06) the payment request date was made after the 90 day requirement as directed in the grant agreement.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls over the timely submission of the Financial Status Reports were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Reporting requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Reporting requirements.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations and submit billings less than 90 days after the end of a billing period.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-47 Subrecipient Monitoring

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Family Independence Agency

Federal Program: Community Services Block Grant (CSBG)

CFDA No.: 93.569

Award No.: 06-82007, 06-82007

Award Year: October 1, 2006 - September 30, 2007

Requirement: Subrecipient Monitoring: Per Circular A-133 Subpart D(d) (3)&(4), Pass-through entity responsibilities: A pass-through entity shall perform the following for Federal awards it makes: (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. (4) Ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

Condition: During our testwork, we selected 25 subrecipient monitoring files for testing and noted no evidence that an A-133 audit report was requested or reviewed for all 25 files.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls over subrecipient monitoring were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Subrecipient Monitoring requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Subrecipient Monitoring requirements.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-48 Cash Management

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: N/A

Federal Program: Head Start, Early Head Start

CFDA No.: 93.600

Award No.: 05CH0113/40, 05CH0113/39, 05CH0112/41, 05CH0113/41, 05CH8266/01

Award Year: November 1, 2006 - October 31, 2007

Requirement: Cash Management: Per OMB Circular A-102, Grants and Cooperative Agreements with State and Local Governments Attachment (1)(a), agency methods and procedures for transferring funds shall minimize the time elapsing between transfer to recipients of grants and cooperative agreements and the recipient's need for the funds.

Condition: During our testwork, we selected 30 cash advance requests and noted the following: 16 of 30 requests did not minimize the time lapse between the advance and the disbursement of funds. The 16 items were paid between 4 and 22 days after submission for advancement of funds.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls over the Cash Management process are not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Cash Management requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Cash Management requirement.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations to ensure that the department minimizes the time elapsing between transfer to recipients of grants and cooperative agreements and the recipient's need for the funds.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-49 Procurement, Suspension, and Debarment

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: N/A

Federal Program: HIV Emergency Relief

CFDA No.: 93.914

Award No.: 6H89HA00021-15-01, 2H89HA00021-14-00

Award Year: March 1, 2006 - February 28, 2007

Requirement: Procurement, Suspension, and Debarment: Per A-102 Common Rule, Nonfederal entities receiving Federal awards must establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Condition: During our testwork, we selected 2 of 2 contracts for review and noted the 2 contracts selected were approved 3 months after the effective date of the contract.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls contract procurements were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Procurement, Suspension, and Debarment requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Procurement, Suspension, and Debarment requirements.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations to ensure that contracts are approved when they should be.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-50 Reporting

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: N/A

Federal Program: HIV Emergency Relief

CFDA No.: 93.914

Award No.: 6H89HA00021-15-01, 2H89HA00021-14-00

Award Year: March 1, 2006 - February 28, 2007

Requirement: Reporting: Per A-102 Common Rule, Nonfederal entities receiving Federal awards must establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Per Circular No. A-133, Subpart B .205, The determination of when an award is expended should be based on when the activity related to the award occurs.

Condition: During our testwork, we selected 36 expenditure transactions, totaling \$639,811 for testing and noted for 2 of the 36 items, totaling \$11,918, the expenditure was incurred in the prior fiscal year, and reported in the current year Schedule of Expenditures of Federal Awards.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Reporting requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Reporting requirements.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations that expenditures match the correct fiscal year.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-51 Matching, Level of Effort, Earmarking

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: N/A

Federal Program: HIV Emergency Relief

CFDA No.: 93.914

Award No.: 6H89HA00021-15-01, 2H89HA00021-14-00

Award Year: March 1, 2006 - February 28, 2007

Requirement: Matching, Level of Effort, and Earmarking: Per A-102 Common Rule, Non-federal entities receiving Federal awards must establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements. Additionally, per Public Law No. 109-415 section 2604 (c)(1), "use not less than 75 percent to provide core medical services that are needed in the eligible area for individuals with HIV/AIDS who are identified and eligible under this title (including services regarding the co-occurring conditions of the individuals)." Per Public Law No. 109-415 section 2604(f), "Unless waived by the Secretary, HHS (or designee), for the purpose of providing health and support services to women, youth, infants, and children with HIV disease, including measures to prevent perinatal transmission of HIV, an EMA or TGA shall use for services to each of these populations an amount not less than the percentage of grant funds made available in a fiscal year constituted by the ratio of the population involved (woman, youth, infants, or children) in such areas with HIV/AIDS, to the metropolitan area's overall population with HIV/AIDS.

Condition: During our testwork, we noted the department did not meet the requirement to spend 75% of eligible funds on core services. The department spent 72% of eligible funds on core services. In addition, the department did not meet the requirement to spend a minimum percentage of program revenue on Children.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Matching, Level of Effort, Earmarking compliance requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Matching, Level of Effort, Earmarking requirements.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations to ensure that the department meets the requirement to spend 75% of eligible funds on core services.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-52 Reporting

Finding Type: Noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: N/A

Federal Program: HIV Emergency Relief

CFDA No.: 93.914

Award No.: 6H89HA00021-15-01, 2H89HA00021-14-00

Award Year: March 1, 2006 - February 28, 2007

Requirement: Reporting: Per A-102 Common Rule, Nonfederal entities receiving Federal awards must establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Per 45 CFR A 74.52 (a)(1)(IV): Recipient shall submit the SF-269 and SF-269A no later than 30 days after the end of each specified reporting period for quarterly and semiannual FSRs, and 90 calendar days for annual and final reports.

Condition: During our testwork, we noted that 1 of 2 FSRs was submitted after the required due date. The FSR covering the period March 2006 to February 2007 was originally submitted on May 30, 2007, which is one day late. The report was resubmitted on April 30, 2009, which is two years and one month after the period.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Reporting requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Reporting requirements.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations to ensure that all FSRs are submitted by their due dates.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-53 Subrecipient Monitoring

Finding Type: Noncompliance and significant deficiency

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: N/A

Federal Program: HIV Emergency Relief

CFDA No.: 93.914

Award No.: 6H89HA00021-15-01, 2H89HA00021-14-00

Award Year: March 1, 2006 - February 28, 2007

Requirement: Subrecipient Monitoring: A-102 requires nonfederal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with laws, regulations and program compliance requirements. Per 31 USC 7502(f)(2)(B)(2), Each pass through entity shall: A) Provide each subrecipient the program names (and identifying numbers) from which each assistance is derived, and the Federal requirements that govern the use of such awards and the requirements of (this) chapter; B) Monitors the subrecipients use of Federal awards through site visits, limited scope audits, or other means; C) Review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to Federal awards provided to the subrecipient by the pass-through entity.

Condition: During our testwork, we obtained and reviewed 2 of 2 subrecipient A-133 reports required to be monitored by the department and noted that the wrong CFDA number was used on both reports. Both reports should refer to the HIV Grants using CFDA number 93.914; currently they refer to 93.915.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Subrecipient Monitoring requirements.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Subrecipient Monitoring requirements.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations to ensure that all reports have the correct CFDA numbers.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-54 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Type: Significant deficiency

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Community Health

Federal Program: Prevention and Treatment of Substance Abuse

CFDA No.: 93.959

Award No.: 07 B1 MI SAPT, 00 B1 MI SAPT 06

Award Year: March 1, 2006 - February 28, 2007

Requirement: Activities Allowed or Unallowed and Allowable Costs/Cost Principles: Per A-102 Common Rule, Nonfederal entities receiving Federal awards must establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Condition: During our testwork, we selected 30 Check Request disbursement forms, totaling \$14,126,850, and noted 1 of 30, totaling \$975,804, did not contain the required signature of the preparer on the document.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Activities Allowed or Unallowed and Allowable Costs/Cost requirements.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Activities Allowed or Unallowed and Allowable Costs/Cost Principles requirements.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations to ensure that all documents have the required signatures.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-55 Reporting

Finding Type: Material noncompliance and material weakness

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Michigan Department of Community Health

Federal Program: Prevention and Treatment of Substance Abuse

CFDA No.: 93.959

Award No.: 07 B1 MI SAPT, 00 B1 MI SAPT 06

Award Year: March 1, 2006 - February 28, 2007

Requirement: Reporting: Per the contract agreement with the State of Michigan, the audited reporting package is due within 9 months of the audit year-end.

Condition: During our testwork, we noted that the required supplemental compliance report was submitted in January 2009, 10 months after the required due date.

Questioned Costs: None

Possible Asserted Cause and Effect: Internal controls were not properly designed, executed, or monitored to ensure effectiveness. As a result, management did not comply with the Reporting requirement.

Recommendation: We recommend that management strengthen the internal control process to ensure compliance with the Reporting requirements.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations and ensure that all reports are submitted by their due dates.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Item: 2007-56

Finding Type: Disclaimer

Federal Agency: U.S. Department of Homeland Security

Pass-Through Entity: Michigan Department of State Police

Federal Program: Urban Area Security Initiative (UASI)

CFDA No.: 97.008, 97.067

Award No.: N/A

Award Year: February 1, 2004 to January 31, 2006 and October 1, 2004 to January 31, 2007

Requirement: Per the grant agreement the City of Detroit is to comply with all program requirements in accordance with the grant agreement, Office of Management and Budget Circulars A-87, A-102, and A-133 as revised, the U.S. General Accounting Office Government Auditing Standards, the Office of Justice Programs Financial Guide 2005, the Administrative Guide to State Government, the State of Michigan Financial Management Guide, and all applicable federal and state laws and regulations. According to the grant agreements, the City must account for receipts and expenditures, maintain adequate financial records, and retain all financial records, supporting documents, statistical records, and all other records for at least three years after the final grant report.

Condition: During our testwork, we were not able to obtain a complete set of financial records to ensure compliance with the compliance requirements. This included but was not limited to obtaining a complete population of federal receipts and expenditures to verify the cash receipts were in accordance with the cash management requirements and the expenditures were used for activities allowed under the UASI Grant program. In addition, we were not able to obtain a complete population of equipment purchased under the UASI Grant program.

Recommendation: We recommend that management review its process for accounting and record keeping for the transactions associated with the UASI program and strengthen the internal monitoring process to ensure compliance with the program compliance requirements.

Views of Responsible Officials: We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations and ensure that all reports are submitted by their due dates.