



CITY OF DETROIT, MICHIGAN
OMB Circular A-133 Single Audit Report
Year ended June 30, 2014

CITY OF DETROIT, MICHIGAN

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KPMG LLP
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Independent Auditors' 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 Mike Duggan,
The Honorable Members of the City Council
City of Detroit, Michigan:

We have audited, in accordance with the 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, 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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 17, 2015. Our report included an emphasis of matter paragraph which states, along with other matters, that the City filed a voluntary petition under Chapter 9 of the Bankruptcy Code on July 18, 2013 and exited bankruptcy on December 10, 2014. Our report also includes a reference to other auditors who audited the financial statements of the General Retirement System, the Police and Fire Retirement System, the Public Lighting Authority, and the Detroit Building Authority, and all of the discretely presented component units, as described in our report on the City's basic financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the General Retirement System, Police and Fire Retirement System, and certain discretely presented component units identified in note I (a) to the City's basic financial statements were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in



internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as findings 2014-01, 2014-02, and 2014-03 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic financial statements are free from 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 questioned costs as findings 2014-04, 2014-05, 2014-06, 2014-07, 2014-08, 2014-09, and 2014-10.

City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Detroit, Michigan
June 17, 2015



KPMG LLP
Suite 1900
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Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations

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

Report on Compliance for Each Major Federal Program

We have audited the City of Detroit, Michigan's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2014. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The City's basic financial statements 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, Museum of African American History, Detroit Land Bank Authority, Eight Mile/Woodward Corridor Improvement Authority, and Detroit Employment Solutions Corporation as discretely presented component units, which received federal awards that are not included in the schedule of expenditures of federal awards for the year ended June 30, 2014. 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, Museum of African American History, Detroit Land Bank Authority, Eight Mile/Woodward Corridor Improvement Authority, and Detroit Employment Solutions Corporation because these component units engaged other auditors to perform audits in accordance with OMB Circular A-133.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above.



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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified and modified audit opinions on compliance. However, our audit does not provide a legal determination of the City’s compliance.

Basis for Adverse Opinions on Major Federal Programs

As identified in the finding numbers listed in Table I and described in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding the following:

TABLE I – MATERIAL NONCOMPLIANCE NOTED IN PROGRAMS RESULTING IN ADVERSE OPINION

Federal Awarding Agency	CFDA Number(s)	Federal Program	Compliance Requirement	Finding Number
Agriculture	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Procurement, Suspension and Debarment	2014-12
Agriculture	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Subrecipient Monitoring	2014-13
Housing and Urban Development	14.218	Community Development Block Grants/Entitlement Grants	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2014-14
Housing and Urban Development	14.218	Community Development Block Grants/Entitlement Grants	Activities Allowed or Unallowed and Allowable Costs/Cost Principles and Period of Availability	2014-15



Federal Awarding Agency	CFDA Number(s)	Federal Program	Compliance Requirement	Finding Number
Housing and Urban Development	14.218	Community Development Block Grants/Entitlement Grants	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2014-16
Housing and Urban Development	14.218	Community Development Block Grants/Entitlement Grants	Cash Management	2014-17
Housing and Urban Development	14.218	Community Development Block Grants/Entitlement Grants	Procurement, Suspension, and Debarment	2014-19
Housing and Urban Development	14.218	Community Development Block Grants/Entitlement Grants	Reporting	2014-20
Housing and Urban Development	14.218	Community Development Block Grants/Entitlement Grants	Subrecipient Monitoring	2014-21
Housing and Urban Development	14.239	HOME Investment Partnerships Program	Eligibility	2014-22
Housing and Urban Development	14.239	HOME Investment Partnerships Program	Davis-Bacon Act	2014-23
Housing and Urban Development	14.239	HOME Investment Partnerships Program	Procurement, Suspension and Debarment	2014-24
Housing and Urban Development	14.239	HOME Investment Partnerships Program	Special Tests and Provisions – Housing Quality Standards	2014-25
Health and Human Services	93.959	Block Grants for Prevention and Treatment of Substance Abuse	Procurement, Suspension and Debarment	2014-30
Health and Human Services	93.959	Block Grants for Prevention and	Subrecipient Monitoring	2014-31



Federal Awarding Agency	CFDA Number(s)	Federal Program	Compliance Requirement	Finding Number
		Treatment of Substance Abuse		
Health and Human Services	93.914	HIV Emergency Relief Project Grants	Cash Management	2014-32
Health and Human Services	93.914	HIV Emergency Relief Project Grants	Procurement, Suspension and Debarment	2014-33
Health and Human Services	93.914	HIV Emergency Relief Project Grants	Procurement, Suspension and Debarment	2014-34
Health and Human Services	93.914	HIV Emergency Relief Project Grants	Subrecipient Monitoring	2014-35
Homeland Security	97.083	Staffing for Adequate Fire and Emergency Response	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2014-36
Homeland Security	97.083	Staffing for Adequate Fire and Emergency Response	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2014-37
Homeland Security	97.083	Staffing for Adequate Fire and Emergency Response	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2014-38
Homeland Security	97.083	Staffing for Adequate Fire and Emergency Response	Reporting	2014-40
Homeland Security	97.083	Staffing for Adequate Fire and Emergency Response	Reporting	2014-41



Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to the identified major federal programs.

Adverse Opinions on Major Federal Programs

In our opinion, because of the significance of the matters discussed in the Basis for Adverse Opinions on Major Federal Programs paragraph, the City did not comply, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of the major federal programs listed in the Basis for Adverse Opinions on Major Federal Programs paragraph for the year ended June 30, 2014.

Basis for Qualified Opinion on the Federal Transit Cluster

As identified in the finding number listed in Table II and described in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding the following:

TABLE II – MATERIAL NONCOMPLIANCE NOTED IN PROGRAMS RESULTING IN QUALIFIED OPINION

Federal Awarding Agency	CFDA Number(s)	Federal Program	Compliance Requirement	Finding Number
Transportation	20.500, 20.507	Federal Transit Cluster	Davis-Bacon Act	2014-27

Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

Qualified Opinion on the Federal Transit Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion on the Federal Transit Cluster paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Federal Transit Cluster program for the year ended June 30, 2014.

Unmodified Opinion on the State Revolving Loan program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Capitalization Grants for Clean Water State Revolving Funds program for the year ended June 30, 2014.

Other Matters

As identified in Table III and as described in the accompanying schedule of findings and questioned costs, the results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133. Our opinion on each major federal program is not modified with respect to these matters.



TABLE III – OTHER INSTANCES OF NONCOMPLIANCE

Federal Awarding Agency	CFDA Number(s)	Federal Program	Compliance Requirement	Finding Number
Transportation	20.500, 20.507	Federal Transit Cluster	Earmarking	2014-26
Transportation	20.500, 20.507	Federal Transit Cluster	Procurement, Suspension and Debarment	2014-28
Environmental Protection Agency	66.458	Capitalization Grants for Clean Water State Revolving Loan Funds	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2014-29

The City’s responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City’s responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-11, 2014-39, and the items in Tables I and II, to be material weaknesses.



A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-18 and the items in Table III to be significant deficiencies.

The City's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated June 17, 2015, which referred to the use of reports of other auditors and which contained unmodified opinions on those financial statements. Our report included an emphasis of matter paragraph which states, along with other matters, that the City filed a voluntary petition under Chapter 9 of the Bankruptcy Code on July 18, 2013 and exited bankruptcy on December 10, 2014. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Detroit, Michigan
November 30, 2015

CITY OF DETROIT, MICHIGAN
Schedule of Expenditures of Federal Awards
Year ended June 30, 2014

Grant Title	Catalog of Federal Domestic Assistance	Grant Number	2014 Expenditure
Department of Agriculture:			
Via Michigan Department of Community Health:			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	IW100342	\$ 3,675,061
Special Supplemental Nutrition Program for Women, Infants, and Children Breastfeeding	10.557	W500342	88,868
Total Supplemental Nutritional Assistance Program WIC			3,763,929
Total Department of Agriculture			3,763,929
Department of Housing and Urban Development:			
Via Direct Awards:			
Community Development Block Grant	14.218	B-13-MC-26-0006	31,643,345
Entitlement Grant - NSP Demolition	14.218	B-08-MN-26-0004	3,182,937
NSP III	14.218	B-11-MN-26-0004	7,839,783
Total CDBG			42,666,065
Emergency Shelter Grant	14.231	E-13-MC-26-0006	2,568,857
HOME Investment Partnership (Special Housing)	14.239	M-10-MC-26-0202	12,800,341
HOPWA Aids Housing 6/2013	14.241	M128HO5-F002	1,667,493
HOPWA Aids Housing 6/2014	14.241	M128HO5-F002	189,180
CDBG Section 108 Loan Guarantees	14.248	N/A	441,009
Total Other than CDBG			17,666,880
Total Department of Housing and Urban Development			60,332,945
Department of Justice:			
Direct Awards:			
Cease Fire Detroit Community Violence	16.123	2012-PB-FX-K002	161,759
Youth Violence Prevention Capacity	16.123	2012-NY-FX-0027	35,272
Total Community - Based Violence Prevention Program			197,031
Direct Awards:			
We're Here and We Care Program	16.541	2009-JL-FX-0149	104,270
Via Michigan Department of Community Health:			
Crime Victim Assist - Rape Counseling Center Prog 2011	16.575	20083-16V12	312,814
Crime Victim Assist - Rape Counseling Center Prog 2012	16.575	20083-16V12	546,120
Total Crime Victim Assistance			858,934
Direct Awards:			
Bulletproof Vest Partnership	16.607		25,924
Total Crime Victim Assistance			25,924
Direct Awards:			
COPS Hiring Program Grant - ARRA	16.710	2009-RJ-WX-0053	68,364
COPS Technology Program	16.710	2010-CK-WX-0506	106,245
2011 COPS Hiring Program Grant	16.710	2011-UL-WX-0018	1,537,976
Total Community Policing Grants			1,712,585
Via The County of Wayne			
2009 Justice Assistance Grant	16.738	2009-DJ-BX-0788	628,277
2009 Justice Assistance Grant - ARRA	16.738	2009-SB-B9-1422	202,857
2011 Justice Assistance Grant	16.738	2011-DJ-BX-2481	30,000
2012 Justice Assistance Grant	16.738	2011-DJ-BX-0730	173,762
Total Edward Byrne Memorial JAG			1,034,896
Direct Awards:			
Eastside Districts Firearm Reduction Initiative	16.753	2010-DD-BX-0383	162,084
Total Department of Justice			4,095,724
Department of Transportation:			
Via Federal Transit Administration:			
Federal Transit Capital Investment Grant	20.500	MI-04-0054	204,676
Federal Transit Capital Investment Grant	20.500	MI-04-0070	11,123
Federal Transit Capital Investment Grant	20.500	MI-04-X030	27,404
Federal Transit Capital Investment Grant	20.500	MI-04-0093	1,434,801
Federal Transit Capital Investment Grant	20.500	MI-90-X374	70,767
Total Federal Transit Capital Grants			1,748,771
Via Federal Transit Administration:			
Federal Transit Formula Grant	20.507	MI-90-X563	1,592
Federal Transit Formula Grant	20.507	MI-90-X604	595,873
Federal Transit Formula Grant	20.507	MI-90-X605	13,404,127
Federal Transit Formula Grant	20.507	MI-95-X642	27,072
Federal Transit Formula Grant	20.507	MI-95-X062	7,423,127
Total Federal Transit Formula Grants			21,451,791

CITY OF DETROIT, MICHIGAN
Schedule of Expenditures of Federal Awards
Year ended June 30, 2014

Grant Title	Catalog of Federal Domestic Assistance	Grant Number	2014 Expenditure
Unified Work Program	20.514	U13-006	307,200
Job Access and Reverse Commute Grant	20.516	MI-37-X030	27,404
Via Michigan Department of State Police:			
Strategic Traffic Enforcement Prog 2012-2013	20.600	PT-13-02	98,364
Strategic Traffic Enforcement Prog 2013-2014	20.600	PT-14-07	80,778
Total State & Community Highway Safety			179,142
Total Department of Transportation			23,714,308
National Endowment for the Arts:			
2013-14 Mini-Grants Program Awards	45.025	14RR0020RG	53,772
Total National Endowment for the Arts			53,772
Environmental Protection Agency:			
Via Michigan Department of Environmental Quality:			
Capitalization Grants for Clean Water - State Revolving Loan - ARRA	66.458	5175-07	222,604
Capitalization Grants for Clean Water - State Revolving Loan - ARRA	66.458	5175-08	13,073
Capitalization Grants for Clean Water - State Revolving Loan	66.458	5486-01	2,974,439
Fischer Pumping - one time grant	66.202	XP-00E01288-0	160,845
Total Drinking Water Revolving Fund			3,370,961
Total Environmental Protection Agency			3,370,961
Department of Health and Human Services:			
Via National Association of County and City Health Officials			
Medical Reserve Corps Small Grant Program	93.008	MRCSG-101005-0100	1,977
Bio-Terrorism Emerg Prep 9/2012	93.069	U90TP000528	168,722
Cities Readiness Initiatives 9/2011	93.069	U90TP517018	189,548
Total Public Health Emergency Preparedness			358,270
Direct Awards:			
TB Prev & Control 12/2013 and 2014	93.116	5U52PS500843-31	251,501
TB Prev & Control 12/2013 and 2014	93.116	5U52PS500843-31	149,062
Total Direct Awards			400,563
Via Michigan Department of Community Health:			
Family Planning 9/2013	93.217	GFPHPA05017341	418,614
Immunization Vaccines for Children 09/2012	93.268	N/A	245,952
Immunization Action-Vaccination Shipped (In-Kind)	93.268	H23 CCH522556	259,350
Total CDC Immunization			505,302
Via Michigan Department of Human Services:			
Via Michigan Department of Community Health:			
CSHCS Outreach & Advocacy 9/2014	93.778	B1MIMCHS	281,363
Direct Awards:			
HIV Emergency Relief Project Grant	93.914	H89HA00021-21-01	6,308,074
HIV Emergency Relief Project Grant	93.914	H89HA00021-22-01	1,681,427
Total HIV Emergency Relief Project Grants			7,989,501
Via Michigan Department of Community Health:			
HIV/AIDS Prevention planning 9/2013	93.940	U62CCU52346401	377,159
Via Michigan Department of Community Health:			
Substance Abuse Prevention and Treatment Block Grant	93.959	2B08TI010026T	6,656,239
Laboratory Svcs STD 9/2011	93.977	U90TP517018	306,621
CSHCS Outreach and Advo BG 9/2013	93.994	B1MIMCHS	980,656
Childhoods lead poisoning prevention	93.994	N/A	38,996
Child lead prevention	93.994	N/A	79,875
Total Maternal & Child Health Block Grant			8,062,387
Total Health and Human Services			18,395,136
Department of Homeland Security:			
Direct Awards:			
2009 Emergency Operation Center Grant	97.001	2009-EO-MX-0015	970,000
Direct Awards:			
2011 Assistance to Firefighter Grant - Fire Prevention and Safety	97.044	EMW-2011-FP-01398	90,238
2011 Assistance to Firefighter Grant - Fire Prevention and Safety	97.044	EMW-2011-F08284	882,148
2012 Assistance to Firefighter Grant - Fire Prevention and Safety	97.044	EMW-2012-FO-07169	132,443
Total Assistance to Firefighter Grant			1,104,829
Direct Awards:			
2010 Emergency Operation Center Grant	97.052	2010-EO-MX-0003	704,736
Via Michigan Department of State Police:			
2010 HSGP Urban Area Security Initiative Program	97.067	N/A	50,546
Total via Department of State Police			50,546
Via The County of Macomb:			
2011 HSGP Urban Area Security Initiative Program	97.067	EMW-2011-SS-00103	1,251,359
2011 - HDS Urban Metropolitan Medical Response Team	97.067	EMW-2011-SS-00103	123,070
2012 HSGP Urban Area Security Initiative Program	97.067	EMW-2012-SS-00055	904,767
Total HSGP			2,279,196

CITY OF DETROIT, MICHIGAN
Schedule of Expenditures of Federal Awards
Year ended June 30, 2014

<u>Grant Title</u>	<u>Catalog of Federal Domestic Assistance</u>	<u>Grant Number</u>	<u>2014 Expenditure</u>
Direct Awards:			
2009 Bufferzone Protection Plan (BZPP)	97.078	2009-BF-T9-0005	192,556
2010 Bufferzone Protection Plan (BZPP)	97.078	2010-BF-T0-0008	148,016
			<u>340,572</u>
Direct Awards:			
2011 Staffing for Adequate Fire and Emergency Response	97.083	EMW-2011-FH-00489	8,690,686
2012 Staffing for Adequate Fire and Emergency Response	97.083	EMW-2012-FH-00665	2,001,949
Total Staffing for Adequate Fire and Emergency Response			<u>10,692,635</u>
Total Department of Homeland Security			<u>16,142,514</u>
Total Federal Awards			<u>\$ 129,869,289</u>

CITY OF DETROIT, MICHIGAN

Notes to Schedule of Expenditures of Federal Awards

For the Year ended June 30, 2014

(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, \$41,772,925 of federal awards were 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 \$22 million for the year ended June 30, 2014.

(6) Outstanding Loan Balance

The U.S. Department of Housing and Urban Development (HUD) has insured certain mortgage loan borrowings (CFDA #14.248) made by the City of Detroit through the Planning and Development Department in connection with certain development projects. These loans had outstanding principal due of \$85,184,000 at June 30, 2014. There were no new borrowings in fiscal year 2014.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

1. Summary of Auditors' Results

Basic Financial Statements

- a) An unmodified opinion was issued on the governmental activities, the business-type activities, the aggregate discretely presented component units, the budgetary comparison statement, each major fund, and the aggregate remaining fund information of the Government of the City of Detroit Michigan (the City) as of and for the year ended June 30, 2014.
- b) The audit disclosed three material weaknesses in internal control over financial reporting in connection with the basic financial statements of the City as of and for the year ended June 30, 2014.
- c) The audit disclosed seven instances of noncompliance that are material to the basic financial statements of the City as of and for the year ended June 30, 2014.

Single Audit

- d) The audit of Federal financial assistance disclosed material weaknesses and significant deficiencies that were reported in connection with major Federal programs of the City for the year ended June 30, 2014.
- e) The type of report issued on compliance for each major program is as follows:

#	Major Program/Cluster	CFDA Number(s)	Type of Report Issued
1	Special Supplemental Nutrition Program for Women, Infants and Children	10.557	Adverse
2	Community Development Block Grants/Entitlement Grants	14.218	Adverse
3	HOME Investment Partnerships Program	14.239	Adverse
4	Federal Transit Cluster	20.500, 20.507	Qualified
5	Capitalization Grants for Clean Water State Revolving Funds	66.458	Unmodified
6	HIV Emergency Relief Project Grants	93.914	Adverse
7	Block Grants for Prevention and Treatment of Substance Abuse	93.959	Adverse
8	Staffing for Adequate Fire and Emergency Response	97.083	Adverse

- f) There were audit findings that are required to be reported under Section 510(a) of OMB Circular A-133 for the year ended June 30, 2014.
- g) The major Federal programs of the City for the year ended June 30, 2014, were as follows:

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#	Major Program/Cluster	CFDA Number(s)
1	Special Supplemental Nutrition Program for Women, Infants, and Children	10.557
2	Community Development Block Grants/Entitlement Grants	14.218
3	HOME Investment Partnerships Program	14.239
4	Federal Transit Cluster	20.500, 20.507
5	Capitalization Grants for Clean Water State Revolving Funds	66.458
6	HIV Emergency Relief Project Grants	93.914
7	Block Grants for Prevention and Treatment of Substance Abuse	93.959
8	Staffing for Adequate Fire and Emergency Response	97.083

- h) The dollar threshold used to distinguish between type A and type B programs was \$3,000,000 for Federal awards for the year ended June 30, 2014.
- i) The City did not qualify as a low-risk auditee for the year ended June 30, 2014.

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2. Findings Related to the Basic Financial Statements Reported in Accordance with *Government Auditing Standards*

Finding 2014-01 – Financial Closing and Reporting

The City of Detroit (the City) had internal control deficiencies in the financial closing and reporting processes, the processes to evaluate accounts, and in the processes to record entries into the general ledger in a timely, complete, and accurate manner. These deficiencies included the following:

- The process to prepare closing entries and financial statements relied partly upon decentralized accounting staff and multiple disparate software applications.
- The process to identify significant transactions throughout the City’s fiscal year to determine the appropriate accounting treatment did not result in timely consideration of how to record or report such transactions. Certain of these transactions were not identified until the end of the fiscal year during the financial reporting process. There was inadequate communication between various City departments on transactions and on how they affected the individual stand-alone financial reports and the Comprehensive Annual Financial Report (CAFR). Information necessary to effectuate a timely and accurate closing of the books was not consistently communicated between certain departments and agencies of the City.
- The process to close the books and prepare financial statements included the recording of a significant number of manual post-closing entries. For the year ended June 30, 2014, there were 238 manual journal entries that were made after the books were closed for the year (i.e., after frozen trial balance).
- The process to close the books and evaluate accounts occurred only on an annual basis instead of monthly or quarterly. As a result, certain key account reconciliations and account evaluations were not performed timely and required an extended amount of time to complete during the year-end closing process.
- The management review control for review of the financial statements prior to submitting to the auditors did not operate at an appropriate level of precision.
- The procedures to identify and accurately disclose certain information within the notes to the financial statements were not consistently followed.
- Continuing professional education and training was not offered or required to maintain an appropriate level of skills and knowledge of the accounting staff. Additionally, the employee evaluation process was not consistently utilized or enforced to assist the accounting staff in managing their performance.

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 on a monthly and quarterly basis. We further recommend management conduct a thorough assessment of the adequacy and completeness of the City’s accounting and financial reporting policies and procedures. Management should perform an annual risk assessment process at the entity and process levels to identify and evaluate past internal control deficiencies and any internal and external changes that may impact the design or operating effectiveness of control activities. Based on the results of the assessments, management should determine the need to develop new policies, procedures, and internal controls and should reinforce the new and existing policies and procedures to personnel through training and monitoring.

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Views of Responsible Officials

We have reviewed the findings and concur with the recommendations. Emergency Manager Order No. 41 requires the City of Detroit, under the direction of the Chief Financial Officer, to establish a centralized financial management organization, also known as the Office of the Chief Financial Officer “OCFO”. The OCFO will create an operational environment of financial accountability; provide integrated financial management focused on ensuring financial management integrity; and promote the long-term financial recovery of the City. The CFO has appointed the executive leadership and we have begun recruitment for the Management Supervisory Service (MSS). In addition, the City of Detroit is implementing a new Enterprise Resource Planning (ERP) software, which will enhance our overall productivity and efficiency by focusing on the use of best practices and automating a significant number of manual processes. We are in the process of creating new policies and procedures based on best practices. We feel the execution of these two projects will allow us to address the issues outlined by our external auditors. In the interim, we will continue to work diligently and find more effective ways to manage the current environment.

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Finding 2014-02 – Reconciliations, Transaction Processing, Account Analysis, 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 with others in the City. Performing reconciliations of data reported from different systems and sources and account analysis are an integral part of ensuring transactional data integrity and accurate financial reporting. During our audit, we noted deficiencies in the areas of transaction processing, account analysis, data integrity, reconciliation performance, and document retention. Those deficiencies include the following:

- Bank reconciliations were not completed timely throughout the year.
- Reconciliations of subsidiary ledgers to general ledgers and other IT systems to DRMS for key accounts were either not completed, not completed timely, or contained inappropriately aged, unsupported or unreconciled items (e.g. Cash, Grants Receivable, Interfunds, Accounts Receivable, Accounts Payable, Revenue, etc.)
- The City did not have appropriate user entity controls implemented for data provided to third party service providers. Additionally, the City did not review the internal controls employed by its third party service providers including: AccuMed, Duncan Solutions, Pierce Monroe, Park-Rite, ECI, and Blue Cross Blue Shield.
- Interfund and inter-departmental transfers, balances, and other transactions were not reconciled throughout the year on a timely basis or reviewed for accuracy and proper financial statement classification. Additionally, committed fund balance was transferred from the Risk Management Fund to the General Fund without obtaining the approvals required by the City's accounting policies.
- A physical inventory count of capital assets was not completed by all agencies, as required by the City's asset management policies. Additionally, due to lack of proper source documents from various City Agencies as well as the lack of a formal policy, capital assets were not adequately tracked, capitalized, or recorded in CAS (the City's subledger) in a timely manner.
- The City did not have an adequate process in place to identify properties that are subject to pollution remediation obligations (per GASB 49). Also, an analysis of capital asset impairment (GASB 42) was not performed at each City agency.
- The calculations of average weekly wages as a basis for weekly payments of workers' compensation are a manual calculation that contained errors. No management level review control existed over the calculations.
- The City did not maintain individual claim data typically maintained as insurance statistics for self-insurance programs for its workers' compensation program. Additionally, data provided by the City to the actuaries for estimating workers' compensation liabilities was not reviewed by the City for accuracy nor reconciled by the City to supporting data prior to submission.
- The City's process to follow up and resolve prior audit findings was not operating effectively.
- The City did not have effectively operating controls in place to record, administer, and monitor grant revenues and the related deferred revenues.
- Manual journal entries were not consistently reviewed and approved by an appropriate supervisor in a timely manner. Additionally, for those journal entries that were reviewed, the review was often not conducted at an

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appropriate level of precision to detect errors or was approved with limited or no proper supporting documentation

- The City's accounts receivable write-off policy was not specific enough to explain when and how amounts determined uncollectable should be written off. In addition, the City was not following their current Accounts Receivable write-off policy.
- The City did not implement a set of controls in order to monitor the accounting implications of the system implementation of City Law, replacing the legacy system, Legal Edge, which stores key elements of information required for accounting related to all relevant legal claims/cases made against the City.
- The City did not perform a sufficient review of the projects within the construction work in progress accounts balance to properly capitalize or expense costs within a timely manner.
- The City did not have a process in place to identify and assess potential related party transactions for accounting purposes.
- The City's HR department did not have an appropriate process or controls in place to properly calculate accrued compensated absences. As a result of various system limitations preventing the application of new payroll policies, the actual compensated absences amount paid to employees was calculated manually with the use of internally generated reports created with unreliable source data.
- 7 out of 40 employee new hires selected for testing contained hire dates in the human resources system that did not match information on documents in the personnel files. Upon researching the discrepancies, the City was unable to provide adequate explanations for the discrepancies. In addition, the City was unable to provide new hire documentation for 11 out of the 40 employee new hires selected for testing.
- 10 out of 40 employee terminations tested contained termination dates in the human resources system that did not match information on documents in the personnel files. Upon researching the discrepancies, the City was unable to provide adequate explanations for the discrepancies. In addition, the City was unable to provide termination documentation for 20 out of the 40 employee terminations selected for testing.
- The City's process to identify necessary expense accruals was not adequate to ensure expenses were recorded in the proper fiscal year. Although the City had implemented a second level review over accruals, the review did not operate at an appropriate level of precision considering the knowledge and skill sets of the operators of the first level accrual control activity.
- Underlying transaction data provided to actuaries was not reconciled or reviewed by management at the appropriate level of precision before distribution (e.g. pension data to Gabriel Roeder Smith, workers' and compensation data to Pinnacle Actuarial Resources, etc.).

Recommendation

We recommend management develop or improve existing policies and procedures related to reconciliations and account analysis. We recommend the City undertakes a comprehensive risk assessment process which would consider risks to organizational and operational objectives. Such an approach should take place at both the entity wide and the individual activity level. The risk assessment should be undertaken not as a theoretical exercise but instead as a practical means to identify actions required by management to mitigate risks and to identify areas which require the establishment or strengthening of control activities.

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We further recommend that the City review its document retention and filing policies and procedures and make necessary adjustments such that information is accessible and provides for an adequate audit trail. Also, an electronic filing system should be created with file locations and file naming conventions specified so that all reconciliations and reports are saved to well-organized file servers instead of just desktop computers.

We recommend the creation of a comprehensive listing of required reconciliations. Individuals and departments should be provided a subset of the listing (a checklist) to indicate which specific reconciliations they are responsible for, what frequency is required, who is responsible for monitoring to ensure timeliness, and who is responsible for reviewing to ensure accuracy. Additionally, specific parameters should be developed for how to conduct an appropriate management level review for each reconciliation. Each reconciliation needs to have its own review parameters that take into consideration the level of judgment required in the operation of the control activities, the underlying process level controls, and the skills and knowledge of the reviewer and the operator of the process level controls. Additionally, we recommend training staff how to prepare reconciliations that are thorough and well documented and how to conduct effective reviews of the work of others.

Views of Responsible Officials

We have reviewed the findings and concur with the recommendations. As previously noted, the City of Detroit, under the direction of the Chief Financial Officer, has created and is currently implementing the Office of the Chief Financial Officer "OCFO". As also previously mentioned, we are implementing a new Enterprise Resource Planning (ERP) software, which will enhance our overall productivity and efficiency by focusing on the use of best practices and automating a significant number of manual processes. In conjunction with these two initiatives, we are also developing an internal controls framework, data governance model, and will offer continuous staff training and development to staff in the Office of the Chief Financial Officer. We feel the execution of these initiatives will allow us to address the issues outlined by our external auditors. In the interim, we will continue to work diligently and find more effective ways to manage the current environment.

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Finding 2014-03 – 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 existed in the areas of general and application controls. Those deficiencies include the following for some or all systems:

- Administrative access was granted to unauthorized accounts.
- Segregation of duties conflicts existed between the database administration function and the backend database administration function.
- Adequate procedures were not in place to remove and review segregation of duties conflicts.
- Automated methods were not in place for tracking of the changes and customizations made to certain applications.
- Program developers had access to move program changes into production for certain applications.

Recommendation

We recommend the following:

- Access to the backend database should be restricted to database administrators or compensating controls should be implemented to mitigate the risk associated with concurrent access at the front end and backend levels.
- Administrative access to the front-end application should be restricted to application administrators or compensating controls should be implemented to mitigate the risk associated with concurrent access at the front end and backend levels.
- 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 configuration changes, obtain approval from authorized individuals for all configuration changes, and perform appropriate testing on all configuration 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.

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Views of Responsible Officials

We have reviewed the findings and concur with the recommendations identified by KPMG. The Department of Innovation and Technology (DoIT) is implementing the recommendations for those systems supported by DoIT. The City is currently in the development/implementation phase of a new Cloud based Financial Management and Payroll systems that will include security best practice controls. By being in a managed environment, these controls will aid the system owners and administrators in enforcing access and security policies. The new Cloud based system(s) along with implementing standard security policies should address the audit findings in the areas of access authorization (both database and application layers), segregation of duties, tracking changes/customizations (change management), maintaining proper back-ups and restores along with promoting applications from development to production. DoIT is undergoing a restructuring pursuant to Emergency Manager Order No. 39, to consolidate all IT functions under DoIT. This consolidation will help to improve the consistency in the enforcement of policies for those ancillary systems currently outside of centralized IT control. Additionally, DoIT is working with technology staff in other agencies to implement the recommendations for findings related to the systems supported directly by the agencies themselves.

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Finding 2014-04 – Act 451

The City's Solid Waste fund was not in compliance with Michigan Public Act 451 Part 115. In fiscal year 2012-2013, the General Fund borrowed cash from the Solid Waste fund, which should be restricted for a specific purpose. The borrowing was not repaid in fiscal year 2013-2014. As such, the City is still not in compliance with Public Act 451 Part 115.

Public Act 451 Part 115 Section 324.11520 states that Solid Waste fees collected under the Part shall be deposited in a special fund designated for the use in implementing this Part.

Recommendation

We recommend opening a separate bank account where restricted funds can be isolated and maintained without comingling with unrestricted funds.

Views of Responsible Officials

The Office of the Treasury has opened a new bank account for the Solid Waste fund and we plan to begin transferring the appropriate funds to the Solid Waste new bank account in FY 14-15. This new bank account and a final reconciliation will allow us to cease comingling restricted solid waste funds with the General Fund.

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Finding 2014-05 – Public Act 206 Property Tax Act

The City is required by the State of Michigan Public Act 2005 and the General Property Tax Act, MCL 211.43(3)(a) to deliver within 10 business days after the 1st and 15th of each month, the property tax and Industrial Facilities Tax (IFT) collections on hand to the county treasurer and other tax assessing units. The City did not deliver within 10 days, and thus, was noncompliant with PA 206 related to property tax and IFT collections and disbursements. Additionally, per Public Act 198, the City is required to remit the IFT Form 170 to the State of Michigan by July 30th of each year. The City has not filed Form 170 since tax year 2010. Further, the City was unable to provide documentation supporting the tax exempt status for 17 of 65 properties selected for testing.

Recommendation

We recommend Management assesses the process in place to distribute General Property Tax Act collections to the county treasurer and other tax assessing units and implement control procedures to ensure timely distribution of collections subject to the General Property Tax Act.

Views of Responsible Officials

During FY15, the Office of the Treasury worked with the State of Michigan to rectify the prior year errors and omissions. In addition, we have developed a process to comply with the provisions of Public Act 206 Property Tax Act going forward.

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Finding 2014-06 – Escheatment Law

The City filed the required annual report of unclaimed property to the State of Michigan; however, it was inaccurate as it did not include property tax overpayments. Additionally, the City did not remit escheatable property to the State.

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 the City conduct an assessment and evaluation of unclaimed property held and file the required report within the annual required deadlines and remit all property required to be remitted.

Views of Responsible Officials

We have reviewed the findings and concur with the recommendation. The Office of the Treasury is still developing a process to identify and remit property tax overpayments to the State of Michigan in accordance with annual required deadlines. In addition, as part of the property tax refund process, the Office of the Treasury will routinely review tax payer overpayments and issue overpayment refunds in a timely manner. This measure will mitigate the likelihood of any escheatable items. The Office of the Treasury is also coordinating efforts with the Office of the Controller to identify other potential escheatable items that will need to be addressed.

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Finding 2014-07 – Retirement Pension Contributions

The City is required by State of Michigan law to fund its minimally required pension contributions for the fiscal year ended June 30, 2014, prior to said date. The City did not make the complete required pension contributions to the General Retirement System (GRS) or the Police and Fire Retirement System (PFRS) prior to June 30, 2014. Contributions to the General Retirement and Police and Fire Retirement Systems totaled \$78.4 million and \$122.5 million, respectively, at June 30, 2014.

Views of Responsible Officials

The City acknowledges noncompliance with the State of Michigan law to fund its minimally required pension contributions. This was caused by the City's overall liquidity issue and the eventual filing for Chapter 9 bankruptcy on July 18, 2013. The bankruptcy was confirmed on December 10, 2014 and as a result, the City will begin making the required pension contributions outlined in the bankruptcy beginning in FY15.

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Finding 2014-08 – Uniform Budgeting and Accounting Act

The City was not in compliance with Michigan Compiled Laws Act 2 of 1968, Uniform Budgeting and Accounting Act. For certain appropriations stated in note II (d), the City’s actual expenditures were more than budgeted expenditures.

Per Act 2 of 1968, Section 141.438 (3), “Except as otherwise provided in section 19, an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body.”

Views of Responsible Officials

We concur with the finding and City management has taken steps to prevent recurring violations of the Uniform Budgeting and Accounting Act. The Office of Budget is implementing significant changes – in line with OCFO restructuring and the implementation of a new ERP – to improve the monitoring, reporting and analysis functions of its operations. During FY15, the Office of Budget had periodic meetings with departments to assist in compliance with the budget. This resulted in amendments to better align the budget with actual spending. Also, the Office of Budget is now preparing monthly budget to actual reports that are being shared with the department(s), the CFO, and the Mayor’s team to maintain compliance with the budget.

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Finding 2014-09 – Public Act 346

The City participates in PILOT (Payment in Lieu of Taxes) programs governed under the Michigan State Housing Development Act of 1966 (MSHDA P.A. 346). Under this act, developers may propose a building project to the City's Assessment Division to be approved for the PILOT program, which would allow the developer to pay a service fee instead of property taxes. The development project must meet several requirements to be approved, including providing a portion of housing to low-income or a disadvantaged group of persons and the City will bill the development owner (customer) once a year for the PILOT service fee.

Per MSHDA P.A. 346, the City must distribute PILOT service fee collections to Wayne County, the State of Michigan, and to Detroit Public Schools (DPS). The MSHDA Fee Annual Return is provided to the City each year by the State, indicating the millage rates to be used to determine the allocation for distribution to the three entities. Certain PILOT Annual Returns and distributions were not made timely for fiscal year 2014.

Views of Responsible Officials

We have reviewed the finding and concur. The Office of the Treasury has transitioned this function to the Office of the Assessor during FY15. The Office of the Assessor will monitor and implement controls to ensure PILOT compliance is maintained.

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Finding 2014-10 – OMB Circular A-133 Section 300

The City did not appropriately track grant activities in the General Ledger for the fiscal year ended June 30, 2014. The General Ledger records are not accurate at the individual grant level, as required by OMB Circular A-133, Section 300.

OMB Circular A-133, Section 300 states, “The auditee shall:

- 1) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- 2) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
- 3) Comply with laws, regulations, and the provisions of contracts or grant agreements to each of its Federal programs.”

Recommendation

The City should maintain records to allow it to identify all Federal awards received and expended and the Federal programs under which they were received.

Views of Responsible Officials

We have reviewed the finding and concur with the recommendation. The City has created an Office of Grants Management that will be responsible for proper grants administration and compliance with Federal, State and City laws and regulations. The City is in the process of reconciling grant accounts to allow for proper tracking and reporting at the individual grant level. The Office of the Controller has established a separate Grants Accounting Branch to work closely with the Office of Grants Management moving forward to ensure proper grant accounting, reporting and compliance.

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3. Findings and Questioned Costs Relating to Federal Awards:

<i>Finding Number</i>	2014-11
<i>Finding Type</i>	Material weakness
<i>Prior Year Finding</i>	2013-11
<i>Federal Program</i>	All
<i>Federal Award Number</i>	Various
<i>Federal Agency</i>	N/A
<i>Pass-Through Entity</i>	N/A
<i>City of Detroit Department</i>	N/A
<i>Compliance Requirement</i>	Various

Criteria

According to Section .310(b)(3) of OMB Circular A-133, auditees must complete the Schedule of Expenditures of Federal Awards (SEFA). The preparations should be based on the underlying accounting records and general ledger of the auditee.

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 8 months after fiscal year end and errors that required adjustments to the SEFA were discovered throughout this process.

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 existing internal control policies and procedures of the City 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.

Recommendation

Management should redesign the internal controls over the SEFA preparation and reconciliation processes including the process for monitoring internal compliance with existing policies. 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 in the general ledger for completeness and consistency throughout the year.

Questioned Costs

None

Views of Responsible Officials

Management concurs with this finding.

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<i>Finding Number</i>	2014-12
<i>Finding Type</i>	<i>Material noncompliance / material weakness</i>
<i>Prior Year Finding</i>	N/A
<i>Federal Program</i>	<i>Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA #10.557)</i>
<i>Federal Award Number</i>	IW100342, W500342
<i>Federal Award Year</i>	October 1, 2013 - September 30, 2014
<i>Federal Agency</i>	U.S. Department of Agriculture
<i>Pass-Through Entity</i>	Michigan Department of Community Health
<i>City of Detroit Department</i>	Department of Health and Wellness Promotion
<i>Compliance Requirement</i>	Procurement, Suspension, and Debarment

Criteria

The A-102 Common Rule and OMB Circular A-110 (2 CFR Part 215) requires that non-Federal entities receiving Federal awards (i.e. auditee management) establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Per 2 CFR 215.46, procurement records and files for purchase in excess of the small purchase threshold shall include the following at a minimum: (a) basis for contractor selection; (b) Justification for lack of competition when competitive bids or offers are not obtained; and (c) Basis of contractor selection and the basis for the award cost.

Condition

We selected the procurement file of the only contract greater than \$25,000 to determine whether there was an adequate level of competition, or whether there was justification for lack thereof. The City's Department of Health and Wellness Promotion (DHWP) was unable to provide a contract file including the justification for the lack of competition related to the sole subrecipient.

Possible Asserted Cause and Effect

Procurement files were not maintained in accordance with the City's record retention policies.

Recommendation

We recommend that policies and procedures are monitored to ensure compliance with procurement requirements.

Questioned Costs

None

Views of Responsible Officials

Management concurs with this finding.

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<i>Finding Number</i>	2014-13
<i>Finding Type</i>	<i>Material noncompliance / material weakness</i>
<i>Prior Year Finding</i>	N/A
<i>Federal Program</i>	<i>Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA #10.557)</i>
<i>Federal Award Number</i>	IW100342, W500342
<i>Federal Award Year</i>	October 1, 2013 - September 30, 2014
<i>Federal Agency</i>	U.S. Department of Agriculture
<i>Pass-Through Entity</i>	Michigan Department of Community Health
<i>City of Detroit Department</i>	Department of Health and Wellness Promotion
<i>Compliance Requirement</i>	Subrecipient Monitoring

Criteria

The A-102 common rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal Laws, regulations, and program compliance requirements. Per 31 USC 7502(f)(2) each pass-through entity shall – (A) provide such subrecipient the program names (and any identifying numbers) from which such assistance is derived, and the Federal requirements which govern the use of such awards and the requirements of this chapter; (B) monitor the subrecipient’s 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

The City was unable to provide documentation to support that it conducted adequate monitoring activities during the award period of the sole subrecipient.

Possible Asserted Cause and Effect

Failure to monitor the subrecipient may result in the subrecipient not properly administering federal programs in accordance with laws, regulations and the grant agreement.

Recommendation

We recommend that Management establish policies and procedures to ensure that Subrecipient monitoring is performed and pertinent monitoring documents are maintained.

Questioned Costs

None

Views of Responsible Officials

Management concurs with this finding.

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<i>Finding Number</i>	2014-14
<i>Finding Type</i>	Material noncompliance / material weakness
<i>Prior Year Finding</i>	2013-13
<i>Federal Program</i>	Community Development Block Grant (CDBG)/Entitlement Grant (CFDA #14.218)
<i>Federal Award Number</i>	B-13-MC-26-0006, B-08-MN-26-0004, B-11-MN-26-0004
<i>Federal Award Year</i>	July 1, 2013 - June 30, 2014
<i>Federal Agency</i>	U.S. Department of Housing and Urban Development (HUD)
<i>Pass-Through Entity</i>	N/A
<i>City of Detroit Department</i>	Housing & Revitalization Department
<i>Compliance Requirement</i>	Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Criteria

The A-102 common rule requires non-federal entities receiving federal awards to establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

Per 2 CFR 225, factors affecting allowability of costs include that costs must meet the following general criteria: (a) Be necessary and reasonable for proper and efficient performance and administration of Federal awards. (b) Be allocable to Federal awards under the provisions of this Circular. (c) Be authorized or not prohibited under State or local laws or regulations. (d) Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items. (e) Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit. (f) Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost. (g) Except as otherwise provided for in this Circular, be determined in accordance with generally accepted accounting principles. (h) Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation. (i) Be the net of all applicable credits. (j) Be adequately documented.

Condition

The amount of direct fringe benefits of individual employees charged to the grant was not adequately documented.

Possible Asserted Cause and Effect

Management relied on amounts charged to the general ledger for fringe benefits charged to the grant but was unable to provide supporting documentation for the determination of the amount of fringe benefits costs charged to the grant.

Recommendation

We recommend that policies and procedures are developed that would result in all costs charged to the grant to be evidenced by supporting documentation with an appropriate audit trail.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

Questioned Costs

Indeterminable

Views of Responsible Officials

Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
 Schedule of Findings and Questioned Costs
 Year ended June 30, 2014

<i>Finding Number</i>	2014-15
<i>Finding Type</i>	<i>Material noncompliance / material weakness</i>
<i>Prior Year Finding</i>	N/A
<i>Federal Program</i>	<i>Community Development Block Grant (CDBG)/Entitlement Grant (CFDA #14.218)</i>
<i>Federal Award Number</i>	B-13-MC-26-0006, B-08-MN-26-0004
<i>Federal Award Year</i>	July 1, 2013 - June 30, 2014
<i>Federal Agency</i>	U.S. Department of Housing and Urban Development (HUD)
<i>Pass-Through Entity</i>	N/A
<i>City of Detroit Department</i>	Housing & Revitalization Department
<i>Compliance Requirement and Period of Availability</i>	Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Criteria

The A-102 common rule requires non-federal entities receiving federal awards to establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

Per 24 CFR 85.42 section (e) part (1) retention and access requirements for records - access to records, the awarding agency and the Comptroller General of the United States, or any of their authorized representatives, shall have the right of access to any pertinent books, documents, papers, or other records of grantees and subgrantees which are pertinent to the grant, in order to make audits, examinations, excerpts, and transcripts.

Per 2 CFR 225, factors affecting allowability of costs include that costs must meet the following general criteria: (a) Be necessary and reasonable for proper and efficient performance and administration of Federal awards. (b) Be allocable to Federal awards under the provisions of this Circular. (c) Be authorized or not prohibited under State or local laws or regulations. (d) Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items. (e) Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit. (f) Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost. (g) Except as otherwise provided for in this Circular, be determined in accordance with generally accepted accounting principles. (h) Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation. (i) Be the net of all applicable credits. (j) Be adequately documented.

Condition

40 non-payroll expenditure items totaling \$678,332 were selected for testing. The City was unable to provide supporting documentation for 1 sample item totaling \$3,248. For 22 sample items totaling \$3,843, we did not receive adequate support showing the expenditures were drawn down or paid with federal funds.

40 subrecipient expenditure items totaling \$811,710 were selected for testing. The City was unable to provide supporting documentation for 1 sample item totaling \$4,283.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

Possible Asserted Cause and Effect

Policies and Procedures to ensure documentation is maintained and available for review were not operating effectively.

Recommendation

Policies and procedures should be developed and monitored to ensure appropriate document retention and compliance with the Activities Allowed or Unallowed and Allowable Costs/Cost Principles requirements.

Questioned Costs

\$11,374

Views of Responsible Officials

Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

<i>Finding Number</i>	2014-16
<i>Finding Type</i>	<i>Material noncompliance / material weakness</i>
<i>Prior Year Finding</i>	2013-12
<i>Federal Program</i>	<i>Community Development Block Grant (CDBG)/Entitlement Grant (CFDA #14.218)</i>
<i>Federal Award Number</i>	B-13-MC-26-0006, B-11-26-0004
<i>Federal Award Year</i>	July 1, 2013 - June 30, 2014
<i>Federal Agency</i>	U.S. Department of Housing and Urban Development (HUD)
<i>Pass-Through Entity</i>	N/A
<i>City of Detroit Department</i>	Housing & Revitalization Department
<i>Compliance Requirement</i>	Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Criteria

Per the approved indirect cost rate memo from HUD, the base of indirect costs should be direct salaries and wages excluding all fringe benefits.

Condition

The allowable indirect costs per the approved indirect cost rate should only be applied to direct salaries and wages. The City used the sum of salaries, wages and fringe benefits to calculate the allowable indirect cost.

In addition, the City was unable to provide adequate support for the actual fringe benefits of individual employees charged to the grant.

Possible Asserted Cause and Effect

The City is not in compliance with the Activities Allowed or Unallowed and Allowable Costs/Cost Principles requirements.

Recommendation

Policies and procedures should be developed and monitored to ensure compliance with the Activities Allowed or Unallowed and Allowable Costs/Cost Principles requirements.

Questioned Costs

Indeterminable

Views of Responsible Officials

Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
 Schedule of Findings and Questioned Costs
 Year ended June 30, 2014

<i>Finding Number</i>	2014-17
<i>Finding Type</i>	Material noncompliance / material weakness
<i>Prior Year Finding</i>	2013-14
<i>Federal Program</i>	Community Development Block Grant (CDBG)/Entitlement Grant (CFDA #14.218)
<i>Federal Award Number</i>	B-13-MC-26-0006, B-08-MN-26-0004, B-11-MN-26-0004
<i>Federal Award Year</i>	July 1, 2013 - June 30, 2014
<i>Federal Agency</i>	U.S. Department of Housing and Urban Development (HUD)
<i>Pass-Through Entity</i>	N/A
<i>City of Detroit Department</i>	Housing & Revitalization Department
<i>Compliance Requirement</i>	Cash Management

Criteria

The A-102 common rule requires non-federal entities receiving federal awards to establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

Per 24 CFR 85.20, “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. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.”

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 recipients needs for the funds.

Per 24 CFR 85.20 (b)(2), grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

Condition

40 non-payroll expenditures totaling \$678,332 were selected for testing. The City did not minimize the time lapse between draw down and payment to 3 days or less as required for 4 of 40 expenditures, totaling \$289,369. The 4 expenditures exceeded the time lapse by 5 to 11 days. In addition, the City did not leave a sufficient audit trail to calculate the number of business days lapsed between the drawdown receipt and disbursement for 30 of 40 samples.

40 subrecipient payments totaling \$811,710 were selected for testing. The City did not minimize the time lapse between draw down and payment to 3 days or less as required for 2 of 40 expenditures, totaling \$12,630. The 2 expenditures exceeded the time lapse by 3 and 9 days.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

Additionally, per the Office of Inspector General of the United States Department of Housing and Urban Development report, dated January 6, 2014, titled *City of Detroit, MI, Neighborhood Stabilization Program Under the Housing and Economic Recovery Act of 2008*, the City did not maintain records that adequately identified the source and application of funds provided for its activities. Further, it inappropriately drew down Program funds (1) when it had fire insurance funds and Program refunds available and (2) for duplicate demolition costs. As a result, nearly \$2.3 million in Program funds was not available for eligible Program costs. Further, the U.S. Treasury paid more than \$76,000 in unnecessary interest on Program funds that the City inappropriately drew down when it should have used available fire insurance funds.

Possible Asserted Cause and Effect

Payment procedures utilized by the City do not allow for precision in determining the time lag between a request for payment and the payment being made. As a result, certain payments have a time lapse that exceeds the 3 day requirement.

Recommendation

We recommend policies and procedures are developed, implemented, and monitored to ensure that all funds are disbursed in accordance with regulations or the terms and conditions of the award.

Questioned Costs

Indeterminable

Views of Responsible Officials

Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

<i>Finding Number</i>	2014-18
<i>Finding Type</i>	Significant deficiency
<i>Prior Year Finding</i>	2013-15
<i>Federal Program</i>	Community Development Block Grant (CDBG)/Entitlement Grant (CFDA #14.218)
<i>Federal Award Number</i>	B-13-MC-26-0006
<i>Federal Award Year</i>	July 1, 2013 - June 30, 2014
<i>Federal Agency</i>	U.S. Department of Housing and Urban Development (HUD)
<i>Pass-Through Entity</i>	N/A
<i>City of Detroit Department</i>	Housing & Revitalization Department
<i>Compliance Requirement</i>	Davis-Bacon Act

Criteria

The A-102 common rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Condition

2 of 8 samples tested did not contain evidence of review and approval of the contractor's certified payrolls by an authorized reviewer. 1 of 8 samples did not contain consistent evidence of review and approval of the contractor's certified payrolls by an authorized reviewer.

Possible Asserted Cause and Effect

Procedures to ensure certified payrolls are reviewed and approved were not operating effectively.

Recommendation

We recommend that internal control monitoring procedures are developed to ensure compliance with the Davis-Bacon Act requirements.

Questioned Costs

None

Views of Responsible Officials

Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

<i>Finding Number</i>	2014-19
<i>Finding Type</i>	<i>Material noncompliance / material weakness</i>
<i>Prior Year Finding</i>	2013-17
<i>Federal Program</i>	<i>Community Development Block Grant (CDBG)/Entitlement Grant (CFDA #14.218)</i>
<i>Federal Award Number</i>	B-13-MC-26-0006, B-08-MN-26-0004, B-11-MN-26-0004
<i>Federal Award Year</i>	July 1, 2013 - June 30, 2014
<i>Federal Agency</i>	U.S. Department of Housing and Urban Development (HUD)
<i>Pass-Through Entity</i>	N/A
<i>City of Detroit Department</i>	Housing & Revitalization Department
<i>Compliance Requirement</i>	Procurement, Suspension and Debarment

Criteria

Per A-102 common rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonable ensure compliance with Federal laws, regulations, and program compliance requirements

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

Per 24 CFR 85.42 section (e) part (1) retention and access requirements for records - access to records, the awarding agency and the Comptroller General of the United States, or any of their authorized representatives, shall have the right of access to any pertinent books, documents, papers, or other records of grantees and subgrantees which are pertinent to the grant, in order to make audits, examinations, excerpts, and transcripts.

Condition

78 samples were selected for procurement testing. The City was unable to provide contract files or support for 2 of 78 samples. Of the 76 procurement files tested, we noted the following:

- 5 of the vendors, covering 10 of the 76 procurement samples, could not be located in the SAM website.
- 44 of 76 samples did not contain evidence that the procurement went through the proper approval process.
- 36 of 76 samples did not contain a request for proposals
- 37 of 76 samples did not contain evidence that the procurement provided full and open competition
- 4 of 76 samples did not contain evidence of a cost or price analysis

Possible Asserted Cause and Effect

Management did not comply with the procurement, suspension and debarment requirements.

Recommendation

We recommend policies and procedures are developed, implemented, and monitored to ensure procurement documentation is maintained and retained in accordance with regulations and the terms and conditions of the award.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

Questioned Costs

Indeterminable

Views of Responsible Officials

Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

<i>Finding Number</i>	2014-20
<i>Finding Type</i>	Material noncompliance / material weakness
<i>Prior Year Finding</i>	2013-22
<i>Federal Program</i>	Community Development Block Grant (CDBG)/Entitlement Grant (CFDA #14.218)
<i>Federal Award Number</i>	B-13-MC-26-0006
<i>Federal Award Year</i>	July 1, 2013 - June 30, 2014
<i>Federal Agency</i>	U.S. Department of Housing and Urban Development (HUD)
<i>Pass-Through Entity</i>	N/A
<i>City of Detroit Department</i>	Housing & Revitalization Department
<i>Compliance Requirement</i>	Reporting

Criteria

Per 2 CFR 215.52, "The Federal awarding agency shall prescribe whether the report shall be on a cash or accrual basis. If the Federal awarding agency requires accrual information and the recipient's accounting records are not normally kept on the accrual basis, the recipient shall not be required to convert its accounting system, but shall develop such accrual information through best estimates based on an analysis of the documentation on hand."

Per the Federal Financial Report Instructions, Cash receipts, cash disbursements, program income earned, and program income expended should be reported cumulatively.

Condition

All four quarterly Federal Financial Reports SF-425 were tested and we noted the following:

- For 2 of 4 reports Cash receipts, cash disbursements, program income earned, and program income expended are not stated correctly as they do not reflect the cumulative amounts as required by the Federal Reporting Instructions.
- For 1 of 4 reports the cash receipts (line 10a) includes Emergency Shelter Grant (ESG) cash. The cash on hand at the beginning of the reporting period amount was taken from the bank statement rather than the prior quarter's FFR. As the bank statement includes ESG cash and CDBG cash, the cash receipts amount is not correctly stated.
- For 4 of 4 reports the City utilized the cash-based method to record cash receipts (line 10a) rather than the accrual-based method, which was utilized to record the other lines on the FFR.
- For 2 of 4 reports the City did not include the attachment required when multiple grants are reported containing a breakdown of cash receipts/disbursements for each grant.

Possible Asserted Cause and Effect

Procedures to ensure reports are prepared accurately did not operate effectively.

Recommendation

We recommend that policies and procedures to ensure reports are submitted with accurate data are developed and appropriately monitored.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

Questioned Costs

Indeterminable

Views of Responsible Officials

Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

<i>Finding Number</i>	2014-21
<i>Finding Type</i>	Material noncompliance / material weakness
<i>Prior Year Finding</i>	2013-23
<i>Federal Program</i>	Community Development Block Grant (CDBG)/Entitlement Grant (CFDA #14.218)
<i>Federal Award Number</i>	B-13-MC-26-0006
<i>Federal Award Year</i>	July 1, 2013 - June 30, 2014
<i>Federal Agency</i>	U.S. Department of Housing and Urban Development (HUD)
<i>Pass-Through Entity</i>	N/A
<i>City of Detroit Department</i>	Housing & Revitalization Department
<i>Compliance Requirement</i>	Subrecipient Monitoring

Criteria

Per A-102 common rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonable ensure compliance with Federal laws, regulations, and program compliance requirements.

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

Per OMB Circular A-133, Subpart D(d)(3), 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.

Condition

We selected 27 subrecipient monitoring files for testing and noted the following: 27 files did not contain evidence that an independent suspension/debarment check was performed by the City before entering into the contract.

12 files did not contain evidence that on-site financial or performance monitoring occurred during the fiscal year. However, 9 files contained evidence that on-site monitoring was performed during the subsequent fiscal year, which did not meet the City's monitoring requirement based on the risk profile of the subrecipient. These 12 subrecipients should be monitored annually.

Possible Asserted Cause and Effect

Proedures to ensure subrecipients are adequately monitored did not operate effectively.

Recommendation

We recommend that appropriate subrecipient monitoring take place and that documentation that provides evidence of compliance is maintained according to the City's document retention policies.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

Questioned Costs

Indeterminable

Views of Responsible Officials

Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

<i>Finding Number</i>	2014-22
<i>Finding Type</i>	Material noncompliance / material weakness
<i>Prior Year Finding</i>	N/A
<i>Federal Program</i>	HOME Investment Partnerships Program (CFDA #14.239)
<i>Federal Award Number</i>	M-10-MC-26-0202
<i>Federal Award Year</i>	July 1, 2013 - June 30, 2014
<i>Federal Agency</i>	U.S. Department of Housing and Urban Development (HUD)
<i>Pass-Through Entity</i>	N/A
<i>City of Detroit Department</i>	Housing and Revitalization Department
<i>Compliance Requirement</i>	Eligibility

Criteria

The A-102 common rule requires non-federal entities receiving federal awards to establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

Per the May 2014 OMB Circular A-133 program specific requirements for the HOME Investment Partnerships Program, Subpart E(1)(b) HOME-assisted units in a rental housing project must, pursuant to 24 CFR 92.216(a), be occupied only by households that are eligible as low-income families and must meet certain limits on the rents that can be charged. The requirements also apply to the HOME-assisted non-owner-occupied single-family housing purchased with HOME funds. The maximum HOME rents are the lesser of: the fair market rent for comparable units in the area, as established by HUD under 24 CFR section 888.111, or a rent that does not exceed 30 percent of the adjusted income of a family whose annual income equals 65 percent of the median income for the area as determined by HUD with adjustments for the number of bedroom units. In rental projects with five or more units there are additional rent limitations. Twenty percent of the HOME-assisted units must be occupied by very low-income families and meet one of the following rent requirements: (1) the rent does not exceed 30 percent of the annual income of a family whose income equals 50 percent of the median income for the area, as determined by HUD, with adjustments for larger or smaller families; or (2) the rent does not exceed 30 percent of the families adjusted income (24 CFR section 92.252).

Condition

The City outsources the eligibility monitoring to a third party. There was no evidence provided to the auditors that the City sent a listing of completed projects during the year to the third party so they could be included in the population of projects subject to eligibility monitoring. In addition, the City is responsible for conducting in-depth on-site monitoring and inspections for a sample of projects during the year. The City was unable to provide support that any on-site monitoring occurred.

Possible Asserted Cause and Effect

The City is not in compliance with the Eligibility compliance requirements.

Recommendation

We recommend that existing policies are internally monitored to ensure compliance with the Eligibility requirements.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

Questioned Costs

Indeterminable

Views of Responsible Officials

Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

<i>Finding Number</i>	2014-23
<i>Finding Type</i>	Material noncompliance / material weakness
<i>Prior Year Finding</i>	2013-24
<i>Federal Program</i>	HOME Investment Partnerships Program (CFDA #14.239)
<i>Federal Award Number</i>	M-10-MC-26-0202
<i>Federal Award Year</i>	July 1, 2013 - June 30, 2014
<i>Federal Agency</i>	U.S. Department of Housing and Urban Development (HUD)
<i>Pass-Through Entity</i>	N/A
<i>City of Detroit Department</i>	Housing and Revitalization Department
<i>Compliance Requirement</i>	Davis-Bacon Act

Criteria

The A-102 common rule requires non-federal entities receiving federal awards to establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

Per the compliance supplement for the Davis-Bacon Act, non-federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR part 5, Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction). This includes a requirement for the contractor or subcontractor to submit to the non-federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6).

Condition

For 9 of 39 samples, certified payrolls were not provided as the project files were unable to be located. In addition, for 26 of the 30 samples for which support was obtained, there was no evidence of review and approval of the contractor's certified payrolls by an authorized reviewer.

Possible Asserted Cause and Effect

Procedures to ensure certified payrolls are reviewed and approved did not operate effectively.

Recommendation

We recommend that existing policies are internally monitored to ensure compliance with the Davis-Bacon Act requirements.

Questioned Costs

None

Views of Responsible Officials

Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

<i>Finding Number</i>	2014-24
<i>Finding Type</i>	<i>Material noncompliance / material weakness</i>
<i>Prior Year Finding</i>	2013-25
<i>Federal Program</i>	<i>HOME Investment Partnerships Program (CFDA #14.239)</i>
<i>Federal Award Number</i>	M-10-MC-26-0202
<i>Federal Award Year</i>	July 1, 2013 - June 30, 2014
<i>Federal Agency</i>	U.S. Department of Housing and Urban Development (HUD)
<i>Pass-Through Entity</i>	N/A
<i>City of Detroit Department</i>	Housing and Revitalization Department
<i>Compliance Requirement</i>	Procurement, Suspension, and Debarment

Criteria

The A-102 common rule requires non-federal entities receiving federal awards to establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

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. Per the Federal Service Desk (www.fsd.gov), any entities (contractors, federal assistance recipients, and other potential award recipients) who need to register to do business with the government, look for opportunities or assistance programs, or report subcontract information or government contracting and grants officials responsible for activities with contracts, grants, past performance reporting and suspension and debarment activities must be registered in SAM.

Condition

We performed testwork over eight procurement files, noting eight did not contain a certification that the vendor was not suspended or debarred, nor was there evidence that the City verified the contractor was not suspended or debarred by checking the SAM website. In addition, we performed an independent search on the vendor's registration and debarment status on the SAM website noting 3 of 8 vendors were not registered in the SAM system.

Possible Asserted Cause and Effect

Management did not comply with suspension and debarment requirements.

Recommendation

We recommend that policies and procedures are monitored to ensure compliance with suspension and debarment requirements.

Questioned Costs

Indeterminable

Views of Responsible Officials

Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

<i>Finding Number</i>	2014-25
<i>Finding Type</i>	<i>Material noncompliance / material weakness</i>
<i>Prior Year Finding</i>	N/A
<i>Federal Program</i>	<i>HOME Investment Partnerships Program (CFDA #14.239)</i>
<i>Federal Award Number</i>	M-10-MC-26-0202
<i>Federal Award Year</i>	July 1, 2013 - June 30, 2014
<i>Federal Agency</i>	U.S. Department of Housing and Urban Development (HUD)
<i>Pass-Through Entity</i>	N/A
<i>City of Detroit Department</i>	Housing and Revitalization Department
<i>Compliance Requirement</i>	Special Tests and Provisions - Housing Quality Standards

Criteria

The A-102 common rule requires non-federal entities receiving federal awards to establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

Per 24 CFR 92.504 (d)(1), The participating jurisdiction must inspect each project at project completion and during the period of affordability to determine that the project meets the property standards of § 92.251. During the period of affordability, the participating jurisdiction must perform on-site inspections of HOME-assisted rental housing to determine compliance with the property standards of § 92.251 and to verify the information submitted by the owners in accordance with the requirements of § 92.252. The inspections must be in accordance with the inspection procedures that the participating jurisdiction establishes to meet the inspection requirements of § 92.251.

Condition

The City is unable to provide support that monitoring of housing quality standards occurred for the year ended June 30, 2014.

Possible Asserted Cause and Effect

Management did not comply with the Housing Quality Standards requirement.

Recommendation

We recommend that policies and procedures are monitored to ensure compliance with Housing Quality Standards requirements.

Questioned Costs

Indeterminable

Views of Responsible Officials

Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

<i>Finding Number</i>	2014-26
<i>Finding Type</i>	<i>Noncompliance / significant deficiency</i>
<i>Prior Year Finding</i>	N/A
<i>Federal Program</i>	<i>Federal Transit Cluster (CFDA #20.500, 20.507)</i>
<i>Federal Award Number</i>	MI-90-X374, MI-90-X563, MI-90-X604, MI-90-X605, MI-95-X642, MI-95-X062
<i>Federal Award Year</i>	July 1, 2013 - June 30, 2014
<i>Federal Agency</i>	U.S. Department of Transportation
<i>Pass-Through Entity</i>	Federal Transit Administration
<i>City of Detroit Department</i>	U.S. Detroit Department of Transportation
<i>Compliance Requirement</i>	Earmarking

Criteria

Per the OMB A-133 Compliance Circular, one percent of 5307 program funds apportioned to urbanized areas with a population of at least 200,000 shall be expended for transit enhancement activities. This requirement applies at the Urbanized Area (UZA) level, not to an individual grant or grantee (49 USC 5307(d)(1)(K)(i)).

Condition

We reviewed all federal expenditures from 5307 grant funds related to transit enhancement activities to determine whether DDOT expended at least 1% of its expenditures on transit enhancement activities. DDOT expended 0.76% on transit enhancements and was \$51,857 under the 1% threshold of \$215,225

Possible Asserted Cause and Effect

Procedures to ensure compliance with Earmarking requirements were not operating effectively.

Recommendation

We recommend management track and review all transit enhancement activity in order to ensure the department is in compliance with federal requirements.

Questioned Costs

None

Views of Responsible Officials

Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

<i>Finding Number</i>	2014-27
<i>Finding Type</i>	<i>Material noncompliance / material weakness</i>
<i>Prior Year Finding</i>	2013-45
<i>Federal Program</i>	<i>Federal Transit Cluster (CFDA #20.500, 20.507)</i>
<i>Federal Award Number</i>	MI-90-X605
<i>Federal Award Year</i>	July 1, 2013 - June 30, 2014
<i>Federal Agency</i>	U.S. Department of Transportation
<i>Pass-Through Entity</i>	Federal Transit Administration
<i>City of Detroit Department</i>	U.S. Detroit Department of Transportation
<i>Compliance Requirement</i>	Davis-Bacon Act

Criteria

Per the compliance supplement for the Davis-Bacon Act, Nonfederal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR part 5). This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) are to be prepared by the payroll administrator and reviewed by the Development specialist, as evidenced by a signature (29 CFR Sections 5.5 and 5.6). The A-102 common rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance.

Condition

2 of 3 samples did not contain evidence of review and approval of the contractor's certified payrolls by an authorized reviewer. Additionally, for 1 of 3 samples, no certified payrolls were provided.

Possible Asserted Cause and Effect

Procedures to ensure certified payrolls are reviewed and approved were not operating effectively.

Recommendation

We recommend that policies are monitored to ensure compliance with the Davis-Bacon Act requirements.

Questioned Costs

None

Views of Responsible Officials

Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

<i>Finding Number</i>	2014-28
<i>Finding Type</i>	<i>Noncompliance / significant deficiency</i>
<i>Prior Year Finding</i>	N/A
<i>Federal Program</i>	<i>Federal Transit Cluster (CFDA #20.500, 20.507)</i>
<i>Federal Award Number</i>	MI-90-X605
<i>Federal Award Year</i>	July 1, 2013 - June 30, 2014
<i>Federal Agency</i>	U.S. Department of Transportation
<i>Pass-Through Entity</i>	Federal Transit Administration
<i>City of Detroit Department</i>	Detroit Department of Transportation
<i>Compliance Requirement</i>	Procurement, Suspension, and Debarment

Criteria

The A-102 common rule requires non-federal entities receiving federal awards to establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

Per 2 CFR 215.46, procurement records and files for purchase in excess of the small purchase threshold shall include the following at a minimum: (a) basis for contractor selection; (b) Justification for lack of competition when competitive bids or offers are not obtained; and (c) Basis of contractor selection and the basis for the award cost.

Condition

For 1 of 7 contracts selected for testwork, the City was unable to provide justification for lack of competition.

Possible Asserted Cause and Effect

Procurement files were not maintained in accordance with the City's record retention policies.

Recommendation

We recommend that policies and procedures are monitored to ensure compliance with procurement requirements.

Questioned Costs

Indeterminable

Views of Responsible Officials

Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

<i>Finding Number</i>	2014-29
<i>Finding Type</i>	<i>Noncompliance / significant deficiency</i>
<i>Prior Year Finding</i>	N/A
<i>Federal Program</i>	<i>Capitalization Grants for Clean Water State Revolving Loan Funds (CFDA #66.458) ARRA</i>
<i>Federal Award Number</i>	5175-07, 5175-08
<i>Federal Award Year</i>	July 1, 2013 - June 30, 2014
<i>Federal Agency</i>	Environmental Protection Agency (EPA)
<i>Pass-Through Entity</i>	Michigan Department of Environmental Quality
<i>City of Detroit Department</i>	Detroit Water and Sewer Department
<i>Compliance Requirement</i>	Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Criteria

Per 2 CFR Part 225 Appendix A Section c.1.j., payroll costs must be adequately documented. The A-102 common rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Condition

We selected 40 payroll payments charged to the grant, totaling \$12,611, and noted that for 7 of the expenditures, the City did not submit the actual payroll costs paid, as required. 4 of the expenditures were over reimbursed, and 3 were underreimbursed. These resulted in a net over reimbursement of \$544. Additionally, for 7 of the expenditures we could not verify approval by a supervisor, and 1 expenditure did not have the appropriate supporting documentation signed by the employee.

Possible Asserted Cause and Effect

Procedures to ensure compliance with the Activities Allowed / Allowable costs compliance requirement were not operating effectively.

Recommendation

We recommend that policies are monitored to ensure compliance with Allowable Cost requirements.

Questioned Costs

\$544

Views of Responsible Officials

Management concurs with this finding.

CITY OF DETROIT, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

<i>Finding Number</i>	2014-30
<i>Finding Type</i>	<i>Material noncompliance / material weakness</i>
<i>Prior Year Finding</i>	N/A
<i>Federal Program</i>	<i>Block Grants for Prevention and Treatment of Substance Abuse (CFDA #93.959)</i>
<i>Federal Award Number</i>	2B08TI010026T
<i>Federal Award Year</i>	October 1, 2013 - September 30, 2014
<i>Federal Agency</i>	U.S. Department of Health and Human Services
<i>Pass-Through Entity</i>	Michigan Department of Community Health
<i>City of Detroit Department</i>	Department of Health and Human Services
<i>Compliance Requirement</i>	Procurement, Suspension, and Debarment

Criteria

The A-102 common rule and OMB Circular A-110 (2 CFR Part 215) requires that non-Federal entities receiving Federal awards (i.e. auditee management) establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Per 2 CFR 215.46, procurement records and files for purchase in excess of the small purchase threshold shall include the following at a minimum: (a) basis for contractor selection; (b) Justification for lack of competition when competitive bids or offers are not obtained; and (c) Basis of contractor selection and the basis for the award cost.

Condition

We selected the procurement file of the only contracts greater than \$25,000 to ensure that there was an adequate level of competition, or that there was justification for lack thereof. The City's Department of Health and Wellness Promotion (DHWP) was unable to provide a contract file including the justification for the lack of competition related to the subcontractor.

Possible Asserted Cause and Effect

Management did not comply with Procurement requirements.

Recommendation

We recommend that policies and procedures are monitored to ensure compliance with procurement requirements.

Questioned Costs

Indeterminable

Views of Responsible Officials

Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

<i>Finding Number</i>	2014-31
<i>Finding Type</i>	Material noncompliance / material weakness
<i>Prior Year Finding</i>	N/A
<i>Federal Program</i>	Block Grants for Prevention and Treatment of Substance Abuse (CFDA #93.959)
<i>Federal Award Number</i>	2B08TI010026T
<i>Federal Award Year</i>	October 1, 2013 - September 30, 2014
<i>Federal Agency</i>	U.S. Department of Health and Human Services
<i>Pass-Through Entity</i>	Michigan Department of Community Health
<i>City of Detroit Department</i>	Department of Health and Human Services
<i>Compliance Requirement</i>	Subrecipient Monitoring

Criteria

The A-102 common rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal Laws, regulations, and program compliance requirements. Per 31 USC 7502(f)(2) each pass-through entity shall— (A) provide such subrecipient the program names (and any identifying numbers) from which such assistance is derived, and the Federal requirements which govern the use of such awards and the requirements of this chapter; (B) monitor the subrecipient’s 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

The City was unable to provide documentation to support that it conducted adequate monitoring activities during the award period.

Possible Asserted Cause and Effect

Failure to monitor the subrecipient may result in the subrecipient not properly administering federal programs in accordance with laws, regulations and the grant agreement.

Recommendation

Failure to monitor the subrecipient may result in the subrecipient not properly administering federal programs in accordance with laws, regulations and the grant agreement.

Questioned Costs

None

Views of Responsible Officials

Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

<i>Finding Number</i>	2014-32
<i>Finding Type</i>	<i>Material noncompliance / material weakness</i>
<i>Prior Year Finding</i>	N/A
<i>Federal Program</i>	<i>HIV Emergency Relief Project Grants (CFDA #93.914)</i>
<i>Federal Award Number</i>	H89HA00021-21-01, H89HA00021-22-01
<i>Federal Award Year</i>	March 1, 2012 - February 29, 2013, March 1, 2013 - February 28, 2014
<i>Federal Agency</i>	U.S. Department of Health and Human Services
<i>Pass-Through Entity</i>	N/A
<i>City of Detroit Department</i>	Department of Health & Wellness Promotion
<i>Compliance Requirement</i>	Cash Management

Criteria

Per 24 CFR 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.

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 recipients' need for the funds.

Condition

For 7 of the 8 draws selected for testing, the City did not minimize the time lapse between drawdown and payment to 3 days or less as required. Seven samples exceeded time lapse by 5-10 days and one sample exceeded time lapse by 21 days.

Possible Asserted Cause and Effect

Payment procedures utilized by the City do not allow for precision in determining the time lag between a request for payment and the payment being made. As a result, certain payments have a time lapse that exceeds the 3 day requirement.

Recommendation

We recommend policies and procedures are developed, implemented, and monitored to ensure that all funds are disbursed in accordance with regulations or the terms and conditions of the award.

Questioned Costs

Indeterminable

Views of Responsible Officials

Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

<i>Finding Number</i>	2014-33
<i>Finding Type</i>	<i>Material noncompliance / material weakness</i>
<i>Prior Year Finding</i>	2013-59
<i>Federal Program</i>	<i>HIV Emergency Relief Project Grants (CFDA #93.914)</i>
<i>Federal Award Number</i>	H89HA00021-21-01, H89HA00021-22-01
<i>Federal Award Year</i>	March 1, 2012 - February 29, 2013, March 1, 2013 - February 28, 2014
<i>Federal Agency</i>	U.S. Department of Health and Human Services
<i>Pass-Through Entity</i>	N/A
<i>City of Detroit Department</i>	Department of Health & Wellness Promotion
<i>Compliance Requirement</i>	Procurement, Suspension and Debarment

Criteria

Per 45 CFR Part 92.36(b)(9) and 2 CFR section 215.46, 45 CFR Part 92.36(b)(1) and (d)(4); and 2 CFR sections 215.43 and 215.44(e), and 45 CFR 92.36(f) and 2 CFR section 215.45, contract files should contain documentation that includes the significant history of the procurement, including the rationale for the method of procurement, selection of contract type, contractor selection or rejection, the basis of contract price, the rationale to limit competition in those cases where competition was limited and ascertain if the limitation was justified, and cost or price analyses performed in connection with procurement actions, including contract modifications supporting the procurement action.

Condition

We reviewed the procurement file of the sole contract greater than \$25,000 for the HIV program which is the contract between the City and its subrecipient covering fiscal year 2014 to determine whether there was an adequate level of competition, or whether there was justification for lack thereof. The City was unable to provide a contract file including the justification for the lack of competition related to the subcontractor.

Possible Asserted Cause and Effect

Because no documentation was provided, we were not able to verify that there was no bias in the selection of its subrecipient and that the appropriate procurement procedures were followed.

Recommendation

We recommend that policies and procedures are monitored to ensure compliance with procurement requirements.

Questioned Costs

None

Views of Responsible Officials

Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

<i>Finding Number</i>	2014-34
<i>Finding Type</i>	<i>Material noncompliance / material weakness</i>
<i>Prior Year Finding</i>	2013-60
<i>Federal Program</i>	<i>HIV Emergency Relief Project Grants (CFDA #93.914)</i>
<i>Federal Award Number</i>	H89HA00021-21-01, H89HA00021-22-01
<i>Federal Award Year</i>	March 1, 2012 - February 29, 2013, March 1, 2013 - February 28, 2014
<i>Federal Agency</i>	U.S. Department of Health and Human Services
<i>Pass-Through Entity</i>	N/A
<i>City of Detroit Department</i>	Department of Health & Wellness Promotion
<i>Compliance Requirement</i>	Procurement, Suspension and Debarment

Criteria

CFR 92.37(b) requires that subgrantees be subject to federal statutes and regulations and that those provisions are included in the subgrant agreement.

Condition

We reviewed procurement of the sole contract greater than \$25,000 for the HIV program, the contract between the City and its subcontractor covering fiscal year 2014. The contract was approved two months after the effective date of the contract. The contract for the grant year 3/1/2013 – 2/28/2016 was approved on May 1, 2013.

Possible Asserted Cause and Effect

The contract between the City and its subcontractor was approved in May 2013, which is after the start of the grant year. This allowed the subcontractor to operate without an approved contract for more than 2 months.

Recommendation

We recommend that policies and procedures are monitored to ensure compliance with procurement requirements.

Questioned Costs

None

Views of Responsible Officials

Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

<i>Finding Number</i>	2014-35
<i>Finding Type</i>	<i>Material noncompliance / material weakness</i>
<i>Prior Year Finding</i>	2013-61
<i>Federal Program</i>	<i>HIV Emergency Relief Project Grants (CFDA #93.914)</i>
<i>Federal Award Number</i>	H89HA00021-21-01, H89HA00021-22-01
<i>Federal Award Year</i>	March 1, 2012 - February 29, 2013, March 1, 2013 - February 28, 2014
<i>Federal Agency</i>	U.S. Department of Health and Human Services
<i>Pass-Through Entity</i>	N/A
<i>City of Detroit Department</i>	Department of Health & Wellness Promotion
<i>Compliance Requirement</i>	Subrecipient Monitoring

Criteria

The A-102 common rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal Laws, regulations, and program compliance requirements. Per 31 USC 7502(f)(2) each pass-through entity shall— (A) provide such subrecipient the program names (and any identifying numbers) from which such assistance is derived, and the Federal requirements which govern the use of such awards and the requirements of this chapter; (B) monitor the subrecipient’s 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

We obtained the subrecipient monitoring file for the subcontractor, noting there was no evidence of monitoring during the award period or periodic visits to review financial information.

Possible Asserted Cause and Effect

Failure to monitor the subrecipient may result in the subrecipient not properly administering federal programs in accordance with laws, regulations and the grant agreement.

Recommendation

We recommend that management establish policies and procedures to ensure that subrecipient monitoring compliance requirements are met.

Questioned Costs

None

Views of Responsible Officials

Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

<i>Finding Number</i>	2014-36
<i>Finding Type</i>	<i>Material Noncompliance / Material Weakness</i>
<i>Prior Year Finding</i>	N/A
<i>Federal Program</i>	<i>Staffing for Adequate Fire and Emergency Response (CFDA #97.083)</i>
<i>Federal Award Number</i>	EMW-2011-FH-00489, EMW-2012-FH-00665
<i>Federal Award Year</i>	September 22, 2012 - December 29, 2014
<i>Federal Agency</i>	U.S. Department of Homeland Security
<i>Pass-Through Entity</i>	N/A
<i>City of Detroit Department</i>	Detroit Fire Department
<i>Compliance Requirement</i>	Activities Allowed or Unallowed, and Allowable Costs/Cost Principles

Criteria

2 CFR Part 225 Appendix A Section C.1.j states that to be allowable under Federal awards, costs must be adequately documented. The A-102 common rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal Laws, regulations, and program compliance requirements.

Condition

The Fire Department performed 3 drawdowns that spanned fiscal year 2013 – fiscal year 2015. As SAFER is a staffing grant, the City should be able to reconcile what was drawn down to the general ledger and the payroll system, however they have not been able to line up the payroll expenses by year associated with the specific drawdowns. However, the questioned costs are indeterminable as the City is unable to reconcile the payroll system to what was drawn down.

Possible Asserted Cause and Effect

Drawdowns should be based on amounts that can be reconciled to supporting documents and the general ledger in order to maintain an appropriate audit trail.

Recommendation

We recommend that the City implement procedures to better track SAFER funding and draw down funds.

Questioned Costs

None

Views of Responsible Officials

Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

<i>Finding Number</i>	2014-37
<i>Finding Type</i>	Material noncompliance / material weakness
<i>Prior Year Finding</i>	2013-71
<i>Federal Program</i>	Staffing for Adequate Fire and Emergency Response (CFDA #97.083)
<i>Federal Award Number</i>	EMW-2011-FH-00489, EMW-2012-FH-00665
<i>Federal Award Year</i>	September 22, 2012 - December 29, 2014
<i>Federal Agency</i>	U.S. Department of Homeland Security
<i>Pass-Through Entity</i>	N/A
<i>City of Detroit Department</i>	Detroit Fire Department
<i>Compliance Requirement</i>	Activities Allowed or Unallowed, and Allowable Costs/Cost Principles

Criteria

The A-102 common rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal Laws, regulations, and program compliance requirements.

Code of Federal Regulations Part 225 Appendix B, paragraph 8(h)(3) states that: 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 employees 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 firsthand knowledge of the work performed by the employee. The A-102 common rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Condition

We noted that all employees charged to the grant were not originally supported with the required semi-annual time certification. However, 16 months after year end, management certified that these employees worked solely on the SAFER grant. The certifications, however, were not performed bi-annually or timely for employees charged to the SAFER grant.

Possible Asserted Cause and Effect

Management was unaware of the requirement to prepare time certifications.

Recommendation

We recommend that management attain a full understanding of the grant requirements and complete payroll certifications in a timely manner.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

Questioned Costs

None

Views of Responsible Officials

Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

<i>Finding Number</i>	2014-38
<i>Finding Type</i>	<i>Material noncompliance/material weakness</i>
<i>Prior Year Finding</i>	2013-69
<i>Federal Program</i>	<i>Staffing for Adequate Fire and Emergency Response (CFDA #97.083)</i>
<i>Federal Award Number</i>	EMW-2011-FH-00489, EMW-2012-FH-00665
<i>Federal Award Year</i>	September 22, 2012 - December 29, 2014
<i>Federal Agency</i>	U.S. Department of Homeland Security
<i>Pass-Through Entity</i>	N/A
<i>City of Detroit Department</i>	Detroit Fire Department
<i>Compliance Requirement</i>	Activities Allowed or Unallowed, and Allowable Costs/Cost Principles

Criteria

The A-102 common rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal Laws, regulations, and program compliance requirements.

To be allowable under Federal awards, costs must meet the following general criteria: be necessary and reasonable for proper and efficient performance and administration of Federal awards, be allocable to Federal awards under the provisions of this Circular, be authorized or not prohibited under State or local laws or regulations, conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items, be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit, be accorded consistent treatment, and be adequately documented. (2 CFR Part 225 Appendix A).

Condition

The City was unable to provide adequate supporting documentation for the fringe benefits charged for individual firefighters to the grant.

Possible Asserted Cause and Effect

Management relied on amounts charged to the general ledger for fringe benefits charged to the grant but was unable to provide supporting documentation for the determination of the amount of fringe benefit costs charged to the grant.

Recommendation

We recommend that policies and procedures are developed that would result in all costs charged to the grant to be evidenced by supporting documentation with an appropriate audit trail.

Questioned Costs

Indeterminable

Views of Responsible Officials

Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

<i>Finding Number</i>	2014-39
<i>Finding Type</i>	<i>Material weakness</i>
<i>Prior Year Finding</i>	2013-72
<i>Federal Program</i>	<i>Staffing for Adequate Fire and Emergency Response (CFDA #97.083)</i>
<i>Federal Award Number</i>	EMW-2011-FH-00489, EMW-2012-FH-00665
<i>Federal Award Year</i>	September 22, 2012 - December 29, 2014
<i>Federal Agency</i>	U.S. Department of Homeland Security
<i>Pass-Through Entity</i>	N/A
<i>City of Detroit Department</i>	Detroit Fire Department
<i>Compliance Requirement</i>	Allowability, Cash Management, Reporting

Criteria

The A-102 common rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal Laws, regulations, and program compliance requirements.

Condition

There is no formal policy / procedure in place to review the salary and fringe information from the payroll system before the information is entered into the "Salary and Fringe by pay date" spreadsheet, which is used to request reimbursement from FEMA. There is no reconciliation completed between the payroll reports and the information entered into the system to FEMA. There is no management review process over the "Salary and Fringe by paydate" spreadsheet used to track the SAFER Grant expenditures and submit requests to FEMA. Lastly, there is no formal review/approval process for the cash draw down requests.

Possible Asserted Cause and Effect

Internal controls were not properly designed, executed, and monitored to ensure effectiveness.

Recommendation

We recommend the City implement procedures to have separate individuals review and approve the payroll information that is entered in the "Salary and Fringe by pay date" spreadsheet, the "Salary and Fringe by pay date" spreadsheet, journal entries, and cash draw down requests. Furthermore, we recommend that management complete a reconciliation between the payroll reports and the information that is entered into the spreadsheet and subsequently submitted to FEMA for cash draw down requests.

Questioned Costs

None

Views of Responsible Officials

Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

<i>Finding Number</i>	2014-40
<i>Finding Type</i>	<i>Material noncompliance/material weakness</i>
<i>Prior Year Finding</i>	2013-75
<i>Federal Program</i>	<i>Staffing for Adequate Fire and Emergency Response (CFDA #97.083)</i>
<i>Federal Award Number</i>	EMW-2011-FH-00489, EMW-2012-FH-00665
<i>Federal Award Year</i>	September 22, 2012 - December 29, 2014
<i>Federal Agency</i>	U.S. Department of Homeland Security
<i>Pass-Through Entity</i>	N/A
<i>City of Detroit Department</i>	Detroit Fire Department
<i>Compliance Requirement</i>	Reporting

Criteria

The A-102 common rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal Laws, regulations, and program compliance requirements.

Per Appendix II (A)(3) of the SAFER 2012 Grant Guidance and application kit, Grantees under the Hiring of Firefighters Activity must agree to maintain the SAFER funded positions as well as the number of positions declared at the time of award throughout the two year commitment unless the grantee has been afforded a waiver of this requirement.

Condition

The Fire Department did not maintain the number of SAFER funded positions or the number of overall positions declared at the time of the award. At the time of award, DFD received approval for 108 firefighters for SAFER 2011 and 27 firefighters for SAFER 2012. During the fiscal year, eight SAFER 2011 firefighters did not maintain their positions and were not replaced. The department did not obtain a waiver related to this requirement.

Possible Asserted Cause and Effect

Internal controls were not properly designed, executed, or monitored to ensure compliance with reporting requirements. As a result, management did not comply.

Recommendation

We recommend that DFD maintain the number of SAFER funded positions or obtain a waiver for this requirement if DFD cannot maintain the positions.

Questioned Costs

None

Views of Responsible Officials

Management concurs with this finding.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

<i>Finding Number</i>	2014-41
<i>Finding Type</i>	<i>Material noncompliance / material weakness</i>
<i>Prior Year Finding</i>	2013-74
<i>Federal Program</i>	<i>Staffing for Adequate Fire and Emergency Response (CFDA #97.083)</i>
<i>Federal Award Number</i>	EMW-2011-FH-00489, EMW-2012-FH-00665
<i>Federal Award Year</i>	September 22, 2012 - December 29, 2014
<i>Federal Agency</i>	U.S. Department of Homeland Security
<i>Pass-Through Entity</i>	N/A
<i>City of Detroit Department</i>	Detroit Fire Department
<i>Compliance Requirement</i>	Reporting

Criteria

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 Appendix II (D)(1) of the SAFER 2012 of the Grant Guidance and application kit, Recipients of any SAFER grants awarded on or after October 1, 2009 are required to submit a semi-annual Federal Financial Report (FFR, SF-425). The FFR, to be submitted using the online e-Grant system, will be due semi-annually based on the calendar year beginning with the period after the award is made. Grant recipients will be required to submit a FFR throughout the entire period of performance of the grant.

Reporting deadlines and due dates are January 1 – June 30; Due July 30; July 1 – December 31; Due January 30.

Condition

During our testwork over the Reporting compliance requirement we selected 2 SF-425's and 2 quarterly performance reports for testing and noted the following:

The SAFER 2011 grant (EMW-2011-FH-00489) report for the period ended June 30, 2014 was submitted on August 26, 2014, 26 days after the due date of July 30 2014.

The same employee prepared and submitted the SF-425's and there is no procedure in place to have a supervisor review and approve the reports before submission to FEMA.

The same employee prepared and submitted the quarterly performance reports and there is no procedure in place to have a supervisor review and approve the reports before submission to FEMA.

Possible Asserted Cause and Effect

The City's policy to submit reports timely was not followed. Additionally, an appropriate segregation of duties did not exist.

Recommendation

We recommend that DFD / Grants Management implement procedures to have separate individuals review and approve the SF-425 reports, and submit the reports by the required date.

CITY OF DETROIT, MICHIGAN
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

Questioned Costs

None

Views of Responsible Officials

Management concurs with this finding.