



**CITY OF DETROIT, MICHIGAN**  
OMB Circular A-133 Single Audit Report  
Year ended June 30, 2009

# CITY OF DETROIT, MICHIGAN

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

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

**Compliance**

We have audited the compliance of the City of Detroit, Michigan (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009, except for the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) major federal program. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit, except for the WIC major federal program.

The City's basic financial statements include operations of the Detroit Brownfield Redevelopment Authority, Detroit Public Library, Detroit Transportation Corporation, Downtown Development Authority, Eastern Market Corporation, Economic Development Corporation, Greater Detroit Resource Recovery Authority, Local Development Finance Authority, and Museum of African American History as discretely presented component units, which received federal awards that are not included in the schedule of expenditures of federal awards for the year ended June 30, 2009. Our audit, described below, did not include the operations of the Detroit Brownfield Redevelopment Authority, Detroit Public Library, Detroit Transportation Corporation, Downtown Development Authority, Eastern Market Corporation, Economic Development Corporation, Greater Detroit Resource Recovery Authority, Local Development Finance Authority, and Museum of African American History because the component units engaged other auditors to perform audits in accordance with OMB Circular A-133.

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



**Disclaimer**

As described in finding 2009-64 in the accompanying schedule of findings and questioned costs, we were unable to obtain sufficient documentation supporting the compliance of the City of Detroit with the Special Supplemental Nutrition Program for Women, Infants, and Children regarding the types of compliance requirements referred to above, nor were we able to satisfy ourselves as to the City of Detroit’s compliance with those requirements by other auditing procedures.

**Adverse (Noncompliance) – Table 1**

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

<b>Federal program</b>	<b>Compliance requirement</b>	<b>Finding number</b>
Community Development Block Grant	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2009-11
Community Development Block Grant	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2009-12
Community Development Block Grant	Cash Management	2009-13
Community Development Block Grant	Procurement, Suspension, and Debarment	2009-14
Community Development Block Grant	Suspension and Debarment	2009-15
Community Development Block Grant	Subrecipient Monitoring	2009-17



## Qualifications (Noncompliance) – Table 2

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

<b>Federal program</b>	<b>Compliance requirement</b>	<b>Finding number</b>
Home Investment Partnership Program	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2009-19
Home Investment Partnership Program	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2009-20
Home Investment Partnership Program	Cash Management	2009-21
Trade Adjustment Assistance	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2009-23
Trade Adjustment Assistance	Activities Allowed or Unallowed and Costs/Cost Principles	2009-24
Trade Adjustment Assistance	Cash Management	2009-25
Workforce Investment Act and Temporary Assistance for Needy Families	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2009-26
Workforce Investment Act	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2009-27
Workforce Investment Act	Cash Management	2009-28
Workforce Investment Act	Period Of Availability	2009-30
Workforce Investment Act	Subrecipient Monitoring	2009-31
Federal Transit Cluster	Equipment and Real Property Management	2009-32
Federal Transit Cluster	Davis Bacon Act	2009-34
State Revolving Loan	Buy American	2009-36
State Revolving Loan	Davis Bacon Act	2009-37
Immunization Grants	Reporting	2009-40
Immunization Grants	Subrecipient Monitoring	2009-41
Temporary Assistance for Needy Families	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2009-42
Temporary Assistance for Needy Families	Cash Management	2009-43
Temporary Assistance for Needy Families	Subrecipient Monitoring	2009-45
Community Services Block Grant	Eligibility	2009-47
Community Services Block Grant	Procurement, Suspension, and Debarment	2009-48



<b>Federal program</b>	<b>Compliance requirement</b>	<b>Finding number</b>
Community Services Block Grant	Subrecipient Monitoring	2009-49
Head Start and Early Head Start	Procurement, Suspension, and Debarment	2009-50
Head Start and Early Head Start	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2009-51
Head Start and Early Head Start	Subrecipient Monitoring	2009-53
HIV Emergency Relief	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2009-55
HIV Emergency Relief	Maintenance of Effort	2009-58
HIV Emergency Relief	Procurement, Suspension, and Debarment	2009-59
HIV Emergency Relief	Reporting	2009-60
HIV Emergency Relief	Subrecipient Monitoring	2009-61
Prevention and Treatment of Substance Abuse	Reporting	2009-62
Prevention and Treatment of Substance Abuse	Subrecipient Monitoring	2009-63

In our opinion, because of the effects of the noncompliance described in Table 1, the City did not comply in all material respects, with the requirements referred to above that are applicable to each of its major federal programs included in Table 1 for the year ended June 30, 2009. Also, in our opinion, except for the noncompliance described in Table 2, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major programs included in Table 2 for the year ended June 30, 2009. Since we were unable to obtain sufficient documentation regarding the City's compliance with the requirements of the Special Supplemental Nutrition Program for Women, Infants, and Children regarding the types of compliance requirements referred to above, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the City's compliance with the requirements referred to above that are applicable to the Special Supplemental Nutrition Program for Women, Infants, and Children. Also, in our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its Section 108 Loans major federal program for the year ended June 30, 2009. However, as identified in Table 3, the results of our auditing procedures also disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133, and which are described in the accompanying schedule of findings and questioned costs.



### Other Instances of Noncompliance – Table 3

<u>Federal program</u>	<u>Compliance requirement</u>	<u>Finding number</u>
Community Development Block Grant	Reporting	2009-16
Section 108 Loans Home Investment Partnership Program	Program Income	2009-18
Workforce Investment Act	Reporting	2009-22
Federal Transit Cluster	Reporting	2009-29
Federal Transit Cluster	Procurement, Suspension, and Debarment	2009-33
Federal Transit Cluster	Reporting	2009-35
Immunization Grants	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	2009-38
Immunization Grants	Procurement, Suspension, and Debarment	2009-39
Temporary Assistance for Needy Families	Reporting	2009-44
Head Start and Early Head Start	Cash Management	2009-52
HIV Emergency Relief	Cash Management	2009-56
HIV Emergency Relief	Cash Management	2009-57

### Internal Control over Compliance

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

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider



the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2009-09 through 2009-63 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 2009-09, 2009-10, the items in Table 1, and the items in Table 2 to be material weaknesses.

### **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 28, 2010, which included a reference to the reports of other auditors. Our report on the basic financial statements was modified to recognize that we did not audit the financial statements of the Detroit Brownfield Redevelopment Authority, Detroit Public Library, Detroit Transportation Corporation, Downtown Development Authority, Eastern Market Corporation, Economic Development Corporation, Greater Detroit Resource Recovery Authority, Local Development Finance Authority, and Museum of African American History, which represent 100% of the assets and expenses, of the aggregate discretely presented component units. We also did not audit the financial statements of the General Retirement System and the Policemen and Firemen Retirement System and the Detroit Building Authority, which represent 94% and 40% of the assets and expenses/expenditures/deductions, respectively, of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon were furnished to us, and our opinions, insofar as they relate to the amounts included in the aggregate discretely presented component units and the aggregate remaining fund information, are based on the reports of the other auditors. Our report also included an explanatory paragraph stating that the City has an accumulated unreserved undesignated deficit in the General Fund of \$332 million as of June 30, 2009, which has contributed to the City's dependence on short-term borrowing for cash flow purposes. Our report also refers to the adoption of provisions of Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, as of July 1, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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





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

KPMG LLP

Detroit, Michigan  
June 25, 2010 (except for the Schedule of  
Expenditures of Federal Awards, Paragraph 12,  
as to which date is May 28, 2010)

**CITY OF DETROIT, MICHIGAN**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2009

Grant title	Grant number	Catalog of federal domestic assistance	2009 Expenditures
Department of Agriculture:			
Via Michigan Department of Education:			
Summer Food Service Program for Children	26-61146	10.559	\$ 776,745
Child and Adult Care Food Program – After School Meals	n/a	10.558	164,715
Via Michigan Department of Community Health:			
Special Supplemental Nutrition Program for Women, Infants, and Children	n/a	10.557	4,954,950
Via Michigan Dept of Human Services:			
Supplemental Nutritional Assistance Program Packaged Meals	ES-08-82014	10.561	12,240
Supplemental Nutritional Assistance Program Packaged Meals	ES-09-82014	10.561	11,141
Via Michigan Department of Career Development:			
Supplemental Nutritional Assistance Program:			
Food Stamp Program	08-15	10.561	378,197
Food Stamp Program	07-17	10.561	81,872
Food Stamp Program – Supportive Services (AY 09)	08-15	10.561	2,650
Food Stamp Program – Supportive Services (AY 08)	07-17	10.561	2,177
Total Supplemental Nutritional Assistance Program			<u>488,277</u>
Via Michigan Department of Education:			
Emergency Assistance Food Program – TEFAP	820021020	10.568	27,750
Emergency Assistance Food Program – TEFAP	820021020	10.568	112,869
Total Emergency Assistance Food Program			<u>140,619</u>
<b>Total Department of Agriculture</b>			<b><u>6,525,306</u></b>
Department of Education:			
Safe and Drug-Free Schools and Communities – Nat'l Prog	Q184D080048	84.184	<u>97,176</u>
<b>Total Department of Education</b>			<b><u>97,176</u></b>
Department of Energy:			
Via Michigan Dept of Human Services:			
Weatherization for Low Income Persons	DOE08-82007	81.042	2,188,119
Weatherization for Low Income Persons	DOE09-82007	81.042	250,318
ARRA-Weatherization for Low Income Persons	DOE-S-09-82007	81.042	370
Total Weatherization for Low Income Persons			<u>2,438,807</u>
<b>Total Department of Energy</b>			<b><u>2,438,807</u></b>
Department of Health and Human Services:			
Promoting Responsible Fatherhood: Fatherhood Initiative	90FR0073	93.086	395,438
Projects of Reg Sig (Women & Children Re-entry)	5U79SP013331-04	93.243	243,178
TB Prevention & Control	U52/CCU500843	93.116	469,052
HIV Emergency Relief Project	H89HA00021	93.914	7,301,139
HIV Emergency Relief Project – MAI	H3MHA08480	93.914	701,767
Total HIV Emergency Relief			<u>8,002,906</u>
Healthy Start Initiative	H49MC00147	93.926	1,575,000
Head Start	05CH0113/40	93.600	24,924
Head Start	05CH0113/39	93.600	18,319
Head Start	05CH0113/42	93.600	211,898
Head Start	05CH0113/43	93.600	9,325,164
Head Start	05CH0113/43	93.600	166,475
Head Start	05CH0113/44	93.600	34,642,768
Head Start	05CH0113/44	93.600	148,665
Head Start	05CH0113/45	93.600	1,195,610
Total Head Start/Early Head Start			<u>45,733,823</u>
Childhood Lead Poison Prev – CDC	H64/CCH507996-08	93.197	997,598

**CITY OF DETROIT, MICHIGAN**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2009

Grant title	Grant number	Catalog of federal domestic assistance	2009 Expenditures
Via Michigan Department of Community Health:			
CDC Prevention: Bio-terrorism Emerg. Prep	n/a	93.283	\$ 345,524
CDC Prevention: Bio-terrorism Laboratory	n/a	93.283	226,416
CDC Prevention: Cities Readiness Initiative	n/a	93.283	438,451
CDC Prevention: Pandemic Flu	n/a	93.283	136,684
Total CDC Prevention			<u>1,147,075</u>
Prevention Health Serv. : STARNs & VARHS	n/a	93.977	35,726
Prevention Health Serv. : STD Control	n/a	93.977	668,976
Total STD Control			<u>704,702</u>
Maternal & Child Health BG (MCHBG)	n/a	93.994	1,721,805
MCHBG – Childhood Lead Poison Prev – MDCH	n/a	93.994	303,531
MCHBG – Crippled Children Service	n/a	93.994	856,754
Total Maternal Child Health Block Grant			<u>2,882,090</u>
Family Planning Serv	n/a	93.217	1,753,333
Immunization Grants	n/a	93.268	450,570
Immunization Vaccine For Children (VFC)	n/a	93.268	3,250,185
Total Immunization Grants			<u>3,700,755</u>
AIDS/HIV Prevention and Planning – HIV Prev Grant	n/a	93.940	724,707
AIDS/HIV Rapid Testing – HIV Prev Grant	n/a	93.940	148,634
Total AIDS/HIV Prevention			<u>873,341</u>
AIDS/HIV Consort – HIV Care Formula Grant	n/a	93.917	175,360
AIDS/HIV Family Services – Pediatric AIDS Health Care	n/a	93.153	56,788
Prevention and Treatment of Substance Abuse BG	n/a	93.959	15,129,269
Family Planning: Infant Mortality	n/a	93.974	99,317
Medical Assist Prog: Nurse Family Partnership	n/a	93.778	193,289
Via Michigan Dept of Human Services:			
Community Services Block Grant	08-82007	93.569	2,052,522
Community Services Block Grant	09-82007	93.569	4,525,882
Community Services Block Grant-T	09-82007	93.569	15,000
Total Community Services Block Grant			<u>6,593,404</u>
WX-LIHEAP	LIHEAP08-82007	93.568	593,017
TANF	08-82007	93.558	303,201
TANF	09-82007	93.558	271,018
Via Michigan Dept. of Labor & Economic Growth:			
TANF JET	08-12	93.558	11,532,854
TANF JET	07-20	93.558	6,957,156
TANF – Supportive Services	07-33	93.558	515,898
TANF – Supportive Services	08-25	93.558	1,205,274
TANF – Goodwill Pilot	07-27	93.558	105,655
TANF – Goodwill DHS	07-27	93.558	174,925
JET Comm Outreach	EO 2009-22	93.558	35,550
JET Campus Center	EO 2009-22	93.558	28,193
Total TANF			<u>21,129,724</u>
<b>Total Department of Health and Human Services</b>			<b><u>112,448,459</u></b>
Department of Housing and Urban Development:			
Community Development Block Grants	B-08-MC-26-0006	14.218	36,220,481
CDBG: Section 108 Loans	n/a	14.248	8,647,686
Emergency Shelter Grants	S-08-MC-26-0006	14.231	1,396,935
HOME Investment: Special Housing Rehab	M-08-MC-26-0202	14.239	6,872,106

**CITY OF DETROIT, MICHIGAN**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2009

Grant title	Grant number	Catalog of federal domestic assistance	2009 Expenditures
HUD Lead Hazard Reduction	MILHD0035-04	14.905	\$ 45,850
HUD Lead Hazard II Reduction	MILHD0151-06	14.905	1,555,327
Total Lead Hazard Reduction			1,601,177
HOPWA AIDS HOUSING 06/08	MI28H05-F002	14.241	1,552,026
HOPWA/Community Living 09/07	MIH03-030027	14.241	815,447
Total HOPWA			2,367,473
<b>Total Department of Housing and Urban Development</b>			<b>57,105,858</b>
Department of Homeland Security:			
Via State of MI, Department of State Police:			
2005 UASI	n/a	97.067	1,225,007
2006 UASI	n/a	97.067	450,000
MMRS	n/a	97.067	52,999
Total UASI			1,728,006
<b>Total Department of Homeland Security</b>			<b>1,728,006</b>
Department of Justice:			
Gang Resistance Educ. Training – GREAT Program	2008-JV-FX-0059	16.737	26,092
Gang Resistance Educ. Training – GREAT Program	2007-JV-FX-0157	16.737	58,825
Total Gang Resistance Education			84,917
Justice Assistance Grant (JAG)	2006-DJ-BX-0720	16.738	14,049
Justice Assistance Grant (JAG)	2005-DJ-BX-0565	16.738	43,446
Total Justice Assistance Grant			57,495
Encourage Arrest	2008-WE-AX-0030	16.710	25,246
Comm Pol Outreach	2006-DD-BX-0213	16.710	27,188
Via Michigan State Police:			
Click or Ticket	PT-08-23	16.710	206,121
Click or Ticket	PT-09-28	16.710	306,051
Total Click or Ticket			564,606
Business to Youth Mentoring	2008-JL-FX-0194	16.541	10,438
Drug Violence Enforcement Project	2008-DD-BX-0238	16.000	67,378
Equitable Sharing Distribution	n/a	16.000	437,210
Cold No More Program	2007-DX-BX-K137	16.000	11,274
Youth Citizen Academy	2006-JL-FX-0268	16.000	11,042
Via Michigan Department of Comm. Health:			
Rape Counseling Center Prog – Victim Assist 2007	20083-11V06	16.575	135,434
Rape Counseling Center Prog – Victim Assist 2008	20083-12V07	16.575	480,530
Total Rape Counseling Center Program			615,964
Via Michigan State Police:			
Detroit Comp. Traffic Safety	CP-09-04	16.000	57,773
Youth Alcohol	AL-09-11	16.000	95,916
Via Michigan Dept of Human Services:			
Juvenile Accountability Block Grant (Safety)	JAIBG-07-82007	16.523	15,277
Juvenile Accountability Block Grant (Safety)	JAIBG-08-82007	16.523	108,499
Total Juvenile Accountability Block Grant			123,776
<b>Total Department of Justice</b>			<b>2,137,790</b>
Department of Labor:			
Via Michigan Department of Labor & Economic Growth			
Trade Program	03-29	17.245	674,871
Trade Program	03-29	17.245	2,717,912
Total Trade Program			3,392,783

**CITY OF DETROIT, MICHIGAN**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2009

Grant title	Grant number	Catalog of federal domestic assistance	2009 Expenditures
Wagner-Peyser	08-18	17.207	\$ 695,274
WIA Adult	07-45	17.258	13,726,776
WIA Youth	07-45	17.259	7,347,170
WIA Dislocated Worker	07-45	17.260	7,714,940
WIA Rapid Response – Incumbent Worker	08-03	17.260	325,249
WIA Dislocated Worker – NWLB	07-14	17.260	94,441
WIA Statewide – One Stop Operation	08-01	17.260	552,122
WIA National Emerg – Neg Auto Program	08-09	17.260	931,300
WIA Rapid Response American Axle	1389	17.260	9,793
WIA Rapid Response Detroit Public Schools	1390	17.260	4,697
WIA Rapid Response Detroit Public Schools	1395	17.260	5,907
WIA Admin	07-45	17.258,17.259,17.260	3,194,838
WIA Statewide High Concen Youth	08-13	17.258,17.259,17.260	62,246
WIA Statewide Capacity Building	07-43	17.258,17.259,17.260	24,000
WIA Statewide Workfirst Support	06-13	17.258,17.259,17.260	2,352,188
WIA Statewide Performance Incentive	07-44	17.258,17.259,17.260	133,028
WIA STW Career Advancement Program	07-38	17.258,17.259,17.260	200,430
Total WIA Grants			<u>36,679,125</u>
Work Incentive Grant – DPN	08-05	17.266	61,018
<b>Total Department of Labor</b>			<b><u>40,828,200</u></b>
Environmental Protection Agency:			
Globe Bldg. Site Cleanup	BF00E40001-0	66.818	173,556
Eastern Market Brownfield Assess.	BF00E40201-0	66.818	40,587
Sears Site Cleanup	BF00E40101-0	66.818	195,810
Total Brownfields Assessment and Cleanup			<u>409,953</u>
Via Michigan Department of Environmental Quality			
State Revolving Loan-5175-05	5175-05	66.458	857,906
State Revolving Loan-5175-06	5175-06	66.458	6,424,500
ARRA – State Revolving Loan-5175-07	2W-00E752-01	66.458	3,488,202
State Revolving Loan-5204-03	5204-03	66.458	117,921
State Revolving Loan-5204-06	5204-06	66.458	(27,971)
State Revolving Loan-5228-01	5228-01	66.458	2,383
Total State Revolving Loan			<u>10,862,941</u>
Drinking Water Revolving Fund-7161-01	7161-01	66.468	269,921
Drinking Water Revolving Fund-7162-01	7162-01	66.468	205,362
Drinking Water Revolving Fund-7178-01	7178-01	66.468	573,209
Drinking Water Revolving Fund-7240-01	7240-01	66.468	1,035,929
Total Drinking Water Revolving Fund			<u>2,084,421</u>
<b>Total Environmental Protection Agency</b>			<b><u>13,357,315</u></b>
Department of Transportation:			
Via Federal Transit Administration:			
Federal Transit Capital Investment – Bus Shelter	MI-90-X347	20.500	971,351
Federal Transit Formula Grants – Bus Shelter & Bus Signage	MI-90-X374	20.500	163,517
Federal Transit Capital Investment – Center City Loop – Rail Study	MI-03-0177	20.500	527,573
Federal Transit Capital Investment – Facility Construction	MI-03-0196	20.500	2,461,364
Federal Transit Capital Investment – Rosa Parks Transit Center	MI-03-0204	20.500	222,649
Federal Transit Capital Investment – Bus Lease	MI-03-0227	20.500	3,408,330
Federal Transit Capital Investment – Facility Renovation	MI-03-0231	20.500	607,686
Federal Transit Capital Investment – Federal Bus Lease	MI-01-0006	20.500	3,419,962
Federal Transit Capital Investment – Fare Collection Equipment	MI-04-0038	20.500	332,749
Federal Transit Capital Investment – Facility Construction	MI-90-X359	20.507	42,723
Federal Transit Formula Grants – Rosa Parks Transit Center	MI-90-X422	20.507	6,279,220
Federal Transit Formula Grants – Facility Improvements	MI-90-X434	20.507	375,491

**CITY OF DETROIT, MICHIGAN**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2009

<u>Grant title</u>	<u>Grant number</u>	<u>Catalog of federal domestic assistance</u>	<u>2009 Expenditures</u>
Federal Transit Capital Investment – Bus Lease	MI-90-X464	20.507	\$ 2,749,676
Federal Transit Formula Grants – Engineering/Communications	MI-90-X502	20.507	1,486,170
Federal Transit Formula Grants – Engineering/Communications	MI-90-X533	20.507	2,397,694
Federal Transit Formula Grants – Preventive Maintenance	MI-90-X563	20.507	5,594,489
Federal Transit Formula Grants – Communication/ Service	MI-90-X421	20.507	2,360,211
Federal Transit Formula Grants – Preventive Maintenance	MI-90-X604	20.507	<u>11,730,439</u>
Total Federal Transit Cluster			<u>45,131,294</u>
Job Access & Reverse Commute	MI-37-X014	20.516	671
Job Access & Reverse Commute	MI-80-X020	20.516	<u>721,224</u>
Total Job Access & Reverse Commute			<u>721,895</u>
Via Michigan Department of Transportation – Bureau of Aeronautics Airport Improvement Program – Land Acquisition	E-26-0027-3305	20.106	2,221
Via SEMCOG Unified Work Program	U09-009	20.514	<u>305,490</u>
<b>Total Department of Transportation</b>			<u><b>46,160,900</b></u>
<b>Total</b>			<u><b>\$ 282,827,816</b></u>

See accompanying notes to the schedule of expenditures of federal awards.

## CITY OF DETROIT, MICHIGAN

### Notes to Schedule of Expenditures of Federal Awards

For the Year ended June 30, 2009

**(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, \$109,889,634 of federal awards was provided to subrecipients.

**(4) Noncash Transactions**

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

**(5) Highway and Construction Program**

The City participates in various road, street, and bridge construction and repair projects. The projects are funded through an award granted to the State of Michigan Department of Transportation (the State), which administers the grant for the City. The City identifies the projects needed in the locality, and the State performs the procurement, payment, and cash management functions on behalf of the City. The award is managed directly by the State and has not been included in the tests of compliance with laws and regulations associated with the City's Single Audit. The award is approximately \$24.5 million for the year ended June 30, 2009.

**(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 \$81,626,000 at June 30, 2009. New borrowings in fiscal year 2009 total \$6,196,930 and the outstanding principal on existing loans made in prior years have continuing compliance requirements.



**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 Dave Bing  
and  
The Honorable Members of the City Council  
City of Detroit, Michigan:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Detroit, Michigan (the City), as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 28, 2010. Our report was modified to include a reference to other auditors and to emphasize the City has an accumulated unreserved undesignated deficit in the General Fund of \$332 million as of June 30, 2009 which has contributed to the City's dependence on short-term borrowing for cash flow purposes. Our report also emphasized the City adopted the provisions of Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* as of July 1, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the General Retirement System, the Policemen and Firemen Retirement System, and all of the discretely presented component units, as described in our report on the City's basic financial statements. The financial statements of the General Retirement System, Policemen and Firemen Retirement System, and certain discretely presented component units identified in note 1(a) were not audited in accordance with *Government Auditing Standards*. 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.

**Internal Control over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.





A deficiency in internal control over financial reporting 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 over financial reporting, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in the City's internal control over financial reporting described in the accompanying schedule of findings and questioned costs as findings 2009-1, 2009-2, 2009-3, and 2009-4 to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as findings 2009-5, 2009-6, 2009-7, and 2009-8.

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

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

**KPMG LLP**

Detroit, Michigan  
May 28, 2010

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Section I – Summary of Auditors’ Results**

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

<u>Unqualified</u>	<u>Qualified</u>	<u>Adverse</u>	<u>Disclaim</u>
Section 108 Loan (CFDA No. 14.248)	Home Investment Partnership Program (CFDA No. 14.239) Trade Adjustment Assistance (CFDA No. 17.245) Workforce Investment Act (CFDA No. 17.258, 17.259, 17.260) Federal Transit Cluster (CFDA No. 20.500, 20.507) State Revolving Loan (CFDA No. 66.458) Immunizations Grants (CFDA No. 93.268) Temporary Assistance for Needy Families (CFDA No. 93.558) Community Services Block Grant (CFDA No. 93.569) Head Start and Early Head Start (CFDA No. 93.600) HIV Emergency Relief (CFDA No. 93.914) Prevention and Treatment of Substance Abuse (CFDA No. 93.959)	Community Development Block Grant (CFDA No. 14.218)	Special Supplemental Nutrition Program For Women, Infants, and Children (CFDA No. 10.557)

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

- (h) Any audit findings that are required to be reported under Section 510(a) of OMB Circular A-133: **Yes**
- (i) Major programs: Community Development Block Grant (CFDA NO. 14.218); Section 108 Loans (CFDA NO. 14.248); Home Investment Partnership Program (CFDA NO. 14.239); Workforce Investment Act (CFDA NO. 17.258, 17.259, 17.260); Trade Adjustment Assistance (CFDA NO. 17.245); Federal Transit Cluster (CFDA NO. 20.500, 20.507); State Revolving Loan Fund (CFDA NO. 66.458); Immunization Grants (CFDA NO. 93.268); Temporary Assistance For Needy Families (CFDA NO. 93.558); Community Services Block Grant (CFDA NO. 93.569); Head Start and Early Head Start (CFDA NO. 93.600); HIV Emergency Relief (CFDA NO. 93.914); Prevention and Treatment of Substance Abuse (CFDA NO. 93.959); and Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA NO. 10.557).
- (j) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- (k) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **No**

## CITY OF DETROIT, MICHIGAN

### Schedule of Findings and Questioned Costs

Year ended June 30, 2009

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

##### **Finding 2009-01 – Financial Closing and Reporting**

Although the City has made incremental improvement in their financial closing and reporting processes, deficiencies still exist in the processes to evaluate accounts, and timely record entries into the general ledger in a complete and accurate manner. These deficiencies include the following:

- The process to prepare closing entries and financial statements relies partly upon decentralized accounting staff and software applications other than the City's DRMS general ledger. The process requires a significant amount of manual intervention in order to get information from these other systems into DRMS.
- The process to identify significant transactions throughout the City's fiscal year to determine the appropriate accounting treatment does not result in timely consideration as to how to record or report such transactions. These transactions often are not identified until the end of the fiscal year during the financial reporting process. There is inadequate communication between various City departments on transactions and on how they affect the individual stand-alone financial reports and the Comprehensive Annual Financial Report (CAFR). Information necessary to effectuate a timely and accurate closing of the books is sometimes not communicated between certain departments and agencies of the City.
- The process to close the books and prepare financial statements includes the recording of a significant number of manual post-closing entries. For the year ended June 30, 2009, there were over 81 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 occurs only on an annual basis instead of monthly or quarterly. As a result, certain key account reconciliations and account evaluations are not performed timely and require an extended amount of time to complete during the year-end closing process.
- The established internal control procedures for tracking and recording capital asset activities are not consistently followed. Physical inventories of capital assets are not being performed annually as required by City policy.
- The process to determine the proper classification of grant revenues did not originally include an appropriate determination of whether the grant was from a State or Federal source. The June 30, 2009 analysis to segregate federal, state, and local intergovernmental grant revenue was not completed until May 2010.

##### ***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. Based on the results of the assessment, determine the need to develop new policies and procedures and/or reinforce the existing policies and procedures to personnel. The process to close the books and prepare closing entries does not utilize enough adequately trained and appropriately experienced employees to adequately monitor reporting issues throughout the year. We recommend management evaluate the

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

City's organizational structure and personnel composition to determine the adequacy of the accounting related skills and knowledge of assigned personnel in relation to their assigned duties.

***Views of Responsible Officials***

We have reviewed the finding and concur with the recommendation. The City is presently rebuilding the accounting division and making improvements to the accounting and financial reporting systems. The City will continue to make improvements including adopting the recommendations herein. Our goal is to implement a process in fiscal year 2010-2011 to close the General Ledger on a monthly basis. This will include implementing a process to evaluate accounts and post adjusting journal entries on a monthly basis. Also, we plan on producing monthly financial reports in fiscal year 2010-2011 to enable City decision makers to evaluate the City's financial condition on a monthly basis. As we improve, we will continue to uncover accounting deficiencies and take appropriate corrective action.

## CITY OF DETROIT, MICHIGAN

### Schedule of Findings and Questioned Costs

Year ended June 30, 2009

#### **Finding 2009-02 – Authorization, Approval, and Segregation of Duties**

Internal controls are the City's policies and procedures that should be designed to mitigate risks to the City's financial reporting processes and protect the City's assets from misappropriation. Internal controls that are not designed appropriately or do not operate as designed increase the risk that the City will have errors in their accounting records or the City's assets will be misappropriated. During our audit we noted control deficiencies in the areas of authorization and approval of transactions and the segregation of duties in performing certain functions. These control deficiencies include the following:

- We noted that certain journal entries and employee timesheets were missing the appropriate authorization signatures.
- No formal process to open or close bank accounts had been communicated to City Departments. As such, City Departments took an informal ad-hoc approach in opening and closing bank accounts.
- Approvals indicating supervisory review of reconciliations and analyses are not consistently performed or documented for both bank reconciliations and other account reconciliations.

#### ***Recommendation***

We recommend management conduct a knowledge and competencies assessment of supervisory personnel to ensure supervisory level accounting and finance personnel are knowledgeable in internal control activities and the financial closing policies of the City. The results of such a knowledge and competencies assessment should then be used to design appropriate training and monitoring functions. We further recommend management implement new procedures to monitor internal control activities to determine if policies are being adhered to throughout the year. There is inconsistency in the level of understanding amongst the City staff regarding when and how to prepare reconciliations. Supervisory review and monitoring of the reconciliation process is not well defined and therefore disparate practices are employed by various supervisors. Additionally, the reconciliations of many accounts are only performed annually which creates a higher work load at year-end and more difficulty in resolving reconciling items. Also, supervisory review does not always include a substantive review of the items contained in the reconciliation.

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, we recommend training staff how to prepare reconciliations that are thorough and well documented. Also, an electronic filing system should be created with file locations and file naming conventions specified so that all reconciliations are saved to well-organized file servers instead of just desktop computers.

#### ***Views of Responsible Officials***

We have reviewed the finding and concur with the recommendation. The Finance Department will create training programs and develop competent accounting supervisors. We will assess accounting tasks and accounting personnel throughout the City. Based upon our assessment we will implement new accounting processes and procedures. We will establish expectations for all accounting managers and accountants. In addition, we will

**CITY OF DETROIT, MICHIGAN**  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2009

establish an accountability system to include performance reviews of accounting managers and accountants. The output from these changes will not be seen until the 2010-2011 fiscal year.

## CITY OF DETROIT, MICHIGAN

### Schedule of Findings and Questioned Costs

Year ended June 30, 2009

#### **Finding 2009-03 – 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:

- The City's process to identify accrued expenses is not adequate. Our audit procedures identified expenses paid in 2010 that were not appropriately recorded as accrued expenses at June 30, 2009.
- Certain purchase order expenditure accruals were over two years old and still have not been matched with an actual invoice. As such, the City has likely over accrued for these items and a detailed analysis has not been performed to ascertain if these are still liabilities of the City.
- The City's employee termination form could not be located for a majority of our terminated employee sample. As such, it was difficult to ascertain if terminated employees were properly removed from the City's payroll.
- Data provided to the actuaries that assist in estimating workers' compensation liabilities is not tested by the City for accuracy and not reconciled by the City to supporting data.
- Reconciliations of subsidiary ledgers to general ledgers and other IT systems to DRMS are either not being completed, not completed timely, or contain significant un-reconciled items.
- A listing of internal controls employed by service organizations is not prepared and evaluated for adequacy by the City. The City uses various service organizations to process significant transactions such as health and dental claims and payroll. The City does not review the service organization auditor reports (SAS 70 Reports) to ensure that the service organization has effective internal controls. Further, the City does not evaluate the user controls outlined in the SAS 70 reports to ensure that the City has these controls in place to ensure complete and accurate processing of transactions between the City and the Service Organization.
- Bank, investment, and imprest cash reconciliations are not prepared timely.
- Investment earnings in the Water and Sewer funds are not recorded in a timely manner. We noted that Sewer Fund and Water Fund investment earnings were not recorded in the respective funds until after year end.
- Certain data in the human resources system did not match data in the employee personnel files. This may cause the estimated liabilities calculated by the City's actuaries to be misstated.
- Cash collections are not recorded timely on a consistent basis. As an example, we noted that Detroit Department of Transportation has about a one week delay in depositing bus fare cash collections into the Department's bank account.
- Capital projects that are complete are not closed out and placed into service categories on a timely basis. Further we noted capital costs that were recorded as construction work in progress but should be considered completed, put into service and depreciated, or written off as an expense as the cost was not



**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

eligible for capitalization. The City has a practice to record capital costs as an expense in the first instance and when the project is complete reverse the value of the completed project from expenses.

- Interfund and inter-departmental transactions are not reconciled throughout the year on a timely basis.

***Recommendation***

We recommend management develop or improve existing policies and procedures related to reconciliations and account analysis such that transactions are recorded in the general ledger completely, accurately and in a timely manner. 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.

Current City policies require that invoices be paid timely and that contracts and purchase orders are approved prior to goods or services being rendered. We recommend establishing a procedure to monitor payment dates against invoice dates to determine which departments are noncompliant with policies. Enforce the current policies by using personnel actions against noncompliant individuals. Also, consider charging service fees to the budgets of departments that violate the contract and prompt payment ordinances.

Additionally, we recommend performing monthly vendor level contract analysis for each major City vendor. If this is consistently performed, it will enable the analysts to know at any given time, the approximate amount of unbilled goods or services that have been rendered. This would enable the Accounting Department to estimate accruals for each major vendor at year-end within a shortened timeframe thereby facilitating a faster closing of the books.

Lastly, there are no receiving documents utilized to enforce a three-way match. We recommend that all invoices be sent directly to Accounts Payable and that the approvals are then routed to the departments electronically utilizing available features within DRMS. This would enable the Accounts Payable department to determine the appropriate accounting period for each invoice upon entry into the system.

***Views of Responsible Officials***

We have reviewed the finding and concur with the recommendation. Presently, we are evaluating the City's diverse accounting systems and operations to consolidate and improve the City's accounting. As discussed previously, the Finance Department will implement training and development programs to improve accounting staff. The Department has improved its financial analysis, which will enable accounting staff to focus on variances to identify errors and problems. During the audit the accounting staff did a better job of completing reviews and account reconciliations, which provided the auditors with more reliable data than in past audits. In addition, the Department will develop account reconciliation policies and procedures to ensure reconciling differences are identified and researched in a timely manner.

## CITY OF DETROIT, MICHIGAN

### Schedule of Findings and Questioned Costs

Year ended June 30, 2009

#### **Finding 2009-04 – Information Technology**

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

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

#### ***Recommendation***

We recommend the following:

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

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

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

***Views of Responsible Officials***

We have reviewed the finding and concur with the recommendations. The Information Technology Services Department (ITSD) is implementing the recommendations for the systems that ITS supports. Additionally, the ITSD is also working with technology staff in other agencies to implement the recommendations for findings related to the systems that those agencies support themselves.

In the current year the City has changed the password parameters and controls for key financial systems. In addition, the City has identified systems that are in the process of being retired, for which parameters will not be changed. Procedures used by the central IT staff (e.g. Change Management) have been shared with technology staff in other agencies to facilitate consistency in compliance. The City will continue to work toward improving information technology controls. Chief among these will be the implementation of a formal process for periodic review of user access, and development of a "Separation of Duties" matrix for each key financial system.

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Finding 2009-05 – Arbitrage**

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

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

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

***Recommendation***

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

***Views of Responsible Officials***

We have reviewed the finding and concur with the recommendation for the year ended June 30, 2009. In the current fiscal year (2009-2010), the City has begun implementing procedures to ensure compliance with the arbitrage rebate compliance rules of the Internal Revenue Code. The City has initiated corrective action with a major focus on tracking of arbitrage liabilities to improve accuracy of budgets and annual financial statements. It is also in the process of implementing a new Treasury Cash Management System, integrated with its general ledger, that will facilitate compliance with the Arbitrage Rebate Restriction Requirements.

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Finding 2009-06 – Filing of Financial Statements**

Michigan Compiled Laws Section 141.424 requires each local unit file the annual financial report with the State Treasurer within 6 months of the local unit's year end. The City did not file audited financial statements by the required deadline. The City submitted the June 30, 2009 financial statements on May 28, 2010. In discussing this with City officials, the stated changes in personnel along with increasingly complex transactions and reporting standards have made it difficult for the City to modify its closing procedures to accommodate the changing conditions.

The Treasurer has the authority when audited financials are not submitted within the six-month period to withhold the local government's State Revenue Sharing distribution. Accordingly, the Treasurer has withheld \$24.6 in revenue sharing associated with the fiscal year ended June 30, 2009. The Secretary of State has the authority to suspend the City's certificate of motor vehicle self-insurance when required financials, with application are not submitted 30 days prior before the desired effective date of the certificate. Failure to adhere to the requirement may result in the cancellation of the certificate of motor vehicle self-insurance. However, the Secretary of State has continued to extend the City's certificate of motor vehicle self-insurance, on a month-to-month basis contingent on the City continuing ability to meet plans to correct these deficiencies.

***Recommendation***

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

***Views of Responsible Officials***

We have reviewed the finding and concur with the recommendation. The Finance Department added new contractual and accounting staff in 2008 and 2009 to more timely complete the June 30, 2007 through June 30, 2009 audits. Improvements have been made and are expected to continue as we implement more of the recommendations discussed previously. The department anticipates meeting the required deadline of December 31, 2010 for completion of the June 30, 2010 annual financial report and audit.

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Finding 2009-07 – Escheatment Law**

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

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

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

***Recommendation***

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

***Views of Responsible Officials***

We have reviewed the finding and concur with the recommendation. The Finance Department's Treasury Division has contracted Pierce Monroe & Associates, an accounting firm, to conduct an assessment and evaluation of backlogged unclaimed property in accordance with the Unclaimed Property Act 29 of 1995, Escheat Law. The assessment and evaluation includes a 60-day due diligence notification period prior to escheatment to the State of Michigan. Once due diligence is complete and the backlog of unclaimed property is either claimed or escheated, new procedures will be implemented to conduct annual evaluations and submit the Michigan Holder Transmittal Annual Report of Unclaimed Property effective November 1, 2010 and each year thereafter.

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Finding 2009-08 – Bond Ordinances**

The Water Fund revenue bond ordinance require amounts be set aside in a Bond and Interest Redemption Fund such that the aggregate balance is sufficient to provide for payment, when due, of the current principal and interest. During fiscal 2009, the City did not make the required transfers and, at June 30, 2009, the balance in the Bond and Interest Redemption Fund was not sufficient. The Water Fund transferred the amounts needed on July 1, 2009 and made the payments on a timely basis. Additionally, the revenue bond ordinances require (1) amounts be set aside in the Senior Lien Bond Account equal to the maximum annual debt service on all senior lien bonds outstanding, and (2) monthly deposits be set aside in an amount equal to one-twelfth of 3% of the budgeted operation and maintenance expense for each of the Sewer Disposal and Water Funds for the fiscal year until the aggregate amount funded totals at least 15% of that year’s budgeted operating and maintenance costs. The Sewerage Disposal Fund’s Extraordinary Repair and Replacement Reserve Fund were underfunded by approximately \$4 million and at June 30, 2009.

During the year, the City identified certain expenditures made by the Water and Sewerage Disposal Funds that potentially should not have been funded by bond proceeds. The City is currently unable to determine whether there were any legal violations or implications as to the tax-exempt nature of the bonds. The City does not believe the outcome of this matter will have a material impact on the financial statements.

***Recommendation***

The City should identify all applicable material legal requirements contained in laws, regulations, grants, and contracts. Additionally, the City should implement procedures to monitor ongoing compliance with these requirements and take steps to ensure compliance on a continuous basis.

***Views of Responsible Officials***

We have reviewed the finding and concur with the recommendation. The Water and Sewage Disposal Funds Cash Management Section has implemented procedures to monitor and ensure that all required reserve balances and transfers are in compliance with the applicable bond ordinance. Also, we are currently consulting with bond counsel to review expenditures related to its capital program to determine their impact, if any, on the tax status of related revenue bonds.

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

Section III – Findings and Questioned Costs Relating to Federal Awards:

**Item: 2009-9**

**Finding Type: Material weakness**

**Federal Program: All**

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

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

**Questioned Costs:** None

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

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

**Views of Responsible Officials:** We have reviewed the noted observations and recommendations with which we concur. The Finance Department is in the process of hiring a Grants-General Manager; and through re-organization of the Department, staff will be assigned to assist the General Manager. Their focus will be on Single Audit preparation throughout the year. Documents that are necessary for the audit that are historically prepared on an annual basis will be prepared on a monthly basis.



**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-10**

**Finding Type: Material weakness**

**Federal Program: All**

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

**Condition:** There were several significant unreconciled differences between the SEFA and the General Ledger. The City's attempt to complete the reconciliation continued more than a year after fiscal year end and errors that required adjustments to the SEFA were discovered throughout this process. Additionally the City did not identify two sources of ARRA funding in their initial SEFA.

**Questioned Costs:** None

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

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

**Views of Responsible Officials:** We have reviewed the noted observations and recommendations with which we concur. The Finance Department is in the process of hiring a Grants-General Manager; and through re-organization of the Department, staff will be assigned to assist the General Manager. Their focus will be on Single Audit preparation throughout the year. Documents that are necessary for the audit that are historically prepared on an annual basis will be prepared on a monthly basis.

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-11 Activities Allowed or Unallowed and Allowable Costs/Cost Principles**

**Finding Type: Material noncompliance and material weakness**

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

**Pass-Through Entity:** N/A

**Federal Program:** Community Development Block Grant (CDBG)

**CFDA No.:** 14.218

**Award No.:** B-08-26-0006

**Award Year:** 7/1/2008-6/30/2009

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

**Condition:** There was no semi-annual wage certification performed for those employees that worked solely on the CDBG program. As a result, the entire payroll expense of \$7,294,920 are reported as questioned costs.

**Questioned Costs:** \$7,294,920

**Possible Asserted Cause and Effect:** The City did not require certifications from employees that worked solely on a single federal award.

**Recommendation:** We recommend that management obtain, on a semi-annual basis, a signed certification from employees who work solely on a single federal program.

**Views of Responsible Officials:** Management agrees with the finding. Management developed a form to capture certifications semiannually for employees who work solely on an award. Personnel Activity Distribution Reports were also developed for persons that work on multiple grants. However, as the form was not properly designed, it must be revised to capture more required information. Moreover, internal controls must be enhanced to ensure enforcement of completion of the forms. The certification will be based on eligible cost objective.

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-12 Activities Allowed or Unallowed and Allowable Costs/Cost Principles**

**Finding Type: Material noncompliance and material weakness**

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

**Pass-Through Entity:** N/A

**Federal Program:** Community Development Block Grant (CDBG)

**CFDA No.:** 14.218

**Award No.:** B-08-26-0006

**Award Year:** 7/1/2008-6/30/2009

**Requirement:** Per Circular A-87 Attachment E, D.2.b, a governmental unit for which a cognizant agency assignment has been specifically designated must submit its indirect cost rate proposal to its cognizant agency.

**Condition:** The City of Detroit Planning & Development Department Indirect Cost Proposal was not submitted to the cognizant agency. As a result, the entire population of indirect costs amounting to \$5,079,351 charged to the CDBG grant is a questioned cost.

**Questioned Costs:** \$5,079,351

**Possible Asserted Cause and Effect:** Management was not aware that the Indirect Cost Proposal needed to be submitted to HUD.

**Recommendation:** We recommend management increase awareness of federal program compliance requirements and monitor compliance with the requirements on a regular basis.

**Views of Responsible Officials:** The indirect cost proposal was submitted to HUD in response to a monitoring letter. As Management's interpretation of the requirement differs from the auditors, said report was not submitted as stated. However, policies and procedures will be established to strengthen the internal control process to ensure compliance with the Activities Allowed/Allowable Cost Principles requirements.

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-13 Cash Management**

**Finding Type: Material noncompliance and material weakness**

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

**Pass-Through Entity:** N/A

**Federal Program:** Community Development Block Grant (CDBG)

**CFDA No.:** 14.218

**Award No.:** B-08-26-0006

**Award Year:** 7/1/2008-6/30/2009

**Requirement:** Per 24 CFR Part 85.20 (7), procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. Per OMB Circular A-102, *Grants and Cooperative Agreements with State and Local Governments Attachment (1)(a)*, agency methods and procedures for transferring funds shall minimize the time elapsing between transfer to recipients of grants and cooperative agreements and the recipient's need for the funds.

**Condition:** During our testwork over the Cash Management compliance requirement, we selected 40 expenditures charged to the grant, totaling \$5,298,502, and noted that for 5 out of 40 expenditures, totaling \$252,116, the City did not minimize the time lapse between drawdown and the payment of funds as required. Of the 5 exceptions, the time lapse between drawdown and payment exceeded 7-10 days for 2 items, 1 exceeded the time lapse by 12 days, and 2 exceeded the time lapse by 22 and 27 days respectively.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** The process used to drawdown funds includes consideration of anticipating the payment of funds. However, the funds are not always paid on the expected date.

**Recommendation:** We recommend that the centralized finance team work with the Department of Planning and Development to develop procedures to minimize the time lapse from the drawdown of funds to the payment of funds.

**Views of Responsible Officials:** Management agrees with the finding. Every effort will be made from the department level to minimize the time lapse from IDIS drawdown to disbursement of funds. However, it must be noted that a centralized Finance department is responsible for input of vouchers into DRMS and issuance of checks. Therefore, there are factors within this process which are beyond the department's control. However, internal controls will be enhanced at the department level to more effectively manage those processes that are within the purview of the department.

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-14 Procurement Suspension and Debarment**

**Finding Type: Material noncompliance and material weakness**

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

**Pass-Through Entity:** N/A

**Federal Program:** Community Development Block Grant (CDBG)

**CFDA No.:** 14.218

**Award No.:** B-08-26-0006

**Award Year:** 7/1/2008-6/30/2009

**Requirement:** Per 2 CFR 215.43, all procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. Per 2 CFR 215.45, some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action. Per 2 CFR 215.46, procurement records and files for purchases 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 for award cost or price.

**Condition:** During our testwork over Procurement, Suspension, and Debarment compliance requirement, we selected 16 contracts to test and noted the following: for 3 contracts we noted no evidence of the reason to limit competition; for 1 contract work started prior to the contract being executed; for 1 contract the network lease and purchase agreement ended on 4/2/2006; for 2 contracts the client was unable to provide the contract and procurement files.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** Procurement standards were not followed.

**Recommendation:** We recommend evaluating current procurement practices to identify areas where internal controls could be strengthened to include monitoring of compliance with procurement standards.

**Views of Responsible Officials:** Management agrees with the finding. Citywide internal controls are needed to ensure that all city agencies are in compliance with federal guidelines regarding procurement standards.

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-15 Suspension and Debarment**

**Finding Type: Material noncompliance and material weakness**

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

**Pass-Through Entity:** N/A

**Federal Program:** Community Development Block Grant (CDBG)

**CFDA No.:** 14.218

**Award No.:** B-08-26-0006

**Award Year:** 7/1/2008-6/30/2009

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

**Condition:** During our testwork over suspension and debarment we noted that 16 of 16 subrecipients did not have a signed suspension and debarment certification in the contract; for 4 of 40 vendors selected, we noted that there was not a signed suspension and debarment certification in the contract, nor was there a clause in the contract stating that the vendor was not suspended or debarred.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** Procurement standards were not followed.

**Recommendation:** We recommend that management obtain suspension and debarment certifications from all subrecipients and vendors. Additionally, we recommend that management confirm that the entity is not suspended or debarred by reviewing the ELPS website.

**Views of Responsible Officials:** Management agrees with the finding. Citywide internal controls are needed to ensure that all city agencies are in compliance with federal guidelines regarding procurement standards.

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-16 Reporting**

**Finding Type: Noncompliance and significant deficiency**

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

**Pass-Through Entity:** N/A

**Federal Program:** Community Development Block Grant (CDBG)

**CFDA No.:** 14.218

**Award No.:** B-08-26-0006

**Award Year:** 7/1/2008-6/30/2009

**Requirement:** Per 24 CFR Section 135.90, each recipient that receives directly from HUD financial assistance that is subject to the requirements of this part shall submit to the Assistant Secretary an annual report in such form and with such information as the Assistant Secretary may request, for the purpose of determining the effectiveness of Section 3. Where the program providing the Section 3 covered assistance requires submission of an annual performance report, the Section 3 report will be submitted with that annual performance report. Per A-102 Common Rule, Nonfederal entities receiving Federal awards must establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

**Condition:** During our testwork over the Reporting compliance requirement, it was noted that the HUD 60002, Section 3 Summary Report, Economic Opportunities for Low-and Very Low-Income Persons, was submitted 8 days after the required due date. Additionally, there was no evidence documenting that the HUD 60002 Report was reviewed and approved prior to submission to HUD.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** Reporting requirements were not followed.

**Recommendation:** We recommend that reporting checklists are utilized to monitor the timely submission of all required reports.

**Views of Responsible Officials:** Management agrees with the finding. Procedures will be revised to ensure full compliance.

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-17 Subrecipient Monitoring**

**Finding Type: Material noncompliance and material weakness**

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

**Pass-Through Entity:** N/A

**Federal Program:** Community Development Block Grant (CDBG)

**CFDA No.:** 14.218

**Award No.:** B-08-26-0006

**Award Year:** 7/1/2008-6/30/2009

**Requirement:** Per OMB Circular A-133, Subpart D(d) (1), (3), and (4), a pass-through entity shall perform the following for federal awards it makes: (1) Identify federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of federal agency; (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved; (4) Ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

**Condition:** During our testwork over the Subrecipient Monitoring compliance requirement, we selected 40 subrecipients for testing and noted the following: 40 subrecipient agreements tested did not specify the CFDA number; 1 subrecipient file did not contain the subrecipient's OMB Circular A-133 audit report or the required desk review checklist by which the City of Detroit Planning & Development Department documents its review of subrecipients' A-133 reports; 3 subrecipient files did not contain the required evidence of an on-site review during the current year

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** Policies and procedures related to monitoring were not adequate to address all required elements.

**Recommendation:** We recommend management modify the contract with the subrecipient to include the required elements.

**Views of Responsible Officials:** Management agrees with the finding. Policies and procedures will be revised to ensure future compliance. Moreover, securing additional staffing resources to the monitoring team will ensure more timely reviews, as well as efficient and effective subrecipient/subgrantee monitoring.



**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-18 Program Income**

**Finding Type: Noncompliance and significant deficiency**

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

**Pass-Through Entity: N/A**

**Federal Program: Section 108 Loans**

**CFDA No.: 14.248**

**Award No.: n/a**

**Award Year: n/a**

**Requirement:** Per 24 CFR Part 570.504 (a), the receipt and expenditure of program income as defined in 570.500(a) shall be recorded as part of the financial transactions of the grant program.

**Condition:** During our testwork over the Program Income compliance requirement, we selected 11 Program Income receipts comprising 100% of the population and totaling \$2,179,017, and noted that for 1 out of 11 receipts, totaling \$79,624, the program income receipt was related to FY 2008 but was erroneously recorded as program income during FY 2009.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** The error was caused by human error.

**Recommendation:** We recommend internal controls be evaluated to prevent future noncompliance.

**Views of Responsible Officials:** Management agrees with the finding. Firmer internal controls will ensure future compliance.

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-19 Activities Allowed or Unallowed and Allowable Costs/Cost Principles**

**Finding Type: Material noncompliance and material weakness**

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

**Pass-Through Entity:** N/A

**Federal Program:** Home Investment Partnership Program (HOME)

**CFDA No.:** 14.239

**Award No.:** M08-MC260202

**Award Year:** 2008/2009

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

**Condition:** There was no semi-annual wage certification performed for those employees that worked solely on the CDBG program. As a result, the entire payroll expense of \$586,042 and fringe expenses of \$249,261 are reported as questioned costs.

**Questioned Costs:** \$835,303

**Possible Asserted Cause and Effect:** The City did not require certifications from employees that worked solely on a single federal award.

**Recommendation:** We recommend that management obtain, on a semi-annual basis, a signed certification from employees who work solely on a single federal program.

**Views of Responsible Officials:** Management agrees with the finding. Management developed a form to capture certifications semiannually for employees who work solely on an award. Personnel Activity Distribution Reports were also developed for persons that work on multiple grants. However, as the form was not properly designed, it must be revised to capture more required information. Moreover, internal controls must be enhanced to ensure enforcement of completion of the forms. The certification will be based on eligible cost objective.

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-20 Activities Allowed or Unallowed and Allowable Costs/Cost Principles**

**Finding Type: Material noncompliance and material weakness**

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

**Pass-Through Entity: N/A**

**Federal Program: Home Investment Partnership Program (HOME)**

**CFDA No.: 14.239**

**Award No.: M08-MC260202**

**Award Year: 2008/2009**

**Requirement:** Per Circular A-87 Attachment E, D.2.b, a governmental unit for which a cognizant agency assignment has been specifically designated must submit its indirect cost rate proposal to its cognizant agency.

**Condition:** The City of Detroit Planning & Development Department did not submit its Indirect Cost Proposal to the cognizant agency. As a result, the entire population of indirect costs charged to the HOME grant, amounting to \$316,911, is reported as a questioned cost.

**Questioned Costs: \$316,911**

**Possible Asserted Cause and Effect:** Management was not aware that the Indirect Cost Proposal needed to be submitted to HUD.

**Recommendation:** We recommend management increase awareness of federal program compliance requirements and monitor compliance with the requirements on a regular basis.

**Views of Responsible Officials:** The indirect cost proposal was submitted to HUD in response to a monitoring letter. As Management's interpretation of the requirement differs from the auditors, said report was not submitted as stated. However, policies and procedures will be established to strengthen the internal control process to ensure compliance with the Activities Allowed/Allowable Cost Principles requirements.

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-21 Cash Management**

**Finding Type: Material noncompliance and material weakness**

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

**Pass-Through Entity:** N/A

**Federal Program:** Home Investment Partnership Program (HOME)

**CFDA No.:** 14.239

**Award No.:** M08-MC260202

**Award Year:** 2008/2009

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

**Condition:** During our testwork over the Cash Management compliance requirement, we selected 40 expenditures charged to the grant, totaling \$2,454,068, and noted that 3 of 40 expenditures, totaling \$44,105, had a time lapse between draw down and payment of more than 15 days.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** The process used to drawdown funds includes consideration of anticipating the payment of funds. However, the funds are not always paid on the expected date.

**Recommendation:** We recommend that the centralized finance team work with the Department of Planning and Development to develop procedures to minimize the time lapse from the drawdown of funds to the payment of funds.

**Views of Responsible Officials:** Management agrees with the finding. Every effort will be made from the department level to minimize the time lapse from IDIS drawdown to disbursement of funds. However, it must be noted that a centralized Finance department is responsible for input of vouchers into DRMS and issuance of checks. Therefore, there are factors within this process which are beyond the department's control. However, internal controls will be enhanced at the department level to more effectively manage those processes that are within the purview of the department.

**CITY OF DETROIT, MICHIGAN**  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2009

**Item: 2009-22 Reporting**

**Finding Type: Noncompliance and significant deficiency**

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

**Pass-Through Entity: N/A**

**Federal Program: Home Investment Partnership Program (HOME)**

**CFDA No.: 14.239**

**Award No.: M08-MC260202**

**Award Year: 2008/2009**

**Requirement:** Per 24 CFR Section 135.90, each recipient that receives directly from HUD financial assistance that is subject to the requirements of this part shall submit to the Assistant Secretary an annual report in such form and with such information as the Assistant Secretary may request, for the purpose of determining the effectiveness of Section 3. Where the program providing the Section 3 covered assistance requires submission of an annual performance report, the Section 3 report will be submitted with the annual performance report.

**Condition:** During our testwork over the Reporting compliance requirement, it was noted that the HUD 60002, Section 3 Summary Report, Economic Opportunities for Low-and Very Low-Income Persons, was not submitted as a separate report for HOME funds.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** Reporting requirements were not followed.

**Recommendation:** We recommend that reporting checklists are utilized to monitor the timely submission of all required reports.

**Views of Responsible Officials:** Management agrees with the finding. Firmer internal controls will ensure future compliance.

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-23 Activities Allowed or Unallowed and Allowable Costs/Cost Principles**

**Finding Type: Material noncompliance and material weakness**

**Federal Agency:** U.S. Department of Labor

**Pass-Through Entity:** Michigan Department of Labor and Economic Growth

**Federal Program:** Trade Adjustment Assistance

**CFDA No.:** 17.245

**Award No.:** N/A

**Award Year:** July 1, 2008 – June 30, 2009

**Requirement:** Allowable Costs/Cost Principles: Per 2 CFR Part 225 Appendix B, Paragraph 8 (h)(3), where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee. Per 2 CFR Part 225, Appendix A, Paragraph C.1(j), to be allowable under Federal awards, costs must meet the following criteria: (j) be adequately documented. Per A-102 Common Rule, Nonfederal entities receiving Federal awards must establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

**Condition:** There was not a certification performed for employee's that worked solely on the program, as a result the entire payroll expense of \$102,242 and fringe expense of \$45,632 for a total of \$147,874 is a questioned cost as A-87 requires payroll certifications to be performed to support the amount of payroll expense charged to the grant.

**Questioned Costs:** \$147,874

**Possible Asserted Cause and Effect:** The City did not require certifications from employees that worked solely on a single federal award.

**Recommendation:** We recommend that management obtain, on a semi-annual basis, a signed certification from employees who work solely on a single federal program.

**Views of Responsible Officials:** DWDD staff complete time summaries every two weeks. The time reflected on TAA time summaries reflects the actual hours worked on the TRADE grant. Staff does not complete a certification declaring that they worked 100% on TRADE because during the year it may become necessary to perform duties related to other grants due to lack of staff. The time will then be reflected on other grant time summary form. It is DWDD interpretation that certification is only necessary when time summaries are not completed on a timely basis.

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-24 Activities Allowed or Unallowed and Allowable Costs/Cost Principles**

**Finding Type: Material noncompliance and material weakness**

**Federal Agency:** U.S. Department of Labor

**Pass-Through Entity:** Michigan Department of Labor and Economic Growth

**Federal Program:** Trade Adjustment Assistance

**CFDA No.:** 17.245

**Award No.:** N/A

**Award Year:** July 1, 2008 – June 30, 2009

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

**Condition:** During our testwork, we selected 30 Individual Training Accounts (ITA's), totaling \$275,757, for review and noted the following: for 9 of 30 ITA samples, totaling \$81,087, the City was unable to provide KPMG with evidence of payment to the student (Comerica Transaction Register). In addition, for 1 of 30 ITA samples, the City was unable to provide adequate supporting documentation; of the \$6,400 of tuition and fees that was approved for the student, DWDD only provided supporting documentation for \$277. Total questioned cost is \$87,209 (\$6,122 + \$81,087).

**Questioned Costs:** \$87,209

**Possible Asserted Cause and Effect:** Supporting documents were not retained.

**Recommendation:** We recommend that documents supporting program payments are appropriately retained in accordance with the City's document retention policies.

**Views of Responsible Officials:** As of 6/23/10 tuition has still not been paid for 7 of the 9 sample items. For the remaining 2 of the 9 sample items, the cards have been loaded. The entire ITA process has been revamped. All the issues addressed in the finding have been addressed in the redesign of the ITA process. ITA Funding Agreements and Invoices are required documentation for any tuition payments to be processed. DWDD will not process any payments without these documents.

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-25 Cash Management**

**Finding Type: Material noncompliance and material weakness**

**Federal Agency:** U.S. Department of Labor

**Pass-Through Entity:** Michigan Department of Labor and Economic Growth

**Federal Program:** Trade Adjustment Assistance

**CFDA No.:** 17.245

**Award No.:** N/A

**Award Year:** July 1, 2008 – June 30, 2009

**Requirement:** Cash Management: Per OMB Circular A-102, *Grants and Cooperative Agreements with State and Local Governments Attachment (2)(a)*, agency methods and procedures for transferring funds shall minimize the time elapsing between transfer to recipients of grants and cooperative agreements and the recipient's need for the funds. Per the State of Michigan instructions for the Cash Request, the department is to use Actual Disbursements, Year-to-Date defined as follows, "This figure is to include only the actual cash paid out of costs, including funds to subcontractors."

**Condition:** The Cash Requests are based partially on accruals. This results in excess cash being on hand throughout the year.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** DWDD utilizes an accrual based Cost Center Responsibility Report to prepare the Cash Request.

**Recommendation:** We recommend preparing the Cash Requests based on actual disbursements.

**Views of Responsible Officials:** The major issue is the amount of time it takes for checks to be paid through Central Finance Accounts Payable.



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Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-26 Activities Allowed or Unallowed and Allowable Costs/Cost Principles**

**Finding Type: Material noncompliance and material weakness**

**Federal Agency:** U.S. Department of Labor

**Pass-Through Entity:** Michigan Department of Labor and Economic Growth

**Federal Program:** Workforce Investment Act and TANF

**CFDA No.:** 17.258, 17.259, 17.260, 93.558

**Award No.:** Various

**Award Year:** July 1, 2008 – June 30, 2009 and October 2008 – September 2009

**Requirement:** Allowable Costs/Cost Principles: Per 2 CFR Part 225 Appendix B, Paragraph 8 (h)(1), Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit. Per 2 CFR Part 225, Appendix A, Paragraph C.1 (j), to be allowable under Federal awards, costs must meet the following general criteria: (j) be adequately documented. Per A-102 Common Rule, Nonfederal entities receiving Federal awards must establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

**Condition:** During our testwork, we selected 40 direct payroll transactions totaling \$73,064 for review and noted the following: for 11 out of 40 items, the timesheets printed from the payroll system (WorkBrain) did not agree to the hours manually entered on the time summaries at the department; for 1 out of 40 items, the timesheet did not agree to the amount of hours paid on the payroll register. As a result, the employee was overpaid by 64 hours, or 1,060.

**Questioned Costs:** \$20,740

**Possible Asserted Cause and Effect:** This resulted from human error.

**Recommendation:** We recommend that appropriate reconciliation between electronic time keeping and manual time summaries is performed on a regular basis.

**Views of Responsible Officials:** We have reviewed the noted observations and recommendations with which we concur. The Human Resources Department has underwent a reorganization which should mitigate such errors.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-27 Activities Allowed or Unallowed and Allowable Costs/Cost Principles**

**Finding Type: Material noncompliance and material weakness**

**Federal Agency:** U.S. Department of Labor

**Pass-Through Entity:** Michigan Department of Labor and Economic Growth

**Federal Program:** Workforce Investment Act

**CFDA No.:** 17.258, 17.259, 17.260

**Award No.:** Various

**Award Year:** July 1, 2008 – June 30, 2009

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

**Condition:** For 4 out of 30 ITA samples, an ITA Funding Agreement was not provided. Additionally, for 29 out of 30 ITA samples, invoices were not provided supporting the payments made.

**Questioned Costs:** \$118,804

**Possible Asserted Cause and Effect:** Changing personnel and locations resulted in missing documents.

**Recommendation:** We recommend that documents are retained in accordance with established policies.

**Views of Responsible Officials:** The entire ITA process has been revamped. All the issues addressed in the finding have been addressed in the redesign of the ITA process. ITA Funding Agreements and Invoices are required documentation for any tuition payments to be processed. DWDD will not process any payments without these documents.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-28 Cash Management**

**Finding Type: Material noncompliance and material weakness**

**Federal Agency:** U.S. Department of Labor

**Pass-Through Entity:** Michigan Department of Labor and Economic Growth

**Federal Program:** Workforce Investment Act

**CFDA No.:** 17.258, 17.259, 17.260

**Award No.:** Various

**Award Year:** July 1, 2008 – June 30, 2009

**Requirement:** Cash Management: Per OMB Circular A-102, *Grants and Cooperative Agreements with State and Local Governments Attachment (2)(a)*, agency methods and procedures for transferring funds shall minimize the time elapsing between transfer to recipients of grants and cooperative agreements and the recipient's need for the funds. Per the State of Michigan instructions for the Cash Request, the department is to use Actual Disbursements, Year-to-Date defined as follows, "This figure is to include only the actual cash paid out of costs, including funds to subcontractors."

**Condition:** The Cash Requests are based partially on accruals. This results in excess cash being on hand throughout the year.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** DWDD utilizes an accrual based Cost Center Responsibility Report to prepare the Cash Request.

**Recommendation:** We recommend preparing the Cash Requests based on actual disbursements.

**Views of Responsible Officials:** The major issue is the amount of time it takes for checks to be paid through Central Finance Accounts Payable.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-29 Reporting**

**Finding Type: Non compliance and significant deficiency**

**Federal Agency:** U.S. Department of Labor

**Pass-Through Entity:** Michigan Department of Labor and Economic Growth

**Federal Program:** Workforce Investment Act

**CFDA No.:** 17.258, 17.259, 17.260

**Award No.:** Various

**Award Year:** July 1, 2008 – June 30, 2009

**Requirement:** Reporting: Per the State of Michigan Department of Career Development's instructions to the WFP-167 and the OWD 138, fiscal reporting documents, the Department is to report both Program Income Earned and Program Income Expended separately on both reports.

**Condition:** During our testwork, we selected 15 Financial Status Reports (FSRs) for review and noted the following: 13 of 15 FSRs did not report program income as required; however, it was shown net of the expenditures on the FSR.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** The report was not being prepared in accordance with the requirements.

**Recommendation:** We recommend reporting checklists are utilized to facilitate report preparation and review prior to submission.

**Views of Responsible Officials:** Effective March 2009, DWDD reports program income in each quarterly expenditure report submitted to Michigan Department of Energy, Labor, & Economic Growth (MDELEG).

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Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-30 Period of Availability**

**Finding Type: Material noncompliance and material weakness**

**Federal Agency:** U.S. Department of Labor

**Pass-Through Entity:** Michigan Department of Labor and Economic Growth

**Federal Program:** Workforce Investment Act

**CFDA No.:** 17.258, 17.259, 17.260

**Award No.:** Various

**Award Year:** July 1, 2008 – June 30, 2009

**Requirement:** Per OMB Circular A-102, Common Rule, obligations should be charged to the award that are incurred during the funding period.

**Condition:** For 1 out of 30 ITA sample items and 2 out of 30 subrecipient sample items, the cost was not incurred within the related period of availability.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** Timing issues regarding invoices require accruals.

**Recommendation:** We recommend that funds incurred are tracked and monitored to ensure that they are reported in the correct grant year as incurred.

**Views of Responsible Officials:** Management concurs with this finding and will review and evaluate expenditure reporting.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-31 Subrecipient Monitoring**

**Finding Type: Material noncompliance and material weakness**

**Federal Agency:** U.S. Department of Labor

**Pass-Through Entity:** Michigan Department of Labor and Economic Growth

**Federal Program:** Workforce Investment Act

**CFDA No.:** 17.258, 17.259, 17.260

**Award No.:** Various

**Award Year:** July 1, 2008 – June 30, 2009

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

**Condition:** During our testwork, we selected 26 contracts with subrecipients for review and noted the following: 25 out of 26 contracts with subrecipients were not approved by City Council prior to work commencing; 1 out of 26 contracts, the City was unable to provide an OMB Circular A-133 Report or adequate documentation that they followed up on late reports.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** The timing of the start of the grant period coincides with the receiving of the award letter. The City's contract approval process requires funding to be secured before final approvals can take place.

**Recommendation:** We recommend City departments work cooperatively to determine a method to obtain an approval to continue contracts under the circumstances while remaining in compliance with procurement and contract ordinances and standards.

**Views of Responsible Officials: Condition 1:** We agree with the facts of the finding, however, due to the timing of the grant periods and the timing of the grant information submitted by the State, it is necessary to start the programs and use our award letter as approval. **Condition 2:** DWDD will review and change procedures to require a monthly status report to be completed and reviewed on the status of A-133 audits.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-32 Equipment and Real Property Management**

**Finding Type: Material noncompliance and material weakness**

**Federal Agency:** U.S. Department of Transportation

**Pass-Through Entity:** Federal Transit Administration

**Federal Program:** Federal Transit Cluster

**CFDA No.:** 20.500, 20.507

**Award No.:** Various

**Award Year:** July 1, 2008 – June 30, 2009

**Requirement:** Per the March 2009 OMB Circular A-133, *Compliance Supplement*, Part 3 Section F “Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.”

**Condition:** During our testwork, we requested a copy of the most recent physical asset inventory records. According to these records there were items that were not found. The client was unable to provide a reconciliation from the physical count to accounting records to resolve these differences. Additionally, KPMG selected 30 equipment and real property items for testing, noting 1 of 30 items was improperly included in the fixed asset register.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** DDOT physical inventory is conducted on a biennial basis. The physical inventory was completed during FY 2008, however, due to unforeseen reasons the reconciliation was not completed. The improper reporting of an asset was an oversight.

**Recommendation:** We recommend that the City of Detroit policies regarding the taking of physical inventory counts is followed.

**Views of Responsible Officials:** Management concurs with findings and has implemented a process to ensure that the physical inventory is completed by the due dates indicated in the City of Detroit fiscal year end procedures and that controls are in place to review, record, and safeguard equipment in correct registers.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-33 Procurement, Suspension and Debarment**

**Finding Type: Noncompliance and significant deficiency**

**Federal Agency: U.S. Department of Transportation**

**Pass-Through Entity: Federal Transit Administration**

**Federal Program: Federal Transit Cluster**

**CFDA No.: 20.500, 20.507**

**Award No.: Various**

**Award Year: July 1, 2008 – June 30, 2009**

**Requirement:** 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. FTA Circular 5010.1D dated 11/1/2008, defines a subrecipient as a “State or local government authority, nonprofit organization, or operator of public transportation services that receives a grant indirectly through a recipient.”

**Condition:** During our testwork, we selected 8 contracts for review and noted the following: 2 contracts with governmental agencies that incorrectly identify the vendors as subrecipients. These two governmental agencies do not meet the criteria to be a subrecipient per FTA requirements.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** The term “subrecipient” was used in error in the contract.

**Recommendation:** We recommend that contract terms accurately specify whether entities receiving federal funds are vendors or subrecipients.

**Views of Responsible Officials:** Management agrees with this finding. DDOT is aware of this error and a correction will be made to each contract if and when a more substantive change is required to the agreements (e.g. contract time extension, additional services required, funds increase, etc.)



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Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-34 Davis Bacon Act**

**Finding Type: Material noncompliance and material weakness**

**Federal Agency:** U.S. Department of Transportation

**Pass-Through Entity:** Federal Transit Administration

**Federal Program:** Federal Transit Cluster

**CFDA No.:** 20.500, 20.507

**Award No.:** Various

**Award Year:** July 1, 2008 – June 30, 2009

**Requirement:** 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, 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:** During our testwork we selected all 5 construction related contracts to review and noted that 2 of 5 contracts did not contain the required Davis Bacon language. The department did, however obtain and review the certified payrolls for both contracts.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** The Department did not include the Davis Bacon clause in the contracts.

**Recommendation:** We recommend that all construction related contracts and subcontracts that involve federal assistance include Davis Bacon clauses unless specifically exempted by the Department of Labor.

**Views of Responsible Officials:** The Davis Bacon language was not included in the two intergovernmental agreements because these were not construction contracts.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-35 Reporting**

**Finding Type: Noncompliance and significant deficiency**

**Federal Agency:** U.S. Department of Transportation

**Pass-Through Entity:** Federal Transit Administration

**Federal Program:** Federal Transit Cluster

**CFDA No.:** 20.500, 20.507

**Award No.:** Various

**Award Year:** July 1, 2008 – June 30, 2009

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

**Condition:** During our test work, we selected 30 FSR's, 30 Request for Reimbursements and 2 Disadvantaged Business Enterprise (DBE) reports for testing. We noted the following: 1 of 2 DBE reports contained arithmetical errors when reporting the amount of funds expended on DBE contractors. 7.6% of total expenditures were reported as Prime Contracts for DBE; actual was 0.76%. 2.8% of total expenditures were reported as Subcontracts for DBE; actual was 0.28%. Additionally, we noted that 4 of 30 FSR's reported expenditures in the wrong quarter but correct fiscal year. These expenditures offset each other and did not result in a questioned cost.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** Mathematical error; decimal recorded incorrectly.

**Recommendation:** We recommend that reports are reviewed for accuracy by an individual that is knowledgeable of the program requirements but someone other than the individual who prepared the report.

**Views of Responsible Officials:** Management concurs with finding. Accounting will review DBE documents for accuracy prior to submission.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-36 Buy American**

**Finding Type: Material noncompliance and material weakness**

**Federal Agency:** Environmental Protection Agency

**Pass-Through Entity:** State of Michigan Municipal Bond Authority

**Federal Program:** State Revolving Loan

**CFDA No.:** 66.458

**Award No.:** 5175-07

**Award Year:** July 1, 2008 – June 30, 2009

**Requirement:** Per the State of Michigan letter dated May 26, 2009 informing the City that the SRF 5175-07 was eligible for ARRA funded Principal Forgiveness, Exhibit D, (3) revised May 26, 2009: Consistent with the requirements of Section 1605 of the ARRA (unless a waiver is granted by the United States Environmental Protection Agency), all construction on the project will be accomplished pursuant to written contracts requiring “all iron, steel and manufactured goods used in the project are produced in the United States.” SEC. 1605. USE OF AMERICAN IRON, STEEL, AND MANUFACTURED GOODS. (a) None of the funds appropriated or otherwise made available by this Act may be used for a project for the construction, alteration, maintenance, or repair of a public building or public work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States. (b) Subsection (a) shall not apply in any case or category of cases in which the head of the Federal department or agency involved finds that: (1) applying subsection (a) would be inconsistent with the public interest; (2) iron, steel, and the relevant manufactured goods are not produced in the United States in sufficient and reasonably available quantities and of a satisfactory quality; or (3) inclusion of iron, steel, and manufactured goods produced in the United States will increase the cost of the overall project by more than 25%. (c) If the head of a Federal department or agency determines that it is necessary to waive the application of subsection (a) based on a finding under subsection (b) the head of the department or agency shall publish in the Federal Register a detailed written justification as to why the provision is being waived. (d) This section shall be applied in a manner consistent with United States obligations under international agreements.

**Condition:** During the grant period under audit, the City did not confirm with the construction contractor and maintain records that items procured for their revolving fund project are in compliance with the Buy American Requirements.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** The City was unaware of the Buy American requirements until near the end of the fiscal year.

**Recommendation:** Before accepting new funding sources, all potential compliance requirements should be identified and evaluated.

**Views of Responsible Officials:** The City was informed of the Buy American requirement by the Michigan Department of Environmental Quality in March 2009. After learning of the requirements, the City executed

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change orders to include the contract language with its contractors. Additionally, in June 2010, the City obtained Buy American certifications from its contractors.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-37 Davis Bacon Act**

**Finding Type: Material noncompliance and material weakness**

**Federal Agency:** Environmental Protection Agency

**Pass-Through Entity:** State of Michigan Municipal Bond Authority

**Federal Program:** State Revolving Loan

**CFDA No.:** 66.458

**Award No.:** 5175-07

**Award Year:** July 1, 2008 – June 30, 2009

**Requirement:** Per the State of Michigan letter dated May 26, 2009 informing the City that the SRF 5175-07 was eligible for ARRA funded Principal Forgiveness, Exhibit D, (2) revised May 26, 2009: Consistent with the requirements of Section 1606 of the ARRA, all construction on the project will be undertaken pursuant to written contracts that require contractors and subcontractors maintain compliance with the requirements of subchapter IV of chapter 31 of title 40, United States Code and mandate compliance with Davis Bacon prevailing wage statute and associated Labor Standards Provisions. 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).

**Condition:** The City of Detroit did not collect and review signed certifications from its contractors of Davis-Bacon and related Acts for any weeks during construction for the construction contractor related to SRF 5175-07, an ARRA related project. The City did not review payroll submissions to confirm that its contractors' employees are paid weekly, without unauthorized payroll deductions and according to the wage determinations established in the contract. The City did not document that wage interviews were conducted periodically to verify that contractors and subcontractors are paying the appropriate wage rates. The City did not verify that the contractor fringe contributions were made as planned.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** The City was unaware of the Davis Bacon requirements until near the end of the fiscal year.

**Recommendation:** Before accepting new funding sources, all potential compliance requirements should be identified and evaluated.

**Views of Responsible Officials:** The City was informed of the Davis Bacon requirements by the State of Michigan in April 2009. After learning of the requirements, the City has forwarded the U.S. Department of Labor form WH-347 to its contractors, who will verify weekly certifications and corresponding documentation.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-38 Activities Allowed or Unallowed and Allowable Costs/Cost Principles**

**Finding Type: Significant deficiency**

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

**Pass-Through Entity:** Michigan Department of Community Health

**Federal Program:** Immunization Grants

**CFDA No.:** 93.268

**Award No.:** N/A

**Award Year:** October 1, 2008 – September 30, 2009

**Requirement:** 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. Effective controls would include a verification of time sheets.

**Condition:** During our test work, we obtained and reviewed 30 time sheets and noted that for 1 of 30 items, there was no approval of the time sheet.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** The Immunization Program could not locate a copy of one time sheet. In addition, the original time sheet could not be located by the City's Payroll unit.

**Recommendation:** We recommend that established document retention policies are followed.

**Views of Responsible Officials:** The City has implemented an electronic time system (Work Brain) to capture all time and supervisory work time approvals. Therefore, beginning in January 2009, all time-keeping documentation for the Department is maintained through Work Brain.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-39 Procurement, Suspension and Debarment**

**Finding Type: Noncompliance and significant deficiency**

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

**Pass-Through Entity: Michigan Department of Community Health**

**Federal Program: Immunization Grants**

**CFDA No.: 93.268**

**Award No.: N/A**

**Award Year: October 1, 2008 – September 30, 2009**

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

**Condition:** During our testwork, we selected 1 of 1 subrecipient contracts for our review and noted the following: The contract selected was approved 1 month after the effective date of the contract.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** The Department acknowledges this finding. The City's contract approval process requires many approvals that delay the approval of the contract.

**Recommendation:** We recommend that City departments work cooperatively to process contract approvals on a timely basis.

**Views of Responsible Officials:** The Department will prepare and submit the FY 2010/2011 CPBC contract in July 2010; however, all City Departments must review and approve their sections promptly for the contract to be approved by City Council on or before October 1, 2010.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-40 Reporting**

**Finding Type: Material noncompliance and material weakness**

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

**Pass-Through Entity:** Michigan Department of Community Health

**Federal Program:** Immunization Grants

**CFDA No.:** 93.268

**Award No.:** N/A

**Award Year:** October 1, 2008 – September 30, 2009

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

**Condition:** During out testwork, we selected 4 quarterly FSRs and noted that all 4 of the FSRs were submitted after the required date. The September 2008 final FSR was submitted on March 19, 2008, 170 days after the end of the quarter; the December 2008 FSR was submitted on March 19, 2009, 78 days after the end of the quarter; the March 2009 FSR was submitted on June 18, 2009, 79 days after the end of the quarter; the June 2009 FSR was submitted on September 17, 2009, 79 days after the end of quarter.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** The Department acknowledges this finding. The Finance Section attributes this finding to a lack of management oversight of the reporting process.

**Recommendation:** We recommend that reporting checklists be used to monitor the timeliness of report preparation and submission.

**Views of Responsible Officials:** The Finance Manager has been instructed and is being held accountable to assure that all quarterly FSRs are submitted to the state within 30 days of the end of the quarter. The Department will monitor this process each quarter and will review and sign the report each quarter.



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Year ended June 30, 2009

**Item: 2009-41 Subrecipient Monitoring**

**Finding Type: Material noncompliance and material weakness**

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

**Pass-Through Entity:** Michigan Department of Community Health

**Federal Program:** Immunization Grants

**CFDA No.:** 93.268

**Award No.:** N/A

**Award Year:** October 1, 2008 – September 30, 2009

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

**Condition:** Based on a review of the Professional Service Contract between the City of Detroit and its subrecipient, the responsibilities listed for both parties are ambiguous and all of the relevant terms and conditions of the grant of agreement from the State of Michigan are not delineated or appropriately incorporated by reference, including whether the contractor should report expenditures on a cash or accrual basis, what federal program the funding is related to, the CFDA# and pass-through information. Additionally, the department does not perform on-site monitoring of the subrecipient; we obtained and reviewed the A-133 report required to be monitored by the department and noted that there was no evidence of Management review. Additionally, the department did not obtain the entire subrecipient reporting package including the corrective action plan and status of prior year findings.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** The Department acknowledges this finding. The Finance Section did not have an Accountant assigned to perform the fiscal management monitoring of the subrecipient. The Department was not aware that the contract language needed additional language to delineate responsibilities of the City and Subrecipient.

**Recommendation:** We recommend that the responsibilities of both the City and its subrecipient be clearly stated in the contract.

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**Views of Responsible Officials:** The Department has developed and implemented a process to monitor the subrecipient for FY 2009/2010. The Department is working with the Law and Finance Departments to improve the contract language for delineating the responsibilities of the Department and the subrecipient. The contract language changes will be incorporated into the FY 2010/2011 contract.

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Year ended June 30, 2009

**Item: 2009-42 Activities Allowed or Unallowed and Allowable Costs/Cost Principles**

**Finding Type: Material noncompliance and material weakness**

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

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

**Federal Program:** Temporary Assistance for Needy Families

**CFDA No.:** 93.558

**Award No.:** Various

**Award Year:** October 1, 2008 – September 30, 2009

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

**Condition:** During our testwork we selected 30 subrecipient payments totaling \$2,436,283 for review and noted the following: For 1 of 30 items selected the check request was not signed; For 2 of 30 items selected the City was unable to provide the check request. During our testwork, we selected 30 Individual Training Account (ITA) invoices totaling \$91,984 for review and noted the following: For 3 of 30 items selected the City was unable to provide evidence of payment to the student.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** Aged accruals are not investigated and resolved timely.

**Recommendation:** We recommend documents are retained in accordance with the City's document retention policies. We further recommend that accruals are disbursed more quickly.

**Views of Responsible Officials:** All check requests are signed by the appropriate personnel before being submitted to the Central Accounts Payable for payment, however, a signed copy could not be located. Each payment was supported by a properly approved invoice and was for allowable purposes. As of 6/23/10, the tuition still has not been paid for the 3 out of 30 ITA invoices selected. The entire ITA process has been revamped. All the issues addressed in the finding have been addressed in the redesign of the ITA process. ITA Funding Agreements and Invoices are required documentation for any tuition payments to be processed. DWDD will not process any payments without these documents.

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-43 Cash Management**

**Finding Type: Material noncompliance and material weakness**

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

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

**Federal Program:** Temporary Assistance for Needy Families

**CFDA No.:** 93.558

**Award No.:** Various

**Award Year:** October 1, 2008 – September 30, 2009

**Requirement:** Cash Management: Per OMB Circular A-102, *Grants and Cooperative Agreements with State and Local Governments Attachment (2)(a)*, agency methods and procedures for transferring funds shall minimize the time elapsing between transfer to recipients of grants and cooperative agreements and the recipient's need for the funds. Per the State of Michigan instructions for the Cash Request, the department is to use Actual Disbursements, Year-to-Date defined as follows, "This figure is to include only the actual cash paid out of costs, including funds to subcontractors."

**Condition:** The Cash Requests are based partially on accruals. This results in excess cash being on hand throughout the year.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** DWDD utilizes an accrual based Cost Center Responsibility Report to prepare the Cash Request.

**Recommendation:** We recommend preparing the Cash Requests based on actual disbursements.

**Views of Responsible Officials:** The major issue is the amount of time it takes for checks to be paid through Central Finance Accounts Payable.

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-44 Reporting**

**Finding Type: Noncompliance and significant deficiency**

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

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

**Federal Program:** Temporary Assistance for Needy Families

**CFDA No.:** 93.558

**Award No.:** Various

**Award Year:** October 1, 2008 – September 30, 2009

**Requirement: Reporting:** Per the State of Michigan Department of Career Development's instructions to the WFP-167 and the OWD 138, fiscal reporting documents, the Department is to report both Program Income Earned and Program Income Expended separately on both reports.

**Condition:** During our testwork, we selected 15 Financial Status Reports (FSRs) for review and noted the following: 13 of 15 FSRs did not report program income as required; however, it was shown net of the expenditures on the FSR.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** The report was not being prepared in accordance with the requirements.

**Recommendation:** We recommend reporting checklists are utilized to facilitate report preparation and review prior to submission.

**Views of Responsible Officials:** Effective March 2009, DWDD reports program income in each quarterly expenditure report submitted to Michigan Department of Energy, Labor, & Economic Growth (MDELEG).

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-45 Subrecipient Monitoring**

**Finding Type: Material noncompliance and material weakness**

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

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

**Federal Program:** Temporary Assistance for Needy Families

**CFDA No.:** 93.558

**Award No.:** Various

**Award Year:** October 1, 2008 – September 30, 2009

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

**Condition:** During our testwork, we selected 17 contracts with subrecipients for review and noted the following: For 16 of 17 contracts, City Council approval did not occur prior to work commencing. For 1 of 17 contracts, the City was unable to provide support that follow-up had occurred regarding the late submission of the A-133 report by the subrecipient.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** The timing of the start of the grant period coincides with the receiving of the award letter. The City's contract approval process requires funding to be secured before final approvals can take place.

**Recommendation:** We recommend City departments work cooperatively to determine a method to obtain an approval to continue contracts under the circumstances while remaining in compliance with procurement and contract ordinances and standards.

**Views of Responsible Officials:** Condition 1: We agree with the facts of the finding, however, due to the timing of the grant periods and the timing of the grant information submitted by the State, it is necessary to start the programs and use our award letter as approval. Condition 2: DWDD will review and change procedures to require a monthly status report to be completed and reviewed on the status of A-133 audits.

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-46 Activities Allowed or Unallowed and Allowable Costs/Cost Principles**

**Finding Type: Significant deficiency**

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

**Pass-Through Entity:** Michigan Department of Health and Human Services

**Federal Program:** Community Services Block Grant

**CFDA No.:** 93.569

**Award No.:** 08-82007, 09-82007

**Award Year:** October 1, 2008 – September 30, 2009

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

**Condition:** During our testwork over payroll, we selected 40 employee timesheets, totaling \$62,622.75 and noted the following: for 31 of 40 items the employee history report did not contain the pay increase that occurred on June 30, 2008. Payroll was properly recorded and therefore there are no questioned costs related to this item.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** Internal controls requiring updating of reports were not followed or monitored.

**Recommendation:** We recommend that employee history reports are maintained with the current pay rates for all individuals.

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

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-47 Eligibility**

**Finding Type: Material noncompliance and material weakness**

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

**Pass-Through Entity: Michigan Department of Health and Human Services**

**Federal Program: Community Services Block Grant**

**CFDA No.: 93.569**

**Award No.: 08-82007, 09-82007**

**Award Year: October 1, 2008 – September 30, 2009**

**Requirement:** 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. Per the March 2009 OMB Circular A-133 Compliance Supplement – The official poverty guideline as revised annually by HHS shall be used to determine eligibility. The poverty guidelines are issued each year through the Federal Register, and can be found on the HHS web site (<http://aspe.hhs.gov/poverty/>). An entity may adopt a revised poverty guideline but it may not exceed 125% of the HHS-determined poverty guidelines (42 USC 9902(2)).

**Condition:** During our testwork over the eligibility compliance requirement, we selected 40 beneficiaries who received program services during the fiscal year 2009, and noted the following: the department was unable to provide the participants' file for 2 of the 40 items selected; 5 of the 40 items selected did not include all the required documents in the participants' file; and for 1 of the 40 items the required signatures were missing from the Intake Application Form.

**Questioned Costs: None**

**Possible Asserted Cause and Effect:** Documentation and required signatures were not provided for all selected beneficiaries. As a result, the Department of Human Services was unable to substantiate its compliance with the Eligibility compliance requirement.

**Recommendation:** We recommend that documents are maintained in accordance with document retention policies.

**Views of Responsible Officials:** DHS management agrees with this finding. DHS will investigate this weakness in file retention and will implement a backup system for potentially lost and/or destroyed files.



**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-48 Procurement, Suspension and Debarment**

**Finding Type: Material noncompliance and material weakness**

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

**Pass-Through Entity: Michigan Department of Health and Human Services**

**Federal Program: Community Services Block Grant**

**CFDA No.: 93.569**

**Award No.: 08-82007, 09-82007**

**Award Year: October 1, 2008 – September 30, 2009**

**Requirement:** 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. Per 2 CFR 215.43, awards shall be made to the bidder or offeror whose bid or offer is responsive to the solicitation and is most advantageous to the recipient in price, quality and other factors considered. Solicitations shall clearly set forth all requirements that the bidder or offeror shall fulfill in order for the bid or offer to be evaluated by the recipient. Any and all bids or offers may be rejected when it is in the recipient's interest to do so.

**Condition:** During testwork over the procurement, suspension, and debarment compliance requirement, we selected 16 contracts to test and noted the following: for 13 of 16 contracts selected the City was unable to provide the RFP related to the contract.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** RFPs were not issued and maintained on a regular basis.

**Recommendation:** We recommend that RFPs are issued and maintained in the procurement files.

**Views of Responsible Officials:** DHS management will insure that Request for Proposals are made more frequently and available for inspection.

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-49 Subrecipient Monitoring**

**Finding Type: Material noncompliance and material weakness**

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

**Pass-Through Entity:** Michigan Department of Health and Human Services

**Federal Program:** Community Services Block Grant

**CFDA No.:** 93.569

**Award No.:** 08-82007, 09-82007

**Award Year:** October 1, 2008 – September 30, 2009

**Requirement:** (1) Per the OMB Circular A-133 Subpart D, the pass-through entity must ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements. Pass-through entities such as the Department of Human Services must also issue a decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action(s). (2) Per OMB Circular A-133 Subpart D – Federal awarding agency responsibilities. The Federal awarding agency shall perform the following for the Federal awards it makes: Identify Federal awards made by informing each recipient of the CFDA title and number, award name and number, award year, and if the award is for R&D. When some of this information is not available, the Federal agency shall provide information necessary to clearly describe the Federal award.

**Condition:** During our testwork over the Subrecipient Monitoring compliance requirement we selected all 26 subrecipient monitoring/audit files and noted the following: 26 of 26 subrecipient files did not contain the required desk review checklist used to document the review of the subrecipient's OMB Circular A-133 Report; additionally the department does not have policies in place to verify that a subrecipient is not required to have an OMB A-133 report performed; all 26 contracts with subrecipients did not include the required language such as the CFDA number.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** Policies and procedures over the subrecipient monitoring compliance requirements were not properly designed and implemented to ensure compliance. Additionally, the CFDA number is not included in the contracts awarded to subrecipients as management does not believe that it is necessary to do so.

**Recommendation:** We recommend subrecipient monitoring policies and procedures are modified to ensure compliance with the standards.

**Views of Responsible Officials:** DHS will implement a policy to ensure that all contractors which are required to submit an A-133 audit have done so and that a review of compliance with indicated findings has been performed. In regards to the condition that all contracts did not include the required language such as the CFDA number, we believe DHS is in compliance with the requirements of identification of funding sources within each contract through the inclusion of the name of the funding source.

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-50 Procurement, Suspension and Debarment**

**Finding Type: Material noncompliance and material weakness**

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

**Pass-Through Entity: N/A**

**Federal Program: Head Start, Early Head Start**

**CFDA No.: 93.600**

**Award No.: 05CH0113/44**

**Award Year: 11/01/07-10/31/08 and 11/01/08-10/31/09**

**Requirement:** According to OMB Circular A-110, Section 43, all procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. The City of Detroit's Procurement Ordinance states that contracts that exceed \$25,000 must be approved by the City Council.

**Condition:** During our testwork over the Procurement, Suspension, and Debarment compliance requirement, we selected 12 contracts and noted the following: 2 approved contracts had not been competitively bid; 1 of the 2 contracts, in the amount of \$217,000, was also not approved in the annual refunding application. The contracts were to provide mental health services and community needs assessments to the Head Start program. These services are not specialized enough to warrant sole source vendor status; 1 vendor had been approved by the federal funding source for a contract in the amount of \$26,549 for the fiscal year, and for a contract greater than \$25,000 for several years, however, this vendor does not have a Contract Purchase Order (CPO) approved by the City Council. Per discussions with client personnel, the vendor is paid for Head Start services through one of the subrecipient/delegate contracts due to the City's lengthy contract approval process.

**Questioned Costs: None**

**Possible Asserted Cause and Effect:** The department is unable to demonstrate adherence to the City's procurement process, and is not in compliance with both the federal requirements as well as the City's Purchasing Ordinance, and may have excluded other qualified and/or more suitable vendors from the bidding process.

**Recommendation:** We recommend that all contracts are evaluated for compliance with procurement and contract ordinances and policies.

**Views of Responsible Officials:** DHS management will review all current contracts and ensure that they are competitively bid, if required.

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-51 Activities Allowed or Unallowed and Allowable Costs/Cost Principles**

**Finding Type: Material noncompliance and material weakness**

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

**Pass-Through Entity:** N/A

**Federal Program:** Head Start, Early Head Start

**CFDA No.:** 93.600

**Award No.:** 05CH0113/44

**Award Year:** 11/01/07-10/31/08 and 11/01/08-10/31/09

**Requirement:** Allowable Costs/Cost Principles: Per 2 CFR Part 225 Appendix B, Paragraph 8 (h)(1), Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit. Per 2 CFR Part 225, Appendix A, Paragraph C.1 (j), to be allowable under Federal awards, costs must meet the following general criteria: (j) be adequately documented. Per A-102 Common Rule, Nonfederal entities receiving Federal awards must establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

**Condition:** During our testwork over payroll we selected 30 employees and noted the following: 2 of 30 employees selected did not have semi-annual certifications or time and effort reports to disclose the amount of time spent working on the Head Start program; a pay increase, which took effect on June 30, 2008, does not appear on the employee history report. As this report was not updated, the supporting documentation substantiating payroll costs was inaccurate; 1 instance was noted where the City was unable to provide documentation to substantiate that employee's weekly hours worked were authorized by the employee supervisor; and 4 instances were noted where the City was unable to provide the employee history report.

**Questioned Costs:** \$3,356

**Possible Asserted Cause and Effect:** Documents were not updated and retained as required by City policies.

**Recommendation:** We recommend that management update reports and maintain required documentation in accordance with City policies.

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

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-52 Cash Management**

**Finding Type: Noncompliance and significant deficiency**

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

**Pass-Through Entity: N/A**

**Federal Program: Head Start, Early Head Start**

**CFDA No.: 93.600**

**Award No.: 05CH0113/44**

**Award Year: 11/01/07-10/31/08 and 11/01/08-10/31/09**

**Requirement:** Cash Management: Per OMB Circular A-102, *Grants and Cooperative Agreements with State and Local Governments Attachment (1) (a)*, agency methods and procedures for transferring funds shall minimize the time elapsing between transfer to recipients of grants and cooperative agreements and the recipient's need for the funds. More specifically, the grant agreement requires that funds be disbursed within one day when the funds are advanced.

**Condition:** During our test work over subrecipient payments, the following was noted: 1 item was paid more than 10 days after the advance; 2 items were paid between 5 and 10 days after the advance, and 10 items were paid between 2 and 5 days after the advance.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** Invoices are not always processed when anticipated, which results in timing issues for cash drawdowns and disbursements.

**Recommendation:** We recommend that cash drawdowns are based on actual cash disbursements.

**Views of Responsible Officials:** Every effort will be made from the DHS Management level to minimize the time lapse from drawing down to the disbursement of funds. Also, the department will work closely with the Finance Department's Accounts Payable Section to ensure that checks are issued timely after funds are drawn down.

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-53 Subrecipient Monitoring**

**Finding Type: Material noncompliance and material weakness**

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

**Pass-Through Entity:** N/A

**Federal Program:** Head Start, Early Head Start

**CFDA No.:** 93.600

**Award No.:** 05CH0113/44

**Award Year:** 11/01/07-10/31/08 and 11/01/08-10/31/09

**Requirement:** Subrecipient Monitoring: OMB Circular A-133, subpart D, Section 400 states that a pass-through entity shall identify Federal awards made by informing each sub recipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award. Subpart D also states that the pass-through entity must ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements. Pass-through entities such as the Department of Human Services must also issue a decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action(s).

**Condition:** During our testwork over the Subrecipient Monitoring compliance requirement, we selected 10, 2 expiring and 8 new, subrecipients contracts and monitoring files for testing and noted the following: all 8 new contracts did not specifically reference the CFDA number and there is no evidence to suggest that the CFDA number was not available for inclusion into the contract; the Department of Human Services did not utilize a desk review checklist to review the OMB Circular A-133 Single Audit reports of subrecipients; it was also noted that the department did not follow up on findings resulting from quarterly financial monitoring. This is partially due to the fact that the department did not receive the A-133 audit reports for fiscal year 2008 until January 2010.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** Policies and procedures over the subrecipient monitoring compliance requirements were not properly designed and implemented to ensure compliance. Additionally, the CFDA number is not included in the contracts awarded to subrecipients as management does not believe that it is necessary to do so.

**Recommendation:** We recommend subrecipient monitoring policies and procedures are modified to ensure compliance with the standards.

**Views of Responsible Officials:** In regards to the condition that all contracts did not include the required language such as the CFDA number, we believe DHS is in compliance with the requirements of identification of funding sources within each contract through the inclusion of the name of the funding source.

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-54 Activities Allowed or Unallowed and Allowable Costs/Cost Principles**

**Finding Type: Significant deficiency**

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

**Pass-Through Entity:** N/A

**Federal Program:** HIV Emergency Relief

**CFDA No.:** 93.914

**Award No.:** H89HA00021, H3MHA08480

**Award Year:** March 1, 2008 – February 28, 2009

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

**Condition:** During our testwork we selected 30 expenditures for testing and noted that 2 of 30 expenditures were related to another grant. One invoice # (33909-07) was matched against the wrong PO #. Instead of matching to the MAI Grant, it was matched against another grant's (Hopwa Grant) PO #, which caused an error in the DRMS general ledger system (unmatched invoices to receipts). In order to fix the balances in the DRMS system, the City took 2 invoices from the Hopwa Grant and applied it to the MAI Grant PO #. The City took a full amount of one invoice (\$28,325) and a portion of another invoice (\$53,150) and applied it to MAI Grant PO #. As the total amount charged to the grant is correct and properly spent, this is considered a control finding and not a questioned cost.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** The Finance Section acknowledges this finding as a data entry error by the Accountant.

**Recommendation:** We recommend that accounting staff are monitored and their work reviewed on a regular basis.

**Views of Responsible Officials:** Finance Management has discussed this matter with the accountants and has instructed the accountants to follow the authorized procedures for correcting data entry errors. The Finance Manager will monitor the performance of the accounting staff to avoid errors and take appropriate corrective action.

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-55 Activities Allowed or Unallowed and Allowable Costs/Cost Principles**

**Finding Type: Material noncompliance and material weakness**

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

**Pass-Through Entity: N/A**

**Federal Program: HIV Emergency Relief**

**CFDA No.: 93.914**

**Award No.: H89HA00021, H3MHA08480**

**Award Year: March 1, 2008 – February 28, 2009**

**Requirement:** Per 2 CFR Part 225, Appendix A, paragraph C: 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. a.) Be allocable to Federal awards under the provisions of this Circular. b.) Be authorized or not prohibited under State or local laws or regulations. c.) 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. D.) Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit. e.) 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. f.) Except as otherwise provided for in this Circular, be determined in accordance with generally accepted accounting principles. g.) 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. h.) Be the net of all applicable credits. i.) Be adequately documented.

**Condition:** During our testwork, we obtained 5 quarterly PSC-272 reports covering the reimbursement draw downs for the funds expended during the fiscal year and noted that one draw down, made on March 16, 2010 totaling \$14,473, included \$4,273 which was drawn in anticipation of receiving an additional invoice which would need to be accrued for. This additional expenditure was never realized.

**Questioned Costs: \$4,273**

**Possible Asserted Cause and Effect:** Adjustments and accruals were not evaluated and analyzed to determine ultimate liquidation.

**Recommendation:** We recommend that timely analysis is performed of all adjustments and accruals.

**Views of Responsible Officials:** The Department acknowledges this finding. The Finance Section attributes this finding to a lack of timely follow up and analysis of adjustments made after year-end.



**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-56 Cash Management**

**Finding Type: Noncompliance and significant deficiency**

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

**Pass-Through Entity: N/A**

**Federal Program: HIV Emergency Relief**

**CFDA No.: 93.914**

**Award No.: H89HA00021, H3MHA08480**

**Award Year: March 1, 2008 – February 28, 2009**

**Requirement:** Per 2 CFR Part 225, Appendix A, paragraph C.1 (j), to be allowable under federal awards, costs must meet the following general criteria: (j) be adequately documented.

**Condition:** During our testwork we selected 5 PSC 272 reports and found that a draw down of \$341,953 had a related expenditure of \$28,325 which was related to another expense that was already drawn down (duplicate draw). The correct drawdown amount should have been \$313,628. The correct amount of expenditures are in the G/L, and as of grant year end all of the money was spent and therefore there does not appear to be a questioned cost.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** The Department acknowledges this finding. The Accountant's funding drawdown was based on the DRMS GL amount which included a receipt amount entered in error. This error was the result of trying to correct the payment of an invoice against the wrong Purchase Order.

**Recommendation:** We recommend that drawdowns are based on actual disbursement and that drawdown requests are reviewed by a supervisor for accuracy.

**Views of Responsible Officials:** The Finance Manager has instructed all Accountants that funding drawdowns will be based on the invoice(s) submitted for payment, not the amount in the DRMS GL. The Finance Manager will monitor the funds drawdown process to assure compliance.

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-57 Cash Management**

**Finding Type: Noncompliance and significant deficiency**

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

**Pass-Through Entity:** N/A

**Federal Program:** HIV Emergency Relief

**CFDA No.:** 93.914

**Award No.:** H89HA00021, H3MHA08480

**Award Year:** March 1, 2008 – February 28, 2009

**Requirement:** Cash Management: Per OMB Circular A-102, *Grants and Cooperative Agreements with State and Local Governments Attachment (2)(a)*, agency methods and procedures for transferring funds shall minimize the time elapsing between transfer to recipients of grants and cooperative agreements and the recipient's need for the funds.

**Condition:** During our testwork, we obtained 5 quarterly PSC-272 reports covering the reimbursement draw downs for the funds expended during the fiscal year and noted that one draw down, on March 16, 2010 totaling \$14,473, included \$10,200 in anticipation of paying the subrecipient for an equipment purchase. As of June 2010 the City has not paid the subrecipient this amount.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** Adjustments and accruals were not evaluated and analyzed to determine ultimate liquidation.

**Recommendation:** We recommend that timely analysis is performed of all adjustments and accruals.

**Views of Responsible Officials:** The \$10,200 is an expense of an invoice paid by the fiduciary in July 2007. In June 2008 an adjustment was entered to move the expense to the grant FY 2006/2007. This should not have occurred. The expense clearly belongs to the grant FY 2007/2008. The adjustment needs to be reversed and a FSR/invoice should be issued for \$10,200. This action will reimburse the fiduciary for the deduction on the June 2008 accrual invoice. The procedure for drawdowns based on the monthly FSR's from the fiduciary will be followed without exception. Any adjustments requested after the grant year end will be reviewed by management before implementation. Finance Management will monitor the Accounting activities to assure that staff comply with the requirements.

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-58 Maintenance of Effort**

**Finding Type: Material noncompliance and material weakness**

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

**Pass-Through Entity: N/A**

**Federal Program: HIV Emergency Relief**

**CFDA No.: 93.914**

**Award No.: H89HA00021, H3MHA08480**

**Award Year: March 1, 2008 – February 28, 2009**

**Requirement:** Per the Ryan White HIV/Aids Program Part A Manual, Section II, Grant Administration, Part 4, Maintenance of Effort, Section (A) Legislative Background: Sections 2605(a) of the Ryan White legislation states: (1)(A) “that funds received under a grant awarded under this subpart will be utilized to supplement not supplant State funds made available in the year for which the grant is awarded to provide HIV-related services as described in Section 2604(b)(1); (B) “that the political subdivisions within the eligible area will maintain the level of expenditures by such political subdivisions for HIV-related services as described in Section 2604(b)(1) at a level that is equal to the level of such expenditures by such political subdivisions for the preceding fiscal year; and (C) “that political subdivisions within the eligible area will not use funds received under a grant awarded under this part in maintaining the level of expenditures for HIV-related services as required in subparagraph (B).”

**Condition:** During our testwork we reviewed the Maintenance Of Effort (MOE) attachment contained with the 3/1/09 – 2/28/10 grant application. When requesting supporting documentation for the 3/1/09 – 2/28/10 MOE attachment in the grant application, the supporting numbers had changed and no longer supported the numbers submitted in the application. The City does not appear to have adequate controls over the Maintenance of effort and was unable to demonstrate that it is in compliance with the Maintenance of Effort compliance requirement.

**Questioned Costs: None**

**Possible Asserted Cause and Effect:** The HRSA process for developing and documenting MOE for the City of Detroit had changed. The new MOE reporting document is due to HRSA on June 30, 2010. The Department has received technical assistance from HRSA to prepare an accurate MOE.

**Recommendation:** We recommend that procedures are well documented and followed on a consistent basis.

**Views of Responsible Officials:** The HRSA requirements for tracking and documenting the Maintenance of Effort (MOE) have changed with the reauthorization of the Ryan White Treatment Extension Act of 2009. The HRSA Guidance review and meeting to document revised MOE calculation process will occur June 8, 2010. A request for HRSA technical assistance support has been sent to our project officer. The Department will submit the new MOE by June 30, 2010.

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-59 Procurement, Suspension and Debarment**

**Finding Type: Material noncompliance and material weakness**

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

**Pass-Through Entity: N/A**

**Federal Program: HIV Emergency Relief**

**CFDA No.: 93.914**

**Award No.: H89HA00021, H3MHA08480**

**Award Year: March 1, 2008 – February 28, 2009**

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

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

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** The Department acknowledges this finding. The Federal Notice of Grant Award is generally received after the start date of the effective date of the contract. This delays the correct budget submission for the contract.

**Recommendation:** We recommend that City departments work cooperatively to determine a method to ensure contract approvals are obtained prior to the start of work.

**Views of Responsible Officials:** The Department will begin submitting contract renewals for approval 120 days before the expiration date. This will begin with the 2011/2012 contract.

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-60 Reporting**

**Finding Type: Material noncompliance and material weakness**

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

**Pass-Through Entity: N/A**

**Federal Program: HIV Emergency Relief**

**CFDA No.: 93.914**

**Award No.: H89HA00021, H3MHA08480**

**Award Year: March 1, 2008 – February 28, 2009**

**Requirement:** Reporting: Per A-102 Common Rule, Nonfederal entities receiving Federal awards must establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Per the grant agreement the City has 45 days after the quarter to submit the PSC-272.

**Condition:** During our testwork, KPMG obtained 5 quarterly PSC-272 reports covering the reimbursement draw downs for the funds expended during the fiscal year and noted that 3 of the 5 reports were submitted beyond the deadline of 45 days after the end of the quarter. The July – September 2008 report was submitted 73 days after the close of the quarter, the October – December 2008 report was submitted 61 days after the close of the quarter, and the April – June 2009 MAI portion was submitted 64 days after the close of the quarter.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** The Department acknowledges this finding. The Finance Section attributes this finding to a lack of management oversight for the distribution of work amongst the Accountants.

**Recommendation:** We recommend that reporting checklists are utilized to ensure timely report preparation and submission and monitoring thereof.

**Views of Responsible Officials:** The Finance Section has reassigned this responsibility to a different Accountant resulting in the timely reporting and the timely drawdown of funds. The Finance Manager will monitor compliance with this requirement.

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-61 Subrecipient Monitoring**

**Finding Type: Material noncompliance and material weakness**

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

**Pass-Through Entity:** N/A

**Federal Program:** HIV Emergency Relief

**CFDA No.:** 93.914

**Award No.:** H89HA00021, H3MHA08480

**Award Year:** March 1, 2008 – February 28, 2009

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

**Condition:** During our testwork, we noted the following: the City does not perform on-site monitoring of the subrecipient; we obtained and reviewed 2 of 2 subrecipient A-133 reports required to be monitored by the department and noted that there was no evidence of management review and that the wrong CFDA number was used on both reports, both reports should refer to the HIV Grants using the CFDA number 93.914; currently they refer to 93.915. Additionally the department did not obtain the entire subrecipient reporting package including the corrective action plan and status of prior year findings. During our audit we also noted that the contract with the subrecipient did not contain the required contract language with regard to CFDA title or number, Award Name, or the name of the Federal Agency. During our review of the Professional Service Contract between the City of Detroit and SEMHA, KPMG noted that the responsibilities listed for both parties are ambiguous and does not clearly disclose all of the relevant terms and conditions of the grant of agreement from the State of Michigan, including whether the contractor should report expenditures on a cash or accrual basis, what federal program the funding is related to, the CFDA# and pass-through information.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** The Department acknowledges this finding. The Finance Section did not have an Accountant assigned to perform the fiscal monitoring of the subrecipient. In addition, the Department was not aware that the contract language needed additional details.

**Recommendation:** We recommend that the responsibilities of both the City and its subrecipient be clearly stated in the contract and that specific written monitoring procedures are developed and implemented.

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Views of Responsible Officials:** The Department has developed a process to monitor the subrecipient for the FY 2009/2010 fiscal year. The Department is working with the Law and Finance Departments to improve the language of the contract for delineating the responsibilities of the Department and the subrecipient. The contract language changes will be incorporated into the FY 2011/2012 contracts.

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-62 Reporting**

**Finding Type: Material noncompliance and material weakness**

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

**Pass-Through Entity:** Michigan Department of Community Health

**Federal Program:** Prevention and Treatment of Substance Abuse

**CFDA No.:** 93.959

**Award No.:** 07 B1 MI SAPT, 08 B1 MI SAPT

**Award Year:** March 1, 2008 – February 28, 2009

**Requirement:** Reporting: According to the OMB Circular A-133 compliance supplement, the amounts reported in the financial reports should be prepared from, and agree to, the accounting records. Per the State of Michigan Department of Community Health agreement with the City of Detroit for the Prevention and Treatment of Substance Abuse for the October 2007 through September 2008 and the October 2008 through September 2009 grant year, part II, iv, c., the Revenue and Expenditures Report (RER) must be submitted on a quarterly basis, no later than the last day of the month following the end of the fiscal quarter.

**Condition:** During our review of the Revenue and Expenditures Report (RER) we noted that these reports were not timely reconciled to the General Ledger and an unreconciled difference of \$233,525 remains. During our testwork over the RER's we noted that all four quarters were submitted after the deadline. The July – September 2008 RER was submitted 126 days after the quarter, the October – December 2008 RER was submitted 167 days after the quarter, the January – March 2009 RER was submitted 106 days after the quarter and the April – June 2009 RER was submitted 58 days after the quarter.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** The Department acknowledges this finding. The State implemented a new electronic reporting process for submitting RERs and there were challenges with the implementation causing delays in the reporting and documentation.

**Recommendation:** We recommend that reporting checklists are utilized to facilitate report preparation and submission.

**Views of Responsible Officials:** The Department's Finance Manager, Substance Abuse Program Accountant and Substance Abuse Program Manager will work closely with the State to assure the RERs are prepared correctly and submitted on time. The Finance Manager will monitor this process and communicate with the State to resolve any barriers for timely report submission.



**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-63 Subrecipient Monitoring**

**Finding Type: Material noncompliance and material weakness**

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

**Pass-Through Entity:** Michigan Department of Community Health

**Federal Program:** Prevention and Treatment of Substance Abuse

**CFDA No.:** 93.959

**Award No.:** 07 B1 MI SAPT, 08 B1 MI SAPT

**Award Year:** March 1, 2007 – February 28, 2008

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

**Condition:** During our review of the Professional Service Contract between the City of Detroit and it's subrecipient, KPMG noted that the responsibilities listed for both parties are ambiguous and does not clearly disclose all of the relevant terms and conditions of the grant of agreement from the State of Michigan, including whether the contractor should report expenditures on a cash or accrual basis, what federal program the funding is related to, the CFDA# and pass-through information. During our testwork over Subrecipient Monitoring, we noted that the department does not perform on-site monitoring of the subrecipient; we obtained and reviewed the A-133 report required to be monitored by the department and noted that there was no evidence of Management review. Additionally, the department did not obtain the entire subrecipient reporting package including the corrective action plan and status of prior year findings.

**Questioned Costs:** None

**Possible Asserted Cause and Effect:** The Department was not aware of this requirement.

**Recommendation:** We recommend that the responsibilities of both the City and its subrecipient be clearly stated in the contract and that specific written monitoring procedures are developed and implemented.

**Views of Responsible Officials:** The Department is working with the Law and Finance Departments to improve and clarify the required legal language for the scope of services. The changes will be added to the FY 2010/2011 contracts.

**CITY OF DETROIT, MICHIGAN**

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

**Item: 2009-64**

**Finding Type: Disclaimer**

**Federal Agency:** U.S. Department of Agriculture

**Pass-Through Entity:** Michigan Department of Community Health

**Federal Program:** Special Supplemental Nutrition Program for Women, Infants & Children

**CFDA No.:** 10.557

**Award Year:** October 1, 2008 – September 30, 2009

**Requirement:** The City is required to comply with all program requirements in accordance with the OMB Circulars, grant agreements, and relevant laws and regulations.

**Condition:** We were not able to obtain a complete set of records and information regarding compliance or potential noncompliance related to this program due to an ongoing investigation that had not reached its final conclusion.