

City of Detroit, Michigan

**Federal Awards
Supplemental Information
June 30, 2016**

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Report on Schedule of Expenditures of Federal Awards
Required by the Uniform Guidance

Independent Auditor's Report

To the Honorable Mayor Michael E. Duggan 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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated May 26, 2017 which contained unmodified opinions on 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.

Our report for the City included two emphasis of matter paragraphs, one which states that the 2015 basic financial statements have been restated to correct beginning net assets/fund balance in the governmental activities, business-type activities, nonmajor governmental funds (solid waste management fund), transportation fund, and the discretely presented component units. The second, effective January 1, 2016, the City of Detroit, Michigan entered into a lease agreement with a regional authority, the Great Lakes Water Authority, to provide services to the suburban water and sewer customers. The effect of this transaction is reported as a special item. The two parties are still negotiating the specific provisions related to transition of assets and liabilities, and the amounts included in these financial statements may change in the year ending June 30, 2017. Our opinion is not modified with respect to these matters.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to May 26, 2017. We did not audit the financial statements of the following discretely presented component units: Detroit Brownfield Redevelopment Authority, Detroit Public Library, Detroit Transportation Corporation, Downtown Development Authority, Eastern Market Corporation, Economic Development Corporation, Local Development Finance Authority, Museum of African American History, Detroit Land Bank Authority, Eight Mile/Woodward Corridor Improvement Authority, and Detroit Employment Solutions Corporation, which collectively represent 64 percent, 41 percent, and 72 percent, respectively, of the assets, net position, and revenue of the discretely presented component units. We also did not audit the Public Lighting Authority (discretely presented component unit), and the following blended component units: Detroit Building Authority and Greater Detroit Resource Recovery Authority, which represent 8 percent, 1 percent, and 7 percent, respectively, of the assets, net position/fund balance, and revenue of the aggregate remaining fund information. Those financial statements were audited by other auditors, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the entities listed above, is based on the report of the other auditors.

To the Honorable Mayor Michael E. Duggan and the
Honorable Members of the City Council
City of Detroit, Michigan

The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by the Uniform Guidance, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Plante & Moran, PLLC

May 26, 2017

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*

Independent Auditor's Report

To Management and the Honorable Mayor
Michael E. Duggan and the Honorable
Members of the City Council
City of Detroit, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Detroit, Michigan (the "City") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued separate financial statements for the Water Fund and Sewage Disposal Fund (collectively referred to as DWSD), enterprise funds of the City, as of and for the year ended June 30, 2016, and have issued our reports thereon dated May 26, 2017.

Our report for the City included two emphasis of matter paragraphs, one which states that the 2015 basic financial statements have been restated to correct beginning net assets/fund balance in the governmental activities, business-type activities, nonmajor governmental funds (solid waste management fund), transportation fund, and the discretely presented component units. The second, effective January 1, 2016, the City of Detroit, Michigan entered into a lease agreement with a regional authority, the Great Lakes Water Authority, to provide services to the suburban water and sewer customers. The effect of this transaction is reported as a special item. The two parties are still negotiating the specific provisions related to transition of assets and liabilities, and the amounts included in these financial statements may change in the year ending June 30, 2017. Our opinion is not modified with respect to these matters.

Our report on the City includes a reference to other auditors who audited the financial statements of Detroit Brownfield Redevelopment Authority, Detroit Public Library, Detroit Transportation Corporation, Downtown Development Authority, Eastern Market Corporation, Economic Development Corporation, Local Development Finance Authority, Museum of African American History, Detroit Land Bank Authority, Eight Mile/Woodward Corridor Improvement Authority, and Detroit Employment Solutions Corporation, which collectively represent 64 percent, 41 percent, and 72 percent, respectively, of the assets, net position, and revenue of the discretely presented component units. We also did not audit the financial statements of Public Lighting Authority, Detroit Building Authority, and Greater Detroit Resource Recovery Authority which collectively represent 8 percent, 1 percent, and 7 percent, respectively, of the assets, net position/fund balance, and revenue of the aggregate remaining fund information. This report does not include the complete results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of General Retirement System, Police and Fire Retirement System, Detroit Public Library (discretely presented component unit), and Greater Detroit Resource Recovery Authority (blended component unit), were not audited in accordance with *Government Auditing Standards*.

To Management and the Honorable Mayor
Michael E. Duggan and the Honorable
Members of the City Council
City of Detroit, Michigan

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. These are reflected as Findings 2016-001, 2016-002, 2016-003, 2016-004, 2016-005, 2016-006, and 2016-007.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described as finding 2016-008 in the accompanying schedule of findings and questioned costs to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Detroit, Michigan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs as Finding 2016-006.

City of Detroit, Michigan's Response to Findings

The City of Detroit, Michigan's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City of Detroit, Michigan's and DWSD's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

To Management and the Honorable Mayor
Michael E. Duggan and the Honorable
Members of the City Council
City of Detroit, Michigan

Purpose of this Report

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

Plante & Morse, PLLC

May 26, 2017

Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance

Independent Auditor's Report

To the Honorable Mayor Michael E. Duggan and the
Honorable Members of the City Council
City of Detroit, Michigan

Report on Compliance for Each Major Federal Program

We have audited the City of Detroit, Michigan's (the "City") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016. The City of Detroit, Michigan's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The City of Detroit, Michigan's basic financial statements include the operations of the Detroit Transportation Corporation, Detroit Housing Commission, Downtown Development Authority, Eastern Market Corporation, Economic Development Corporation, Detroit Landbank Authority, Detroit Employment Solutions Corporation, Detroit Building Authority, Public Lighting Authority, Detroit Brownfield Redevelopment Authority, Local Development Finance Authority, Eight Mile/Woodward Corridor Improvement Authority, and Museum of African American History, which received \$101,170,800 in federal awards which is not included in the schedule during the year ended June 30, 2016. Our audit, described below, did not include the operations of Detroit Transportation Corporation, Detroit Housing Commission, Downtown Development Authority, Eastern Market Corporation, Economic Development Corporation, Detroit Landbank Authority, Detroit Employment Solutions Corporation, Detroit Building Authority, Public Lighting Authority, Detroit Brownfield Redevelopment Authority, Local Development Finance Authority, Eight Mile/Woodward Corridor Improvement Authority, and Museum of African American History because they either received a separate single audit or were not subject to single audit requirements.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

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

To the Honorable Mayor Michael E. Duggan and the
Honorable Members of the City Council
City of Detroit, Michigan

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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance 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 of Detroit, Michigan'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Detroit, Michigan's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Detroit, Michigan complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with OMB Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as Findings 2016-010, 2016-012, 2016-015, 2016-016, 2016-017, 2016-018, and 2016-019. Our opinion on each major federal program is not modified with respect to these matters.

The City of Detroit, Michigan's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs and/or corrective action plan. The City of Detroit, Michigan's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

Management of the City of Detroit, Michigan is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Detroit, Michigan's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

To the Honorable Mayor Michael E. Duggan and the
Honorable Members of the City Council
City of Detroit, Michigan

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 2016-009, 2016-012, 2016-015, 2016-017, 2016-018, and 2016-019 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 2016-011, 2016-013, 2016-014, and 2016-016 to be significant deficiencies.

The City of Detroit, Michigan's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs and/or corrective action plan. The City of Detroit, Michigan's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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

Plante & Morse, PLLC

May 26, 2017

City of Detroit, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2016

Federal Agency/Pass-through Entity/Program Title	CFDA#	Pass-through Entity Identifying Number	Subrecipient Expenditures	Federal Expenditures
Department of Agriculture:				
Child Nutrition Cluster				
Via Michigan Department of Education:				
2015 Summer Food Program	10.559	N/A		\$ 333,680
2016 Summer Food Program	10.559	N/A		29,899
Total Summer Food Program			<u>\$ -</u>	<u>363,579</u>
Total Child Nutrition Cluster			<u>-</u>	<u>363,579</u>
Via Michigan Department of Community Health:				
Special Supplemental Nutrition Program for Women, Infants, and Children 2015	10.557	IW100342	1,087,997	1,221,254
Special Supplemental Nutrition Program for Women, Infants, and Children 2016	10.557	IW100342	3,264,214	3,264,214
Special Supplemental Nutrition Program for Women, Infants, and Children Breastfeeding 2015	10.557	W500342	36,856	40,310
Special Supplemental Nutrition Program for Women, Infants, and Children Breastfeeding 2016	10.557	W500342	98,107	98,107
Total Supplemental Nutritional Assistance Program WIC			<u>4,487,174</u>	<u>4,623,885</u>
Total Department of Agriculture			<u>4,487,174</u>	<u>4,987,464</u>
Department of Housing and Urban Development:				
CDBG - Entitlement Grants Cluster				
Direct Awards:				
Community Development Block Grant	14.218	B-15-MC-26-0006	973,510	20,881,575
Community Development Block Grant	14.218	B-13-MC-26-0006	6,276,422	14,137,003
Community Development Block Grant	14.218	B-14-MC-26-0006	2,367,824	6,205,388
Neighborhood Stabilization Program 1	14.218	B-08-MN-26-0004		1,046,931
Neighborhood Stabilization Program 3	14.218	B-11-MN-26-0004		1,789,851
Total CDBG/Entitlement Grants			<u>9,617,756</u>	<u>44,060,748</u>
Total CDBG - Entitlement Grants Cluster			<u>9,617,756</u>	<u>44,060,748</u>
Direct Awards:				
Emergency Shelter Grant	14.231	E-13-MC-26-0006	240,278	240,278
Emergency Shelter Grant	14.231	E-14-MC-26-0006	1,521,644	1,521,644
Total ESG			<u>1,761,922</u>	<u>1,761,922</u>
Direct Awards:				
Economic Development Grant (EDI)	14.251	B-08-SP-MI-0310		292,268
Economic Development Grant (EDI)	14.251	B-08-SP-MI-0094		294,000
Economic Development Grant (EDI)	14.251	B-08-SP-MI-0522		35,983
Total EDI Grant			<u>-</u>	<u>622,251</u>

City of Detroit, Michigan

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2016

Federal Agency/Pass-through Entity/Program Title	CFDA#	Pass-through Entity Identifying Number	Subrecipient Expenditures	Federal Expenditures
Direct Awards:				
Home Investment Partnership (Special Housing)	14.239	M-15-MC-26-0202	\$	246,222
Home Investment Partnership (Special Housing)	14.239	M-09-MC-26-0202		326,131
Home Investment Partnership (Special Housing)	14.239	M-10-MC-26-0202		2,983,903
Home Investment Partnership (Special Housing)	14.239	M-11-MC-26-0202		8,418,186
Home Investment Partnership (Special Housing)	14.239	M-12-MC-26-0202		5,306,567
Home Investment Partnership (Special Housing)	14.239	M-13-MC-26-0202		1,065,165
Home Investment Partnership (Special Housing)	14.239	M-14-MC-26-0202		25,298
Total Home Investment Partnership			<u>\$ -</u>	<u>18,371,472</u>
Direct Awards:				
Housing Opportunities for Persons With Aids 6/2015	14.241	MIHIF001	-	61,748
Housing Opportunities for Persons With Aids 6/2016	14.241	MIH15-F001	2,261,972	2,261,972
Total HOPWA			<u>2,261,972</u>	<u>2,323,720</u>
Direct Awards:				
Lead Hazard Reduction Demonstration Grant Program	14.905	MI-LHHD-026614		448,477
Total Lead Hazard Reduction Demonstration Program			<u>-</u>	<u>448,477</u>
Total Department of Housing and Urban Development			<u>13,641,650</u>	<u>67,588,590</u>
Department of Interior:				
Via Michigan State Housing Development Authority (MSHDA):				
Historic Preservation Fund Grant Program: Belle Isle Aquarium	15.904	CG15-426		7,630
Total Historic Preservation Fund Grant			<u>-</u>	<u>7,630</u>
Total Department of Interior			<u>-</u>	<u>7,630</u>
Department of Justice:				
Direct Awards:				
Cease Fire Detroit Community Violence	16.123	2012-PB-FX-K002		151,030
Youth Violence Prevention Capacity	16.123	2012-NY-FX-0027		30,618
Total Violence Prevention			<u>-</u>	<u>181,648</u>
Via Michigan Department of Health and Human Services:				
Crime Victim Assist - Rape Counseling Center Prog 2014	16.575	2014-VA-GX-0046		171,194
Crime Victim Assist - V.O.C.A. 2015 / 2016	16.575	2015-VA-GX-0044		372,401
Total Crime Victim Assistance			<u>-</u>	<u>543,595</u>

City of Detroit, Michigan

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2016

Federal Agency/Pass-through Entity/Program Title	CFDA#	Pass-through Entity Identifying Number	Subrecipient Expenditures	Federal Expenditures
Direct Awards:				
COPS Technology Program	16.710	2010-CK-WX-0506	\$	9,338
2013 COPS Hiring Program Grant	16.710	2013-UL-WX-0038		493,458
2013 COPS Micro Bike	16.710	2013-CK-WX-K032		36,722
2015 COPS Hiring Program (& match)	16.710	2015-UL-WX-0024		310,260
Total COPS Grants			\$ -	<u>849,778</u>
Via The National Association of VOCA Assistance Administrators:				
2015 National Crime Victims Rights Week	16.582	2014-VF-GX-K002		1,552
2016 National Crime Victims Rights Week	16.582	2015-VF-GX-K002		5,000
Total Crime Victim Assistance			-	<u>6,552</u>
Via The County of Wayne:				
2010 Justice Assistance Grant	16.738	2010-DJ-BX-1068		381,495
2011 Justice Assistance Grant	16.738	2011-DJ-BX-2481		338,372
2012 Justice Assistance Grant	16.738	2011-DJ-BX-0730		591,696
2013 Justice Assistance Grant	16.738	2013-DJ-BX-0503		235,503
2014 Justice Assistance Grant	16.738	2014-DJ-BX-0503		621,740
Total Justice Assistance Grants (JAG)			-	<u>2,168,806</u>
Via The Detroit Crime Commission:				
Byrne Crime Justice Detroit East	16.817	2012-AJ-BX-0002		61,688
Total Byrne Criminal Justice Innovation Program			-	<u>61,688</u>
Via Community Health and Social Service Center (CHASS):				
2015 Consolidated and Technical Assistance Grant	16.888	2015-CY-AX-0006		324
Total Consolidated and Technical Assistance Grant			-	<u>324</u>
Direct Awards:				
Federal Asset Sharing	16.922	N/A		34,145
Total Federal Asset Sharing			-	<u>34,145</u>
Total Department of Justice			-	<u>3,846,536</u>

City of Detroit, Michigan

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2016

Federal Agency/Pass-through Entity/Program Title	CFDA#	Pass-through Entity Identifying Number	Subrecipient Expenditures	Federal Expenditures
Department of Transportation:				
Highway Planning and Construction Cluster				
Via Michigan Department of Transportation:				
Highway Research Planning and Construction	20.205	00-5459	\$	2,224,133
Total Highway Research Planning and Construction			<u>\$ -</u>	<u>2,224,133</u>
Total Highway Planning and Construction Cluster			<u>-</u>	<u>2,224,133</u>
Federal Transit Cluster				
Via Federal Transit Administration:				
Federal Transit Capital Investment Grant	20.500	MI-03-0241-00		6,816,574
Federal Transit Capital Investment Grant	20.500	MI-04-0093-00		965,962
Total Federal Transit Capital Investment Grants			<u>-</u>	<u>7,782,536</u>
Via Federal Transit Administration:				
Federal Transit Formula Grant	20.507	MI-90-X604-00		41,072
Federal Transit Formula Grant	20.507	MI-90-X605-00		5,789,666
Federal Transit Formula Grant	20.507	MI-90-X642-00		199,704
Total Federal Transit Formula Grants			<u>-</u>	<u>6,030,442</u>
Total Federal Transit Cluster			<u>-</u>	<u>13,812,978</u>
Transit Services Programs Cluster				
Direct Awards:				
Job Access and Reverse Commute Grant	20.516	MI-37-X014-00		31,458
Job Access and Reverse Commute Grant	20.516	MI-37-X020-00		120,757
Job Access and Reverse Commute Grant	20.516	MI-37-X035-00		259,609
Job Access and Reverse Commute Grant	20.516	MI-37-X030-00		296,623
Job Access and Reverse Commute Grant	20.516	MI-37-X041-02		4,056,385
Total Job Access and Reverse Commute Grants			<u>-</u>	<u>4,764,832</u>
Direct Awards:				
New Freedom Grant	20.521	MI-57-X005-00		325,055
New Freedom Grant	20.521	MI-57-X015-00		85,376
New Freedom Grant	20.521	MI-57-X013-00		151,968
Total New Freedom Grants			<u>-</u>	<u>562,399</u>
Total Transit Services Programs Cluster			<u>-</u>	<u>5,327,231</u>

City of Detroit, Michigan

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2016

Federal Agency/Pass-through Entity/Program Title	CFDA#	Pass-through Entity Identifying Number	Subrecipient Expenditures	Federal Expenditures
Highway Safety Cluster				
Via Michigan Department of State Police:				
Strategic Traffic Enforcement Prog 2014-2015 (seat belt)	20.600	PT-15-25	\$	91,342
Strategic Traffic Enforcement Program 2014-2015	20.600	PT-15-26		103,270
Strategic Traffic Enforcement Prog 2015-2016	20.600	PT-16-23		140,091
2015 Youth Alcohol Enforcement	20.616	AL-15-16		26,201
2015-2016 Highway Safety Underage Enforcement	20.616	AL-16-07		19,113
Total State & Community Highway Safety			\$ -	<u>380,017</u>
Total Highway Safety Cluster			-	<u>380,017</u>
Via Michigan Department of Transportation:				
Federal Aviation Admin: Runway Safety Area Study	20.106	D-26-0027-3912		77,102
Total Federal Aviation Administration: Airport Improvement Program			-	<u>77,102</u>
Direct Awards:				
SEMCOG Unified Work Program (UWP)	20.514	U16-16006		314,304
Total SEMCOG Grants			-	<u>314,304</u>
Total Department of Transportation			-	<u>22,135,765</u>
Environmental Protection Agency:				
Clean Water State Revolving Fund Cluster				
Via Michigan Department of Environmental Quality:				
Capitalization Grants for Clean Water-State Revolving Loan	66.458	5486-01		1,417,411
Capitalization Grants for Clean Water-State Revolving Loan	66.458	5619-01		17,253,390
Capitalization Grants for Clean Water-State Revolving Loan	66.458	5619-02		7,517,028
Capitalization Grants for Clean Water-State Revolving Loan	66.458	5619-03		11,348,336
Total Clean Water State Revolving Fund Cluster			-	<u>37,536,165</u>
Drinking Water State Revolving Fund Cluster				
Direct Awards:				
2015 Surface Water Intake Protection	66.468	FS975487-13		16,288
Total Drinking Water State Revolving Fund Cluster			-	<u>16,288</u>

City of Detroit, Michigan

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2016

Federal Agency/Pass-through Entity/Program Title	CFDA#	Pass-through Entity Identifying Number	Subrecipient Expenditures	Federal Expenditures
Direct Awards:				
Recovery Park Green Infrastructure Work	66.469	GL-00E01279		\$ 100,920
Total Capitalization Grants for Clean Water - State Revolving Loans			\$ -	<u>37,653,373</u>
Direct Awards:				
USEPA Environmental Training Grant	66.815	JT-00E01370		31,303
Total Environmental Training Grant			-	<u>31,303</u>
Total Environmental Protection Agency			-	<u>37,684,676</u>
Department of Health and Human Services:				
Medicaid Cluster				
Via Michigan Department of Health and Human Services:				
CSHCS Outreach & Advocacy 9/2015	93.778	B1MIMCHS	70,325	78,800
CSHCS Outreach & Advocacy 9/2016	93.778	05U05M15ADM	200,175	200,175
Total Outreach Advocacy			<u>270,500</u>	<u>278,975</u>
Total Medicaid Cluster			<u>270,500</u>	<u>278,975</u>
Via Michigan Department of Health and Human Services:				
Bio-Terrorism Emerg Prep 9/2015	93.069	U90TP000528	37,131	37,594
Bio-Terrorism Emerg Prep 9/2016	93.069	U90TP000528	163,254	163,254
Cities Readiness Initiatives 9/2015	93.069	U90TP000528	31,424	39,304
Cities Readiness Initiatives 9/2016	93.069	U90TP000528	184,556	184,556
Ebola Emergency Prep 9/2015	93.069	U90TP000528	29,444	30,328
Ebola Emergency Prep 9/2016	93.069	U90TP000528	51,440	51,440
Total Public Health Emergency Preparedness			<u>497,249</u>	<u>506,476</u>
Via Michigan Department of Health and Human Services:				
Immunization Vaccines for Children 09/2015	93.268	H23 CCH522556	116,075	119,263
Immunization Vaccines for Children 09/2016	93.268	H23 CCH522556	218,656	218,656
Immunization Action-Vaccination Shipped (In-Kind)	93.268	N/A		766,123
Total CDC Immunization			<u>334,731</u>	<u>1,104,042</u>
Direct Awards:				
HIV Emerg Supp Relief 2/2016	93.914	H89HA00021-23-03	6,643,458	6,643,458
HIV Emerg Supp Relief 2/2017	93.914	H89HA00021-24-03	1,986,042	1,986,042
Total HIV Emergency Supplemental Relief			<u>8,629,500</u>	<u>8,629,500</u>
Via Michigan Department of Health and Human Services:				
HIV Ryan White Part B 2015	93.917	N/A	10,407	10,407
HIV Ryan White Part B 2016	93.917	N/A	35,349	35,349
Total HIV Ryan White Part B			<u>45,756</u>	<u>45,756</u>

City of Detroit, Michigan

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2016

Federal Agency/Pass-through Entity/Program Title	CFDA#	Pass-through Entity Identifying Number	Subrecipient Expenditures	Federal Expenditures
Via Michigan Department of Health and Human Services:				
Fetal Infant Morality Review 9/2015	93.994	B1MIMCHS	\$ 1,371	\$ 1,620
Fetal Infant Morality Review 9/2016	93.994	B1MIMCHS	2,700	2,700
Infant Safe Sleep 9/2016	93.994	B1MIMCHS	2,126	2,126
Local Maternal & Child Health 9/2015	93.994	B1MIMCHS	463,308	530,680
Local Maternal & Child Health 9/2016	93.994	B1MIMCHS	706,577	706,577
Lead Intervention (MDCH) 9/2015	93.994	B1MIMCHS	90,351	91,546
Lead Intervention (MDCH) 9/2016	93.994	B1MIMCHS	97,904	97,904
Lead Poison Prevention (MDCH) 9/2016	93.994	B1MIMCHS	46,844	46,844
Total Maternal & Child Health Block Grant			<u>1,411,181</u>	<u>1,479,997</u>
Total Department of Health and Human Services			<u>11,188,917</u>	<u>12,044,746</u>
Department of Homeland Security:				
Direct Awards:				
2015 Emergency Management Performance Grant (EMPG)	97.042	N/A		12,691
2016 Emergency Management Performance Grant (EMPG)	97.042	N/A		30,183
Total EMPG			<u>-</u>	<u>42,874</u>
Direct Awards:				
2012 Assistance to Firefighter Grant - Fire Prevention and Safety	97.044	EMW-2012-FO-07169		43,560
2013 Assistance to Firefighter Grant - Fire Prevention and Safety	97.044	EMW-2013-FO-05188		1,176,300
2013 AFG Fire Prevention Grant	97.044	EMW-2013-FP-00717		140,833
Total Assistance to Firefighter Grant			<u>-</u>	<u>1,360,693</u>
Via The County of Macomb:				
2013 HSGP Urban Area Security Initiative Program	97.067	EMW-2013-SS-00049		3,321
2014 HSGP-SHSP	97.067	EMW-2014-SS-00059		25,957
2013 HSGP-UASI	97.067	EMW-2013-SS-00049		1,065
2014 HSGP-UASI	97.067	EMW-2014-SS-00059		499,799
2015 HSGP-UASI	97.067	EMW-2015-SS-00059		21,535
Total HSGP			<u>-</u>	<u>551,677</u>
Direct Awards:				
2012 Safer Grant	97.083	EMW-2012-FH-00665		221,041
2013 Safer Grant	97.083	EMW-2013-FH-00613		7,204,929
Total Safer Grant			<u>-</u>	<u>7,425,970</u>
Total Department of Homeland Security			<u>-</u>	<u>9,381,214</u>
Total Federal Awards			<u>\$ 29,317,741</u>	<u>\$ 157,676,621</u>

City of Detroit, Michigan

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2016

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City of Detroit, Michigan under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the City of Detroit, Michigan, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Detroit, Michigan.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule includes the federal grant activity of the City of Detroit, Michigan and are presented on the same basis of accounting as the financial reporting with the exception of the expenditures related to CFDA 66.458, Capitalization Grants for Clean Water - State Revolving Fund (CWSRF) and CFDA 66.468, Capitalization Grants for Drinking Water - State Revolving Fund (DWSRF) programs which are reported on the Schedule on the cash basis. The CWSRF and DWSRF expenditures are reported in accordance with the subrecipient reporting guidelines outlined in the 2016 OMB Compliance Supplement for CFDA 66.458 and 66.468.

In fiscal year 2016, the City received clarification from the State regarding the reporting of expenditures under CFDA 66.458 (CWSRF) and CFDA 66.468 (DWSRF) to mirror the reporting guidelines included in the 2016 OMB Compliance Supplement. The transition in reporting would have excluded approximately \$10.9 million (as the City reported expenditures under these CFDA numbers on a reimbursement basis in the prior fiscal year) related to CFDA 66.458, from the Schedule. In order to ensure complete reporting of all expenditures, the City has elected to report the \$10.9 million on the Schedule in the current fiscal year.

Expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

The City has elected not to use the 10 percent *de minimus* indirect cost rate to recover indirect costs as allowed under the Uniform Guidance.

Note 3 - Outstanding Loan Balance

The U.S. Department of Housing and Urban Development has insured certain mortgage loan borrowings (CFDA 14.248) made by the City of Detroit, Michigan through the Planning and Development Department in connection with certain development projects. These loans had an outstanding principal due of \$72,588,000 at June 30, 2016. There were no new borrowings in fiscal year 2016. In addition, there are no continuing compliance requirements associated with these loans other than the scheduled repayments.

Note 4 - 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 identified the projects needed in the locality, and the State performed 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 \$18.5 million for the year ended June 30, 2016.

City of Detroit, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516 (a)? Yes No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
14.218 14.239	Community Development Block Grant (CDBG) - Entitlement Grants Cluster HOME Investment Partnerships
20.500, 20.507 20.516, 20.521	Federal Transit Cluster Transit Services Program Cluster (i.e., Job Access and Reverse Commute (JARC))
66.458	Clean Water State Revolving Fund Cluster (i.e. Capitalization Grants for Clean Water - State Revolving Loans)
93.914 97.083	HIV Emergency Relief Project Grants Staffing for Adequate Fire and Emergency Response (SAFER)

Dollar threshold used to distinguish between type A and type B programs: \$3,000,000

Auditee qualified as low-risk auditee? Yes No

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2016

Section II - Financial Statement Audit Findings

Reference
Number

Finding

2016-001 Finding Type - Material weakness (repeat finding)

Criteria - The City, Detroit Water and Sewerage Department (DWSD), Detroit Department of Transportation (DDOT), and its component units should have a process in place to ensure proper recording and reconciling of general ledger activity throughout the year as well as identification and recording of all year-end closing entries in accordance with generally accepted accounting principles (GAAP) prior to the commencement of the audit.

Condition - The City, DWSD, and DDOT's general ledger and underlying financial records were not reconciled and closed in a timely manner. In addition, there were numerous adjustments that should have been identified by management which were instead identified during the audit of the City, DWSD, and DDOT, and by component auditors for the Detroit Building Authority, Detroit Transportation Corporation, and the Detroit Land Bank Authority (component units of the City).

Context - During the City's fiscal year ended June 30, 2016, the City implemented a new general ledger system, transferred the wholesale operations of its water and sewer systems, performed a comprehensive fixed asset inventory, and reorganized its management structure. The staffing constraints caused by these factors contributed to the City and the component units identified above not having the proper controls in place to ensure timely and accurate financial reporting. Material adjusting journal entries were proposed by the auditors and posted by the City, DWSD, and its component units in order to ensure the financial statements were not misstated.

Several of these auditor-identified adjusting entries resulted in prior period adjustments for the City, Detroit Department of Transportation, and Detroit Land Bank Authority. These entries related to material adjustments identified in the current year that were indicative of misstatements in financial reporting impacting prior years. These prior period adjustments had the following impact on beginning net position or fund balance:

Governmental activities:

- Decrease in net position for the net impact of capital asset disposals and additions from prior years that were identified in the current year of \$62.4 million
- Decrease in net position to recognize the net present value discount associated with the grand bargain receivable of \$197 million
- Increase in net position for the impact of recording the Greater Detroit Resource Recovery Authority on the financial statements as a blended component unit for \$29.2 million
- Increase in net position for \$1.9 million of property tax reserve restatements and \$13.0 million of income tax reserve restatements
- Increase in net position for \$9.6 million reduction in due to other governmental units for penalties and interest on estimated escheatments

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2016

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2016-001 (Con't)	<p>Solid Waste Management Fund/Other Governmental Fund:</p> <ul style="list-style-type: none">• Increase in fund balance related to the impact of recording the modified accrual activity of Greater Detroit Resource Recovery Authority in the financial statements as a blended component unit, within this fund, for \$7.0 million <p>Transportation Fund/Business-type Activities:</p> <ul style="list-style-type: none">• Decrease in net position to recognize a liability for MDOT transportation funds due to the State of Michigan for \$9.6 million <p>Discretely Presented Component Units:</p> <ul style="list-style-type: none">• Decrease in net position of \$29.2 million for the impact of recording the Greater Detroit Resource Recovery Authority on the financial statements as a blended component unit• Decrease in net position by \$2.2 million to record impairments of land in the Detroit Land Bank Authority, as identified by the component auditor <p>Adjusting journal entries identified during the audit resulted in a change in net position in excess of \$100 million, including entries related to the following: reclassifying cash and investments held for general creditors under the bankruptcy from the General Fund to an agency fund and adjusting unrealized gains on the related bonds to fair market value; recording Agency Fund cash and offsetting liabilities for the District Court; recording COBO Hall's portion of exit financing debt and offsetting receivable from Detroit Regional Convention Facility Authority; correcting the principal and interest allocation between opinion units for exit financing debt and adjusting accrued interest on debt; recording additional fixed asset additions and construction in progress as well as adjusting depreciation expense and accumulated depreciation; reclassifying capital outlay originally recorded as miscellaneous expense or still inappropriately remaining in construction in progress; reallocation of fringe benefit costs among opinion units; correcting parking fund beginning net position to agree to prior year financial statements; adjusting income tax trust funds and estimated income tax refunds payable; adjusting property and income tax receivables and the related allowance for amounts expected to be collected including the related modified accrual deferred inflows and full accrual revenue; decreasing amounts owed to other governmental agencies for estimated property tax overpayment escheatment liabilities; adjusting the useful life of capital assets with expiring lease agreements; recording estimated liabilities for Michigan Tax Tribunal appeals; adjusting revenue and deferred inflows for grant receipts received within the corrected period of availability; reconciling interfund activity and adjusting interfund balances; adjusting accounts payable; writing off various unsupported accrued receivables and liabilities and offsetting revenue and expenditures; writing off additional liabilities extinguished during the bankruptcy; adjusting the net pension liability and related deferred inflows and outflows; reducing the net OPEB liability for interest earned on trust fund assets; and recording receivables, revenue, receivables, and deferred inflows for wagering taxes.</p> <p>Adjusting entries related to transferring the wholesale operations of the water and sewer systems to the Great Lakes Water Authority (GLWA) include adjustments to assets, long-term debt, pension liabilities, accounts receivables, and capital assets transferred to GLWA.</p>

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2016

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2016-001 (Con't)	<p>Entries were also identified by component auditors for the Detroit Building Authority, the Detroit Transportation Corporation, and the Detroit Land Bank Authority to record expenses in the proper period and to ensure the related receivables and revenue/deferred inflows were properly recorded where applicable.</p> <p>In addition to the adjusting entries made as a result of the audit, certain auditor-identified entries ultimately were not recorded due to immateriality, including recognizing the impact from bankruptcy of the stub bonds restructuring, adjusting cash in escrow related to partially defeased HUD Section 108 Loans, recording loans receivable and allowances for HUD HOME loans to developers, adjusting allowances for Sewer Fund receivables, adjusting Parking Fund accumulated depreciation to reflect change in estimate in useful life and agree to supporting documentation, recording activity of the Joint Employment and Procurement Advisory Board (JEPAB) discretely presented component unit, reclassifying the Employee Benefits Fund and Employee Disability Income trust funds as internal service funds, recording receivables related to DDA capture adjustments, recording additional contingencies for lawsuits, increasing the liability for compensated absences, adjusting amounts due to other taxing authorities, adjusting pension asset valuations to fair market value, and adjusting participant loan balances in retirement funds. Passed adjustments also include adjusting the net pension liability and related deferred inflows, outflows, and pension expense for the Water and Sewer Funds; adjusting the allowance for sewer receivables; and recording cash in Detroit Water and Sewer Department's name held at Great Lakes Water Authority.</p> <p>Cause - The City, DWSD, DDOT, and several of its component units did not have processes in place to ensure activity was properly reconciled to the general ledger throughout the year and year-end closing entries were identified and recorded in the general ledger prior to the commencement of the audit.</p> <p>Effect - If the City, DWSD, DDOT, and the component units identified above had not recorded the auditor-identified entries, the financial statements would have been materially misstated.</p> <p>Recommendation - The City should continue to work with all departments to ensure that each has adequate resources to fully and accurately reconcile and record activity throughout the year and identify and record year-end entries prior to the start of the audit. A system will need to be developed to close the financial records in a timely manner, which will include forming reliable estimates for certain accruals since management may not be able to rely on actual subsequent receipts and disbursements in all instances (i.e., look-back adjustments). An independent review of reconciliations and trial balances prior to the start of the audit would assist in identifying and correcting potential errors.</p> <p>Views of Responsible Officials and Planned Corrective Actions - We have reviewed the findings and concur with the recommendations. During fiscal year 2016, the CFO continued implementing the strategic objectives of the Office of the Chief Financial Officer (OCFO) to restructure and reorganize the financial operations of the City. The OCFO is in the process of documenting all policies and procedures.</p>

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2016

Section II - Financial Statement Audit Findings (Continued)

Reference

Number

Finding

2016-002 Finding Type - Material weakness (repeat finding)

Criteria - There should be a procedure in place to reconcile bank activity on a timely basis and to ensure cash balances are properly stated as of the end of the year. In addition, the City should ensure its listing of accounts with financial institutions is updated timely and access rights related to online banking are reviewed and updated as employee status changes are made.

Condition - The City, Detroit Water and Sewerage Department (DWSD), Detroit Department of Transportation (DDOT), and the Detroit Transportation Corporation (DTC) discretely presented component unit did not have procedures in place to ensure all bank accounts were fully reconciled to the general ledger and the reconciliations were performed timely. The City's outstanding check list also contained a large amount of voided checks dating back many years. In addition, the City's account listing was incomplete and user access was not updated for employee status changes. Purchasing card (P-Cards) cash balances were not reconciled to the general ledger by the City to reflect actual ending balances.

Context - The City has a significant number of bank accounts to reconcile each month and primary accounts have significant monthly activity. During the current year, the City has been reviewing accounts to determine if accounts could be closed to increase efficiency and to reduce both costs and the potential for error.

The City, DWSD, DDOT, the DTC did not prepare timely bank reconciliations throughout the year. In addition, the City's reconciliations did not always fully reconcile between the adjusted general ledger and bank balances. In some cases, the unreconciled difference was significant and there is not a formal approval process to resolve unreconciled errors. The DWSD, DDOT, and the DTC reconciliations did not provide evidence of review. The City's outstanding check list contained a large number of voided checks which were voided in the City's general ledger, but were not communicated to the bank as void. Voided checks were destroyed so there is no documentation trail to easily demonstrate those checks were actually voided versus tendered.

Additionally, during our testing of online banking controls, there was an account identified by city staff as an active account as of June 30, 2016. After further discussion with the bank, it was discovered it had been inactive for at least one year. In addition, there were individuals who were no longer employed by the City that still had review access rights at one institution.

P-Cards are debited with cash from donations for certain special events. However, the general ledger balances for the P-Card were not being adjusted as expenditures were incurred to reduce the cash balance. An adjustment was recorded to reconcile the P-Cards to the spreadsheet used to track use of the donated funds.

Cause - The City, DWSD, DDOT, and the DTC did not have procedures in place to ensure timely preparation and review of bank reconciliations, including proper accounting for voided checks, updating of user rights related to online banking, and tracking of P-Card balances.

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2016

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
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2016-002 (Con't) **Effect** - Without timely and accurate bank reconciliations and follow-up on voided checks, the City, DWSD, DDOT, and the DTC could fail to identify errors and malfeasance related to cash transactions and P-Cards. Additionally, failure to timely update user rights could result in unauthorized access to city accounts.

Recommendation - We recommend the City continue to review its bank accounts to determine if additional consolidation of accounts is possible. For those accounts that are necessary, we recommend the City, DWSD, DDOT, and the DTC ensure adequate resources are available to perform timely bank reconciliations (including P-Cards) for these accounts and that the reconciliations are reviewed and an approval process is documented for unreconciled differences. The City should also communicate with the banks to ensure all checks voided in the general ledger system are also voided at the banks. We also recommend the City ensure it has proper procedures in place to timely review and update the list of active bank accounts as well as to ensure the appropriate individuals have access rights and that changes in employee status are updated timely.

Views of Responsible Officials and Planned Corrective Actions - We have reviewed this finding and have enhanced our existing bank reconciliation procedures to incorporate the original date of reconciliation and approval thresholds for unreconciled amounts. As a part of the implementation of the CFO's strategic objectives to restructure and reorganize the financial operations of the City, the bank reconciliation process was centralized and accounting staff was hired to prepare bank reconciliations throughout the year. The City's existing policy includes preparation, review, and dissemination of reconciling items to appropriate OCFO personnel for correction. This process also includes weekly status meetings to resolve outstanding issues. We note that reconciliations go through reiterations as reconciling items are resolved until the month end/period is closed.

In addition, the City is continually reviewing the necessity of certain bank accounts and has closed unnecessary accounts when appropriate. The City has established a reporting process to track active and closed accounts. Communication of the closed accounts now occurs on a monthly basis.

Lastly, treasury will review online banking access rights on a quarterly basis to ensure access rights are updated to align with employee status changes. Treasury will also work with human resources to establish process to receive notifications of employee status changes.

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2016

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2016-003	<p>Finding Type - Material weakness (repeat finding)</p> <p>Criteria - There should be a documented process in place to ensure that the City has proper segregation of duties and approval processes in place related to the appropriateness of cash disbursements.</p> <p>Condition - There was a lack of adequately documented, segregated, and implemented controls over approval processes related to the appropriateness of certain cash disbursements.</p> <p>Context</p> <ul style="list-style-type: none">• The City does not have formal documentation for authorized individuals and related approval thresholds for income tax refunds. During fiscal year 2016, the State of Michigan began processing income taxes for the City for individuals for tax year 2015 and for withholdings, corporate, partnership, and all others beginning January 1, 2017 (tax year 2016). The City will continue to process refunds and delinquent tax activity for years prior to tax years 2015 (individuals) and 2016 (all others).• Both the human resources and payroll audit functions have the ability to initiate and approve a wage or salary change.• Of the six transactions selected for testing related to accumulated employee compensated absence bank payouts upon termination during the year, there was one payout that resulted in an underpayment of eight hours and two payouts that resulted in excess contributions to the employee's retirement benefit in the amount of \$33,750. Upon a limited review performed by the City in response to the identified underpayment, the City identified an additional \$100,000 of overpayments. If a recalculation was performed on all payouts, additional errors could be identified. Total payouts during the year were less than \$10 million. <p>Cause</p> <ul style="list-style-type: none">• A policy was not in place to require income tax refunds over a certain threshold to be approved.• There was a lack of segregation of duties related to the ability to initiate and approve wage and salary changes.• The City's process for calculating and reviewing payouts of accumulated compensated absence banks upon termination of employees was not effective.

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2016

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
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**2016-003
(Con't)** **Effect**

- Without a threshold over which income tax refunds need to be approved, there is a potential for improper payouts to be issued.
- Since human resources and the payroll audit functions have the ability to initiate and approve compensation changes, there is a potential for improper rates to be initiated and approved without a secondary review.
- There were employee payouts for accumulated compensated absence that banks disbursed for incorrect amounts.

Recommendation - We recommend that the City implement the following controls:

- The City should consider adopting a formal policy to establish an approval process for income tax refunds over a certain threshold to the extent the City has refunds to process.
- The City should review the duties of human resources and the payroll audit departments to determine which department should initiate wage changes and which should review and approve them to ensure proper segregation of duties.
- The City should establish a formal review process which includes recalculating proposed termination payments and agreeing them to current contracts with bargaining units and any additional agreements related to the bankruptcy proceedings to ensure the proposed payments are properly calculated.

Views of Responsible Officials and Planned Corrective Actions - We have reviewed this finding and concur with the recommendation. Treasury will develop policies and procedures for income tax refund approvals to include approval thresholds for income tax division staff.

We also note that the human resources department's restructuring is underway as well as the implementation of a new Human Resources Information System (HRIS). This HRIS implementation includes new policies, procedures, and internal controls, and staff will monitor, track, and measure the adequacy of the internal controls. New policies and procedures will also be implemented over compensated absence bank payouts. These new procedures will include validation checks to ensure that accumulated hours are accurate based on source data. The procedures will also include a separate review and authorization process to ensure accuracy.

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2016

Section II - Financial Statement Audit Findings (Continued)

Reference
Number

Finding

2016-004 Finding Type - Material weakness

Criteria - The City, in conjunction with the City's Retirement Systems (police and fire, and general) (the "Retirement Systems"), should have a documented process to ensure timely and accurate accumulation, review, and submission of census data to the retirement systems' actuary in order to obtain the information required to comply with GASB Statement Nos. 67 and 68.

Condition - During the audit of the census data provided to the actuary, several instances of errors were noted in the data or there was missing data that resulted in incomplete information.

Context - The specific issues noted include the following:

- Frozen Accrued Benefits (Police & Fire and General Employees Retirement Systems - Component II) - As Component II is frozen as of June 30, 2014, a calculation of individuals' frozen accrued benefits for active members should be performed and provided to the actuary. Currently, these calculations have not been performed and the actuary is estimating based on average final compensation (AFC) and sick bank data as of June 30, 2014 provided by the system. The actuary has increased the frozen accrued benefit estimates by 8 percent to provide consistency with a limited number of actual computations.
- Completeness of Census Data (Police & Fire and General Employees Retirement Systems - Component I and II) - Based on the testing performed, it was noted some members were either improperly included or excluded from the data sent to the actuary. In addition, some key employee data was missing for members.
- Active Pay Amount (Police & Fire and General Employees Retirement Systems - Component I) - The actuary uses an active member's current pay in its calculation for determining a member's estimated future benefit. Based on the testing performed, some discrepancies were noted between the pay information provided to the actuary and pay information from the City.
- Retiree Benefit Amount (Police & Fire and General Employees Retirement Systems - Component II) - The actuary uses a retiree member's current pension in its calculation for determining a member's present value of future benefits. Based on the testing performed, some discrepancies were noted between the pay information provided to the actuary and pay information from the City.
- Death Audit (Police & Fire and General Employees Retirement Systems - Component I and II) - It was noted a death audit was not performed on the deferred members list sent to the actuary. These issues could lead to the pension liability being misstated due to incomplete or inaccurate information.
- Once information is provided to the actuary and the actuarial report is generated, the Retirement Systems do very little to verify that the actuary actually did use the same census information that was originally provided.

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2016

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2016-004 (Con't)	<p>Cause - The City provides active pay data to the Retirement Systems, but sometimes that data is not accurate or complete. The Retirement Systems maintain census information for retired or deferred members. While the Retirement Systems do have a process in place to review the census data prior to providing it to the actuary, that process is not effective in ensuring the census information is complete and accurate.</p> <p>Effect - Without procedures to ensure timely accumulation of complete and accurate census data, the City's net pension liability that is recorded on the statement of net position of each affected opinion unit could be materially misstated.</p> <p>Recommendation - We recommend that the City, in conjunction with the Retirement Systems, implement the following processes and controls:</p> <ul style="list-style-type: none">• Frozen Accrued Benefits (Police & Fire and General Employees Retirement Systems - Component II) - It is recommended the City and the Retirement Systems complete the calculations of the final frozen accrued benefits as of June 30, 2014 and provide the data to the actuary as soon as possible; this would result in the most accurate calculation of the total pension liability of Component II.• Completeness of Census Data (Police & Fire and General Employees Retirement Systems - Component I and II) - As the Component I and II census data is retained in the same database, it is recommended the City and the Retirement Systems have a process in place to accurately determine which members are eligible for each plan. Also, we recommend a more robust review of census data prior to sending the census information to the actuary to identify any missing data; subsequent follow up should be performed timely prior to remitting the data to the actuary.• Active Pay Amount (Police & Fire and General Employees Retirement Systems - Component I) - It is recommended the City and/or the Retirement Systems perform sample testing on the data sent to the actuary to ensure it is providing the proper compensation information, as defined in the plan of adjustment.• Retiree Benefit Amount (Police & Fire and General Employees Retirement Systems - Component II) - It is recommended the City and/or the Retirement Systems perform more robust sample testing on the data sent to the actuary to ensure it is providing the proper retiree pay information.• Death Audit (Police & Fire and General Employees Retirement Systems - Component I and II) - We encourage the City and/or the Retirement Systems to put in place more comprehensive procedures to further ensure the accuracy of this census data, particularly for deferred members who were not subject to a death audit this past year.• We recommend that the Retirement Systems perform high-level analytical procedures on the census data to ensure the ultimate reporting by the actuary encompasses the totality of the information that the Retirement Systems actually provided. <p>Views of Responsible Officials and Planned Corrective Actions - We have reviewed this finding and concur with the recommendation. The City will develop and document a process to ensure accurate information is provided to the actuary.</p>

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2016

Section II - Financial Statement Audit Findings (Continued)

Reference

Number

Finding

2016-005 Finding Type - Material weakness (repeat finding)

Criteria - The City relies on multiple third-party service providers to process transactions, including workers' compensation, IT hosting services, parking fee collection, payroll processing, self-insurance claims processes, and ambulance billing services. When an entity outsources tasks or functions to a third-party service organization, the user organization, in this case the City, needs to monitor risks associated with outsourcing, particularly risks related to how the service organization performs the tasks or functions and how that may affect the user entity's compliance with requirements. The City, as the user entity, despite the outsourcing, retains the ultimate responsibility for managing these risks and needs to monitor the services provided by the service organization, including monitoring city user access rights to these third-party systems and gaining assurance that the system information provided by the service organization to the City is accurate.

Condition - The City did not have processes in place to assess and validate controls in place at third-party service providers including those which handle processing and payment of worker's compensation claims, provide cloud hosting of the City's financial application, collect and administer parking fines and outstanding parking tickets, process credit card payments for parking garages and parking meters, provide payroll processing services for the 36th District Court, administer self-insured medical and dental claims, and provide ambulance billing services.

The Service Organization Controls Report (SOC-1) for each of these vendors providing services was not reviewed. The SOC-1 reports focus on controls at the service organization that affect the City's financial reporting, security of the City's data held by the third party, and the third party's processing integrity.

Context - The City engages multiple third-party service providers to assist with billing, claims processing, liability estimates, etc. In addition, the City began utilizing a cloud service provider for financial application in the current year. A review of each of the service organizations' SOC-1 reports will assist the City in evaluating controls at the service organizations, including the effectiveness of those controls, and further enable the City to understand the impact on its financial statements.

Cause - There was a lack of proper controls to ensure the City obtained information related to the controls at the various service providers that could impact the reliability of the City's financial reporting system.

Effect - Lack of review of SOC-1 reports on internal controls in place at service providers could lead to inaccurate reporting.

Recommendation - The City should obtain and review SOC-1 reports for all significant service providers.

Views of Responsible Officials and Planned Corrective Actions - We have reviewed this finding and concur with the recommendation. DoIT and OCFO-Financial Planning & Analysis (OCFO-FP&A) will establish a policy to review the relevant reports (i.e., SOC-1 reports) on annual basis.

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2016

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2016-006	<p>Finding Type - Material noncompliance and material weakness (repeat finding)</p> <p>Criteria - There should be a process in place to ensure that the City and the City's component units comply with laws and regulations.</p> <ul style="list-style-type: none">• The Uniform Unclaimed Property Act (Public Act 29 of 1995) requires the Michigan Holder Transmittal Annual Report of Unclaimed Property to 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.• Per Public Act 2 of 1968, Section 141.435 (2), states' total budgeted expenditures shall not exceed estimated revenue plus accumulated fund balance. In addition, Section 141.438 (3), "Except as otherwise provided in Section 19, an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body." <p>In addition, Section 141.435:</p> <ul style="list-style-type: none">• Public Act 213 of 2007 requires that quarterly investment reports be provided to City Council.• Per 2 CFR 200.302(a) nonfederal entities' financial management systems, including records documenting compliance with federal statutes, regulations, and the terms and conditions of the federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions, and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the federal statutes, regulations, and the terms and conditions of the federal award. <p>Condition - There were instances identified where the City and the Detroit Transportation Corporation (DTC), a component unit, were not in compliance with laws and regulations as follows:</p> <ul style="list-style-type: none">• The City has outstanding checks related to payroll, accounts payable, and property tax refunds that have not been escheated to the State of Michigan. Many of these checks have been outstanding for several years.• The City's final budget for several nonmajor special revenue funds resulted in a projected deficit. There were expenditures incurred against appropriations in excess of the amount appropriated by the City Council.• Quarterly investment reports were not provided to the City Council.• The City's process to accumulate transactions related to fiscal year 2016 into its general ledger did not allow for timely reporting of accurate financial information. Additionally, in certain instances, we were unable to trace the expenditures into the City's general ledger at the lowest level of detail.

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2016

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
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2016-006 **Context**
(Con't)

- The City has recorded a liability for amounts to be escheated to the State of Michigan including estimated penalties and interest at June 30, 2017.
- For certain nonmajor special revenue funds, the City's final budget resulted in a projected fund deficit as presented in the required supplemental information. For certain appropriations, the City's actual expenditures exceeded its corresponding appropriation as presented in the notes to the basic financial statements.
- The required quarterly reporting was not provided to the City Council during the fiscal year.
- The City identified journal entries impacting fiscal year 2016 grant activities well into fiscal year 2017, which delayed the preparation of the final schedule of expenditures of financial awards (SEFA) and related reconciliations.

Cause - There is not a process in place to fully monitor compliance with laws and regulations throughout the year.

Effect - The City and the DTC were out of compliance with the laws and regulations identified above.

Recommendation - We recommend that the City and DTC implement a process that identifies specific individuals responsible for identifying and monitoring applicable compliance requirements throughout the year. In addition, the City should consider filing a Voluntary Disclosure Agreement (Form 4869) when submitting escheatments to the state.

Views of Responsible Officials and Planned Corrective Actions - We have reviewed this finding and concur with the recommendation. The reorganization of treasury will be completed in the current fiscal year. In the new organization, there will be a team specifically dedicated to process escheatments. Treasury will also document its escheatment policies and procedures prior to the end of the calendar year. In addition, treasury is also finalizing the investment policy and procedures, which include the requirement to provide quarterly investment reporting to the City Council.

We also note that during fiscal year 2016, the office of budget conducted quarterly meetings with city departments to assist in compliance with the budget. As a part of the implementation of the CFO's strategic objectives to restructure and reorganize the financial operations of the City, monthly budget reports are prepared and meetings are conducted between the office of budget, the office of departmental financial services, and the City departments to monitor and analyze the budget to prevent recurring violations of the Uniform Budgeting and Accounting Act. These monthly budget-to-actual reports are shared with the CFO and the mayor's team to maintain compliance with the budget. Budget amendments to better align the budget with actual spending will be prepared to eliminate projected year-end appropriation deficits in General Fund departments, if warranted.

Lastly, The OCFO has continued to centralize the grant accounting and draw-down function within the office of the controller. As a result, we have begun to monitor bank and general ledger activities on a monthly basis to ensure completeness and accuracy of expenses in the proper period. This will ultimately allow the City to create the SEFA in a timely manner.

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2016

Section II - Financial Statement Audit Findings (Continued)

Reference
Number

Finding

2016-007 Finding Type - Material weakness (repeat finding)

Criteria - The City should ensure general controls related to user access of information technology are operating effectively.

Condition - The City did not have processes in place to ensure user access to the financial application systems was reviewed to ensure appropriate access rights were granted and limited to user needs and changes in access were made as user roles changed.

Context - The City has multiple financial application systems. A formal process was not in place to ensure user access was reviewed so that access would be appropriately limited to user needs and changes in user access were reflected timely based on role changes related to the City's general ledger application.

Cause - There was a lack of proper controls to ensure the City reviewed user access controls for its general ledger application.

Effect - Lack of review of user access rights could result in unauthorized access to the City's general ledger system, impacting the accuracy and reliability of financial reporting.

Recommendation - The City should ensure a formal review of user access rights is performed as new systems are implemented and role changes occur.

Views of Responsible Officials and Planned Corrective Actions - We have reviewed this finding and concur with the recommendation. OCFO-FP&A is in the process of establishing a matrix that lists by position the appropriate roles to be assigned. DoIT will work with OCFO-FP&A to complete this matrix. This matrix will be used by the system administrator to ensure appropriate access is granted. DoIT and OCFO-FP&A will review roles assignments on a regular basis.

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2016

Section II - Financial Statement Audit Findings (Continued)

Reference
Number

Finding

2016-008 Finding Type - Significant deficiency

Criteria - The City should have controls in place to ensure that adjustments to individual customer accounts in the utility billing system are appropriate and documented as reviewed by a second person.

Condition - We identified two customers whose drainage charges were modified in the utility billing system, and we did not observe any documented procedure for a second person to review and approve these changes. In one of the instances, we did not note any documentation supporting the change or explaining why the change was being made.

Context - The billing changes identified in our sample were limited to the drainage charge assessed to commercial and industrial customers.

Cause - Assessing the drainage charge to commercial and industrial customers appropriately requires using the correct class of customer and acreage. Both of these elements of the billing process seem to be challenged by various customers, which leads to changes being made by employees.

Effect - Without the appropriate review process in place, the likelihood that the City could bill the wrong amounts for drain charges increases.

Recommendation - We recommend the department institute procedures to document any billing changes and include approval by a second individual. We would note that an after the fact approval may be sufficient.

Views of Responsible Officials and Planned Corrective Actions - We would note that the control issue was first identified by DWSD internal audit late last year. We have since drafted a policy to address the control issue. A copy of the draft is available upon your request. Some portions of the new policy have been implemented (e.g., no refund checks provided to customers under \$150 - all over \$150 to be signed by CFO) but others will be approved after the full policy is approved by the BOWC. Also note, full implementation of the policy will likely require some system modifications. As such, we anticipate full policy implementation by first quarter fiscal year 2018.

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2016

Section III - Federal Program Audit Findings

Reference Number	Finding
2016-009	<p>CFDA Number, Federal Agency, and Program Name - CFDA #14.218, Housing and Urban Development, Community Development Block Grant Entitlement Cluster (CDBG), CFDA #14.239, Housing and Urban Development, Home Investment Partnership (HOME), CFDA #66.458 Environmental Protection Agency, Capitalization Grants for Clean Water - State Revolving Fund (CWSRF), CFDA #20.205, Highway Planning and Construction Cluster</p> <p>Federal Award Identification Number and Year - CDBG- B-13-MC-26-0006, B-14-MC-26-0006, and B-15-MC-26-0006</p> <p>NSP 1 - B-08-MN-26-0004</p> <p>NSP 3 - B-11-MN-26-0004</p> <p>Home - M09-MC260202, M10-MC260202, M11-MC260202, M12-MC260202, M13-MC260202, M14-MC260202, and M15-MC260202</p> <p>SRF - 5619-03</p> <p>Highway Planning and Construction Cluster - 00-5459</p> <p>Pass-through Entity - CFDA #66.458 (CWSRF) is passed through Michigan Department of Environmental Quality</p> <p>CFDA #20.205, Highway Planning and Construction is passed through the Michigan Department of Transportation</p> <p>Finding Type - Material weakness</p> <p>Repeat Finding - Yes</p> <p>2015-08</p> <p>Criteria - Per 2 CFR 200.502(a) - The determination of when a federal award is expended must be based on when the activity related to the federal award occurs. Generally, the activity pertains to events that require the nonfederal entity to comply with federal statutes, regulations, and the terms and conditions of federal awards, such as: expenditure/expense transactions associated with awards including grants, cost-reimbursement contracts under the FAR, compacts with Indian tribes, cooperative agreements, and direct appropriations; the disbursement of funds to subrecipients; the use of loan proceeds under loan and loan guarantee programs; the receipt of property; the receipt of surplus property; the receipt or use of program income; the distribution or use of food commodities; the disbursement of amounts entitling the nonfederal entity to an interest subsidy; and the period when insurance is in force.</p> <p>CWSRF amounts are awarded by the EPA to states as grants. The state then makes subawards in the form of loans to its subrecipients. Therefore, in determining the amount of federal funds expended to be reported on the schedule of expenditures of federal awards (SEFA), subrecipients receiving CWSRF loans should include project expenditures incurred under these loans during the audit period as provided in 2 CFR section 200.502(a). These are subawards, not direct federal loans, and therefore, and neither two CFR sections 200.502(b) or (d) apply when calculating the amount of federal funds expended.</p> <p>Condition - The initial SEFA did not report expenditures in accordance with the above regulations.</p>

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2016

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2016-009 (Con't)	<p>Questioned Costs - None</p> <p>Identification of How Questioned Costs Were Computed - Not applicable as there are no questioned costs.</p> <p>Context - The following errors were subsequently corrected:</p> <ul style="list-style-type: none">• CDBG Entitlement Cluster (CFDA 14.218) - The expenditures reported on the SEFA were adjusted by approximately \$9,000,000 to fully reflect the underlying activities that occurred during the period under audit.• Home Investment Partnership Program (CFDA 14.239) - The expenditures reported on the SEFA were adjusted by approximately \$4,120,000 to fully reflect the underlying activities that occurred during the period under audit.• SRF (CFDA 66.458) - Approximately \$1,200,000 of expenditures on the initial SEFA were paid after the reporting date and should not have been included in the SEFA.• Highway Planning and Construction Cluster (CFDA 20.205) - The SEFA was adjusted to include approximately \$2,200,000 of cluster expenditures which were excluded from the SEFA. <p>The following errors were not corrected:</p> <ul style="list-style-type: none">• CDBG Entitlement Cluster (CFDA 14.218) - The expenditures reported on the SEFA include approximately \$2,837,000 that relates to the prior fiscal year.• Home Investment Partnership Program (CFDA 14.239) - The expenditures reported on the SEFA include approximately \$2,776,000 that relates to the prior fiscal year.• Highway Planning and Construction Cluster (CFDA 20.205) - The expenditures reported on the SEFA include approximately \$770,000 that relates to the prior fiscal year. <p>Cause and Effect - Internal control procedures were not adequate to create a complete and accurate SEFA resulting in revisions to the SEFA. The changes did not impact major program determination.</p> <p>Recommendation - The City should design controls over SEFA reporting to ensure that the expenditures on the SEFA are complete and accurate.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The Office of the Chief Financial Officer (OCFO) will continue to design stronger internal controls over SEFA reporting to ensure that the expenditures on the SEFA are complete and accurate. A review will be performed in advance of SEFA reporting to ensure compliance.</p>

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2016

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2016-010	<p>CFDA Number, Federal Agency, and Program Name - 97.083, Department of Homeland Security (Federal Emergency Management Agency), Staffing for Adequate Fire and Emergency Grants</p> <p>Federal Award Identification Number and Year - EMW 2013 FH 00613</p> <p>Pass-through Entity - N/A</p> <p>Finding Type - Material noncompliance with laws and regulations</p> <p>Repeat Finding - Yes</p> <p>2015-31</p> <p>Criteria - Federal Emergency Management Agency (FEMA) awarded the City \$24,206,500 under award number EMW 2013 FH 00613 based on the application submitted by the City, which outlined its request was based on hiring and maintaining 150 firefighters on payroll</p> <p>FEMA set up all performance measures are based on the application submitted by the City.</p> <p>Condition - The City applied for and was awarded the 2013 SAFER award to hire and maintain 150 firefighters on payroll. However, as of June 30, 2016, the City had 147 firefighters on payroll. The City's inability to meet the level of effort requirements did not create any questioned costs.</p> <p>Questioned Costs - None</p> <p>Identification of How Questioned Costs Were Computed - Not applicable as there are no questioned costs.</p> <p>Context - The City received an award for \$24,206,400 to be used to hire and maintain 150 firefighters on payroll. The City was able to maintain this level of services during the year; however, there was significant turnover toward the end of fiscal year 2016 that caused for a drop in the number of firefighters on payroll being charged to the grant.</p> <p>Cause and Effect - There was significant turnover toward the end of fiscal year 2016. Management described a cumbersome new hire process that resulted in the City being unable to rehire three additional firefighters to ensure the minimum required firefighters on payroll.</p> <p>Recommendation - The City should review the turnover rates and hire an adequate number of firefighters to meet any shortfall that might occur as a result of turnover.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The Detroit Fire Department will review the turnover rates and hire an adequate number of firefighters to meet any shortfall that might occur as a result of turnover. The Office of the Chief Financial Officer will periodically review the number of firefighters and highlight any shortfalls.</p>

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2016

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2016-011	<p>CFDA Number, Federal Agency, and Program Name - 97.083, Department of Homeland Security (Federal Emergency Management Agency), Staffing for Adequate Fire and Emergency Grants</p> <p>Federal Award Identification Number and Year - EMW 2013 FH 00613</p> <p>Pass-through Entity - N/A</p> <p>Finding Type - Significant deficiency</p> <p>Repeat Finding - Yes</p> <p>2015-28</p> <p>Criteria - Per Circular A-87 (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 semiannually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.</p> <p>Condition - During fiscal year 2016, the City had 147 firefighters who charged 100 percent of their time to the 2013 SAFER award. The City completed payroll certification to meet the requirements under Circular A-87; however, the first payroll certification for the fiscal year covered the period from July 1, 2015 through February 21, 2016 (essentially covered 7.5 months rather than the minimum six-month period) and the payroll certification was not signed until September 2016. The payroll certification for the remaining part of the fiscal year did cover 4.5 months (February 22, 2016 through June 30, 2016) and was signed in a more timely manner in August 2016. This condition did not create any questioned costs.</p> <p>Questioned Costs - None</p> <p>Identification of How Questioned Costs Were Computed - Not applicable as there are no questioned costs.</p> <p>Context - The City received an award for \$24,206,400 to be used to hire and maintain 150 firefighters on payroll. The City charged 100 percent of the payroll and fringes to the 2013 SAFER grant. The City has a process to determine allowability of costs charged to the grant, but did not complete the required certifications for the minimum required period in a timely manner.</p> <p>Cause and Effect - The City did not have proper control procedures in place to ensure required certifications were completed, which resulted in the certifications not being performed within the minimum required time period.</p> <p>Recommendation - The City should review grant award and other documentation to identify the relevant rules and regulations and ensure that procedures are implemented in a timely manner to comply with these rules and regulations.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The Detroit Fire Department will continue to develop written policies and procedures to include provisions for collecting and tracking required certifications in a timely manner to comply with federal rules and regulations.</p>

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2016

Section III - Federal Program Audit Findings (Continued)

Reference
Number

Finding

2016-012 **CFDA Number, Federal Agency, and Program Name** - 93.914 - Department of Health and Human Services Health Resources and Services Administration - HIV Emergency Relief Program Grants (Ryan White HIV/AIDS Program Part A), 10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)

Federal Award Identification Number and Year

Ryan White - 6 H89HA00021-23-03 (March 1, 2015 - February 29, 2016)

Ryan White - 6 H89HA00021-24-03 (March 1, 2016 - February 28, 2017)

WIC - Contract number 20151729-00 (October 1, 2014 - September 30, 2015)

WIC - Contract number 20161677-00 (October 1, 2015 - September 30, 2016)

Pass-through Entity - WIC is passed through the Michigan Department of Health and Human Services.

Finding Type - Material weakness and material noncompliance with laws and regulations

Repeat Finding - Yes

Repeat finding for CFDA 93.914 only - 2015-25

Criteria - In accordance with 45 CFR 75.305 2(b), for nonfederal entities other than states, payment methods must minimize the time elapsing between the transfer of funds from the United States Treasury or the pass-through entity and the disbursement by the nonfederal entity whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payments by other means.

In accordance with 2 CFR 305 (b) (3), when the reimbursement method is used, the federal awarding agency or pass-through entity must make payment within 30 calendar days after receipt of billing, unless it is believed the request to be improper.

Condition - Controls in place did not minimize the time elapsing between the transfer of funds from HRSA (Ryan White HIV/AIDS Program Part A) and Michigan Department of Health and Human Services (WIC) and the disbursements to the City of Detroit, Michigan's subrecipients.

Questioned Costs - None

Identification of How Questioned Costs Were Computed - Not applicable as there are no questioned costs.

Context - For Ryan White, three out of the seven billings received from the City of Detroit, Michigan's subrecipient were paid in excess of 30 calendar days. The days in excess of the 30 calendar days ranged from 39-49 calendar days.

For WIC, in three out of the 25 transactions selected for testing, it took the City of Detroit, Michigan greater than 30 calendar days to make payment to subrecipients after receipt of billing. The days in excess ranged from 31-99 calendar days.

Cause and Effect - Controls in place did not result in the City of Detroit, Michigan minimizing the time elapsed between the transfer of funds from HRSA (Ryan White) and Michigan Department of Health and Human Services (WIC) and the disbursement to its subrecipients.

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2016

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2016-012 (Con't)	<p>Recommendation - We recommend that City of Detroit, Michigan review its procedures and controls to ensure disbursement of funds to its subrecipients is consistent with both <i>Uniform Administrative Requirements, Cost Principles, and Audit Requirements for HHS Awards</i>.</p> <p>Views of Responsible Officials and Planned Corrective Actions - OCFO has centralized the drawdown and payment processes. OCFO will review its procedures and controls to ensure billings are paid in accordance with 45 CFR 75.305 2(b) and 2 CFR 305 (b) (3).</p>

Reference Number	Finding
2016-013	<p>CFDA Number, Federal Agency, and Program Name - 93.914 - Department of Health and Human Services Health Resources and Services Administration - HIV Emergency Relief Program Grants (Ryan White HIV/AIDS Program Part A), 10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)</p> <p>Federal Award Identification Number and Year</p> <p>Ryan White - 6 H89HA00021-24-03 (March 1, 2016 - February 28, 2017) WIC - Contract number 20161677-00 (October 1, 2015 - September 30, 2016)</p> <p>Pass-through Entity - WIC is passed through the Michigan Department of Health and Human Services.</p> <p>Finding Type - Significant deficiency</p> <p>Repeat Finding - No</p> <p>Criteria - In accordance with 2 CFR 200.331, <i>Requirements for Pass-through Entities</i>, all pass-through entities must: (a) ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward, and if any of these data elements change, include the changes in subsequent subaward modification. When some of this information is not available, the pass-through entity must provide the best information available to describe the federal award and subaward. Required information includes the following:</p> <ol style="list-style-type: none">(1) Federal award identification(2) All requirements imposed by the pass-through entity on the subrecipient so that the federal award is used in accordance with federal statutes, regulations, and the terms and conditions of the federal award(3) Any additional requirements that the pass-through entity imposes on the subrecipient in order for the pass-through entity to meet its own responsibility to the federal awarding agency, including identification of any required financial and performance reports

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2016

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2016-013 (Con't)	<p>(4) An approved federally recognized indirect cost rate negotiated between the subrecipient and the federal government or, if no such rate exists, either a rate negotiated between the pass-through entity and the subrecipient (in compliance with this part), or a <i>de minimus</i> indirect cost rate as defined in §200.414 Indirect (F&A) costs, paragraph (f)</p> <p>(5) A requirement that the subrecipient permit the pass-through entity and auditors to have access to the subrecipient's records and financial statements as necessary for the pass-through entity to meet the requirements of this part</p> <p>(6) Appropriate terms and conditions concerning closeout of the subaward</p> <p>Condition - The controls in place did not ensure that the required information as prescribed by 2 CFR 200.331, <i>Requirements for Pass-through Entities</i>, was included in the grant agreement of its subrecipient.</p> <p>Additionally for WIC, controls in place did not ensure that the contract modifications were formally communicated to reimburse three of four subrecipients based on actual costs rather than a fixed award amount.</p> <p>Questioned Costs - None</p> <p>Identification of How Questioned Costs Were Computed - Not applicable as there are no questioned costs.</p> <p>Context - The City of Detroit, Michigan's 2016-2017 contract with its subrecipient did not include the following required information:</p> <ul style="list-style-type: none">• Subrecipient's unique entity identified• Federal Award Identification Number (FAIN)• Federal award date of award to the recipient by the federal agency• Total amount of federal funds obligated to the subrecipient by the pass-through entity, including the current obligation• Total amount of the federal award committed to the subrecipient by the pass-through entity• Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA)• Name of federal awarding agency, pass-through entity, and contact information for awarding official of the pass-through entity• CFDA number and name: the pass-through entity must identify the dollar amount made available under each federal award and the CFDA number at time of disbursement.

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2016

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
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- | | |
|-----------------------------|--|
| 2016-013
(Con't) | <ul style="list-style-type: none"> • Identification of whether the award is R&D • Indirect cost rate for the federal award (including if the <i>de minimus</i> rate is charged per §200.414 Indirect (F&A) costs) • An approved federally recognized indirect cost rate negotiated between the subrecipient and the federal government or, if no such rate exists, either a rate negotiated between the pass-through entity and the subrecipient (in compliance with this part), or a <i>de minimus</i> indirect cost rate as defined in §200.414 Indirect (F&A) costs, paragraph (f) |
|-----------------------------|--|

Additionally, the WIC agreements with the subrecipients did not include contract amendments to indicate that payments would be based on actual costs versus rate per case.

Cause and Effect - The controls in place did not ensure that the required information as prescribed by 2 CFR 200.331, *Requirements for Pass-through Entities*, were included in the grant agreement of its subrecipient. As a result, required information was omitted.

Additionally for WIC, contract modifications were not formally communicated, but were verbally communicated to subrecipients. As a result, contracts stated that subrecipients were to be paid at a rate of \$11.45 per client seen rather than actual costs incurred.

Recommendation - We recommend that City of Detroit, Michigan review its procedures and controls to ensure the required information as prescribed by 2 CFR 200.331, *Requirements for Pass-through Entities*, is included in all subawards to subrecipients.

Views of Responsible Officials and Planned Corrective Actions - The Detroit Health Department and the Office of Contracting and Procurement has amended their procedures and controls to ensure the required information as prescribed by 2 CFR 200.331, *Requirements for Pass-through Entities*, are included in all subawards to subrecipients, including contract modifications, when applicable. Contract amendments pertaining to this requirement were sent out to current subrecipients.

Reference Number	Finding
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| 2016-014 | <p>CFDA Number, Federal Agency, and Program Name - 10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)</p> <p>Federal Award Identification Number and Year</p> <p>Contract number - 20151729-00 (October 1, 2014 - September 30, 2015)
 Contract number - 20161677-00 (October 1, 2015 - September 30, 2016)</p> <p>Pass-through Entity - Michigan Department of Health and Human Services</p> <p>Finding Type - Significant deficiency</p> <p>Repeat finding - No</p> |
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City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2016

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2016-014 (Con't)	<p>Criteria - In accordance with A-110.22(k), recipients shall maintain advances of federal funds in interest-bearing accounts, unless (1), (2), or (3) apply. (1) The recipient receives less than \$120,000 in federal awards per year. (2) The best reasonably available interest-bearing account would not be expected to earn interest in excess of \$250 per year on federal cash balances. (3) The depository would require an average or minimum balance so high that it would not be feasible within the expected federal and nonfederal cash resources.</p> <p>In accordance with 2 CFR 200.305(8)(i), the nonfederal entity must advance payments of federal awards in interest-bearing accounts, unless the following apply: (i) The nonfederal entity receives less than \$120,000 in federal awards per year, (ii) the best reasonably available interest-bearing account would not be expected to earn interest in excess of \$500 per year on federal cash balances, (iii) the depository would require an average or minimum balance so high that it would not be feasible within the expected federal and nonfederal cash resources, and (iv) A foreign government or banking system prohibits or precludes interest-bearing accounts.</p> <p>Condition - The controls in place did not ensure that advance-funded awards were deposited into an interest-bearing checking account or that an exception was met.</p> <p>Questioned Costs - None</p> <p>Identification of How Questioned Costs Were Computed - Not applicable as there are no questioned costs.</p> <p>Context - Awards under contracts 20151729-00 (October 1, 2014 - September 30, 2015) and 20161677-00 (October 1, 2015 - September 30, 2016) were advanced to the City of Detroit, Michigan; one-twelfth of the award amount was received each month. Award amounts under contracts 20151729-00 (October 1, 2014 - September 30, 2015) and 20161677-00 (October 1, 2015 - September 30, 2016) were \$5,180,059 and \$5,183,959, respectively.</p> <p>Cause and Effect - The controls in place did not ensure that the advanced-funded awards were deposited into interest-bearing checking accounts, neither did the controls identify whether an exception was met that would exempt the City of Detroit, Michigan from depositing awards into interest-bearing checking accounts.</p> <p>Recommendation - We recommend that City of Detroit, Michigan review its procedures and controls to ensure advance-funded grants are deposited into checking accounts in compliance with 2 CFR 200.305(8)(i) - Payment.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The Office of the Chief Financial Officer will review its procedures and controls to ensure advance-funded grants are deposited into interest-bearing checking accounts in compliance with 2 CFR 200.305(8)(i).</p>

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2016

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2016-015	<p>CFDA Number, Federal Agency, and Program Name - CFDA #14.218, Housing and Urban Development (HUD), Community Development Block Grant Entitlement Cluster, Community Development Block Grant Program (CDBG). CFDA #14.239, Housing and Urban Development, Home Investment Partnership</p> <p>Federal Award Identification Number and Year - CDBG - B-15-MC-26-0006 and Home - M15-MC260202</p> <p>Pass-through Entity - N/A</p> <p>Finding Type - Material weakness and material noncompliance with laws and regulations</p> <p>Repeat Finding - Yes</p> <p>2015-13</p> <p>Criteria - Per 24 CFR 135.90, "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. If the program providing the Section 3 covered assistance does not require an annual performance report, the Section 3 report is to be submitted by January 10 of each year or within 10 days of project completion, whichever is earlier."</p> <p>Condition - The City did not file the Section 3 report for program year ended June 30, 2016.</p> <p>Questioned Costs - None</p> <p>Identification of How Questioned Costs Were Computed - Not applicable as no questioned costs were identified.</p> <p>Context - The City is required to file the HUD 60002, Section 3 Summary report, Economic Opportunities for Low-and Very Low-income Persons for both CDBG and Home. In addition, the City is required to file the PR03 Activity Summary Report and the PR26 Financial Summary Report for CDBG. The City filed the Activity Summary Report and the Financial Summary Report, but did not file the Section 3 report.</p> <p>Cause and Effect - The City did not have adequate processes in place to compile the data for the Section 3 report and file it with HUD.</p> <p>Recommendation - We recommend that the City implement a process to ensure that the Section 3 report is completed and submitted in a timely manner.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The Housing and Revitalization Department (HRD) concurs with the finding and is finalizing the transfer of this function from HRD to the civil rights, inclusion, and opportunity department to ensure future compliance.</p>

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2016

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2016-016	CFDA Number, Federal Agency, and Program Name CFDA #14.218, Housing and Urban Development (HUD), Community Development Block Grant Entitlement Cluster, Community Development Block Grant Program (CDBG) CFDA #14.239, Housing and Urban Development, Home Investment Partnership CFDA #66.458, Environmental Protection Agency, Capitalization Grants for Clean Water - State Revolving Fund (SRF) Federal Award Identification Number and Year CDBG - B-13-MC-26-0006, B-14-MC-26-0006, and B-15-MC-26-0006 Home - M12-MC260202, M13-MC260202, M14-MC260202, and M15-MC260202 State Revolving Fund - 5486-01, 5619-01, 5619-02, and 5619-03 Pass-through Entity - CFDA #66.458 (SRF) is passed through the Michigan Department of Environmental Quality Finding Type - Significant deficiency and material noncompliance with laws and regulations Repeat Finding - No Criteria - On December 26, 2014, the administrative rules and cost principles outlined in the Uniform Guidance (2 CFR 200 subparts A through E) became applicable for new awards or increments of awards issued on or after this date. The rules outlined in the Uniform Guidance became applicable to CDBG and HOME as of December 26, 2014 given the HUD transition guidance. For SRF, per the State of Michigan, the Uniform Guidance applied to all draws during fiscal year 2016. 2 CFR Part 200.415 requires that "annual and fiscal reports or vouchers requesting payment under agreement must include a certification, signed by an official who is authorized to legally bind the non-federal entity." This same part proscribes very specific language for this certification. The Uniform Guidance also contains requirements for certain written policies. 2 CFR 200.305, <i>Cash Management</i> , requires written procedures addressing how an organization will minimize the time elapsing between the transfer of funds by a federal agency and the disbursement by the nonfederal entity. In addition, 2 CFR 200.302 (b) (7) requires nonfederal entities to develop written procedures for determining the allowability of costs in accordance with Subpart E of UG, <i>Cost Principles</i> , and the terms and conditions of the federal award.

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2016

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2016-016 (Con't)	<p>Additionally, 2 CFR 200.331 outlines requirements for pass-through entities. All pass-through entities must: (a) ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward, and if any of these data elements change, includes the changes in subsequent subaward modification. When some of this information is not available, the pass-through entity must provide the best information available to describe the federal award and subaward. Required information includes the following:</p> <ol style="list-style-type: none">(1) Federal award identification(2) All requirements imposed by the pass-through entity on the subrecipient so that the federal award is used in accordance with federal statutes, regulations, and the terms and conditions of the federal award(3) Any additional requirements that the pass-through entity imposes on the subrecipient in order for the pass-through entity to meet its own responsibility to the federal awarding agency including identification of any required financial and performance reports(4) An approved federally recognized indirect cost rate negotiated between the subrecipient and the federal government or, if no such rate exists, either a rate negotiated between the pass-through entity and the subrecipient (in compliance with this part), or a <i>de minimus</i> indirect cost rate as defined in §200.414 Indirect (F&A) costs, paragraph (f)(5) A requirement that the subrecipient permit the pass-through entity and auditors to have access to the subrecipient's records and financial statements as necessary for the pass-through entity to meet the requirements of this part(6) Appropriate terms and conditions concerning closeout of the subaward <p>Condition - During the year, the City administered these grants under the guidelines of 2 CFR 200 subparts A through E. However, certain required policies were not maintained and subrecipient agreements did not include all the required components.</p> <p>While certifications are included with each voucher requesting payment, the certification wording does not mirror the wording outlined under 2 CFR part 200.415.</p> <p>The written policy outlining how allowable costs are determined was not maintained under 2 CFR 200.302 (b) (7). In addition, while the City did create and maintain a policy in accordance with 2 CFR 200.305 outlining cash management procedures, the policy may need to be more clear as to the procedures followed by the City for reimbursement-based grants to ensure that expenditures are actually paid before the City draws funding down from the federal agency.</p> <p>Also, specific to CDBG, the controls in place did not ensure that all the required information as prescribed by 2 CFR 200.331, <i>Requirements for Pass-through Entities</i>, was included in the grant agreements for its subrecipients. The following elements outlined in 2 CFR 200.331 were partially included or were not included in the grant agreements:</p> <ol style="list-style-type: none">(1) CFDA number and name - The agreement indicated the funding sources, the name of the grant (in this case CDBG), and the pertinent CFR reference; however, the CFDA number was not included.

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2016

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2016-016 (Con't)	(2) Subrecipient's unique entity identifier
	(3) Federal award identification number
	(4) Federal award date - The agreements should include the date the award was provided to the City.
	(5) Total amount of federal awards obligated to the subrecipient, including the current obligation - The agreements did include the current obligation; however, amounts previously obligated were not included.
	(6) Identification of whether the award is R&D
	(7) Indirect cost rate for the federal award (including if the <i>de minimus</i> rate is charged per §200.414 Indirect (F&A) costs).

Questioned Costs - None

Identification of How Questioned Costs Were Computed - Not applicable as no questioned costs were identified.

Context - While the City implemented the Uniform Guidance regulations on the effective date, the lack of certain required written policies, adherence to proscribed UG wording, and the missing subrecipient agreement components caused the City not to fully comply with the Uniform Guidance requirements.

Cause and Effect - The controls in place did not ensure that the City implemented all requirements under the Uniform Guidance. As a result, certain requirements were missed.

Recommendation - We recommend that City of Detroit, Michigan review its procedures and controls to ensure all required policies and procedures outlined in the Uniform Guidance are created and maintained and are complete. Subrecipient agreements should properly reflect all required elements prescribed by 2 CFR 200.331, *Requirements for Pass-through Entities*, and be included in all subawards to subrecipients.

Views of Responsible Officials and Planned Corrective Actions - The Housing and Revitalization Department (HRD) has amended its procedures and controls to ensure the required information as prescribed by 2 CFR 200.331, *Requirements for Pass-through Entities*, are included in all subawards to subrecipients, including contract modifications, when applicable. Contract amendments pertaining to this requirement are being prepared and sent out to current subrecipients.

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2016

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2016-017	<p>CFDA Number, Federal Agency, and Program Name - CFDA #14.218, Housing and Urban Development (HUD), Community Development Block Grant Entitlement Cluster, Community Development Block Grant Program (CDBG)</p> <p>Federal Award Identification Number and Year - B-14-MC-26-0006</p> <p>Pass-through Entity - N/A</p> <p>Finding Type - Material weakness and material noncompliance with laws and regulations</p> <p>Repeat Finding - No</p> <p>Criteria - Per 24 CFR 570.503, "Before disbursing any CDBG funds to a subrecipient, the recipient shall sign a written agreement with the subrecipient and, at a minimum, the agreement should contain the following:</p> <ol style="list-style-type: none">(1) Statement of work - The agreement shall include a description of the work to be performed, a schedule for completing the work, and a budget. These items shall be in sufficient detail to provide a sound basis for the recipient effectively to monitor performance under the agreement.(2) Records and reports - The recipient shall specify in the agreement the particular records the subrecipient must maintain and the particular reports the subrecipient must submit in order to assist the recipient in meeting its recordkeeping and reporting requirements.(3) Program income - The agreement shall include the program income requirements set forth in §570.504(c). The agreement shall also specify that, at the end of the program year, the grantee may require remittance of all or part of any program income balances (including investments thereof) held by the subrecipient (except those needed for immediate cash needs, cash balances of a revolving loan fund, cash balances from a lump-sum drawdown, or cash or investments held for section 108 security needs).(4) Uniform requirements - The agreement shall require the subrecipient to comply with applicable uniform requirements, as described in §570.502.(5) Other program requirements - The agreement shall require the subrecipient to carry out each activity in compliance with all federal laws and regulations described in subpart K of these regulations. <p>Condition - The City has a subrecipient agreement with LISC to administer the 0 percent Rehabilitation Loan Program. The original contract indicated that the activity would be advance funded. It was subsequently determined this program design was not feasible. However, the subrecipient agreement was not properly amended. During a monitoring visit performed in September 2015, HUD identified this as a finding. The finding has not been cleared.</p> <p>Questioned Costs - None</p> <p>Identification of How Questioned Costs Were Computed - Not applicable as no questioned costs were identified.</p>

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2016

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2016-017 (Con't)	<p>Context - LISC is a subrecipient with the responsibility to administer the 0% Rehabilitation Loan Program. The subrecipient agreement contains language that does not apply to the housing rehabilitation activity that is being carried out. The LISC subrecipient agreement is for approximately \$6.6 million. Approximately \$952,000 was drawn down in two lump-sum draws in accordance with the old subrecipient contract language; this was inappropriate given that the program was no longer a lump-sum draw program. HUD subsequently approved the amount drawn thus far (approximately \$952,000) and thus, this created no questioned costs.</p> <p>Cause and Effect - After the original subrecipient agreement was written and signed, the scope of the project and funding methodology changed. The subrecipient agreement was not properly amended to reflect the change.</p> <p>Recommendation - We recommend that the City implement a process to ensure that all subrecipient contracts reflect the appropriate scope of work and intended funding methodology, including timely amendments when necessary.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The Housing and Revitalization Department (HRD) and the Office of Contracting and Procurement (OCP) will implement a process to ensure that all subrecipient contracts reflect the appropriate scope of work and intended funding methodology, including timely amendments when necessary.</p>

Reference Number	Finding
2016-018	<p>CFDA Number, Federal Agency, and Program Name - CFDA #14.231, Housing and Urban Development (HUD), Emergency Solutions Grant (ESG)</p> <p>Federal Award Identification Number and Year - E-14-MC-26-0006, E-13-MC-26-0006</p> <p>Pass-through Entity - N/A</p> <p>Finding Type - Material weakness and noncompliance with laws and regulations</p> <p>Repeat Finding - Yes</p> <p>2015-20</p> <p>Criteria - 2 CFR 200.514 (c) requires nonfederal entities receiving federal awards to establish and maintain internal controls over federal programs based upon the guidance in Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States and the Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission.</p>

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2016

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2016-018 (Con't)	<p>Per CFR Section 92.508 (a) General, each participating jurisdiction must establish and maintain sufficient records to enable HUD to determine whether the participating jurisdiction has met the requirements of this part. At a minimum, the following records are needed: (7) records concerning other federal requirements - (i) equal opportunity and fair housing records and (B) documentation of actions undertaken to meet the requirements of 24 CFR part 135, which implements Section 3 of the Housing Development Act of 1968, as amended.</p> <p>Condition - The HUD 60002 Report requires that the City monitor and report the number of jobs and assistance provided to low-income persons. The City did not complete the portion of this report related to agency hires. On the submitted 60002 report, the City stated, "No monitoring of contracts for Section 3 compliance occurred for FY 2014-2015." The City did not perform this required monitoring to properly complete the HUD 60002 report for the year ended June 30, 2015.</p> <p>Questioned Costs - None</p> <p>Identification of How Questioned Costs Were Computed - N/A</p> <p>Context - ESG was a major program in the City's single audit for the year ended June 30, 2015. ESG was not a major program for the City's single audit for the year ended June 30, 2016. However, the City indicated in the summary schedule of prior audit findings (SSPAF) that the resolution was in process. As the City has not fully corrected the finding, it is considered a repeat finding in the current year.</p> <p>Cause and Effect - Management did not have effective controls in place over the filing of the HUD 60002 report to ensure compliance with the reporting compliance requirement.</p> <p>Recommendation - We recommend that existing policies are internally monitored to ensure compliance with the reporting requirement.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The Housing and Revitalization Department (HRD) concurs with the finding and is finalizing the transfer of this function from HRD to the Civil Rights, Inclusion, and Opportunity Department to ensure future compliance.</p>

City of Detroit, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2016

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2016-019	<p>CFDA Number, Federal Agency, and Program Name - CFDA #14.231, Housing and Urban Development (HUD), Emergency Solutions Grant (ESG)</p> <p>Federal Award Identification Number and Year - E-14-MC-26-0006, E-13-MC-26-0006</p> <p>Pass-through Entity - N/A</p> <p>Finding Type - Material weakness and material noncompliance with laws and regulations</p> <p>Repeat Finding - Yes</p> <p>2015-23</p> <p>Criteria - 2 CFR 200.514 (c) requires nonfederal entities receiving federal awards to establish and maintain internal controls over federal programs based upon the guidance in Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States and the Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission.</p> <p>Per 24 CFR 572.203, (c) Payments to Subrecipients, the recipient must pay each subrecipient for allowable costs within 30 days after receiving the subrecipient's complete payment request. This requirement also applies to each subrecipient that is a unit of a general purpose local government.</p> <p>Condition - For 28 of 40 expenditures selected for testing, payment was not made to the subrecipient within 30 days of receiving the payment request as required.</p> <p>Questioned Costs - None</p> <p>Identification of How Questioned Costs Were Computed - N/A</p> <p>Context - ESG was a major program in the City's single audit for the year ended June 30, 2015. ESG was not a major program for the City's single audit for the year ended June 30, 2016. However, the City indicated in the summary schedule of prior audit findings (SSPAF) that the resolution was in process. As the City has not fully corrected the finding, it is considered a repeat finding in the current year.</p> <p>Cause and Effect - Management did not have effective controls in place to ensure they were in compliance with the obligation and payment requirement.</p> <p>Recommendation - We recommend that existing policies are internally monitored to ensure compliance with the obligation and payment requirement.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The Office of the Chief Financial Officer has centralized the drawdown and payment processes. OCFO will review its procedures and controls to ensure payments are made to subrecipients within 30 days of receiving payment in accordance with 24 CFR 572.203 (c) and 2 CFR 200.514 (c).</p>