

**City of Detroit
OFFICE OF THE AUDITOR GENERAL**



**Audit of the Buildings & Safety
Engineering Department
July 2007 – December 2009**



City of Detroit
OFFICE OF THE AUDITOR GENERAL
COLEMAN A. YOUNG MUNICIPAL CENTER
2 WOODWARD AVENUE, SUITE 208
DETROIT, MICHIGAN 48226
PHONE: (313) 224-3101
FAX: (313) 224-4091
WWW.CI.DETROIT.MI.US

LOREN E. MONROE, CPA
AUDITOR GENERAL

MEMORANDUM

DATE: May 10, 2010
TO: Honorable City Council
FROM: Loren E. Monroe, CPA *Loren E. Monroe*
Auditor General
RE: Audit of the Buildings & Safety Engineering Department
CC: Mayor David Bing
Karla Henderson, Director
Norman L. White, Chief Financial Officer

Attached for your review is our report on the audit of the Buildings & Safety Engineering Department. This report contains our audit purpose, scope, objectives, methodology and conclusions; background; our audit findings and recommendations; and the responses from the Buildings & Safety Engineering Department and the Finance Department.

Responsibility for the installation and maintenance of a system of internal control that minimizes errors and provides reasonable safeguards rests entirely with the Buildings & Safety Engineering Department and the Finance Department. Responsibility for monitoring the implementation of recommendations is set forth in Section 4-205 of the City Charter which states in part:

Recommendations that are not put into effect by the department shall be reviewed by the Finance Director who shall advise the Auditor General and the City Council of the action being taken with respect to the recommendations.

We would like to thank the employees of the Buildings & Safety Engineering Department for their cooperation and assistance extended to us during this audit.

Copies of all of the Office of the Auditor General reports can be found on our website at www.ci.detroit.mi.us/legislature/CharterAppointments/AuditorGeneral.

Audit of the Buildings & Safety Engineering Department

July 2007 – December 2009

Contents

	<u>Page</u>
AUDIT PURPOSE, SCOPE, OBJECTIVES, METHODOLOGY AND CONCLUSIONS	1
BACKGROUND – BUILDINGS & SAFETY ENGINEERING DEPARTMENT	3
STATUS OF PRIOR AUDIT FINDINGS	5
DEMOLITION AND DANGEROUS BUILDING PHOTOS	6
AUDIT FINDINGS AND RECOMMENDATIONS	
BACKGROUND - DEMOLITION	15
1. The Current Demolition and Board-up Processes Are Inadequate	19
2. The City Overpays for Demolition	21
3. Failure to Recover the Cost from Property Owners for Demolishing or Securing Structures	23
4. Inadequate Records Management for the Demolition Process	25
5. Non-compliance with Finance Directive 143 and the Prompt Payment Ordinance	27
BACKGROUND – ESCROW ACCOUNTS	29
6. Inadequate Management and Oversight of the Fire Insurance Escrow Account	30
7. Fire Escrow Insurance Account Funds Are Commingled with Other Monies	33
8. Inadequate Oversight Over the Utility Escrow Bank Account	35
9. Inadequate Oversight of the Fire Insurance Escrow Bank Account	37

**BACKGROUND – NUISANCE ABATEMENT AND REPAIR
AND OWN PROGRAMS 39**

10. The Nuisance Abatement (NAP) and Repair and Own
(RTO) Programs (NAP) Were Not Properly Managed 40

11. Non-compliance with the Imprest Cash Manual 42

12. BSED Did Not Fully Comply with Year-end Closing
Procedures 45

13. Established Lock Box for Payments Is Not Being Used 46

14. The Building Official Has Failed to File the Required
Annual Report 47

FINDINGS RELATED TO THE FINANCE DEPARTMENT

1. The Finance Department – Debt Management Division
Does Not Notify BSED of Fire Escrow Insurance
Account Wire Transfers 48

2. The Finance Department Did Not Properly Maintain and
Review Year-end Closing Documents 49

APPENDIX A – DEMOLITION STATISTICS 50

GLOSSARY 52

AGENCY RESPONSES

Buildings & Safety Engineering Department ATTACHMENT A

Finance Department ATTACHMENT B

AUDIT PURPOSE, SCOPE, OBJECTIVES, METHODOLOGY AND CONCLUSIONS

AUDIT PURPOSE

The audit of the Buildings & Safety Engineering Department (BSED) was performed in accordance with the Office of the Auditor General's (OAG) charter mandate to investigate the administration and operation of City agencies.

AUDIT SCOPE

The scope of this audit was an independent review and assessment of the effectiveness and efficiency of BSED's demolition operations, the operation of the fire insurance and utility escrow accounts, the status of the Nuisance Abatement and Repair and Own Programs, and BSED's compliance with Finance Directives, policies, plans, procedures, laws and regulations regarding financial transactions for the period July 1, 2007 through December 31, 2009.

Our audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States, except for the completion of an external peer review of the Office of the Auditor General within the last three years.

AUDIT OBJECTIVES

The overall audit objectives were:

- To review the oversight and effectiveness of BSED's demolition operations;
- To review the operation and oversight of the fire insurance escrow account and the utility escrow account;
- To determine the current status of the Nuisance Abatement and Repair and Own Programs;
- To determine BSED's compliance with Finance Directives, policies, plans, procedures, laws, and regulations; and
- To review findings and issues of non-compliance from prior related audit reports.

AUDIT METHODOLOGY

To accomplish our audit objectives, our audit work included:

- A review of prior audit reports.
- A review of prior audit work-papers, City Charter, Municipal Manual, Detroit Resource Management System reports, budget reports, the Comprehensive Annual Financial Reports, and organization charts.
- Gathering policies and procedures for core operations and other similar data.
- Conducting an audit-planning meeting to determine the scope and audit objectives.
- Developing questions regarding BSED's transactions, controls, functions, records, and personnel.

- Interviewing department personnel.
- Documenting and testing processes.
- Preparing a risk assessment to determine high-risk areas.

CONCLUSIONS

As a result of our audit we have concluded that:

- The Buildings and Safety Engineering Department's demolition operation does not:
 - Have sufficient funding;
 - Adequately meet the needs of the City;
 - Effectively recover demolition and boarding costs;
 - Ensure that demolition is accomplished at the lowest possible cost; and
 - Have accurate record keeping.
 - The management and oversight of the fire insurance escrow account and the utility escrow account is not adequate and fire insurance escrow funds are commingled with other City funds.
 - The Nuisance Abatement and the Repair and Own Programs are no longer funded but not all contracts have been completed.
 - BSED was not in full compliance with Finance Directives and City policies.
 - Not all of the findings and issues of non-compliance from prior audits have been resolved.
-

BACKGROUND

The primary purpose of the Buildings & Safety Engineering Department (BSED) is to provide for the safety, health, and welfare of the general public as it pertains to buildings, and their environs, in an efficient, cost effective, user-friendly, and professional manner.

The first official building code was enacted in 1911. BSED was established when the City Charter of 1918 became effective. The Department has quasi-police powers for enforcing the various ordinances under its jurisdiction. These ordinances provide for the health, safety and welfare of the people. The State of Michigan enacted Public Act 245 of 1999 that required that a single construction code adopted by the State be enforced throughout Michigan. Today, BSED enforces the single construction code and other City ordinances pertaining to the building environment.

BSED has multiple goals among which are the following:

- Reduce the number of vacant and dangerous structures within the City.
- Maintain the stability and safety of neighborhoods by enforcing the property maintenance code and other related ordinances.
- Ensure administration and enforcement of applicable building and zoning codes and related federal, state and local laws and ordinances, including meeting state mandates to assure all structures within the City meet or exceed minimum standards.
- Operate the department in a fiscally responsible manner to provide for a lower cost of government.

BSED is comprised of several divisions including Property Maintenance, Building Inspection, and Demolition. The Demolition Division is charged with management of the dangerous buildings process, which includes inspections of dangerous buildings and making recommendations to City Council for ordering buildings demolished, repaired, or otherwise made safe. BSED assumed the responsibility for the demolition process from the Department of Public Works in 2002. Among its responsibilities, the Property Maintenance Division has responsibility for periodic inspections of buildings and structures, and inspections resulting from citizen complaints.

BSED was also responsible for the Nuisance Abatement (NAP) and Repair and Own (RTO) Programs. (See page 39)

The following table shows the budgeted appropriations, revenues, and number of staff, for the Buildings & Safety Engineering Department for the 2007-2008 and 2008-2009 fiscal years.

	Fiscal Year Ended June 30		
	2008	2009	2010
Budgeted Appropriations	\$34,746,217	\$35,761,155	\$34,101,774
Budgeted Revenues	<u>34,746,217</u>	<u>35,761,155</u>	<u>34,101,774</u>
Net Tax Cost	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Block Grants - Demolition*	\$ 5,127,696	\$ 5,163,017	\$ 4,689,408
Number of Staff	330	334	321

*Community Development Block Grant funds, which are used for demolition, are included in the total budgeted appropriations and revenues.

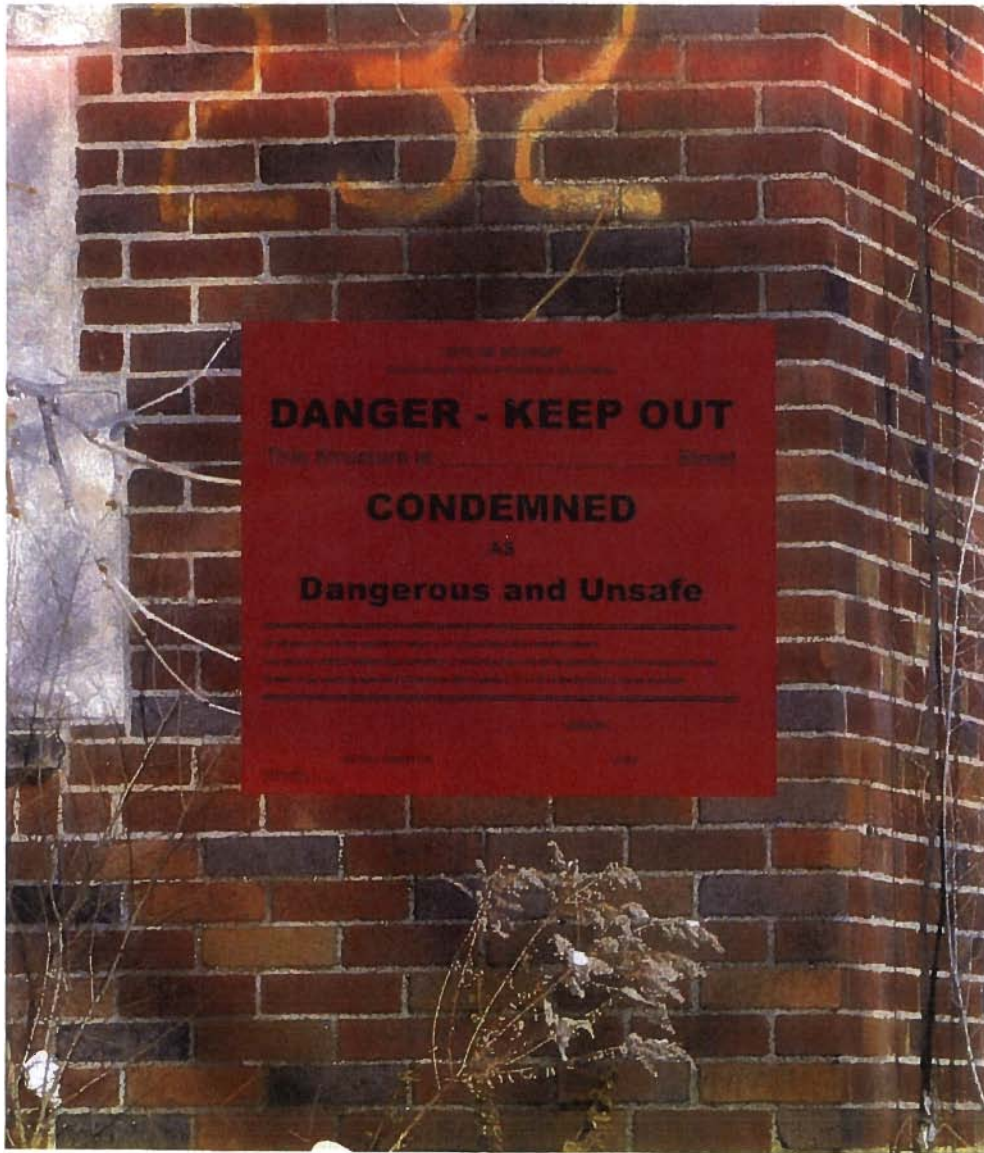
From July 1, 2007 through July 19, 2009, Amru Meah served as director of BSED. Karla Henderson was appointed director as of July 20, 2009. The building official is Sheila Johnson.

STATUS OF PRIOR AUDIT FINDINGS

The prior audits of the Buildings and Safety Engineering Department for the period July 1, 2005 to June 30, 2007 and for the two-year period ended September 2000, by the Office of the Auditor General, included the findings listed below. The date following the finding indicates the date of the audit report in which the finding was first reported.

1. Lacks Adequate Internal Controls Over the Imprest Cash Process (June 2007)
This finding has not been resolved and is discussed in finding 11 on page 42.
2. Failure to Comply with the City's Imprest Cash Policies and Procedures (June 2007)
This finding has not been resolved and is discussed in finding 11 on page 42.
3. Needs to Improve Accounting for Fire Escrow Fund (September 2000)
This finding has not been resolved and is discussed in findings 6 and 9 on pages 30 and 37 respectively.
4. Need to Improve Filing and Record Keeping (September 2000).
This finding has not been resolved and is discussed in findings 4 and 6 on pages 25 and 30 respectively.

Demolition and Dangerous Buildings



CITY OWNED

Two recreation centers closed for five years that are vacant and open to trespass near playfields. Both have swimming pools inside; one filled with water.



City and federal government owned eyesores and unsecured properties.



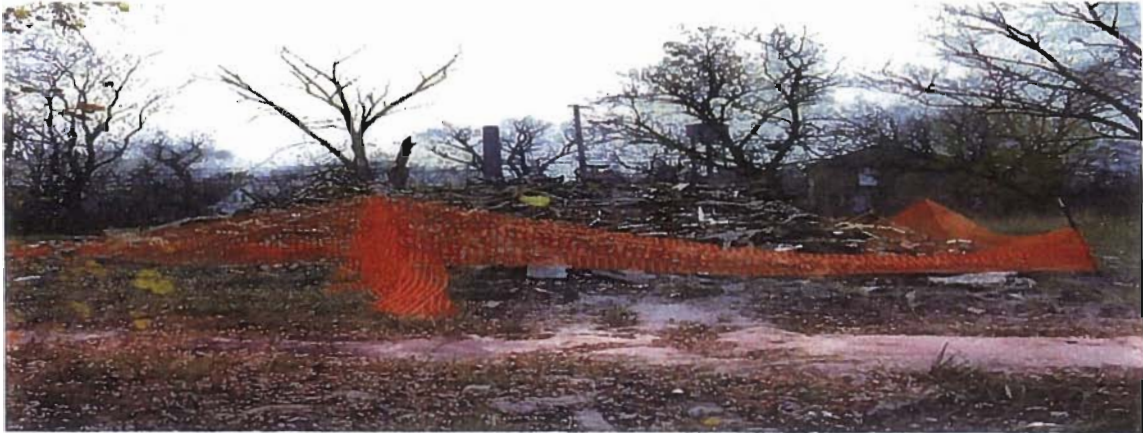
Fire damaged residential structures. These properties cause blight in our neighborhoods and raise safety concerns.



Property within 400 yards of an elementary school.



Pictured below are an unfinished demolition of a residential structure, an open hole left from a utility being disconnected and once secured homes that are now open for trespass.



Open hole from utility shutoff.

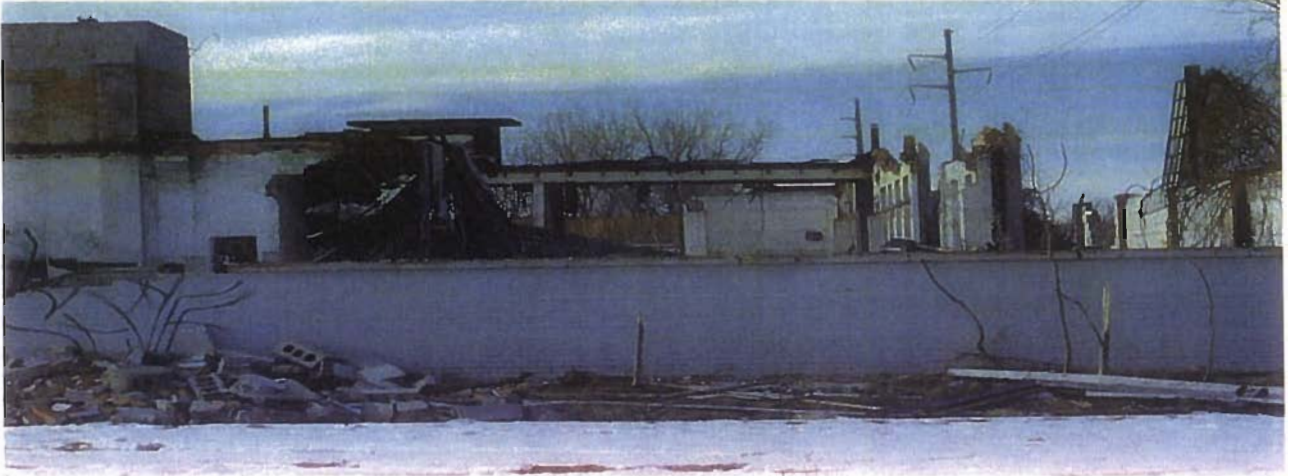


These fire-damaged properties could be structurally unsound, and collapse, creating not just an eye sore but a danger to the public as well.



These commercial and industrial properties are open and in a state of disrepair.





Abandoned commercial structure collapsed due to running water.



Vacant commercial property with six feet of water and mold.



Vacant commercial property with running water creating soft soil outside the building, which could lead to structural problems.



AUDIT FINDINGS AND RECOMMENDATIONS

BACKGROUND – DEMOLITION

The Problem

According to information provided by the Buildings & Safety Engineering Department (BSED), over 8,100 structures, possibly as many as 12,000 structures, have been identified by BSED as dangerous. Based on experience, approximately 50% of these structures will be demolished. Of the 1,500 structures currently approved for demolition, approximately 400 structures are within 400 yards of a neighborhood school.

The following demolition statistics for calendar year 2008, which were published by the Southeast Michigan Council of Governments (SEMCOG) in April 2009, demonstrate the magnitude of the problem faced by Detroit:

County	Units Demolished in 2008*
Livingston	35
Macomb	204
Monroe	44
Oakland	268
St. Clair	42
Washtenaw	43
Wayne	<u>3,440</u>
Total	<u>4,076</u>
• Detroit	3,159

*Includes demolitions by municipalities and private parties.

Detroit accounted for 77.5% of the total units demolished in the seven counties in southeast Michigan and 91.8% of the units demolished in Wayne County.

Historically, the City has demolished between 500 and 2,300 buildings per year at a cost of \$10 - \$12 million. (Appendix A contains additional information on the number of residential units demolished.) Although \$5,500 has been used as the average cost to demolish a structure, the City recently announced that the average demolition cost for residential structures is \$10,000. Part of the increase is due to abatement costs.

Recently, the City announced that 2,500 to 3,000 structures will be demolished during the current year and that 10,000 structures will be demolished over the next four years using Community Development Block Grant funds and an anticipated \$40 million of Neighborhood Stabilization Funds.

Dangerous Building/Demolition Process

BSED is mandated to protect the public's health and safety. Overseeing the dangerous buildings process is a key component in accomplishing this mandate. The following is a brief description of the dangerous buildings/demolition process.

- A building inspector performs an inspection to:
 - Identify potential dangerous buildings. Verify the status and location of the structure determining whether the structure is vacant, open to the elements or trespass, fire damaged, or structurally unsafe to a point of near collapse (emergency).
 - Determine whether the structure is within 400 yards of a school, playground, or recreation center, and therefore a priority for demolition.
 - Determine which ordinance to enforce, either the Dangerous Building Ordinance or the Property Maintenance Ordinance.
- The building inspector records the results of the inspection and returns the report to the supervisor.
- The inspector can recommend one of the following:
 - No action be taken if the building is found to be occupied, or secured and maintained.
 - Issue an order to board if the building is vacant and open but repairable. BSED can have the building boarded up by a contractor if the owner fails to board up the building.
 - Issue a Dangerous Building Notice for buildings found vacant, open to the elements or trespass, fire damaged, or structurally unsafe.
 - Issue correction orders and tickets for buildings found to be in violation of the Property Maintenance Code.
 - Emergency measures be taken by the building official when there is an actual and immediate danger of failure or collapse of a building that would endanger life.
- If the building is determined to be dangerous, an office hearing is held with all interested parties to determine what actions will be taken to abate the dangerous conditions.
- After an office hearing and with no action by the owner, the building will be presented to City Council for either an order for the property to be demolished or to be made safe. The property owner can challenge BSED's request.

- If the property is ordered to be demolished, BSED must arrange for all utilities to be shut off, and assign the property to a contractor for demolition.
- An inspector must verify that the building has been demolished, the foundation removed, the hole created by removal of the foundation has been properly filled, all debris has been removed, and that the lot has been graded.

Factors Impacting the Demolition Process

BSED receives hundreds of complaints directly from citizens and via the Ombudsman's Office each year. The dangerous building/demolition process is, in fact, complaint driven. BSED must follow-up on citizens' concerns by inspecting or re-inspecting each property for which a complaint is received.

The estimated cost for demolishing a residential building ranges from \$5,000 to \$10,000 per house. The City and thus BSED lack the resources to either secure or demolish all the properties that need to be secured or demolished. Consequently, unsafe properties may remain on the list of dangerous buildings and buildings to be demolished for many years before the structures are demolished or secured. Because the number of structures that need to be secured or demolished exceeds the capacity to secure them, BSED has established that structures within 400 yards of a school or on a safe route receive priority attention.

Factors that contribute to the demolition problem include:

- Insufficient funds to perform all the necessary demolitions and board-ups.
- Uncertainty as to the amount of funds that will become available each year from the Block Grant process. BSED must wait until the Planning and Development Department advises them of the amount approved for demolition before a plan for demolition can be developed for the coming fiscal year.
- Appeals of demolition orders by property owners to City Council necessitate re-inspections and review.
- Unforeseen costs such as excess debris or environmental abatement costs can result in above average costs for a property, which means that fewer properties can be demolished.
- Emergency demolitions (structures that are in danger of eminent collapse) must be given priority over properties that are structurally safe even if the structurally safe properties have been on the demolition list longer.

Factors that slow down the demolition process, in addition to a lack of funds, include:

- The various hearing, re-hearing, inspection and re-inspection requirements imposed by ordinance.
- BSED is only allowed to send records for 144 properties to City Council each week for demolition approval.

- The length of time that elapses between BSED requesting that utilities (gas, electric and water) be turned off so that demolition can proceed and the time that all three utilities are actually disconnected. Water shutoffs appear to be the most frequent problem. Shutoff fees from both DTE Energy and the Detroit Water and Sewerage Department have increased substantially which reduces the amount of funds available for demolition costs.
- Pressure from the Administration, City Council, citizens and the media may result in some properties receiving action ahead of properties that have been in the system for a longer period of time.
- A data tracking system that is not compatible with BSED's Tidemark system.
- A backlog of entering and updating the data tracking system.
- Inspectors involved in the dangerous building/demolition process are subject to significant risks while performing their jobs including being robbed or physically assaulted.

1. The Current Demolition and Board-up Processes Are Inadequate

Detroit has thousands of open and vacant structures. Some estimates place the number of vacant buildings as high as 70,000. Although BSED is mandated to protect the public's health and safety, the City lacks the resources to either secure or demolish all the properties that need to be secured or demolished. Consequently, unsafe properties may remain on the list of dangerous buildings and buildings to be demolished for many years before the structures are demolished or secured.

We reviewed sixteen citizen complaints received during the audit period and determined that 63% of the properties that were the subject of those complaints were not inspected and responded to within 30-days.

BSED began securing properties in February 2009. Only 389 structures were secured before BSED had expended all the available funds.

Although tickets for unsafe conditions have been issued, BSED cannot determine the exact number issued during the audit period, or the number of property owners who complied with the notice to secure their properties.

The system used to track dangerous buildings and demolitions, the Integrated Physical Data System (IPDS), is not always accurate. Information is not always input to the system on a timely basis.

Under Section 12-11-28 of City Ordinance 290-H (Ordinance 290-H), the City may close up and secure structures that are vacant and unfit for human habitation and occupancy even if the structure is not in danger of collapse and may, if the owner does not do so, close and secure the structure. The cost of such closing and securing is to be charged against the real property which shall be a lien upon the real property in favor of, and collectable by the City.

Under Section 12-11-29 of Ordinance 290-H, the City may take emergency measures regarding structures that present an imminent danger. The City may secure and use the necessary labor and materials to perform the required work as expeditiously as possible to protect the public health, safety, and welfare. Cost incurred in the performance of emergency work concerning an imminent danger shall be paid by the City. The corporation counsel may institute appropriate legal action against the owner of the structure for the recovery of all costs incurred by the City in the performance of such work.

Ordinance No. 290-H provides that the cost of demolition shall be a lien against the real property, and shall be reported to the Board of Assessors who shall assess the cost against the property in question. The lien shall be enforced in the manner prescribed in the Charter or the 1984 Detroit City Code, as amended, (City Code), providing for the enforcement of special assessment liens or tax liens.

Vacant and abandoned structures pose a serious risk to citizens' health and safety. Many illegal activities can and have occurred in these unsecured properties. These

activities include drug houses, crimes against people such as rape, and stripping of items from the premises. Vacant and abandoned structures are often the subject of arson, and provide a breeding ground for vermin. Citizens, particularly children, may be injured if they enter the vacant and abandoned structures.

Citizens become upset and angry when their concerns regarding dangerous and abandoned structures are not resolved promptly. Their confidence in City government and its ability to resolve issues important to the citizens is weakened.

The City has begun to secure properties and plans to bill the owners or place a lien on the properties.

Recommendations

We recommend that BSED:

- Enforce all requirements of the City Code.
- Aggressively seek to recover the cost of securing or demolishing vacant and abandoned structures and use the recovered funds to secure or demolish additional properties.
- Seek sources of additional funding.

2. The City Overpays for Demolition

The City does not negotiate the cost of demolition contracts to standardize costs. Demolition contractors bid on Class A and/or Class B license work. The difference in Class A and B is as follows:

- A Class A license authorizes the contractor to demolish all types of buildings and structures including wood frame, masonry, steel frame and reinforced concrete buildings and structures. There are no height restrictions.
- A Class B license authorizes the contractor to demolish wood frame and solid masonry buildings and structures not exceeding three (3) stories and thirty-five (35) feet in height.

The following chart summarizes ten contracts reviewed for award price. All bids were for the same bid packages.

Company	Class A	Class B	Total
Business 1	NA	\$347,430.00	\$347,430.00
Business 2	\$391,500.00	\$307,500.00	\$699,000.00
Business 3	\$597,520.00	\$326,875.00	\$924,395.00
Business 4	\$586,500.00	\$360,125.00	\$946,625.00
Business 5	\$624,250.00	\$357,375.00	\$981,625.00
Business 6	\$640,500.00	\$350,125.00	\$990,625.00
Business 7	\$661,000.00	\$347,625.00	\$1,008,625.00
Business 8	\$614,500.00	\$399,000.00	\$1,013,500.00
Business 9	\$620,000.00	\$397,875.00	\$1,017,875.00
Business 10	\$747,250.00	\$374,750.00	\$1,122,000.00
Sum of the all contracts			\$7,929,700.00

Note: NA - Business 1 did not bid on Class A work.

The bids for class B work (primarily single family houses) varied from a low of \$307,500 to a high of \$399,000. The bids for class A work varied from \$391,500 to \$747,250, a difference of \$355,750. The variance between the lowest awarded contract for combined class A and B work and the highest awarded contract was \$423,000.

Standard business practice is to negotiate the best price for all goods or services purchased and to award contracts to the lowest bidders who meet all of the requirements of the contract.

According to BSED staff, the average price to demolish a house is \$6,500. By awarding work to contractors whose bids substantially exceed the lowest bid, the City pays more for demolition than necessary.

The process does not encourage contractors to submit a low bid since higher bids receive the same amount of work as the lowest bids.

According to BSED, contracts are awarded based on the lowest bid methodology. Because the amount awarded to any one contractor is limited, BSED selects several contractors to perform the total anticipated work. According to a BSED staff person, BSED is currently working on revising the terms of the demolition contracts to make them more flexible to allow them to get the best pricing possible.

Recommendations

We recommend that BSED:

- Benchmark actual demolition costs using invoices for work performed for BSED during the past two years to establish a reasonable pricing structure to measure the reasonableness of bids received.
- Determine the capacity of each contractor bidding on work rather than awarding the same amount of work to each contractor. This might increase the amount of work awarded to the lowest bidders.
- Consider separating the Class A and the Class B work into separate bid packages in order to obtain the lowest prices for each category since the greatest variance in bids is for the Class A work.
- Solicit individual bids for the demolition of commercial and industrial properties, particularly where scrap and reclaimed materials represent substantial amounts.
- Solicit suggestions from demolition contractors, both those currently doing work for the City and other contractors, on how to lower demolition costs so that more properties can be demolished with the available funds.

3. Failure to Recover the Cost from Property Owners for Demolishing or Securing Structures

BSED is charged with protecting the health and public safety of the citizens by ensuring that properties are adequately maintained. BSED demolishes unsafe structures and secures nuisance properties within 400 yards of a school or on a safe route for children. The City can place a lien on properties for the cost of boarding up a structure. As of December 2009, the process for accomplishing this had not been finalized. BSED does not currently have a system in place to bill property owners for demolishing or securing properties. The property owners are not billed, nor are the accounts turned over to the City Treasurer or the Law Department for collection as required.

The City Code Section 9-1-48 states the following:

- For the purposes of emergency measures concerning an imminent danger, the director of the building and safety engineering department may secure and use the necessary labor and materials to perform the required work as expeditiously as possible to protect the public health, safety, and welfare.
- Cost incurred in the performance of emergency work concerning an imminent danger shall be paid by the city. The corporation counsel may institute appropriate legal action against the owner of the structure for the recovery of all costs incurred by the city in the performance of such work.

City Ordinance No. 290-H provides that the cost of demolition shall be a lien against the real property, and shall be reported to the Board of Assessors who shall assess the cost against the property in question. The lien shall be enforced in the manner prescribed in the Charter or the City Code, providing for the enforcement of special assessment liens or tax liens.

Failure to recover the cost of making emergency repairs, boarding up a property or demolishing a property reduces the funds available to BSED to carry out its mission of protecting the health and safety of the citizens.

Recovery of demolition and boarding costs from property owners would provide BSED with additional funds for the demolition of unsafe properties. BSED could potentially have collected \$84.5 million in demolition costs for the period January 2003 – June 2009. For fiscal year 2007-2008 alone, demolition costs of \$17.1 million could have been billed and \$15.2 million could have been billed for fiscal year 2008-2009. Additional funds would allow BSED to continue to reduce blight in the city by removing eyesore properties.

BSED had been placing the cost of the demolition of a property on the property tax bill as a special assessment. They discontinued this practice because they found that the owners of derelict or abandoned properties generally would not pay the property tax bill. Therefore the property would go through the property tax foreclosure process with the demolition or boarding costs never recovered.

In October 2008, the cost for demolishing properties was presented to the Mayor's Office and the Law Department as potential revenue for the City. BSED is currently working on a system to be able to bill the property owners.

Recommendations

We recommend that BSED:

- Comply with all City ordinances by having the demolition costs placed on the property tax bills of affected properties.
- Ensure that special assessments for demolition costs be placed on all properties located within areas designated by the Mayor's Office as potential "downsizing" areas in order to facilitate the eventual acquisition of the properties through the tax reversion process.
- Institute a system for billing property owners for the costs of emergency repairs and boarding; and
- Refer all emergency costs not collected directly from the property owners to the Law Department for legal action.

4. Inadequate Records Management for the Demolition Process

The demolition process generates a substantial amount of data and record keeping. BSED does not have an appropriate record maintenance and retrieval system. The following conditions were discovered:

- BSED staff was unable to locate some of the records requested by the auditors.
- Some files for building demolitions had incomplete permit information or missing inspection reports.
- Demolition Division clerical staff was three to six weeks behind in inputting property information generated by inspectors into the Integrated Physical Data System (IPDS).
- Neither the Property Maintenance nor the Demolition Divisions maintained a list of properties being secured (boarded) by their vendor(s) until February 2009.
- Currently there is no list of properties designated as priority demolitions that are not emergency demolition properties.
- The IPDS system information is not always reliable.

The goal of record management is the systematic control of recorded information from original creation to ultimate disposition. A key element in achieving this goal is an efficient and effective procedure for filing and retrieving information.

- Files must be easily retrievable.
- Files must be complete and contain all necessary information.
- Information must be entered into the system promptly. Data regarding properties should be entered into IPDS within 72 hours of receipt.

The Notice to Proceed with demolition form requires the signatures of both a BSED and contractor employee. BSED should maintain appropriate reports detailing properties that were secured, demolished and are in need of demolition to assist management in gauging the department's performance.

Good management dictates that all documentation required to be retained for the efficient operation of the City, or to comply with record retention guidelines, be filed promptly, and in an easily retrievable manner.

Failure to maintain a filing system that includes and provides for the easy retrieval of all documentation necessary for efficient operations can result in the following:

- Lengthy searches for demolition records.
- Missing or incomplete records can cause delays or mistakes in the demolition process as well as causing the City to be out of compliance with applicable laws and regulations.

- Untimely inputting of property information into the IPDS system causes the information in the system to be inaccurate and unreliable.
- Not maintaining records of work performed by contractors can lead to inaccurate billings being approved and paid.
- Not maintaining a list of properties to be demolished on a priority basis can lead to scarce City resources not being used effectively in the demolition process.

BSED staff provided the following explanations for the conditions found above:

- The files were recently moved and purged. However no explanation was provided for why the requested information could not be located.
- The clerical staff is behind in inputting information due to staff shortages and special projects being assigned to the existing staff.
- The Property Management Division just recently implemented a system to track the properties that were boarded-up.
- BSED is currently working on a list of priority properties to be demolished.

Recommendations

We recommend that BSED:

- Ensure that the clerical staff's work is up to date.
- Establish a filing system that ensures records and files can be located in a timely manner.
- Maintain appropriate documentation in demolition files.
- Create and maintain a list of properties secured by vendors and a priority list for properties to be demolished.

5. Non-compliance with Finance Directive 143 and the Prompt Payment Ordinance

BSED violated both Finance Directive 143 (Administrative Procedures for Compliance with the City's Prompt Payment Ordinance) and the Prompt Payment Ordinance. The most serious violations were:

- Authorizing contractors to perform work before amendments to their purchase orders and contracts were approved.
- Funds available from their contracts for nine of the ten demolition contractors were exhausted in August 2009 but BSED continued to authorize them to perform work and be paid at a later date. One demolition contractor had unpaid invoices for work which exceeded their contract amount by 116%.

Additional violations included:

- Not paying some vendor invoices within the required 45 days after receipt of the invoice. Invoices dated April 17, 2009 were paid on September 11, 2009. Invoices dated August 5, 2009 and September 28, 2009 were being processed for payment on January 29, 2010.
- Payments were made to contractors from invoices that did not have an invoice date.
- Demolition invoices must be checked to confirm that the rate per square foot and the square footage billed is correct. The clerk processing vouchers did not initial or indicate verification that the invoices and the amounts listed were correct.

Finance Directive 143 requires that:

- Departments shall not place orders for goods and services, and vendors shall not deliver goods and services, in the absence of an approved contract or purchase order.
- Requirements of a proper invoice must include an invoice date.

The intention of the Prompt Payment Ordinance (City Code Sections 18-5-71 through 18-5-80) is to ensure that vendors who supply the City with goods and services are paid promptly, and in accordance with the contractual agreements governing their relationship with the City. Unless otherwise agreed to in a written contract or purchase order with a vendor, and subject to the provisions of Section 18-5-77 of this Code, the responsible person shall take all necessary steps to ensure that payment for the vendor is mailed or delivered to the vendor within forty-five (45) business days after the vendor's delivery to the responsible person of an invoice or other written request for payment issued pursuant to the terms of the contract or purchase order.

Best business practices dictate that when a review of documents is performed the person conducting the review should initial the document showing that the review was completed.

The lack of available funds to fund the demolition process impedes BSED's ability to carry out its mandated responsibilities to protect the health and safety of citizens. Requesting vendors to perform work when funds are not available to pay for the work creates the potential for disputes and lawsuits. It encourages vendors to submit inflated bids for future work in order to recoup the additional costs associated with having to wait for extended periods of time for payment of work performed, and to protect themselves against future carrying costs.

BSED representatives stated that demolition of properties was continued in order to protect the health and safety of citizens who are adversely affected by dangerous and unsafe buildings. Further, BSED receives continuing pressure from citizens, legislative and administration officials, as well as the media to demolish dangerous and unsafe buildings. The Director of BSED stated that obtaining payment approval and release of grant funds from the Planning and Development Department delayed the payment of demolition invoices.

Recommendations

We recommend that BSED:

- Refrain from requesting services from a contractor when a valid purchase order and/or contract does not exist; and
- Comply with Finance Directive 143, and the Prompt Payment Ordinance.

BACKGROUND – ESCROW ACCOUNTS

The License and Permits Division is responsible for the management of the fire insurance and utility escrow accounts.

Fire Insurance Escrow Account (FIEA)

State of Michigan Public Act 218 of 1956 (Act) details the fire insurance escrow requirements. The Act establishes the amount of each fire insurance settlement to be escrowed. For residential property, the maximum amount that may be escrowed is 25% of the settlement or a maximum of \$7,681 for the period June 1, 2008 through May 31, 2009. The maximum for commercial and industrial properties is 25% of the settlement.

The City is required to record fire insurance escrow funds and deposit the money in a trust or escrow account. Once the City receives reasonable proof that the building has been repaired or removed in conformance with local code requirements or the insured party has entered into a contract with a contractor to repair, replace, or remove the structure for the insured party, the funds are to be released to the insured party. If reasonable proof is not received within 120 days, the City may use the retained proceeds to secure, repair, or demolish the damaged structure, so that the structure is in compliance with local code requirements and applicable ordinances.

Utility Escrow Account

City of Detroit Ordinance Number 483-H, approved February 16, 1982, created the Utility Escrow program. The program provides for a procedure whereby threatened utility service terminations in dwellings with three or more units may be averted through a special escrow account. Utility companies and the Detroit Water Department are required to file discontinuance notices with BSED prior to termination of service. Tenants residing in rental units whose services are facing a shut-off may elect to have their rents escrowed with BSED for utility payments. As required by the ordinance, the City receives and deposits monies into a special utility escrow account. The account is used on behalf of tenants to make payments to utility companies and continue services to the rental unit.

6. Inadequate Management and Oversight of the Fire Insurance Escrow Account

BSED does not adequately manage the fire insurance escrow account (FIEA). The total amount in the FIEA as of December 31, 2009 was \$22.3 million. This represents a 191% increase from the balance of \$7.7 million as of December 31, 2004. Currently there are funds related to approximately 2,249 properties in the FIEA. It was not possible to determine the average holding time of these properties because of the way the database is configured.

Funds should be disbursed from the FIEA when one of the following occurs:

- The insured (property owner) provides adequate evidence that the fire-damaged property has been adequately repaired or is being repaired by a licensed contractor. Funds may then be disbursed to the insured or the contractor.
- The insured provides adequate evidence that the property has been demolished. Funds may then be disbursed to the insured.
- If, after 120 days of receipt of the funds, the City has not received reasonable proof that one of the above conditions has been met, the City may use the retained proceeds to secure, repair, or demolish the destroyed or damaged structure. Any unused portion of the retained proceeds must be returned to the insured.

If one of the above events does not take place within 120 days, the City should use the funds as expeditiously as possible to repair or demolish the property.

Funds are not directly disbursed from the FIEA to the insured or to the contractors who perform the demolition work or boarding-up services.

BSED does not maintain adequate record keeping of fire insurance escrow related properties. No BSED employee is assigned responsibility for entering information from the FIEA database into the demolition (IPDS) system. If the IPDS system does not contain the FIEA information, demolition may be ordered without realizing that there are FIEA funds available to defray the cost of demolition.

BSED management was unable to provide requested information regarding the transferring of properties from the FIEA.

Data reflected in the FIEA database is not always accurate. Deposits to the fire escrow insurance bank account, and recorded in the City's general ledger system, did not always reflect the amount that was reported in the FIEA database. The auditors selected a sample of 79 properties from the FIEA database to determine if the information recorded was accurate. Of the 79 properties reviewed, nine had an amount listed in the FIEA database that did not match the amount of the bank deposit. The amount released from the FIEA to the demolition fund for demolition costs was also not consistently recorded in the database.

BSED does not have any procedure for monitoring how long a property remains in the FIEA and when the funds become eligible to be used by the City for the demolition of the damaged properties.

MCL (Michigan Compiled Laws) §500.2227 provides that if reasonable proof is not received by or shown to an authorized representative of the City within 120 days after the policy proceeds portion was received by the Treasurer, the City shall use the retained proceeds to secure, repair, or demolish the damaged or destroyed structure and clear the property in question, so that the structure and property are in compliance with local code requirements and applicable ordinances of the City.

Funds should be disbursed directly from the FIEA to ensure that the FIEA database has accurate information, and that a good audit trail is established for the escrowed funds.

Good accounting practices require that information be entered into all relevant databases and systems accurately and in a timely manner.

Standard business practice dictates that employees should be cross-trained in order to ensure that all operations and responsibilities have adequate coverage during the absence of any staff members.

By definition, the total of the subsidiary ledger should equal the balance of the control account. All related information should be routinely reconciled to ensure that all systems reflect the same information.

Effective oversight of escrowed funds requires that a procedure be in place to determine whether escrowed funds are used for their intended purposes within a reasonable period of time.

Failure to record the use of fire escrow insurance proceeds in the IPDS system can allow the insured party to improperly claim fire escrow proceeds to which they are not entitled. It can also result in fire escrow funds not being used to offset allowable demolition costs incurred by the City.

Failure to cross-train employees within a department reduces their flexibility within the organization and reduces their ability to improve their overall skill set. Failure to cross-train employees leads to increased costs to the City due to the increased awarding of personal service contracts for functions that could otherwise be performed by a cross-trained employee.

A BSED staff member indicated that due to lack of established policies and procedures over the fire escrow insurance process, fire escrow insurance funds are not always recorded in the computer system.

BSED management stated that they were unable to provide the requested information regarding transfer of properties from the FIEA due to the extended absence of an

employee who has sole control of and maintains the information. Due to a lack of staff it is not always possible to cross train employees. Consequently, some employees may have sole responsibility and control over a function.

BSED management stated they were not aware of any dollar amount discrepancies between the FEIA database, the amount recorded in the fire escrow insurance bank account, and on the Cash Receipt Journal Entry forms.

BSED management stated that the issue of funds remaining in the fire escrow fund for extended periods of time is currently being considered.

Recommendations

We recommend that BSED:

- Ensure that fire escrow insurance properties are properly recorded.
- Develop an operating procedures manual concerning the handling and recording of fire escrow insurance funds.
- Cross-train employees to ensure that all operations can function and that data is accessible despite the absence of key staff members.
- Reconcile the subsidiary ledger to the control account to ensure that information is accurately recorded in the database and bank account.

7. Fire Escrow Insurance Account Funds Are Commingled with Other Monies

Fire insurance escrow (FIE) funds are commingled with general fund and grant monies. BSED does not disburse funds directly from the FIE checking account when refunding monies to insured parties or when using FIE funds to pay vendors for demolishing fire-damaged properties.

The Finance Department – Accounts Division transfers FIE funds to the City's central disbursement account by wire transfer. Checks are then issued from the central disbursement account to the party entitled to receive a refund rather than directly from the FIE checking account.

Contractors, who perform demolition work, including the demolition of fire-damaged properties, are paid from block grant funds. Once BSED becomes aware that a fire-damaged property has been demolished, escrowed funds related to that property are transferred to the demolition block grant fund to reimburse the block grant funds for the cost of demolition.

MCL §500.2227 provides that fire insurance escrow monies deposited in an account shall not be commingled with other City funds.

Fund accounting requires that a separate account be set up for each grant, and that funds cannot be transferred between different fund types.

Transferring FIE monies from the FIE bank account to the central disbursement account could result in FIE funds being used for purposes other than refunding escrowed funds to the insured party. There is no verification that the transferred FIE funds are used for their intended purpose.

There can be a delay between the time that an invoice is paid from block grant funds and the time when funds are transferred from the FIE account to reimburse the grant funds. Consequently, the reported block grant balance is misstated during this interim period. There is no assurance that all invoices paid from block grant funds for fire-damaged properties are reimbursed from FIE funds.

Funds are transferred from the FIE account to the central disbursement account based on past practices.

BSED management stated that due to the requirements to pay vendors in a timely fashion and the current demolition process, BSED is not always notified in a timely manner that a property on an invoice received from a demolition contractor is a fire escrow property. Therefore, the invoice is paid from block grant funds, and the fire escrow fund reimburses the block grant funds for the cost of the demolition only when BSED becomes aware that the property was a fire escrow property.

Recommendations

We recommend that BSED:

- Discontinue the practice of transferring funds from the FIE account to the City's central disbursement account, and that escrow refund checks be disbursed directly from the FIE checking account.
- Immediately discontinue the practice of transferring fire escrow funds to the demolition block grant fund.
- Pay vendors performing demolition work of fire escrow insurance properties directly from the FIE account.

8. Inadequate Oversight Over the Utility Escrow Bank Account

Ordinance 483-H, (Section 56-4-25 of the City Code) which established the utility escrow account, requires that a separate bank account be established to receive utility escrow payments and to disburse utility payments to the utility companies. There was no activity in the utility escrow checking account between February 2004 and July 2009. In August 2009, a transaction was deposited directly to the account but was not processed through the Treasurer's Office or through DRMS. Instead of using the escrow account as required by the ordinance, escrow payments are deposited to a general fund bank account. The escrow payments are accounted for in the DRMS system as a separate fund.

During the audit the following conditions were found.

- Utility payments were commingled with City funds and were not being held in a separate escrow account.
- The utility escrow account was no longer being used as required.
- The balance of the utility escrow bank account remained at \$5,115.91 from February 2004 to July 2009. BSED management was unable to identify the components of that balance and could not confirm whether that balance represented utility escrow payments received but not disbursed.
- BSED management erroneously believes that the use of an escrow bank account precludes recording transactions in DRMS.
- BSED does not perform monthly reconciliations of the bank account.
- Bank statements are addressed to a person no longer employed in BSED.

Section 56-4-25 of the City Code requires that BSED establish a special escrow account for the collection and payment of utility escrow funds.

The City has a fiduciary responsibility to manage and account for all monies received under the utility escrow program. Adequate records must be maintained to identify the source and disposition of all monies received into and disbursed from the utility escrow account.

City policy requires that all agencies that have bank statements tied directly to their funds must complete monthly bank reconciliations. Reconciliations must be completed and submitted to the Finance Department – Treasury Division no later than 45 days after the bank statement date.

Standard business practice requires that bank account statements should be addressed to the person responsible for reconciling the account.

Commingling escrow funds with general city funds is a violation of the ordinance that created the utility escrow fund. It also increases the possibility that escrowed funds being held for a specific purpose will be used for another purpose.

As a result of the decision to stop using the utility escrow bank account for the past five years, BSED is no longer able to identify the individuals who submitted the \$5,115.91 or to determine whether the utility payments, for which these funds were escrowed, were ever made.

Failure to maintain adequate oversight of bank accounts makes the City more susceptible to losses due to fraud or theft. Bank accounts that are not used and are not reconciled monthly are more vulnerable to internal abuse and fraud by employees. Inactive accounts can also result in the City being subject to unnecessary inactivity fees or to suffer the loss of the funds through escheatment.

Management stated that utility escrow funds are deposited with other City funds because utility escrow monies received would otherwise not be properly recorded in DRMS.

According to BSED, monthly bank reconciliations are not completed due to a lack of available staff and busy workloads. BSED staff stated that due to the lack of activity in the utility escrow checking account for a considerable amount of time, monthly bank reconciliations were not necessary.

Recommendations

We recommend that BSED:

- Comply with Section 56-4-25 of the City Code, which requires that a special escrow account be used for the collection and payment of utility escrow funds by utilizing the established utility escrow bank account.
- Reconcile the utility escrow bank account; identify all the monies held in the account; and take any necessary actions as a result of identifying the source of the monies.
- Prepare and retain monthly bank reconciliations.
- Ensure that utility escrow payments are not commingled with other City funds.
- Review the status and activity of bank accounts on a consistent basis.

9. Inadequate Oversight of the Fire Insurance Escrow Bank Account

We reviewed the monthly bank reconciliations of the fire insurance escrow account for all 24 months of the audit period. Exceptions were found in all 24 reconciliations including the following.

- Twelve of the 24 monthly bank reconciliations lacked adequate supporting documentation. Bank reconciliations were not supported with required Detroit Resource Management System (DRMS) figures.
- All of the monthly bank reconciliations had at least one required field missing. Required fields include the preparer's signature, approver's signature, and the date completed.

Other conditions found were:

- Fire insurance proceeds received were not deposited into the bank account within 48 hours of receipt.
- BSED does not budget interest revenue received on the FIE account.
- BSED management is not notified of incoming and outgoing wire transfer activity in the FIE account initiated by the Debt Management Division of the Finance Department.

City policy requires that all Agencies that have bank statements tied directly to their funds must complete monthly bank reconciliations. The department must make certain that all bank accounts are reconciled between the bank statements and the DRMS Trial Balance, and that all variances are resolved.

Finance Directive 20 requires that all City departments institute procedures to ensure that all cash and checks are deposited in the bank and recorded in DRMS within 48 hours after receipt.

MCL §500.2227 requires that any interest earned on money placed in a fire insurance escrow account is to be retained by the city to defray expenses incurred in administering the fire insurance escrow process and demolishing fire-damaged properties.

Standard business practice dictates that in order to effectively monitor bank account activity, management must be made aware of all transactions processed. Accurate bank reconciliations require that all activity be accounted for.

Failure to maintain adequate oversight of bank accounts and cash receipts can make the City susceptible to losses due to fraud or theft. Delays in depositing funds received increases the possibility that funds will be lost or stolen.

Failure to budget for the interest earned on the FIE account can result in the interest not being used to defray the expenses involved in administering the fire insurance escrow program and in demolishing fire-damaged buildings.

Bank reconciliations cannot be complete and accurate if the reconciling department is not informed of all transactions that affect the account. There is no safeguard that funds transferred out of an account are for legitimate purposes, are not being diverted for an inappropriate use, or stolen.

BSED management stated that bank reconciliation supporting documentation is not always retained, but is always verified to DRMS.

According to BSED management, cash receipts may not always be deposited within 48 hours of receipt due to issues that may arise and must be resolved before depositing the funds.

BSED management could not provide an explanation for not budgeting interest revenue. BSED management was not aware that interest revenue was being used for fire escrow insurance related administrative purposes.

BSED management stated that due to past practices and a lack of communication between the Finance Department and BSED, they are not always notified of incoming and outgoing wire transfers processed.

Recommendation

We recommend that BSED:

- Ensure that monthly bank account reconciliations are completed in accordance with City policy and contain adequate supporting documentation.
- Deposit cash receipts within 48 hours of receipt in compliance with Finance Directive 20.
- Budget an amount for the interest revenue earned on the fire insurance escrow bank account.
- Coordinate with the Debt Management Division of the Finance Department to establish a procedure for the reporting of all wire and other transactions that affect the fire escrow bank account.

BACKGROUND - NUISANCE ABATEMENT AND REPAIR AND OWN PROGRAMS

BSED was responsible for the Nuisance Abatement (NAP) and Repair and Own (RTO) Programs. The Nuisance Abatement Program, started in 1983, permitted individuals to rehabilitate vacant, abandoned, tax delinquent housing that were creating a nuisance in neighborhoods.

The Repair and Own program was started in 1989 under Executive Order 27. It supplemented the Nuisance Abatement program by making available to individuals, who desired to enter into a contract to repair, occupy, and ultimately own a home, single family dwellings that had been acquired by the City through the tax reversion process. It was enacted as a City Ordinance in 1997. Funding for the NAP ended in 2004. The RTO application process is now handled by the Planning and Development Department.

10. The Nuisance Abatement (NAP) and Repair and Own (RTO) Programs Were Not Properly Managed

BSED was responsible for the Nuisance Abatement and the Repair and Own Programs. The NAP, which began in 1983, provided a means for individuals to rehabilitate vacant, abandoned, tax delinquent housing that had been creating a nuisance in neighborhoods. The individuals participating in the program agreed to make all necessary repairs at their own expense within 36 months. The City was responsible for delivering a deed to the property once all repairs were made. The contractor (individual participating in the program) was not responsible for paying the property taxes for the 36 months of the NAP contract.

Under the NAP, the City was only required to deliver the deed to the property. The contract did not specify the type of deed (warranty or quit claim) to be delivered. Provisions were made in the contract for situations where the City could not deliver the deed. The City had acquired the properties from the State of Michigan. Obtaining title was often a time consuming task that required the Law Department to devote a substantial amount of time to the process.

The RTO program, authorized by Executive Order 27, was initiated in 1989 and was incorporated into City Ordinance 7-97 § 1, adopted March 12, 1997. The properties in this program were owned by the City of Detroit. People entered into contracts to repair and occupy the properties with the ultimate goal of becoming homeowners. Once the appropriate repairs were made the individuals would receive a quit claim deed to the property from the City. According to the contracts issued to individuals, the City would pay the property taxes for 36 months while the individual repaired the property. However City Ordinance 7-97 § 1 does not address the issue of who is responsible for the property tax payments.

Both programs lost their funding in 2004 but participants in the programs were not notified or contacted. Program oversight was effectively eliminated and there was no follow up to ensure that the program participants or the City complied with the contracts.

There are currently 62 individuals still in the programs according to BSED staff. The Deputy Director of BSED is working with the remaining 62 participants in an attempt to resolve and close the contracts.

BSED's website indicates that the NAP is no longer funded but directs individuals interested in the RTO program to contact the Planning and Development Department for an application.

Multi-year programs should not be initiated unless there is a reasonable expectation that funding will be available for the duration of the program. Consequently, each year that individuals were allowed to enter either program, there should have been assurance that funding would be available for the subsequent three years.

When the programs lost their funding, a plan should have been implemented to ensure that there was adequate oversight of the programs and that the programs were phased out in an orderly manner over the remaining period of the contracts still in force.

The participants should have been notified that the programs would be ending and advised of what actions participants should take. The participants should have been allowed the opportunity to complete the necessary repairs and obtain title for the properties in compliance with their contract.

City departments should maintain and update their websites on a regular basis to ensure accurate and timely information for users.

The City did not accomplish its objective of getting these properties back on the tax rolls. The City still has an ownership interest in these properties, which could make the City subject to litigation.

According to BSED management, the coordinator of the programs did not have the necessary skills to manage the programs. In addition, the programs lost their federal funding in 2004. Consequently, the programs were ended abruptly. There was no phasing out of the work in progress, which caused confusion for BSED concerning the status of the projects. Participants in the programs were not notified that the programs had been terminated.

Recommendations

We recommend that BSED:

- Develop a plan to close out both programs within a reasonable period of time;
- Research City records to identify all remaining program participants;
- Work with the 62 known participants remaining in the programs to resolve any issues;
- Determine the properties for which the City will be able to provide a deed;
- Enlist the assistance of other City departments (Planning and Development Department, Law Department, Assessor's Office, etc.) to resolve any problems; and
- Update its website to reflect the current status of the programs.

11. Non-compliance with the Imprest Cash Manual

During the audit the following conditions were found:

- The imprest cash funds did not balance to the authorized amount. Both the Dangerous Buildings and the Administrative imprest cash accounts have not balanced to their authorized amount since the June 2007 imprest cash audit.
 - The Dangerous Buildings imprest cash fund was over \$636.
 - The Administration imprest cash fund was over \$148.61.
- The policies and procedures specified in the imprest cash manual were not followed. Specifically:
 - BSED did not conduct quarterly independent audits of its imprest cash funds and retain written records of such audits for review by the Auditor General.
 - Monthly reconciliations of the imprest cash fund are not performed.
 - Surprise imprest cash audits are not routinely performed.
- BSED did not maintain copies of receipts for purchases. BSED could not provide copies of receipts for nine of thirteen unvouchered expenses. In addition, BSED could not provide copies of receipts for an un-reimbursed check request in the amount of \$153.50.
- Recurring check payments from the imprest cash checking accounts are made payable to Wayne County, 36th District Court, and for monthly parking expenses.
- Reimbursement requests were not submitted to the Accounts Payable Section within 30 days after the month end in which the purchases were made.
- There is a lack of security over the imprest cash checkbooks. The custodian of the imprest cash accounts does not maintain physical custody of the checkbooks for either the Administrative or Special Dangerous Buildings accounts.
- The petty cash portion of the Administrative imprest cash is not adequately safeguarded. It is located in a safe in the cashier area and can be accessed by BSED staff other than the custodian.
- A log of all petty cash expenditures from imprest cash funds is not maintained by BSED.
- BSED submitted year-end closing exhibits for fiscal year ended 2008-2009 in which the amounts listed for the Administrative and Special Dangerous Buildings accounts did not match the authorized amounts. The Administrative account reflected an overage of \$32.28 and the Special Dangerous Buildings account reflected an overage amount of \$306.
- There is no written statement indicating the amount of the petty cash supply.

- The name stated on the bank statements for both the Administrative and Special Dangerous Buildings checking accounts is not up-to-date. The statements are sent to an individual who has not worked in the Licenses and Permits Division of BSED since May 2008.

The Imprest Cash Manual requires that:

- At all times the imprest cash fund must agree with the total amount authorized.
- Unresolved overages should be deposited with the Treasurer.
- At a minimum, quarterly audits of the imprest cash fund, including surprise cash counts, must be performed, and written records must be retained until the next audit by the Auditor General. In addition, supervisors or accounting personnel must make periodic audits of the imprest cash fund.
- All accounts must be reconciled monthly.
- All documents supporting imprest cash purchases must show the date paid, be signed by the employee making the purchase, and clearly indicate the purpose or function of the purchase.
- The imprest cash checking account should not be used for frequently purchased items. Expenditures of \$100.00 or less from imprest cash should not be repeated for the same item more frequently than once every three months.
- Check requests for reimbursement must be made within thirty days from the end of the month in which the original purchase was made.
- By definition, a custodian is one who takes charge of safekeeping property; therefore, physical custody of the funds is required to fulfill the duties of a custodian.
- Standard business practice dictates that no individuals other than a custodian of an account should have direct access to cash or checks.
- A permanent log must be maintained into which all cash expenditures are recorded at the time they are made. The log should provide columns showing date, payee, item, and amount.
- If the imprest cash fund is comprised of a checking account and a cash supply, the custodian of the imprest cash fund must keep a written statement signed by the custodian and approved by a supervisor indicating the portion of the imprest cash fund retained in cash.
- Standard business practice requires that bank account records, including bank statements, be updated upon the change in responsibility of an employee.

Imprest cash funds are susceptible to misuse, theft, and other loss. Failure to follow the controls of the Imprest Cash Manual, Finance Directives, and other City policies increases the risk that discrepancies, loss, or misuse of imprest cash monies will not be identified and resolved promptly.

A BSED employee responsible for the oversight of the imprest cash indicated that it was known that the imprest cash fund was out of balance. BSED believes that they had all the receipts for purchases even though they could not find them at the time of the surprise cash count.

BSED staff stated that due to a lack of staff, items including monthly bank reconciliations, quarterly audits, and surprise cash audits are not completed.

Recommendations

We recommend that BSED:

- Implement internal controls over the imprest cash process.
- Fully comply with the Imprest Cash Manual, all applicable Finance Directives, and Finance Department procedures.
- Ensure bank reconciliations of both imprest cash checking accounts are performed monthly.
- Ensure that surprise cash audits of the imprest cash checking accounts are completed on a routine basis.
- Notify the bank to send imprest cash bank account statements to the BSED employee currently assigned reconciliation responsibility.
- Establish accounts with Wayne County and the 36th District Court to eliminate the need to issue imprest cash checks for recurring fees.

12. BSED Did Not Fully Comply with Year-end Closing Procedures

BSED was unable to provide the auditors with copies of requested year-end closing exhibits for the fiscal years ended June 30, 2008 and 2009. Some of the year-end closing exhibits were provided by the Finance Department. The following exceptions were noted in those documents:

- A December 2005 bank statement balance was used to complete the June 30, 2008 reconciliation of the Utility Escrow Checking Account. The June 30, 2009 reconciliation was not submitted.
- Exhibits submitted to the Finance Department indicate overages in both the Administrative and Special Dangerous Buildings Imprest Cash Accounts.
- The Imprest Cash Fund Report as of June 30, 2009 lacked the Imprest Cash Custodians' signatures.
- A submitted bank account cash reconciliation form lacked an approval signature.
- The imprest cash reconciliation exhibit for fiscal year 2008 included a carryover amount of a prior year difference in the amount of \$26.39.
- Exhibits prepared by BSED, but not on file in the Finance Department, lacked approver signatures and dates.

Finance Department Year-end Closing Procedures state that it is the agency's responsibility to submit all required information accurately, timely, and completely.

Non-compliance with the Year-end Closing Procedures affects the Finance Department's ability to close the City's books in a timely fashion, and may delay the Finance Department from compiling accurate year-end information for the Comprehensive Annual Financial Report (CAFR).

According to BSED management, required fields for Year-end Closing exhibits were not completed due to a lack of staffing. BSED management could not provide an explanation as to why requested exhibits were unable to be located.

Recommendation

We recommend that BSED take the necessary steps to ensure that all financial exhibits are submitted to the Finance Department by the designated due dates.

13. Established Lockbox for Payments Is Not Being Used

BSED does not utilize an established lockbox to collect payments. One BSED manager with financial responsibilities, with whom the lockbox issue was discussed, was not aware that a lockbox had been established although senior management was aware that the lockbox and related bank account had been established. Lockboxes are used to facilitate the timely processing and depositing of cash receipts.

Standard business practice requires that bank accounts and lockboxes should be reviewed periodically to ensure that they are needed for operations and are being used. Bank accounts should not be allowed to become dormant through non-usage.

Failure to utilize an established lockbox can result in cash receipts not being deposited promptly and therefore not being available to the department on a timely basis. Further, the City may incur bank charges for the lockbox and related depository account without receiving any benefit from them.

Failure to maintain adequate oversight of bank accounts can leave the City susceptible to losses due to theft or fraud. Bank accounts that have become dormant can be vulnerable to internal abuses and fraud by employees.

BSED stated that due to the inability of the City to finalize the implementation of the lockbox project, the lock box was never utilized.

Recommendations

We recommend that BSED:

- Evaluate whether the benefits of using a lockbox for receiving payments justifies the costs associated with the arrangement; and
- Based upon the results of the analysis either implement usage of the lockbox or close the lockbox and the related depository account.

15. The Building Official Has Failed to File the Required Annual Report

The Building Official has not submitted the required annual report to the Mayor since 1993.

Section 12-11-12.9 of Ordinance 290-H requires that at least annually, the building official shall submit to the mayor, a written statement of operations in the form and content as shall be prescribed by the Mayor.

Failure to file the required annual report reduces the accountability of BSED in that the results of operations are not available for public review.

BSED was unable to provide a reason why the required annual reports were not prepared and submitted.

Recommendations:

We recommend that:

- The BSED building official comply with the ordinance by filing the report annually.
- A copy of the report be provided to the Detroit City Council preferably before the City Council reviews the City's budget and Block Grant allocations.

FINDINGS RELATED TO THE FINANCE DEPARTMENT

1. The Finance Department – Debt Management Division Does Not Notify BSED of Fire Insurance Escrow Account Wire Transfers

The Finance Department – Debt Management Division, which is responsible for the investment of fire insurance escrow funds, does not notify, nor provide documentation to BSED of incoming and outgoing wire transfers processed from the fire escrow insurance bank account.

Standard business practice dictates that a department responsible for the oversight of a bank account should be made aware of all transactions performed by other departments so that they may verify that the transactions were legitimate and were properly recorded.

Failure to notify BSED of wire transfers processed increases the risk for fraudulent transactions. In addition, the lack of notification of wire transfers processed can lead to transactions not being accurately recorded and prevents the accurate and timely reconciliation of the bank account.

BSED management stated that they are not notified of incoming and outgoing wire transfers because this has been a long-standing practice. Debt Management stated that BSED is not notified of transactions because BSED staff may not understand the transactions.

Recommendation

We recommend that the Finance Department – Debt Management Division notify BSED of all wire transfers and other investment transactions that involve fire insurance escrow funds, and provide adequate supporting documentation of the transactions

2. The Finance Department Did Not Properly Maintain and Review Year-end Closing Documents

The Finance Department was unable to provide all of the requested year-end closing exhibits for BSED. Only six of the 16 (63%) requested documents were available.

The Finance Department failed to take action regarding overages reported in both the Administrative and Special Dangerous Buildings Imprest Cash Accounts.

The purpose of the year-end closing exhibits is to ensure that financial data is correctly recorded in the financial records of the City. This purpose can be accomplished only if the information is reviewed and verified by the Finance Department.

Finance Department Year-end Closing Procedures require that any overages and shortages must be noted and explained as to what actions have been taken in compliance with Executive Order 6 dated July, 23, 1962 and Finance Directive 285-System-24 dated March 20, 1962.

Failure to adequately review the information and follow-up on discrepancies or errors can result in erroneous information being included in the financial records of the City. It also permits errors to remain undetected.

It has been the intent of the Finance Department to review and verify the data on the year-end closing exhibits, but due to the requirements of completing the Comprehensive Annual Financial Report and the lack of qualified Finance Department personnel, this review and verification has not been performed.

Recommendation

We recommend that the Finance Department assign qualified staff to review year-end exhibits for accuracy and investigate any discrepancies found to ensure that the information provided is correct, that the documents serve their intended purpose, and to ensure that the records are properly maintained

APPENDIX A

Statistical Data Related to Demolition Activity in Detroit

The following information was prepared by the City Planning Commission in December 2009:

Fiscal Year	In Millions			Number of Buildings Demolished		Total Buildings Demolished
	Demolition Funding	Demolition Staff Funding	Total Funding	Residential	Commercial	
2001-02	\$11.2	\$2.0	\$13.2	2,073	177	2,250
2002-03	8.7	2.0	10.7	730	53	783
2003-04	7.1	1.8	8.9	810	6	816
2004-05	7.5	3.0	10.5	1,149	118	1,267
2005-06	6.8	1.8	8.6	834	75	909
2006-07	5.3	1.9	7.2	653	70	723
2007-08	3.0	2.1	5.1	1,284	94	1,378
2008-09	3.0	2.2	3.2	480 P	42 P	522 P
2009-10	2.5	2.2	4.7	700 P	400 P	1,100 P

Note: P – projected

The following information was provided by the Buildings & Safety Engineering Department:

Fiscal Year	Total Buildings Demolished
1998-99	2,287
1999-2000	2,230
2001-02	2,253
2002-03	1,058
2003-04	799
2004-05	1,149
2005-06	1,059
2006-07	701
2007-08	1,388
2008-09	1,142

Demolition of Residential Units

The Southeast Michigan Council of Governments has published the following historical data regarding the number of residential units demolished in Detroit.

Calendar Year	Number of Units*
1980	5,505
1985	4,837
1990	4,731
1995	6,233
2000	3,819
2001	4,306
2002	2,664
2003	2,269
2004	2,960
2005	2,007
2006	1,352
2007	1,543
2008	3,141
2009	1,165

*The number of residential units is not the same as the number of structures or buildings. For example, a two-family house would be counted as two units in the table above.

GLOSSARY

Glossary of Acronyms and Terms

Abandoned Building	A vacant building, dilapidated and open at the door or window, leaving the interior of the building exposed to the elements or accessible to entrance by trespassers.
BSED	The Buildings and Safety Engineering Department
Building Inspector	Inspects new and existing buildings, structures, and signs to assure compliance with pertinent City ordinances and codes, approved plans, specifications, and accepted standards and methods of work; and examines plans for compliance with pertinent codes, laws, and ordinances for approval of application for permits.
Building Official	A construction code enforcement person working as an inspector, or plan reviewer, or actively engaged in the administration and enforcement of adopted building, electrical, mechanical, or plumbing codes, or any combination of these codes. The building official is appointed by and serves at the pleasure of the mayor.
Demolition	Demolition Division (of BSED)
Certificate of Occupancy	Issued for new building construction or any structural changes made to a building (commercial or residential) for which inspections verify compliance with the city's ordinances and codes certifying that a building is safe to occupy.
Dangerous Building	Any building or structure which has any or all of the defects or is in any of the conditions described in Ordinance number 290-H. Whenever a building becomes vacant, dilapidated and open at door or window, leaving the interior of the building exposed to the elements or accessible to entrance by trespassers it shall be deemed a "Dangerous Building" and unsafe.
Director	The director of BSED appointed by and serving at the pleasure of the mayor.
DRMS	Detroit Resource Management System
Dwelling	Single family, two family, or multiple family residential property.
Emergency Demolition	A structurally unsafe property that is in imminent danger of collapse.
Enforcement	To compel observance of (a law etc.).

IPDS	Integrated Physical Data System is the software used to track dangerous building information.
Nuisance Property	Abandoned building that exerts a downgrading or blighting influence on the surrounding neighborhood, discouraging neighbors from making improvements to properties and thus adversely affecting the tax revenue of the city.
PMD	Property Maintenance Division (of BSED)
Priority Demolition	A structure on the dangerous buildings list that is within 400 yards of a school or on a safe route to a school.
Property Maintenance Inspector	Inspects and reports on the condition of residential dwellings and their environs to ensure compliance with pertinent City ordinances and codes and accepted sanitary and safety standards.
Safe route	A street frequently traveled by children to and from school.
Temporary Occupancy Permit	Permit for owner occupant to occupy a dwelling while the corrections or repairs needed for a certificate of approval are being made.
Violation	Any act, which is made or declared to not be in compliance with City, codes, ordinances and other laws or any omission or failure to act in accordance with City codes ordinances and any other laws.




CITY OF DETROIT
BUILDINGS & SAFETY ENGINEERING DEPARTMENT

COLEMAN A. YOUNG MUNICIPAL CENTER
2 WOODWARD AVENUE, FOURTH FLOOR
DETROIT, MICHIGAN 48226
WWW.CI.DETROIT.MI.US

Date: May 7, 2010

To: Loren E. Monroe, CPA
Auditor General

From: Karla Henderson, Director 
Buildings & Safety Engineering Department

Re: Response to the Audit of the Buildings and Safety Engineering Department

Attached is the Buildings and Safety Engineering Department's response to your Audit Report and recommendations. We are happy to report that many of the conditions noted in the report have been improved or are in the process of being improved. Please feel free to discuss some of the outlined issues with me at your earliest convenience.

DEMOLITION

1. The current Demolition and Board-up Processes are Inadequate.

As the report states, demolition and board-up activities are dictated by the amount of funding BSED receives. BSED is in the midst of a major demolition plan in which 3000 properties are scheduled to be demolished this year using 14 million dollars in Neighborhood Stabilization Funds. This activity is ongoing. In addition, City Council has recently approved three board up contracts for \$400,000 apiece and two more contracts of the same amount are scheduled to be approved. With 2 million dollars to be dedicated to securing property, it means up to 2500 structures can be boarded up. We are working with Community Legal Resources and the Detroit Vacant Property Campaign and have established a new group called the Board Up Coalition on a comprehensive strategy to use these funds in an efficient way that will help stabilize the strongest neighborhoods, while also addressing safety issues in weaker areas.

Regarding enforcement, until very recently the law did not provide for ticketing of dangerous properties, the remedy for addressing blight was to take properties through the dangerous buildings process set forth in Ordinance 290H and schedule for demolition. Due to a change in the Home Rule Cities Act in 2008, dangerous buildings can now be treated as blight and receive blight violations. The Law

Department is working on changes to the City Code to authorize BSED to issue tickets to owners of the most dangerous structures.



We note that the report does not mention the Property Maintenance Division of BSED, which does issue blight violations and for which the data is readily available. The following information was submitted with the BSED executive budget narrative last month:

INSPECTION SERVICES FOR PROPERTY MAINTENANCE ENFORCEMENT DIVISION/ MEASURES AND TARGETS

Type of Performance Measure: List of Measures	2007-08 Actual	2008-09 Actual	2009-10 Projecti on	2010-11 Target
Outputs: Units of Activity directed toward Goals				
Number of EBLL Investigations	0	0	60	1000
Number of Multiple Dwelling Inspections	6596	6600	6247	5200
Number of 1 and 2 Family Rental Inspections	29279	26400	22000	20,000
Number of Commercial Property Maintenance Inspections	21526	22440	18200	20000
Zoning Special Land Use Grant Inspections	1,561	1,980	2000	2000
DAH Tickets Issued	35,681	64,600	40,006	26,010
Efficiency: Program Costs related to Units of Activity	n/a	n/a	\$6,842,091	\$5,465,651

Regarding the use of the Integrated Physical Data System (IPDS), BSED has converted all the data in IPDS into Tidemark and is currently phasing out all use of IPDS.

2. The City Overpays for Demolition.

BSED currently has three wrecking contracts with our lowest bidders that pay, respectively \$3.00, \$3.25 and \$3.30 a square foot for demolition activities. Past contracts paid contractors anywhere from \$3.00 to \$7.00 a square foot. BSED recently published an RFQ for wrecking contractors under a revised set of terms requiring all bids to be under \$3.60 a square foot. In addition, the RFQ required a pre-qualification letter from a certified bonding agent, imposed a tighter completion schedule and requires work to be issued to each contractor on a rotating basis. This substantially reduced the disparity in bid prices and we expect in the next few weeks to enter into up to twelve new wrecking contracts paying from \$2.85 to \$3.60 a square foot, which are much lower rates than in the past.



3. Failure to Recover the Cost from Property Owners for Demolishing or Securing Structures.

Ordinance 290H **requires** BSED to forward the costs of demolition to the Board of Assessors for a special assessment to be imposed on the property. Contrary to the report, this activity was not discontinued because of ineffectiveness, but instead,

because of a lack of continuity of staff who understood the process and were able to continue after key employees retired. BSED is in contact with the Board of Assessors and is currently preparing a report to begin this legally required process again.

In addition to this practice, in April, BSED began sending invoices for demolition and board up activities to homeowners. As of April 26, 2010 the billing for demolition reimbursements and barricade reimbursements are as follows:

Demolition Reimbursement Billing

April 19, 2010 - 101 invoices @ \$ 931,184.56
April 26, 2010 - 118 invoices @ \$1,016,209.69
Total Billed to Date 219 invoices @ \$ 1,947,394.25

Barricade Reimbursements

April 19, 2010 – 103 invoices @ \$ 61,456.50
April 26, 2010 - 31 invoices @ \$ 37,729.00
Total Billed to Date 134 invoices @ \$ 99,185.50

Two weeks after sending out the invoices, we have received six payments totaling approximately \$7,000. Those invoices that are not paid in ninety days will be forwarded to collections.

Further, BSED is working with the Law Department on recovery of demolition costs for the past years to the limit of the statute of limitations for claims.

4. Inadequate Records Management for the Demolition Process.

Contrary to the report, any board up or demolition activity in the past can be tracked in several ways, and most accurately through invoices received and processed by BSED.

BSED does have a priority list of properties to be demolished, in fact it has been published in the newspaper and is on the City's website.



BSED has voluminous files and a high need for extra space. In addition, we have a need to locate files due the collections lawsuits being filed by the Law Department. There are currently ten employees working overtime to organize all necessary files, and destroy files no longer required to be kept according to the applicable retention schedule under State law.

Non-Compliance with Finance Directive 143 and the Prompt Payment Ordinance.

All invoices submitted to BSED are processed immediately upon receipt. Any violations of the Prompt Payment Ordinance or Finance Directive 143 are due to the lack of coordination and cooperation from the other **four departments** each invoice must touch before a check can be issued. BSED has a vested interest in making sure the contractors are paid quickly (preferably before the required 45 days) and has taken the lead in engaging the responsible department heads and group executives to figure out a way to shorten the process. BSED is keenly aware that the engaged contractors need quick turnaround on payments in order to sustain their businesses and serve the goals of BSED so this issue is paramount.

Although BSED is often faced with a conflict between the need to address a public safety issue and the lack of resources to do so, the past practice of over-obligating contracts and then having to seek an increase to pay a contractor has ceased because it is time consuming, unnecessary and a waste of resources. BSED has implemented internal controls that require a check of available money on a contract before work is issued to a contractor.

ESCROW ACCOUNTS

6. Inadequate Management and Oversight of the Fire Insurance Escrow Account.

The Buildings and Safety Engineering Department has no control over the balance in the Fire Insurance Escrow Account, the account is managed by the Debt Management division of the Finance Department.

The City of Detroit is in the process of eliminating the IPDS as a result all information on the Fire Escrow will be transferred to Tidemark application. Properties are checked for Fire Escrow prior to demolition and if there are funds in the Escrow for the related properties, the funds are applied.

The Fire Insurance Escrow was previously handled by the City's Law Department prior to transfer to the Buildings and Safety Engineering Department; as a result



there were other transactions that were captured manually in the earlier years prior that are not recorded in DRMS.

BSED is now using the assistance of a former staff of the Law Department to review the ordinance and administer the Fire Insurance Escrow and all related activities and there are written procedures and policy governing the Fire Insurance Escrow Account.

All funds from the Fire Insurance Escrow are deposited in accordance with the City's directive and guidelines.

There are other employees who have been cross-trained on the Fire Escrow and BSED has the data stored on the common drive for easy access.

The reconciliation of the subsidiary ledger to the control account has been a challenge and is being discussed with the City's Debt Management as BSED does not have any control of the management and investment aspect of the Fire Insurance Escrow funds. BSED relies on data from the City's Debt Management to reconcile the account.

7. Fire Insurance Account Funds Are Commingled with Other Monies.

The Buildings and Safety Engineering Department does not have any general fund and refunds to insured parties are disbursed directly from the Fire Insurance Escrow Account. There is no commingling of funds, the Fire Insurance Escrow Fund is a reimbursement account and is sometimes used to refund block grant as "Program Income".

There are checks and balances and procedure in place for refunds of the Fire Escrow, there has never been a situation where FIE funds have been used by BSED for purposes other than refunding escrowed funds to the insured party.

All invoices paid from block grant funds for fire damaged properties which has escrow funds are reimbursed and documented in DRMS and hard copy transaction register.

All concerns and inquiries relating to the investment and transfer of funds should be directed to the Debt Management Division of Finance Department.

The City has been using some of the Escrow funds to demolish the properties. All demolition activities in the City of Detroit through the Buildings and Safety Engineering Department are funded by federal funds that require reporting of any



“program income,” and any reimbursement from Fire Insurance Escrow is reported and returned to the block grant for re-use consistent with HUD guidelines.

8. Inadequate Oversight Over the Utility Escrow Bank Account.

The Utility escrow account is a dormant independent account and has been closed by the Finance Department. Subsequent utility escrows are being deposited and paid through DRMS.

BSED will attempt to trace the sources of the fund balance in the utilities escrow account and perform the monthly reconciliations.

9. Inadequate Oversight of the Fire Insurance Escrow Bank Account.

The bank reconciliations of the Fire Insurance Escrow was a component of the year end report for the Comprehensive Annual Financial Report (CAFR) and was duly approved by the Finance department and the external Auditors of KPMG.

All fire escrow funds are deposited within 48 hours of receipt except when there are missing pertinent information from the Insurance Agencies that precludes the deposit of the funds.

Interest revenue from the funds cannot be reasonably estimated since it is handled at the Debt Management of the Finance Department.

Buildings and Safety Engineering Department does not transfer any funds without the approval of the Budget Department.

Buildings and Safety Engineering will ensure that monthly bank reconciliations are completed in accordance with City policy.

All cash receipts are deposited daily and within 48 hours. The interest for the revenue earned on the fire insurance escrow bank account cannot be budgeted by BSED.

BSED will meet with Debt Management of the Finance Department to establish procedures for the reporting of all wire transfer and other transactions that affect the escrow bank account.

NUISANCE ABATEMENT AND REPAIR TO OWN PROGRAMS



10. The Nuisance Abatement (NAP) and Repair and Own (RTO) Programs Were Not Properly Managed.

The Nuisance Abatement and Repair to Own programs were discontinued by the City in 2004 due to lack of funding to administer the programs. However, unfortunately, many of the "contractors" living in homes were not notified and their transactions were not completed. Despite multi-department responsibility, BSED has

taken the lead on contacting each contractor in the program that appears to still be residing in the home to resolve any outstanding issues and provide deeds to the property that the City owns. BSED has a vested interest in conveying these properties to the contractors and returning the properties to the tax rolls.

11. Non-compliance with the Imprest Cash Manual.

The Imprest cash of the Buildings and Safety Department is very insubstantial, however we will continue to work with Finance Department to make improvements and comply with the applicable directives.

12. BSED Did Not Fully Comply with Year-end Closing Procedures.

All material information required for the Year-end close was submitted to Finance Department as required and by due date and was acceptable as the necessary document for CAFR.

13. Established Lockbox for Payments is Not Being Used.

The lockbox was a joint effort of the Finance Department Treasury and BSED but was not established. There is neither transaction cost nor charges related to the lockbox by any bank since the lockbox was not implemented.

14. The Building Official has Failed to File the Required Annual Report.

The Mayor's Office receives a written report every two weeks on its prescribed form that details all BSED activities. The Mayor's Office receives reports almost daily on the demolition activities.

We hope this addresses many issues and concerns raised in the Audit Report. Should you have questions about this response, please contact me.

Cc: Mayor David Bing
Norman L. White, Chief Financial Officer
Charles Beckham, Group Executive



April 21, 2010

Loren E. Monroe, Auditor General
Office of the Auditor General
2 Woodward Avenue
Coleman A. Young Municipal Center, Room 208
Detroit, Michigan 48226

Dear Mr. Monroe:

The following presents the Finance Department's response for the indicated Findings in the December 2009 audit of the Buildings & Safety Engineering Department, as prepared by the Office of the Auditor General.

Finding No. 1. The Finance Department – Debt Management Division Does Not Notify BSED of Fire Insurance Escrow Account Wire Transfers

Department's Response:

The Finance Department agrees with the Auditor General's finding and will notify BSED of all wire transfers and other investment transactions that involve Fire Insurance Escrow funds. The Department will add the escrow account to the Treasury Cash Management system for real-time account information lookup. The Finance Department will also provide copies of the investment statements to BSED monthly. These changes will take place before the new fiscal year begins.

Finding No. 2. The Finance Department Did Not Properly Maintain and Review Year-end Closing Documents

Department's Response

The Finance Department agrees with the finding and will assign qualified staff to review year-end exhibits for accuracy. The Department will also investigate any discrepancies found to ensure that the information provided is correct, that the documents serve their intended purpose, and to ensure that the records are properly maintained.

Sincerely,

Thomas J. Lijana
Group Executive – Finance Director