



City of Detroit
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LOREN E. MONROE, CPA
AUDITOR GENERAL

MEMORANDUM

DATE: February 14, 2012
TO: Honorable City Council
FROM: Loren E. Monroe, CPA
Auditor General *Loren E. Monroe*
SUBJECT: Review of Fire Insurance Escrow Account

City Council requested the Office of the Auditor General (OAG), in a memorandum dated September 29, 2011 (Attachment A) to conduct an audit of the Fire Insurance Escrow Account (FIEA) including a detailed accounting of all fire insurance escrow monies received and expended, and to identify the properties to which they relate. It was also requested that the OAG gather evidence that the Community Development Block Grant (CDBG) funds in the amount of approximately \$647,000 were, in fact, spent to demolish fire-damaged structures. The following memorandum answers the above questions and includes an overall assessment of the management of the Fire Insurance Escrow Fund.

We have determined that the FIEA is not adequately administered and contains significant procedural inefficiencies. This determination is consistent with the findings cited in the 2010 Audit of the Buildings Safety Environmental and Engineering Department (BSE&ED) performed by the OAG.

We recommend that the BSE&ED revise the current process of demolishing fire damaged structures with fire insurance escrow monies. The current process of demolishing a structure with CDBG funds and then later determining whether any monies are available from the FIEA to reimburse CDBG funds once exhausted is inefficient and inappropriate. We also recommend that BSE&ED develop a process to adequately monitor and track fire insurance escrow properties to ensure that the process to begin demolition of fire damaged structures takes place as quickly as possible after the 120 day waiting period has passed.

The FIEA was established by State of Michigan Public Act 218 of 1956. 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 \$7,873. The maximum for commercial and industrial properties is 25% of the settlement. The City is required to record fire insurance escrow funds received 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.



The BSE&ED provided the OAG with a detailed listing of 92 fire insurance escrow properties (Attachment B) that were intended to support reimbursement of the CDBG fund for monies previously expended on demolishing fire insurance escrow properties. We selected a sample of 78 properties from the list provided to determine whether the fire damaged structures had in fact been demolished. Based on our visual inspection, we found that one structure, located at 2508 Newport (Attachment C), listed as having been demolished, was currently standing. The total amount recorded in the fire insurance escrow database for the cost of demolition was \$9,785, which was recorded as demolished by the Farrow Group Inc., according to BSE&ED records.

Based on interviews conducted with BSE&ED personnel, visual inspection of parcels, and a review of documentation, the auditors noted the following issues:

- CDBG funds are used to demolish structures which already have dedicated demolition funds via FIE funds. Upon depletion of CDBG funds used to demolish structures, BSE&ED reviews the files to determine whether demolished structures had any fire insurance escrow monies set aside. This process requires fire insurance escrow monies be used to reimburse CDBG funds rather than funds being directly expended from the fire insurance escrow account for payment to the vendor. CDBG funds are improperly used to demolish structures that have other dedicated demolition funds. This was a finding in the City's 2009-2010 Single Audit for the improper use of CDBG funds.
- The number and dollar amounts of properties listed in the fire insurance escrow database have not been reconciled to the properties listed in DRMS for the period of July 1, 2007 through June 30, 2011.

The auditors requested copies of fire insurance escrow bank statements and bank account reconciliations for the period of July 1, 2007 through June 30, 2008 for review. Based on our review, we noted the following:

- Nine of 48 bank statements requested were not on file.
- One of 48 bank account reconciliations was not on file. Of the 47 bank account reconciliations on file, the following was noted:
 - Fourteen bank account reconciliations did not contain an approval signature.
 - Three bank account reconciliations did not contain a preparer signature.
 - Fourteen bank account reconciliations were not dated. Of the 33 dated bank account reconciliations, 33 (100%) were not approved within 45 business days of the month end date.
- Bank account reconciliations were not completed and only attempt to reconcile a portion of the FIEA. The reconciliations performed by BSE&ED does not include bank investment account balances managed by the Finance Department – Debt Management Division.

We reviewed copies of bank account statements, DRMS data, and information in the fire insurance escrow database to determine whether the FIEA is adequately maintained and administered. The table on the following page provides an overall analysis on the financial position of the FIEA:

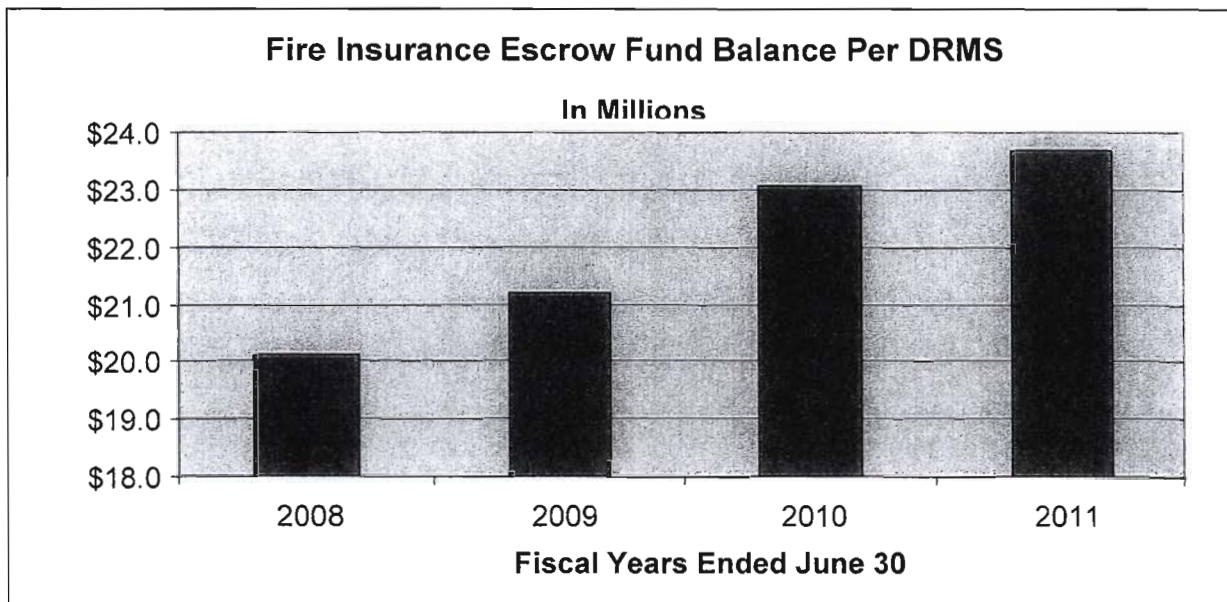


Fiscal Year Ended June 30, 2011	
Bank Account Balance	\$23.3 million
DRMS Fund Balance	\$23.7 million
Fire Insurance Escrow Database Open Case Amount*	\$22.4 million

*The FIE Database Open Case Amount was manually calculated by the OAG by totaling the amount of cash receipts received less the amount of refunds/expenditures processed in order to determine the amount of money required to be in escrow.

Based on the information provided in the table, we concluded that the bank account balance in the FIEA was \$0.4 million (\$23.3 million - \$23.7 million) less than the amount listed in DRMS as of June 30, 2011. We also concluded that the bank account balance as of June 30, 2011 was \$0.9 million (\$23.3 million - \$22.4 million) more than the amount required to be escrowed according to the fire insurance escrow database. As previously noted, the lack of a complete and accurate reconciliation allows for significant discrepancies to exist.

We also reviewed the ending monthly balances of the FIEA fund for the period July 1, 2007 through June 30, 2011. The graph below depicts the balances of the fire insurance escrow account for fiscal years ending June 30, 2008 through June 30, 2011.



As reflected in the schedule above, the fund balance of the FIEA increased from \$20.1 million to \$23.7 million or \$3.6 million from July 1, 2007 through June 30, 2011. Based on interviews and supporting documentation, we confirmed that monies are transferred from the FIEA to the CDBG fund to reimburse monies spent on demolition costs. Due to a lack of management oversight, combined with operational inefficiencies and ineffectiveness, our office determined that FIEA structures are not demolished timely and monies related to properties can remain in the fund for an excessive amount of time. With an average demolition cost of \$10,000, approximately 2,367 structures could be demolished with the money currently in the FIEA.

Per your request, we have attached a DRMS report of all journal entries processed for the period of July 1, 2007 through June 30, 2011 from the FIEA (Attachment D). Based on our analysis of the information contained in DRMS, the information on the following page was summarized:



Fiscal Year Ending June 30	Number of Structures Entered Into DRMS	Total Amount Credited to Fire Escrow Fund (Cash Receipts)	Total Amount Debited from Fire Escrow Fund (Payables)	Difference
2008	952*	\$ 7,304,513	\$ 2,940,215	\$ 4,364,298
2009	857*	7,569,729	5,412,856	2,156,873
2010	743*	6,567,173	4,813,372	1,753,801
2011	572*	6,748,921	5,756,754	922,167

*The number of structures entered is based on the number of journal line entries entered into the DRMS system.

Based on the information represented in the graph, we concluded that monies received and escrowed by BSE&ED are not expended in proportion to which they are received. This non-expenditure of fire insurance escrow funds has led to the gradual increase of the FIEA.

City of Detroit
CITY COUNCIL

GARY A. BROWN
PRESIDENT PRO-TEM

TO: Mr. Mark Lockeridge
Deputy Auditor General

FROM: City Council President Pro Tem Gary A. Brown

DATE: August 4, 2011

RE: Fire Escrow Account

It has recently come to my attention that there have been some problems with the City's Fire Escrow Account. There have been complaints that monies submitted to the Account by insurance companies for the purpose of demolishing burned buildings are not being used for that purpose. Past audits involving the Fire Escrow Account reveal that this issue is not new. I understand that your office is currently auditing the Fire Department; I would appreciate it if you could include a specific focus on the Fire Escrow Account.

Additionally, it would be helpful if you could clarify whether or not the issue can be fully explored via the Fire Department audit process, or if an additional audit through Buildings, Safety, Engineering and Environmental (Building & Safety) is necessary. It is my understanding that past audits discussing the Fire Escrow Account have been conducted through Buildings & Safety and that the Account is managed through that department. Thank you very much.

cc: Honorable Colleagues
Mayor's Office
Fiscal Analysis
Research and Analysis
City Planning Commission
Law Department
City Clerk

ATTACHMENT B

	St. No.	St. Name	Grant Name	Demo Vendor	FIRE Escrow Amt
1	15500	14TH	CDBG	1 WAY SERVICE INC	\$7,443
2	20531	ANDOVER	CDBG	DMC CONSULTANTS INC	\$7,304
3	421	ASHLAND	CDBG	BROWN ENVIRONMENTAL CONSTRUCTION	\$7,860
4	19410	BLACKSTONE	CDBG	GLO WRECKING CO	\$7,681
5	8561	BRYDEN	CDBG	ABC DEMOLITION CO INC	\$3,877
6	3323	BURNSIDE	CDBG	GLO WRECKING CO	\$7,860
7	7006	BURWELL	CDBG	ABC DEMOLITION CO INC	\$7,681
8	5616	CABOT	CDBG	ADAMO DEMOLITION COMPANY	\$7,812
9	13203	CALDWELL	CDBG	ABLE DEMOLITION	\$7,443
10	13433	CALDWELL	CDBG	ABLE DEMOLITION	\$5,858
11	2757	CARSON	CDBG	ADAMO DEMOLITION COMPANY	\$7,304
12	3270	CARTER	CDBG	JOY CONSTRUCTION AND DEMOLITION	\$7,860
13	4668	CENTRAL	CDBG	ADAMO DEMOLITION COMPANY	\$7,860
14	5656	CENTRAL	CDBG	ADAMO DEMOLITION COMPANY	\$7,860
15	5678	CENTRAL	CDBG	ADAMO DEMOLITION COMPANY	\$13,973
16	8276	CHAMBERLAIN	CDBG	ABC DEMOLITION CO INC	\$6,879
17	13935	CHAREST	CDBG	UPRIGHT WRECKING COMPANY	\$7,064
18	12165	CHERRYLAWN	CDBG	ABC DEMOLITION CO INC	\$7,304
19	19384	CLIFF	CDBG	GLO WRECKING CO	\$7,860
20	3703	CLIPPERT	CDBG	ADAMO DEMOLITION COMPANY	\$7,812
21	6123	COMSTOCK	CDBG	GLO WRECKING CO	\$7,443
22	515	CRAWFORD	CDBG	ADAMO DEMOLITION COMPANY	\$6,879
23	8616	DENNISON	CDBG	ADAMO DEMOLITION COMPANY	\$7,443
24	8267	EDGEWOOD	CDBG	GLO WRECKING CO	\$7,304
25	8273	EDGEWOOD	CDBG	GLO WRECKING CO	\$7,443
26	7431	EDWARD	CDBG	ADAMO DEMOLITION COMPANY	\$6,150
27	5706	ELMER	CDBG	ABC DEMOLITION CO INC	\$7,681
28	20201	FAYETTE	CDBG	GLO WRECKING CO	\$7,443
29	20405	FAYETTE	CDBG	GLO WRECKING CO	\$7,443
30	19156	FERGUSON	CDBG	F. MOSS WReCKING COMPANY	\$7,443
31	1805	FISCHER	CDBG	FARROW GROUP INC	\$6,879
32	6653	FISCHER	CDBG	UPRIGHT WRECKING COMPANY	\$3,787
33	6682	FISCHER	CDBG	UPRIGHT WRECKING COMPANY	\$7,681
34	1958	FLORENCE	CDBG	F. MOSS WReCKING COMPANY	\$6,750
35	6132	FLORIDA	CDBG	ABC DEMOLITION CO INC	\$7,304
36	203	FORTUNE	CDBG		\$1,250
37	7610	GIESE	CDBG	GLO WRECKING CO	\$7,443
38	1334	GREEN	CDBG	F. MOSS WReCKING COMPANY	\$4,467
39	12291	GRIGGS	CDBG	1 WAY SERVICE INC	\$7,681
40	406	HARBAUGH	CDBG	ABC DEMOLITION CO INC	\$7,443
41	5761	HARDING	CDBG	BROWN ENVIRONMENTAL CONSTRUCTION	\$7,445
42	20501	HAWTHORNE	CDBG	ABLE DEMOLITION	\$7,681
43	20160	HELEN	CDBG	GLO WRECKING CO	\$6,037
44	9040	HOLCOMB	CDBG	GLO WRECKING CO	\$6,725
45	15344	HOLMUR	CDBG	DMC CONSULTANTS INC	\$7,860
46	8137	HOMER	CDBG	ADAMO DEMOLITION COMPANY	\$7,443
47	11652	INDIANA	CDBG	ABC DEMOLITION CO INC	\$7,304
48	7175	JULIAN	CDBG	FARROW GROUP INC	\$7,000
49	2027	JUNCTION	CDBG	ADAMO DEMOLITION COMPANY	\$5,188
50	8502	KIRKWOOD	CDBG	ABC DEMOLITION CO INC	\$7,681
51	8875	LAFAYETTE	CDBG	ABC DEMOLITION CO INC	\$7,681
52	4323	LAWNDALE	CDBG	ADAMO DEMOLITION COMPANY	\$15,164
53	4336	LAWNDALE	CDBG	ABC DEMOLITION CO INC	\$7,443
54	2639	LESLIE	CDBG	ABC DEMOLITION CO INC	\$6,879
55	11730	LITTLEFIELD	CDBG	ABC DEMOLITION CO INC	\$7,443
56	8786	LONGWORTH	CDBG	ABC DEMOLITION CO INC	\$7,860
57	13489	LUMPKIN	CDBG	FARROW GROUP INC	\$7,443

ATTACHMENT B

	St. No.	St. Name	Grant Name	Demo Vendor	FIRE Escrow Amt
58	256	LUTHER	CDBG	ABC DEMOLITION CO INC	\$7,304
59	303	LUTHER	CDBG	ADAMO DEMOLITION COMPANY	\$7,681
60	8178	LYFORD	CDBG	GLO WRECKING CO	\$7,443
61	9266	MELVILLE	CDBG	ABC DEMOLITION CO INC	\$1,925
62	13199	MOENART	CDBG	ADAMO DEMOLITION COMPANY	\$6,889
63	13211	MOENART	CDBG	ADAMO DEMOLITION COMPANY	\$7,860
64	8223	MOLENA	CDBG	DMC CONSULTANTS INC	\$7,304
65	13440	MORAN	CDBG	ABLE DEMOLITION	\$7,304
66	13553	MORAN	CDBG	ABLE DEMOLITION	\$7,443
67	242	MORRELL	CDBG	ADAMO DEMOLITION COMPANY	\$7,304
68	8125	MT OLIVET	CDBG	FARROW GROUP INC	\$3,750
69	474	NAVAHOE	CDBG	DANO CORPORATION	\$7,681
70	528	NAVAHOE	CDBG	FARROW GROUP INC	\$3,500
71	8300	NAVY	CDBG	ADAMO DEMOLITION COMPANY	\$7,624
72	2508	NEWPORT	CDBG	FARROW GROUP INC	\$3,938
73	2429	NORMAN	CDBG	ABC DEMOLITION CO INC	\$7,064
74	6214	NORWALK	CDBG	GLO WRECKING CO	\$7,304
75	7531	NUERNBERG	CDBG	GLO WRECKING CO	\$7,064
76	8567	PETER HUNT	CDBG	ABLE DEMOLITION	\$7,681
77	8729	PETER HUNT	CDBG	ABLE DEMOLITION	\$7,443
78	674	PHILIP	CDBG	FARROW GROUP INC	\$7,304
79	12100	PRAIRIE	CDBG	JOY CONSTRUCTION AND DEMOLITION	\$5,000
80	566	RADEMACHER	CDBG	ADAMO DEMOLITION COMPANY	\$7,443
81	8870	RATHBONE	CDBG	ADAMO DEMOLITION COMPANY	\$7,443
82	5686	SPRINGFIELD	CDBG	BROWN ENVIRONMENTAL CONSTRUCTION	\$3,750
83	2340	SPRINGWELLS	CDBG	ABC DEMOLITION CO INC	\$7,304
84	2749	SPRINGWELLS	CDBG	ABC DEMOLITION CO INC	\$7,500
85	5142	SPRINGWELLS	CDBG	ADAMO DEMOLITION COMPANY	\$7,443
86	17675	ST LOUIS	CDBG	GLO WRECKING CO	\$5,848
87	9440	STONE	CDBG	ADAMO DEMOLITION COMPANY	\$7,304
88	6740	STRONG	CDBG	FARROW GROUP INC	\$4,588
89	3787	VICKSBURG	CDBG	ABC DEMOLITION CO INC	\$7,064
90	2386	WENDELL	CDBG	ADAMO DEMOLITION COMPANY	\$7,681
91	4075	WESTERN	CDBG	ADAMO DEMOLITION COMPANY	\$7,443
92	10100	WOODLAWN	CDBG	FARROW GROUP INC	\$6,879
					\$647,728

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ATTACHMENT C

DSC_0024 - Windows Picture and Fax Viewer



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