

**City of Detroit**

---

**OFFICE OF THE AUDITOR GENERAL**



**AUDIT OF THE PLANNING AND DEVELOPMENT  
DEPARTMENT**

**July 2009 - June 2011**

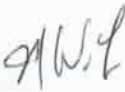
**AUDIT OF THE PLANNING AND DEVELOPMENT DEPARTMENT**

**July 2009 - June 2011**

## MEMORANDUM

**DATE:** April 4, 2013

**TO:** Honorable City Council

**FROM:** Mark W. Lockridge, CPA   
Auditor General

**RE:** Audit of the Planning and Development Department

**C:** Mayor Dave Bing  
Robert Anderson, Director  
Cheryl Johnson, Finance Director  
Kevyn Orr, Emergency Financial Manager

---

Attached for your review is our report of the Audit of the Planning and Development Department. This report contains our audit purpose, scope, objectives, methodology, and conclusions; status of prior audit findings; background; audit findings and recommendations; and the responses from the Planning and Development Department.

Responsibility for the installation and maintenance of a system of internal control that minimizes errors and provides reasonable safeguards rests entirely with the Planning and Development 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, which are not put into effect by the agency 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 Planning and Development Department for their cooperation and assistance extended to us during this audit.

Copies of all of the Auditor General's reports are located on our website at [www.detroitmi.gov/CityCouncil/LegislativeAgencies/AuditorGeneral/tabid/2517/Default.aspx](http://www.detroitmi.gov/CityCouncil/LegislativeAgencies/AuditorGeneral/tabid/2517/Default.aspx).

# Audit of the Planning and Development Department

July 2009 – June 2011

## CONTENTS

	<u>Page</u>
AUDIT PURPOSE, SCOPE, OBJECTIVES, METHODOLOGY AND CONCLUSIONS	1
BACKGROUND	3
STATUS OF PRIOR AUDIT FINDINGS	6
AUDIT FINDINGS AND RECOMMENDATIONS	
1. Grant Funds Lack Adequate Management and Oversight	7
2. Controls Over Cash Receipts are Inadequate	8
3. Disbursements Were Not Always Processed in Accordance with Federal Grant Requirements	9
4. The Planning and Development Department Did Not Comply with the Finance Department's Year-end Closing Procedures	10
5. The Planning and Development Department Failed to Adequately Control Capital Assets	11
AGENCY RESPONSES	
Planning and Development Department	ATTACHMENT A



## **AUDIT PURPOSE, SCOPE, OBJECTIVES, METHODOLOGY AND CONCLUSIONS**

### **AUDIT PURPOSE**

The Audit of the Planning and Development Department was performed in accordance with the Office of the Auditor General's (OAG) Charter mandate to audit the financial transactions of all City agencies at least once every two years and report findings and recommendations to the City Council and the Mayor.

### **AUDIT SCOPE**

The OAG performed an assessment of the Planning and Development Department's internal controls over grants management, cash receipts, voucher disbursements, capital assets, contract compliance, information technology and purchasing card transactions for the period from July 2009 through June 2011 and determined that there were certain weaknesses in the system of internal controls. We focused our audit on the weaknesses discovered during the assessment and the status of prior audit findings.

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**

Our audit objectives were:

- To assess the Planning and Development Department's internal controls related to financial transactions;
- To determine the Planning and Development Department's compliance with Finance Directives, policies, plans, procedures, laws and regulations; and
- To conduct a follow-up review of the prior audit findings and issues of non-compliance from the prior audit report.

### **AUDIT METHODOLOGY**

To accomplish our audit objectives, our audit work included the following:

- A review of prior audit reports, Finance Directives, City ordinances, State laws and City policies and procedures;
- Interviews with appropriate Planning and Development Department management and personnel to gain an understanding of the Planning and Development Department's internal control structure;
- An evaluation of the Planning and Development Department's internal controls over its major financial systems;

- An examination of sample transactions that we considered satisfactory to achieve our objectives; and
- Determination of the status of the findings and noncompliance issue cited in the prior audit report.

### **CONCLUSIONS**

As a result of our audit we have concluded that:

- The Planning and Development Department's internal controls related to grants management, capital assets, and voucher disbursements were inadequate.
- The Planning and Development Department does not fully comply with Finance Directives, policies, and procedures.
- The prior audit findings are no longer applicable.

We have documented also that the City of Detroit does not have a citywide grants management function. We recommend that the City consider a citywide grants management division. This division would be responsible for the overall oversight of all city grants.

Grants management best practices indicate that a centralized grants management process allows for the most rigorous oversight. Currently, Wayne County, Michigan has a Division of Grants Management within its Office of Management and Budget which oversees grant funds. The division maintains all grant information, produces specialized reports, and supports complex cost allocation routines. Centralization of grants management also allows for a more cost-effective way of accounting for grants, as there is less duplication of services by accountants in various departments.

### **ISSUE OF CONCERN**

If the City of Detroit Planning and Development Department delegates administration of its Community Development Block Grant funds (CDBG) to a non-profit sub-recipient organization, as has been suggested by the City's administration; the City of Detroit still remains accountable for the administration and monitoring of those funds. There is no provision in the law or the regulations governing CDBG that would permit a grantee to give up this responsibility.



## BACKGROUND

The mission of the Planning and Development Department (P&DD) is to accelerate business and economic development by strengthening the City of Detroit's neighborhoods and communities and stabilizing and transforming its physical, social, and economic environment.

The Planning and Development Department consists of the following divisions:

- *Planning –*

The mission of the Planning Division is to guide the development in the City by way of the Master Plan of Policies, to update and maintain the Master Plan of Policies, and to assist in the administration of the City Code as it relates to historic and zoning regulation. Services include:

- Long Range and Community Planning, which provides information on the City's Master Plan, Capital Agenda, Consolidated Plan, Community Reinvestment Strategy, and other planning efforts.
- Information Services and Mapping, which participates in a community survey; access Census information, maps and Geographic Information System (GIS) data, and links to other planning resources.
- Historic District Commission which contains guidelines for development and other improvements in the City's Locally Designated Historic Districts.
- Site Plan and Design Review.

- *Real Estate Development –*

The mission of the Real Estate Development Division is to provide fiscally sound management of City-owned assets, consistent with available resources, in a manner compatible with the needs of the neighborhoods and businesses, and to provide professional and courteous service to all customers. Services include:

- *Surplus property sales;*
- *Disposition sales;*
- *Acquisition of property;*
- *Property management;*
- *Relocation services.*

- *Housing Services –*

The Housing Services Division utilizes Community Development Block Grant (CDBG) and Home Investment Partnerships (HOME) funds from the federal government to support a wide range of affordable housing programs designed to create better housing opportunities for low- and moderate-income residents. Examples of CDBG funded programs include:

- Senior Emergency Home Repair Program;
- Minor Home Repair Program;
- Citywide Lead Hazard Reduction Program;
- Child Help Lead Hazard Reduction Program.

Examples of HOME funded programs include:

- Multi-family Investor Homebuyer's Program;
- Community Housing Development Organizations (CHDO) Programs;
- Investor Loan Program;
- Homebuyer Assistance Program;
- Rental Investor Loan Program;
- American Dream Down Payment Initiative (ADDI).

- *Neighborhood Support Services –*

The Neighborhood Support Services Division's primary goal is to develop supportive relationships with community-based organizations and to structure divisional programs to reflect City strategies and target community needs. Services provided include:

- Management and monitoring of homeless activities associated with the Emergency Shelter Grant (ESG);
- Promotion of citizen participation in development areas by providing administrative support for Citizens Districts Councils (CDCs);
- Management and monitoring of public services and homeless activities associated with CDBG.

- *Financial and Resource Management –*

The Financial and Resource Management Division is responsible for the following:

- Managing financial and accounting transactions for all project-related funds and activities including grants, general fund, Section 108 loans, and property sales;
- Facilitate accounting transactions such as journal entries, purchase orders, and payment processing;
- Perform project/account reconciliations;
- Perform HUD draw downs; and
- Submit and prepare reports.

- *Office of Neighborhood Commercial Revitalization –*



The Mayor's Office of Neighborhood Commercial Revitalization (ONCR) supports the growth of small business in clean, safe, and thriving shopping districts. ONCR programs include the following:

- Re\$Store Detroit – Provides grant funds to local non-profits to hire two full-time commercial revitalization professionals.
- ReFresh Detroit – Program aimed to revitalize neighborhood commercial districts by matching grants up to \$15,000 to business owners in the ONCR districts for façade improvements to commercial storefronts.
- Small Business Detroit Microloan Program provides financial support for new and existing small businesses that are currently located or want to locate in the City of Detroit.

The following table shows the budgeted appropriations, revenues and number of staff for the Planning and Development Department for the 2009-2010 and 2010-2011 fiscal years.

	Fiscal Year Ending June 30, 2011			
	General Fund	Block Grant	Other	TOTAL
Budgeted Expenditures	\$3,853,423	\$36,159,677	\$12,513,356	\$52,526,456
Budgeted Revenues	<u>3,096,600</u>	<u>36,159,677</u>	<u>12,513,356</u>	<u>51,769,633</u>
Net Tax Cost	<u>\$756,823</u>	<u>\$0</u>	<u>\$0</u>	<u>\$756,823</u>
Staff	14	145	10	169
	Fiscal Year Ending June 30, 2010			
	General Fund	Block Grant	Other	TOTAL
Budgeted Expenditures	\$6,299,401	\$38,205,635	\$12,519,749	\$57,024,785
Budgeted Revenues	<u>9,879,601</u>	<u>38,205,635</u>	<u>12,519,749</u>	<u>60,604,985</u>
Net Tax Cost	<u>\$(3,580,200)</u>	<u>\$0</u>	<u>\$0</u>	<u>\$(3,580,200)</u>
Staff	25	135	10	170

## STATUS OF PRIOR AUDIT FINDINGS

The audit of the Planning and Development Department for the audit period July 1, 2005 to June 30, 2007, by the Office of the Auditor General, included the findings listed below. None of the two prior audit findings were applicable.

1. The Planning and Development Department Did Not Fully Comply With the Imprest Cash Manual  
*This finding is no longer applicable.*
2. The Planning and Development Department Did Not Comply With Accounts Payable Section Procedures  
*This finding is no longer applicable.*

## AUDIT FINDINGS AND RECOMMENDATIONS

### **1. Grant Funds Lack Adequate Management and Oversight**

For fiscal year 2009-2010 P&DD received \$51.7 million in grant revenue. Of the \$51.7 million in grant revenue received, \$37.1 million of these funds were for the Community Development Block Grant (CDBG), \$10.9 million was for the Home Investment Partnerships (HOME) program, \$1.6 million for the Emergency Shelter Grant (ESG), and \$2.1 million for the Housing Opportunities for Persons with Aids (HOPWA) program. For fiscal year 2010-2011, P&DD received \$54.6 million in grant revenue. Of the \$54.6 million in grant revenue received, \$40.2 million of these funds were for CDBG, \$10.9 million for the HOME program, \$1.6 million for the ESG program, and \$1.9 million for the HOPWA program.

Based on our examination of grant management oversight, we determined that the Integrated Disbursement & Information System (IDIS), the federal governments grant money disbursement system and the Detroit Resource Management System (DRMS) are not reconciled or in agreement.

According to the U.S Department of Housing and Urban Development's Managing CDBG: A Guidebook for Grantees on Sub-recipient Oversight, the sub-recipient will establish and maintain a consistent method for recording monthly payments, with up-to-date ledgers and timely reconciliations (at least quarterly). The sub-recipient will also establish a system to monitor the financial health of the ventures funded, in order to anticipate repayment problems. The sub-recipient will apply its policies and procedures regarding late payments, defaults, loan re-negotiation, and foreclosure in a timely and consistent manner.

The lack of a reconciliation between the IDIS system and DRMS allows for discrepancies in grant dollars to go unnoticed. Specifically, this has lead to millions in grant dollars that have been unspent.

According to the Planning and Development Department, the IDIS system and the DRMS system are not reconciled due to many factors, which include: the loss of staff in the reconciliation process, the lengthy process required to reconcile the systems, and the lack of communication between the IDIS system and the DRMS system, which required P&DD to implement an additional database, the PDDIDIS system, to reconcile the two systems.

### **Recommendation**

We recommend that the Planning & Development Department complete a reconciliation of the IDIS system and DRMS and assign the task to an employee to perform monthly.



## **2. Controls Over Cash Receipts are Inadequate**

The Planning and Development Department's Real Estate Division receives cash receipts from the sale of City owned properties and collection of cash receipts from City-owned rental properties. We reviewed the Planning and Development Department's cash receipts process to determine whether controls were adequate. Based on our examination, we noted the following:

- Twenty-five of 33 cash receipt journal entry input forms reviewed (76%) indicated that the checks received were not deposited within 48 hours of receipt.
- The check drop located in the Real Estate Division is not locked or secured and is accessible to all employees.
- There is a lack of segregation of duties. One staff person is responsible for billing invoices, opening and receiving checks in the mail, recording payments received in the department database, and preparing the deposit.

The City's Finance Directive 20 states that cash should not accumulate. City departments should institute procedures to ensure that all cash and checks are deposited in the bank within 48 hours of receipt. Departments currently utilizing envelopes, folders, unlocked desk drawers, cigar boxes, or similar makeshift containers as cash receptacles should replace these containers with locking cash boxes. These boxes should be kept in locations inaccessible to unauthorized persons and kept locked when not in use. Boxes should always be kept in locked storage during non-working hours.

According to the State of Michigan Accounting Procedures Manual for Local Units of Government in Michigan, no one person is to have control over all aspects of the financial transactions. An individual is not to have more than one of the three transaction components: authorization, custody, and recordkeeping.

Failure to deposit cash receipts on a timely basis and segregate duties increases the risk of losses due to misappropriation or theft.

According to Planning and Development Department staff, cash receipts are not always deposited within 48 hours of receipt due to a lack of personnel. A segregation of duties over the cash receipts process exists due to lack of staff on hand from department layoffs.

### **Recommendations**

We recommend the Planning and Development Department:

- Deposit cash receipts within 48 hours of receipt in accordance with Finance Directive 20 or obtain a waiver from the Finance Department.
- Ensure that there is segregation of duties related to cash receipt operations. Where the Planning and Development Department cannot

segregate duties, the Planning and Development Department should rotate responsibilities and increase managerial oversight.

### **3. Disbursements Were Not Always Processed in Accordance with Federal Grant Requirements**

We selected a random sample of 32 disbursement requests processed by the Finance Department Accounts Payable Section to determine whether payments were processed in accordance with applicable City policies and procedures and Federal government requirements. Of the 32 disbursement requests reviewed, we noted that 25 disbursements (78%) did not minimize the lapse time between drawdown and the payment of funds as required. All 32 took from 5 to 35 days between drawdown and payment. 12 of the 32 took 35 days.

According to the Department of Housing and Urban Development's Handbook for CDBG Sub-recipients on Administrative Systems dated March 2005, although there is no explicit regulation for cash advances, the general standard is that the sub-recipient must disburse the funds to pay for CDBG program costs within 3 business days of the receipt of those funds from the grantee.

Failure to adhere to federal requirements can result in the potential loss of grantor funds.

According to Planning and Development Department management, operational issues within the Finance Department – Accounts Payable Division results in the excessive time lapse between drawdown and the payment of funds as required.

#### **Recommendation**

We recommend that the Planning and Development work with the Finance Department – Accounts Payable Division to ensure that invoices submitted for disbursement are processed in a timely fashion in accordance with federal regulations.



#### **4. The Planning and Development Department Did Not Comply with the Finance Department's Year-end Closing Procedures**

The Planning and Development Department did not submit its fiscal year 2009-2010 and 2010-2011 reports in accordance with the Finance Department's policies and procedures. Based on the review of the 45 year-end closing documents for fiscal years 2009-2010 and 2010-2011, we noted the following:

- Three year-end closing exhibits (7%) were not submitted to the Finance Department.
- Five year-end closing exhibits (11%) were submitted beyond the scheduled due date.

Finance Department year-end closing exhibit policies and procedures for fiscal years 2009-2010 and 2010-2011 state that each agency is responsible for submitting all required information to this office accurately, completely, and timely. Policies and procedures for fiscal years 2009-2010 and 2010-2011 specifically state that the form preparer must enter "N/A" on the form, sign it, have the form signed by an approved signor, scan and email sent along with the other completed forms.

Non-compliance with year-end closing procedures delays the Finance Department from compiling accurate year-end information for the City of Detroit Comprehensive Annual Financial Report (CAFR). Not submitting timely documents could prevent the external auditors from completing the financial audit on time in order to meet the State mandated due date.

According to the Planning and Development Department, the requirement to complete other priorities prohibited the submission of timely reporting for year-end closing exhibits.

#### **Recommendation**

We recommend that the Planning and Development Department implement procedures to ensure that all year-end closing reports are submitted to the Finance Department in accordance with the Finance Department's year-end closing procedures.

## **5. The Planning and Development Department Failed to Adequately Control Capital Assets**

We selected a sample of 26 fixed assets. 11 of the fixed assets were selected from the Capital Assets System's (CAS) Asset Inventory Report. All 11 items from the CAS Asset Inventory Report were able to be traced and located in the department. 15 items located within the department were randomly selected and then were tested to see if they had been properly entered into the CAS system. Based on our testing we determined that 13 of the 15 items (87%) were not listed on the CAS Asset Inventory Report.

Based on our review over the controls over capital assets, we determined that the Planning and Development Department has not performed a physical inventory of its capital assets in over a year.

The City's Capital Asset Policy and Procedure Manual requires that:

- All departments maintain accurate records of their capital assets. Departments must conduct a physical inventory at least annually and compare the results to their updated Asset Inventory Report. All discrepancies should be reconciled, resolved, documented, and entered into the CAS system.
- During the inventory process, if a taggable asset is found that does not have a City of Detroit Property Tag, it should be tagged and processed as a new asset addition.

Non-compliance with the Capital Asset Policy reduces the effectiveness of the policy and the controls it is designed to impose. Non-compliance with the policy impairs the City's ability to properly record all assets in the financial records and safeguard assets to prevent losses.

According to the Planning and Development Department's Capital Assets Coordinator, the Information Technology Services (ITS) Department was responsible for entering the personal computers into the Capital Assets System. The Capital Assets Coordinator stated that the failure of the ITS Department to enter the personal computers into the CAS is the reason that the information was not recorded.

### **Recommendations**

We recommend that the Planning and Development Department abide by the Capital Asset Policy Guide and Procedure Manual, which requires;

- A physical count of all fixed assets and documentation of the count; and
- Recording all acquisitions, transfers and disposals in the Capital Assets System.





March 27, 2013

Mark Lockridge, Auditor General  
Office of the Auditor General  
2 Woodward Avenue  
Coleman A. Young Municipal Center, Room 208  
Detroit, MI 48226

RE: PLANNING AND DEVELOPMENT DEPARTMENT'S (P&DD) AUDIT RESPONSES

Dear Mr. Lockridge:

The following presents P&DD's responses for the indicated findings and related recommendations in the July 2009 to June 2011, as prepared by the Office of the Auditor General:

1. FINDING #1: Grant Funds Lack Adequate Management and Oversight

RESPONSE: DRMS and IDIS Revenues and expenditures are reconciled by P&DD staff at various intervals throughout the fiscal year as noted in the chart below. However, the ongoing loss of experienced and trained staff through layoffs and bumping activities have caused delays in effectively completing these tasks in a timely manner. Moreover, as noted in the findings, as the City of Detroit's accounting system, DRMS is not compatible to HUD's IDIS system, the department was forced to create an additional database to bridge the communicate "gap" between the two systems. To better manage this effort, P&DD is in the process of updating internal software systems for more compatible use and ultimately developing a master grants management system.

RECONCILIATION	COMPLETED BY	FREQUENCY
IDIS draw downs with PDD-IDIS Transactions file	IDIS Team	Monthly
DRMS monthly final payment register with IDIS Transactions file	IDIS Team	Monthly
CDBG DRMS-IDIS program income	IDIS Team	Monthly
HOME DRMS-IDIS program income	IDIS Team	Monthly
FCTR Quarterly report and CDBG DRMS GL	NSS Accting Team	Annually





IDIS Drawdowns & IDIS PRO 3 Report and CDBG DRMS GL	NSS Accting Team	Annually
IDIS Drawdowns and HPRP DRMS GL	NSS Accting Team	Annually
IDIS Drawdowns and CDBG-R DRMS GL	NSS Accting Team	Annually
HOME - Fund 4620 (complete fund reconciliation)	RE/DEV/HSG Accting Team	Ongoing
Lead - Fund 3601 (lead grant cost center reconciliation within fund)	RE/DEV/HSG Accting Team	Ongoing
NSP - Partial reconciliation based on activities assigned to team to draw down through DRGR	RE/DEV/HSG Accting Team	Ongoing
Section 108 - Fund 2003 (informal reconciliation prepared as requested by KPMG or HUD)	RE/DEV/HSG Accting Team	As requested
NSP - DRGR to DRMS	Budget Team	Annually
ESG DRMS - IDIS	IDIS Team	Monthly
ESG - DRGR to DRMS	NSS Accting Team	Annually

**NOTE:** With regards to the HOPWA grant, P&DD is only responsible for drawing down funds in HUD's IDIS system. Revenues and expenditures are reconciled by the Health Department.

2. **FINDING #2: Controls Over Cash Receipts are Inadequate**

**RESPONSE:** Our goal is to deposit cashier check receipts within 48 hours. However, the continued elimination and/or lack of personnel, delays this process. This has also affected our ability to ensure adequate segregation of duties. As each staff person is assigned multiple tasks, a rotation of responsibilities isn't feasible given the complexity of the duties. However, an increase of managerial oversight will be implemented to address this matter.

3. **FINDING #3: Disbursements Were Not Always Processed in Accordance with Federal Grant Disbursements**

**RESPONSE:** As P&DD is not authorized to input vouchers into DRMS and issue checks to contractors, vendors and subrecipients, the department has limited control in this process. Moreover, there are several other factors, including City mandated furlough days, staff reductions, and other operational limitations beyond the department's control that hinders effective processes. As such, the City of Detroit receives recurring audit and



monitoring deficiencies. However, P&DD continues to work to minimize the findings by adjusting the drawdown approval process to more closely match the anticipated payment of funds. The department is also finalizing process improvements, establishing uniform procedures and more defined accountability standards, such as Memorandum of Understanding (MOU) agreements with city agencies and partners that utilize federal funds administered by P&DD. Also, effective November 12, 2012, the City of Detroit's Central Finance Department revised the payment processing system for P&DD invoices to ensure that federal funds are expended within the required 72 hours after the funds are drawn down from HUD systems.

4. FINDING #4: The Planning and Development Department Did Not Comply with the Finance's Department's Year-end Closing Procedures

RESPONSE: The department acknowledges that some reports were not submitted and/or not submitted timely. Again, the loss of staff and other competing priorities resulted in this oversight. P&DD pledges to implement better procedures to ensure future compliance.

5. FINDING #5: The Planning and Development Department Failed to Adequately Control Capital Assets

RESPONSE: The dollar threshold for Capital Assets is \$5,000.00. If an item does not meet the dollar threshold, departments are not required to enter the item into the Capital Assets module. As such, P&DD has opted to only enter computer-related items into the Capital Assets Module that falls below the required threshold. However, this only applies to items ordered and purchased directly by P&DD. ITS is responsible for entering their purchased items for the department into the module.

Finally, please note that our IT Consultants conduct an annual inventory of computer related items (i.e. printers, monitors, etc). A copy of that report is included in the yearly inventory submission to Finance.

For additional questions, please contact Ms. Val Miller at 224-9002.

Sincerely,

Marja Winters, Deputy Director

CC: Val Miller