

---

# City of Detroit, Michigan

---

**Federal Awards  
Supplemental Information  
June 30, 2018**

**Independent Auditor's Reports**

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance 1-2

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with *Government  
Auditing Standards* 3-4

Report on Compliance for Each Major Federal Program and Report on Internal Control Over  
Compliance 5-7

**Schedule of Expenditures of Federal Awards** 8-15

**Notes to Schedule of Expenditures of Federal Awards** 16

**Schedule of Findings and Questioned Costs** 17-37

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

### Independent Auditor's Report

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Detroit, Michigan (the "City") as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 14, 2018, which contained unmodified opinions on the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to December 14, 2018.

We did not audit the financial statements of the following discretely presented component units: Detroit Brownfield Redevelopment Authority, Detroit Public Library, Detroit Transportation Corporation, Downtown Development Authority, Eastern Market Corporation, Economic Development Corporation, Local Development Finance Authority, Museum of African American History, Detroit Land Bank Authority, and Eight Mile/Woodward Corridor Improvement Authority, which collectively represent 71 percent, 74 percent, and 79 percent of the assets, net position, and revenue, respectively, of the discretely presented component units. We also did not audit the following blended component units: Public Lighting Authority, which is a major enterprise fund with assets, net position, and revenue of \$220.0 million, \$34.9 million, and \$23.8 million, respectively, as well as the Detroit Building Authority and Greater Detroit Resource Recovery Authority, which collectively represent 0.66 percent, 0.43 percent, and 1.53 percent of the assets, net position/fund balance, and revenue, respectively, of the aggregate remaining fund information. The above-mentioned financial statements were audited by other auditors, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the entities listed above, is based on the report of the other auditors.

The City's basic financial statements include the operations of the Detroit Transportation Corporation, Detroit Housing Commission, Downtown Development Authority, Eastern Market Corporation, Economic Development Corporation, Detroit Landbank Authority, Detroit Employment Solutions Corporation, Detroit Building Authority, Public Lighting Authority, Detroit Brownfield Redevelopment Authority, Local Development Finance Authority, Eight Mile/Woodward Corridor Improvement Authority, and Museum of African American History. The schedule excludes those operations because they receive a separate financial statement audit and were subjected to a single audit.

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

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

*Plante & Moran, PLLC*

December 14, 2018

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

**Independent Auditor's Report**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Detroit, Michigan (the "City") as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 14, 2018.

Our report includes a reference to other auditors who audited the financial statements of the following discretely presented component units: Detroit Brownfield Redevelopment Authority, Detroit Public Library, Detroit Transportation Corporation, Downtown Development Authority, Eastern Market Corporation, Economic Development Corporation, Local Development Finance Authority, Museum of African American History, Detroit Land Bank Authority, and Eight Mile/Woodward Corridor Improvement Authority, which collectively represent 71 percent, 74 percent, and 79 percent of the assets, net position, and revenue, respectively, of the discretely presented component units. We also did not audit the following blended component units: Public Lighting Authority, which is a major enterprise fund with assets, net position, and revenue of \$220.0 million, \$34.9 million, and \$23.8 million, respectively, as well as the Detroit Building Authority and Greater Detroit Resource Recovery Authority, which collectively represent 0.66 percent, 0.43 percent, and 1.53 percent of the assets, net position/fund balance, and revenue, respectively, of the aggregate remaining fund information. This report does not include the complete results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the General Retirement System and Police and Fire Retirement System, as well as the Greater Detroit Resource Recovery Authority (discretely presented component unit) and Detroit Public Library (blended component unit), were not audited in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as Findings 2018-001, 2018-002, 2018-003, 2018-004, 2018-005, and 2018-006, that we consider to be material weaknesses.

### **Compliance and Other Matters**

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

The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and that are described in the accompanying schedule of findings and questioned costs as Finding 2018-006.

### **The City's Responses to the Findings**

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

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

*Plante & Moran, PLLC*

December 14, 2018

## Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance

### Independent Auditor's Report

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

#### Report on Compliance for Each Major Federal Program

We have audited the City of Detroit, Michigan's (the "City") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2018. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The City's basic financial statements include the operations of the Detroit Transportation Corporation, Detroit Housing Commission, Downtown Development Authority, Eastern Market Corporation, Economic Development Corporation, Detroit Landbank Authority, Detroit Employment Solutions Corporation, Detroit Building Authority, Public Lighting Authority, Detroit Brownfield Redevelopment Authority, Local Development Finance Authority, Eight Mile/Woodward Corridor Improvement Authority, and Museum of African American History, which received federal awards that are not included in the schedule during the year ended June 30, 2018. Our audit, described below, did not include the operations of the above-mentioned entities because these entities received a separate financial statement audit and a separate single audit when required by the Uniform Guidance.

#### **Management's Responsibility**

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

#### **Auditor's Responsibility**

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

#### **Opinion on Each Major Federal Program**

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

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

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance that are required to be reported in accordance with the OMB Uniform Guidance and that are described in the accompanying schedule of findings and questioned costs as Findings 2018-008 and 2018-009. Our opinion on each major federal program is not modified with respect to these matters.

The City's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

### **Report on Internal Control Over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 2018-008, 2018-009, and 2018-010 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2018-007 to be a significant deficiency.

The City's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and/or corrective action plan. The City's responses were as not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.



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

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

*Plante & Moran, PLLC*

December 14, 2018

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2018

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Identifying Number	Total Amount Provided to Subrecipients	Federal Expenditures
<b>Department of Agriculture:</b>				
Child Nutrition Cluster - Via Michigan Department of Education:				
2017 Summer Food Service Program	10.559	N/A	\$ -	\$ 548,395
2018 Summer Food Service Program	10.559	N/A	-	37,646
Total Child Nutrition Cluster			-	586,041
Supplemental Nutritional Assistance Program WIC -				
Via Michigan Department of Health and Human Services:				
Special Supplemental Nutrition Program for Women, Infants, and Children 2016	10.557	IW100342	-	29,956
Special Supplemental Nutrition Program for Women, Infants, and Children Breastfeeding 2016	10.557	W500342	-	916
Special Supplemental Nutrition Program for Women, Infants, and Children 2017	10.557	IW100342	1,288,574	1,327,231
Special Supplemental Nutrition Program for Women, Infants, and Children Breastfeeding 2017	10.557	W500342	43,044	44,336
Special Supplemental Nutrition Program for Women, Infants, and Children 2018	10.557	IW100342	3,372,634	3,422,002
Special Supplemental Nutrition Program for Women, Infants, and Children Breastfeeding 2018	10.557	W500342	66,551	66,551
Total Supplemental Nutritional Assistance Program WIC			4,770,803	4,890,992
Total Department of Agriculture			4,770,803	5,477,033
<b>Department of Housing and Urban Development:</b>				
Community Development Block Grant Entitlement Cluster - Direct Awards:				
Community Development Block Grant	14.218	B-14-MC-26-0006	250,153	4,730,431
Community Development Block Grant	14.218	B-15-MC-26-0006	1,234,197	1,992,344
Community Development Block Grant	14.218	B-16-MC-26-0006	6,341,309	10,570,070
Community Development Block Grant	14.218	B-17-MC-26-0006	3,025,129	13,670,053
Neighborhood Stabilization Program I	14.218	B-08-MN-26-0004	-	43,265
Community Development Block Grant - Declared Disaster Recovery FY16	14.218	B-15-MC-26-2006	-	1,402,866
Total Community Development Block Grant Entitlement Cluster			10,850,788	32,409,029
ESG - Direct Awards:				
Emergency Solutions Grant (ESG)	14.231	E-12-MC-260006	62,668	85,000
Emergency Solutions Grant (ESG)	14.231	E-14-MC-260006	2,561	3,474
Emergency Solutions Grant (ESG)	14.231	E-15-MC-260006	884,263	1,199,379
Emergency Solutions Grant (ESG)	14.231	E-16-MC-260006	1,731,147	2,382,814
Emergency Solutions Grant (ESG)	14.231	E-17-MC-260006	739,008	961,689
Total ESG			3,419,647	4,632,356

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2018

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Identifying Number	Total Amount Provided to Subrecipients	Federal Expenditures
<b>Department of Housing and Urban Development (Continued):</b>				
Home Investment Partnership - Direct Awards:				
Home Investment Partnership (Special Housing)	14.239	M-15-MC-26-0202	\$ -	\$ 642,485
Home Investment Partnership (Special Housing)	14.239	M-13-MC-26-0202	-	380,241
Home Investment Partnership (Special Housing)	14.239	M-14-MC-26-0202	<u>-</u>	<u>1,653,857</u>
Total Home Investment Partnership			-	2,676,583
HOPWA - Direct Awards:				
Housing Opportunities for Persons With Aids 6/2016	14.241	MIH15-F001	5,614	24,168
Housing Opportunities for Persons With Aids 6/2017	14.241	MIH16-F001	1,890,034	2,296,899
Housing Opportunities for Persons With Aids 6/2018	14.241	MIH17-F001	<u>13,004</u>	<u>422,669</u>
Total HOPWA			1,908,652	2,743,736
EDI Grants - Economic Development Initiative Project - Infrastructure - Direct Awards	14.251	B-10-SP-MI-0089	-	277,598
Lead Hazard Reduction Demonstration Grant Program - Direct Awards	14.905	MI-LHHD-026614	<u>-</u>	<u>1,860,912</u>
Total Department of Housing and Urban Development			16,179,087	44,600,214
<b>Department of Interior - Historic Preservation Fund Grant Program - Belle Isle Aquarium -</b> Via Michigan State Housing Development Authority (MSHDA)	15.904	CG5-426	-	15,560
<b>Department of Justice:</b>				
Violence Prevention - Direct Awards:				
Ceasefire Detroit Community Based Violence Prevention	16.123	2012-PB-FX-K002	646,463	646,463
Detroit Youth Violence Prevention Capacity	16.123	2012-NY-FX-0027	<u>43,905</u>	<u>62,112</u>
Total Violence Prevention			690,368	708,575
Crime Victim Assistance - Via Michigan Department of Health and Human Services:				
Crime Victim Assist - V.O.C.A. 2016 / 2017	16.575	2015-VA-GX-0044	-	281,950
Crime Victim Assist - V.O.C.A. 2017 / 2018	16.575	2016-VA-GX-0021	<u>-</u>	<u>561,989</u>
Total Crime Victim Assistance			-	843,939

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2018

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Identifying Number	Total Amount Provided to Subrecipients	Federal Expenditures
<b>Department of Justice (Continued):</b>				
STOP Violence Against Women Formula Grant - Via Michigan Department of Health and Human Services	16.017	2016-WF-AX0023	\$ -	\$ 28,406
Encourage Arrest Detroit Domestic Violence Reduction Project 2015-2016 - Direct Awards	16.590	2015-WE-AX-0043	34,970	149,195
Project Safe Neighborhoods	16.609	2016-UL-WX-0037	-	85,924
COPS Grants - Direct Awards:				
2010 COPS Technology Program	16.710	2010-CK-WX-0506	-	14,332
2015 COPS Hiring Program	16.710	2015-UL-WX-0024	-	599,793
2016 COPS Hiring Program	16.710	2016-UL-WX-0037	-	559,436
2017 COPS Hiring Program	16.710	2017-UL-WX-0023	-	<u>301,342</u>
Total COPS Grants			-	1,474,903
FY16 Smart Policing Initiative - Smart Policing Innovation	16.738	2016-WY-BX-0005	-	137,294
2015-2017 Body Worn Camera Policy Award	16.738	2015-DE-BX-K034	-	872,252
Justice Assistance Grants (JAG) - Via The County of Wayne, Michigan:				
2014 Justice Assistance Grant	16.738	2014-DJ-BX-0503	-	246,298
2015-16 Justice Assistance Grant	16.738	2015-DJ-BX-0911	-	<u>506,064</u>
Total Justice Assistance Grants (JAG)			-	1,761,908
2015-2017 Technology Information for Public Safety (TIPS)	16.751	2015-DG-BX-K007	-	70,000
2015 Community Health and Social Services Center-National Crime Victims Rights Week - Via Community Health and Social Service Center (CHASS)	16.888	2015-CY-AX-0006	-	3,278
Federal Asset Sharing - Direct Awards	16.922	N/A	-	<u>1,434,758</u>
Total Department of Justice			725,338	6,560,886

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2018

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Identifying Number	Total Amount Provided to Subrecipients	Federal Expenditures
<b>Department of Transportation:</b>				
Highway Planning and Construction Cluster - Via Michigan Department of Transportation:				
2014 _CMAQ Diesel	20.205	2014-0098	\$ -	\$ 217,344
Highway Research Planning and Construction	20.205	00-5459	-	<u>1,131,339</u>
Total Highway Planning and Construction Cluster			-	1,348,683
Federal Transit Cluster:				
Federal Transit Capital Investment Grants - Direct Awards:				
Federal Transit Capital Investment Grant	20.500	MI-03-0241	-	3,271,169
Federal Transit Capital Investment Grant	20.500	MI-04-0070-00	-	29,500
Federal Transit Capital Investment Grant	20.500	MI-04-0093-00	-	<u>2,384,476</u>
Total Federal Transit Capital Investment Grants			-	5,685,145
Federal Transit Formula Grants - Direct Awards:				
Federal Transit Formula Grant	20.507	MI-90-X563-00	-	362,026
Federal Transit Formula Grant	20.507	MI-90-X604-00	-	19,492
Federal Transit Formula Grant	20.507	MI-90-X605-00	-	3,794,674
Federal Transit Formula Grant	20.507	MI-95-X062-00	-	2,240,000
Federal Transit Formula Grant	20.507	MI-2016-006	-	9,651,919
Federal Transit Formula Grant	20.507	MI-95-X034-00	-	88,446
2016 Unified Work Program - SEMCOG	20.507	MI-2016-024	-	2,070,241
Federal Transit Formula Grant	20.507	MI-90-X642-00	-	<u>342,332</u>
Total Federal Transit Formula Grants			-	<u>18,569,130</u>
Total Federal Transit Cluster			-	24,254,275
SEMCOG Grants - Direct Awards:				
SEMCOG United Work Program (UWP)_ Metropolitan Planning Grant	20.505	SEMCOG CPG16-17006	-	314,304
SEMCOG United Work Program (UWP)_ Metropolitan Planning Grant	20.505	SEMCOG CPG16-17006	-	<u>15,977</u>
Total SEMCOG Grants			-	330,281
Transit Service Programs Cluster:				
Job Access and Reverse Commute Grants - Direct Awards:				
Job Access and Reverse Commute Grant	20.516	MI-37-X035-00	-	1,742
Job Access and Reverse Commute Grant	20.516	MI-37-X041-02	-	<u>84,479</u>
Total Job Access and Reverse Commute Grants			-	86,221

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2018

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Identifying Number	Total Amount Provided to Subrecipients	Federal Expenditures
<b>Department of Transportation (Continued):</b>				
Transit Service Programs Cluster (Continued):				
New Freedom Grants - Direct Awards:				
New Freedom Grant	20.521	MI-57-X015-00	\$ -	\$ 856,203
New Freedom Grant	20.521	MI-57-X013-00	-	<u>76,421</u>
Total New Freedom Grants			-	<u>932,624</u>
Total Transit Services Programs Cluster			-	1,018,845
Highway Safety Cluster - Via Michigan Department of State Police:				
Strategic Traffic Enforcement Prog 2016-2017	20.600	PT-17-33	-	84,742
Strategic Traffic Enforcement Prog 2017-2018	20.600	PT-18-17	-	193,555
Highway Safety Underage Enforcement 2016-2017	20.616	AL-16-17	-	34,070
Highway Safety Underage Enforcement 2017-2018	20.616	AL 18-17	-	<u>18,496</u>
Total Highway Safety Cluster			-	<u>330,863</u>
Total Department of Transportation			-	27,282,947
<b>Environmental Protection Agency:</b>				
Drinking Water State Revolving Fund Cluster - Via Michigan Department of Environmental Quality:				
Capitalization Grants for Drinking Water-State Revolving Fund	66.468	7412-01	-	2,329,411
Capitalization Grants for Drinking Water-State Revolving Fund	66.468	7413-01	-	1,063,014
Capitalization Grants for Drinking Water-State Revolving Fund	66.468	7414-01	-	<u>2,540,497</u>
Total Drinking Water State Revolving Fund Cluster			-	5,932,922
Recovery Park Green Infrastructure Work - Direct Awards	66.469	GL-00E1279	-	336,886
USEPA Environmental Training Grant - Direct Awards	66.815	JT-00E01370	-	56,544
US0079A Brownfields Program (Part A) - Assessment Grants - FY 2015 - Direct Awards	66.818	BF-00E01519	-	<u>130,790</u>
Total Environmental Protection Agency			-	6,457,142

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2018

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Identifying Number	Total Amount Provided to Subrecipients	Federal Expenditures
<b>Department of Health and Human Services:</b>				
Public Health Emergency Preparedness - Via Michigan Department of Health and Human Services:				
Public Health Emergency Preparedness Cities Readiness Initiative 9/2017	93.069	NU90TP000528	\$ 133,994	\$ 138,013
Public Health Emergency Preparedness Cities Readiness Initiative 9/2018	93.069	NU90TP000528	184,846	184,846
Volunteer Reception Centers	93.069	NU90TP000528	<u>5,741</u>	<u>5,921</u>
Total Public Health Emergency Preparedness			324,581	328,780
MI Building Resilience M-Brace - Via Michigan Department of Health and Human Services:				
2017 Climate Health Adaption	93.070	1NUE1EG01324	12,368	12,739
2018 Climate Health Adaption	93.070	1NUE1EG01324	<u>1,364</u>	<u>1,364</u>
Total MI Building Resilience M-Brace			13,732	14,103
Public Health Emergency Preparedness - Via Michigan Department of Health and Human Services:				
Public Health Emergency Preparedness 9/2016	93.074	NU90TP000528	-	470
Public Health Emergency Preparedness 9/2017	93.074	NU90TP921906	<u>167,610</u>	<u>167,610</u>
Total Public Health Emergency Preparedness			167,610	168,080
CDC Immunization - Via Michigan Department of Health and Human Services:				
Immunization Action Plan (Vaccines for Children) 09/2016	93.268	H23 CCH522556	-	3,864
Immunization Action Plan (Vaccines for Children) 09/2017	93.268	H23 CCH522556	4,115	4,239
Immunization Action Plan -Vaccination Shipped (in-Kind)	93.268	H23 CCH522556	-	412,740
West Nile Virus 2018	93.268	N/A	1,210	1,210
West Nile Virus Community Surveillance Program	93.268	N/A	<u>5,055</u>	<u>5,222</u>
Total CDC Immunization			10,380	427,275
Immunization Action Plan (IAP) - Via Michigan Department of Health and Human Services	93.539	H23 IPOOO752	185,027	185,027
Medicaid Cluster - Via Michigan Department of Health and Human Services:				
CSHCS Outreach & Advocacy 9/2016	93.778	05U05M15ADM	-	4,266
CSHCS Outreach & Advocacy 9/2017	93.778	05U05M15ADM	63,953	63,953
CSHCS Outreach & Advocacy (PCTP)	93.778	05U05M15ADM	193,813	193,813
CSHCS Medical Elevated Blood Lead Case Management	93.778	051205M15MAP	<u>159,995</u>	<u>164,795</u>
Total Medicaid Cluster			417,761	426,827
HIV Emergency Supplemental Relief - Direct Awards:				
HIV Emerg Supp Relief 2/2018	93.914	H89HA00021-25-00	8,356,062	8,356,062
HIV Emerg Supp Relief 2/2019	93.914	H89HA00021-26-00	<u>1,022,293</u>	<u>1,022,293</u>
Total HIV Emergency Supplemental Relief			9,378,355	9,378,355

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2018

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Identifying Number	Total Amount Provided to Subrecipients	Federal Expenditures
<b>Department of Health and Human Services (Continued):</b>				
HIV - Ryan White - Via Michigan Department of Health and Human Services:				
HIV Ryan White Part B 2017	93.917	N/A	\$ -	\$ 90,178
HIV Ryan White Part B MAI 9/2017	93.917	N/A	62,950	64,839
HIV Ryan White Part B MAI 9/2018	93.917	N/A	21,073	21,073
FY18 HIV Ryan White Part B MAI 9/2019	93.917	N/A	<u>2,632,070</u>	<u>2,755,029</u>
Total HIV - Ryan White			2,716,093	2,931,119
Zika Healthcare Services Program:				
ZIKA Virus Community Support Program 9/2017	93.966	N/A	9,060	9,360
ZIKA Virus Mosquito Surveillance Program 9/2017	93.966	N/A	3,934	4,096
ZIKA Virus Community Support 2018	93.966	N/A	1,246	1,246
ZIKA Virus Surveillance 2018	93.966	N/A	<u>1,210</u>	<u>1,210</u>
Total Zika Healthcare Services Program			15,450	15,912
Maternal and Child Health Block Grant - Via Michigan Department of Health and Human Services:				
Fetal Infant Mortality Review 9/2017	93.994	B1MIMCHS	2,619	2,700
Fetal Infant Mortality Review 9/2018	93.994	B04M30620	2,619	2,700
Infant Safe Sleep 9/2017	93.994	B1MIMCHS	-	7,206
Sudden Unexplained Infant Death	93.994	B1MIMCHS	1,261	1,299
Sudden Infant Death	93.994	B1MIMCHS	-	4,400
Local Maternal and Child Health 9/2016	93.994	B1MIMCHS	-	28,684
Lead Poison Prevention (MDCH) 9/2017.1	93.994	B1MIMCHS	20,484	21,098
Lead Poison Prevention (MDCH) 9/2017	93.994	B1MIMCHS	19,483	20,994
Lead Poison Prevention (MDCH) 9/2018	93.994	B1MIMCHS	123,356	123,356
Lead Poison Prevention (MDCH) 9/2018	93.994	B1MIMCHS	129,734	129,734
Local Maternal and Child Health 9/2017	99.994	B1MIMCHS	<u>633,560</u>	<u>658,681</u>
Total Maternal and Child Health Block Grant			<u>933,116</u>	<u>1,000,852</u>
Total Health and Human Services			14,162,105	14,876,330
<b>Department of Homeland Security:</b>				
2016 Port Security Grant Program (PSGP) - Direct Awards	97.056	EMW-2016-PU-00457	-	553,287
EPMG:				
2018 Emergency Management Performance Grant (EMPG)	97.042	EMC-2018-EP-00001-S01	-	31,057
2017 EMPG	97.042	EMC-2017-EP-00001-S01	<u>-</u>	<u>9,239</u>
Total EPMG			-	40,296



Schedule of Expenditures of Federal Awards

Year Ended June 30, 2018

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Identifying Number	Total Amount Provided to Subrecipients	Federal Expenditures
<b>Department of Homeland Security (Continued):</b>				
Assistance to Firefighter Grant - Direct Awards:				
2013 Assistance to Firefighter Grant - Fire Prevention and Safety	97.044	EMW-2013-FP-00717	\$ -	\$ 15,988
2014 Assistance to Firefighter Grant - Fire Prevention and Safety	97.044	EMW-2014-FR-00285	-	450,863
2015 Assistance to Firefighter Grant - Fire Prevention and Safety	97.044	EMW-2015-FO-05918	-	676,442
2014 Assistance to Firefighter Grant - Fire Prevention and Safety	97.044	EMW-2014-FP-00621	-	326,763
2016 Assistance to Firefighter Grant - Fire Prevention and Safety	97.044	EMW-2016-FO-06586	-	635,737
2016 Assistance to Firefighters - Regional Request	97.044	EMW-2016-FR-00508	-	<u>1,260,455</u>
Total Assistance to Firefighter Grant			-	3,366,248
HSGP - Via The County of Macomb, Michigan:				
2016 HSGP-SHSP	97.067	EMW-2016-SS-00010-S01	-	373,938
2016 HSGP-UASI	97.067	EMW-2016-SS-00010-S01	-	16,261
2015 HSGP: Part D Urban Area Security Initiative (UASI)	97.067	EMW-2015-SS-00033	-	50,854
2015 Port Security Grant Program (PSGP)	97.056	EMW-2015-PU-00135	-	154,347
2015 HSGP: Part A State Homeland Security Program	97.067	EMW-2015-SS-00033	-	217,257
2016 Operation Stonegarden - Homeland Security Grant Program	97.067	DHS-16-GDP-067-00-01	-	<u>5,002</u>
Total HSGP			-	817,659
2013 Safer Grant - Direct Awards	97.083	EMW-2013-FH-00613	-	<u>2,381,824</u>
Total Department of Homeland Security			-	<u>7,159,314</u>
Total Federal Awards			<u>\$ 35,837,333</u>	<u>\$ 112,429,426</u>

## Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2018

### Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City of Detroit, Michigan (the "City") under programs of the federal government for the year ended June 30, 2018. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

The City's basic financial statements include the operations of the Detroit Transportation Corporation, Detroit Housing Commission, Downtown Development Authority, Eastern Market Corporation, Economic Development Corporation, Detroit Landbank Authority, Detroit Employment Solutions Corporation, Detroit Building Authority, Public Lighting Authority, Detroit Brownfield Redevelopment Authority, Local Development Finance Authority, Eight Mile/Woodward Corridor Improvement Authority, and Museum of African American History, which received federal awards that are not included in the Schedule during the year ended June 30, 2018. The Schedule did not include the operations of the above-mentioned entities because they received a separate financial statement audit and a separate single audit when required by the Uniform Guidance.

### Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the Schedule include the federal grant activity of the City and are presented on the same basis of accounting as the financial reporting, with the exception of the expenditures related to CFDA 66.468, Capitalization Grants for Drinking Water - State Revolving Fund (DWSRF) programs, which are reported on the Schedule on the cash basis. The DWSRF expenditures are reported in accordance with the subrecipient reporting guidelines outlined in the 2018 OMB Compliance Supplement for CFDA 66.468.

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

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

### Note 3 - Outstanding Loan Balance

The U.S. Department of Housing and Urban Development has insured certain mortgage loan borrowings (CFDA 14.248) made by the City of Detroit, Michigan through the Planning and Development Department in connection with certain development projects. These loans had outstanding principal due of \$49,567,000 at June 30, 2018. There were no new borrowings in fiscal year 2018. In addition, there are no continuing compliance requirements associated with these loans other than the scheduled repayments. As such, the outstanding principal balance is not included in the Schedule.

### Note 4 - Highway and Construction Program

The City participates in various road, street, and bridge construction and repair projects. The projects are funded through an award granted to the State of Michigan Department of Transportation (the "State"), which administers the grant for the City. The City identified the projects needed in the locality, and the State performed the procurement, payment, and cash management functions on behalf of the City. The award is managed directly by the State and has not been included in the tests of compliance with laws and regulations associated with the City's single audit. The award is approximately \$22.0 million for the year ended June 30, 2018.

---

## Schedule of Findings and Questioned Costs

---

Schedule of Findings and Questioned Costs

Year Ended June 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?  X  Yes   None reported

Federal Awards

Internal control over major programs:

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

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

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

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
14.218	Community Development Block Grant (CDBG) - Entitlement Grants Cluster
14.231	Emergency Solutions Grant Program
14.239	HOME Investment Partnerships Program
66.468	Capitalization Grants for Drinking Water State Revolving Funds
93.914	HIV Emergency Relief Project Grants (Ryan White HIV/AIDS Program Part A)
97.044	Assistance to Firefighters Grant

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

Auditee qualified as low-risk auditee?   Yes  X  No

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2018

Section II - Financial Statement Audit Findings

Reference Number	Finding
2018-001	<p data-bbox="362 556 954 583"><b>Finding Type</b> - Material weakness (repeat finding)</p> <p data-bbox="362 604 1479 695"><b>Criteria</b> - There should be a process in place to ensure proper recording of all journal entries, including year end closing entries and complex accounting transactions, in accordance with generally accepted accounting principles (GAAP) prior to the commencement of the audit.</p> <p data-bbox="362 716 1479 806"><b>Condition</b> - The general ledger and underlying financial records were not reconciled and closed in a timely manner. In addition, there were numerous adjustments that should have been identified by management that were instead identified during the audit.</p> <p data-bbox="362 827 477 854"><b>Context</b> -</p> <p data-bbox="362 875 410 903"><i>City</i></p> <p data-bbox="362 924 1479 1045">During the City's fiscal year ended June 30, 2018, staffing constraints contributed to the City not having the proper controls in place to ensure timely and accurate financial reporting. Material adjusting journal entries were proposed by the auditors and posted by the City in order to ensure the financial statements were not misstated.</p> <p data-bbox="362 1066 1479 1396">Adjusting journal entries identified during the audit of the City resulted in a change in net position in excess of \$115 million, impacting several opinion units, including entries related to the following: increasing the general claims reserve liability; adjusting the capital asset balance to account for prior year additions; adjusting various account balances related to the Gordie Howe Bridge transaction; adjusting the interest accrual, expense, and the unamortized discount/premium and deferred charges related to long-term debt; adjusting estimated income tax payables; increasing the accounts payable balance for additional payables noted at year end; correcting an improper reversal of a prior year liability; adjusting the net pension liability, expense, and related deferred inflows and outflows; adjusting current year activity within the Death Benefits Fund; adjusting interfund receivables and payables; and recording an interfund transfer in order to eliminate a fund deficit.</p>

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2018

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2018-001 (Continued)	<p><b>Context</b> (Continued) - In addition to the adjusting entries made as a result of the audit, certain auditor-identified entries related to the City were not recorded due to immateriality, including entries related to the following: recording unavailable revenue related to payments made to developers for HUD HOME loans; recording activity of the Joint Employment and Procurement Advisory Board (JEPAB) discretely presented component unit; reclassifying the Employee Benefits Fund and Employee Disability Income trust funds as internal service funds since these assets are not held in a trust or any other fiduciary arrangement; decreasing amounts owed to other governmental agencies for estimated property tax overpayment escheatment liabilities; recording an overpayment tax liability allowance for the refunds from tax year 2012; decreasing the MTT accrual for amounts related to the 2018 assessments; cash unreconciled differences recorded as undistributed receipts; increasing the property and income tax allowance to agree to supporting documentation; adjusting the liability for compensated absences for governmental activities and business-type funds; increasing capital assets related to ongoing street resurfacing and grant-related equipment; adjusting miscellaneous revenue and receivables for unbilled receivables at year end; increasing liability and expense for contingent liabilities; covered payroll for the Legacy Plan and covered payroll for the hybrid plan were used in reporting in the required supplemental information; the City passed on disclosing the amount related to covered payroll for the OPEB plan, as required by GASB Statement No. 82, as this amount is unavailable; the City does not have a multi-year lookback process in place to track and analyze the estimate of the allowance against income tax receivables; and recording the acceleration of depreciation for the Joe Louis Arena.</p> <p>Deficiencies noted that were not related to adjusting entries were as follows: the City has a liability recorded from tax dollars collected, but has no support for to whom the liability is owed; there were reclassifications of expenditures due to improper account classifications; and the City does not have proper procedures in place surrounding the collection of ambulance receivables, and as a result, approximately 61 percent of ambulance billings have been written off in the current year.</p> <p><i>DWSD</i></p> <p>During DWSD’s fiscal year ended June 30, 2018, complex accounting for the finalization of the bifurcation Memorandum of Understanding with the Great Lakes Water Authority contributed to DWSD not having the proper controls in place to ensure timely and accurate financial reporting. Material adjusting journal entries were proposed by the auditors and posted by DWSD in order to ensure the financial statements were properly stated.</p> <p>Adjusting journal entries identified during the audit of DWSD related to the following: adjustments to properly record and reconcile the bifurcation gain; adjustments to interfund receivables and payables between DWSD and the City of Detroit, Michigan; adjustments to properly reconcile pension expense; and adjustments to properly state balances between DWSD and Wayne County, Michigan related to delinquent taxes and chargeback liabilities.</p> <p><i>Component Units</i></p> <p>During the Detroit Building Authority’s fiscal year ended June 30, 2018 audit, adjusting entries were identified in order to properly state balances within the general ledger. In addition, the Authority did not maintain proper cut-off in its accounting system.</p>

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2018

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2018-001 (Continued)	<p><b>Cause</b> - There were no processes in place to ensure activity was properly reconciled to the general ledger throughout the year, and year-end closing entries were identified and recorded in the general ledger prior to the commencement of the audit. In addition, the City has a variety of systems, as well as decentralized staff, resulting in a high level of manual intervention in order to compile and complete necessary financial reporting.</p> <p><b>Effect</b> - If the auditor-identified entries identified above had not been recorded, the financial statements would have been materially misstated.</p> <p><b>Recommendation</b> - The City, as well as its component units, should continue to work with all departments to ensure that each has adequate resources to fully and accurately reconcile and record all journal entries, including year-end entries and entries related to complex transactions prior to the start of the audit. A system will need to be developed to close the financial records in a timely manner, which will include forming reliable estimates for certain accruals since management may not be able to rely on actual subsequent receipts and disbursements in all instances (i.e., lookback adjustments). An independent review of reconciliations and trial balances prior to the start of the audit would assist in identifying and correcting potential errors.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - During fiscal year 2018, the Office of the Chief Financial Officer (OCFO) began documenting new policies and procedures for all the major OCFO business process lifecycles. This provided standardized and consistent administration across all OCFO divisions. OCFO has begun implementation of the new standardized policies and procedures in fiscal year 2019. In addition, OCFO established a task team to identify root causes and develop solutions to the findings noted. OCFO also assigned responsible person to each General Fund ledger account. In addition, OCFO is continually working to optimize the functionality of the Oracle Cloud ERP system, which will assist with overall efficiency and productivity.</p> <p>OCFO has also established its tax accounting unit and procedures related to the recording of transactions and distributions. Processes will continue to be refined to improve accuracy.</p> <p>To address the specific audit adjustments, OCFO will develop a multi-year lookback process to accurately estimate the income tax allowance for the years administered by the State; implement a procedure for the daily reconciliation of tax receipts among the bank, subledger, and general ledger; implement a treasury management system, including a debt management module that will calculate most debt-related entries; establish an internal fund group for Internal Service Funds; and enhance our EMS collection procedures by utilizing a third-party collection service.</p> <p>During the fiscal year 2018, DWSD and Great Lakes Water Authority entered into a Memorandum of Understanding (MOU), which necessitated the adjustment of DWSD’s opening balances. The MOU resulted in a bifurcation gain. The accounting related to this transaction was complex and a one-time event. DWSD has used the transaction to improve its processes in the categories of interfunds and Wayne County, Michigan tax liability accounting. DWSD will continue to improve its processes to ensure all journal entries are reconciled and recorded prior to the start of future audits.</p>

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2018

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2018-002	<p data-bbox="362 531 954 556"><b>Finding Type</b> - Material weakness (repeat finding)</p> <p data-bbox="362 581 1479 638"><b>Criteria</b> - There should be a procedure in place to reconcile bank activity on a timely basis and to ensure cash balances are properly stated as of the end of the year.</p> <p data-bbox="362 661 1479 810"><b>Condition</b> - The City did not have procedures in place to ensure all bank accounts were fully reconciled to the general ledger and the reconciliations were performed and reviewed timely. The significant delay in properly recording transactions throughout the year on a timely basis significantly reduces the accuracy of the monthly bank reconciliations, requiring multiple revisions and significant delays prior to finalization.</p> <p data-bbox="362 833 1479 951"><b>Context</b> - The City has a significant number of bank accounts to reconcile each month, and primary accounts have significant monthly activity. During the current year, the City has continued to review accounts to determine if accounts could be closed to increase efficiency and to reduce both costs and the potential for error.</p> <p data-bbox="362 974 1479 1123">The City did not prepare timely bank reconciliations throughout the year. In addition, it was noted that the City has an unreconciled difference of approximately \$4.9 million without a formal approval process to resolve unreconciled errors. Due to the lag in posting to the general ledger, bank reconciliations are not able to be fully vetted and reviewed until three to six months after year end.</p> <p data-bbox="362 1146 1479 1203"><b>Cause</b> - The City did not have procedures in place to ensure timely preparation and review of bank reconciliations.</p> <p data-bbox="362 1226 1479 1312"><b>Effect</b> - Without timely and accurate recording of cash activity, preparation and review of bank reconciliations, the City could fail to identify errors and malfeasance related to cash transactions.</p> <p data-bbox="362 1335 1479 1516"><b>Recommendation</b> - We recommend the City continue to review its bank accounts to determine if additional consolidation of accounts is possible. For those accounts that are necessary, we recommend the City ensure adequate resources are available to perform timely recording of transaction and preparation of bank reconciliations for these accounts and that the reconciliations are reviewed and an approval process is documented for any unreconciled differences that are noted.</p> <p data-bbox="362 1539 1479 1839"><b>Views of Responsible Officials and Planned Corrective Actions</b> - The City's existing policy includes preparation, proper identification of reconciling items, and review by appropriate centralized personnel on a monthly basis. Due to separation of duties, the bank reconciliations are prepared monthly, and then the reconciling items are then disseminated to the appropriate OCFO personnel for correction. To address timely recording of cash transactions, OCFO has developed a cash accounting and auditing unit, which is responsible for the daily recording and reconciliation of all cash transactions. In addition, to facilitate timely resolution of outstanding items, OCFO hired additional staff to follow up on outstanding reconciling items. We are also continually working to optimize the functionality of the Oracle Cloud ERP system to automate the bank reconciliation process.</p>



Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2018

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2018-003	<p><b>Finding Type</b> - Material weakness (repeat finding)</p> <p><b>Criteria</b> - There should be a documented process in place to ensure that the City has proper segregation of duties and approval processes in place related to the appropriateness of cash disbursements.</p> <p><b>Condition</b> - There was a lack of adequately documented, segregated, and implemented controls over approval processes related to the appropriateness of certain cash disbursements.</p> <p><b>Context</b> -</p> <ul style="list-style-type: none"> <li>• Both the human resources and payroll audit functions have the ability to initiate and approve a wage or salary change.</li> <li>• In regards to the Internet Supplier Portal transactions, the procurement department does not have proper procedures in place to track or review change requests to suppliers' and vendors' account information, specifically changes to ACH information. In addition, ODFS performs the three-way match between the invoice, contract, and receipt. There were instances where the receipting information was not properly attached to document or noted.</li> <li>• The housing and revitalization department does not have an approved formal process in place for handling contractor payments with US Bank/First Trust, which is done outside of the City's accounts payable system. In addition, the checks issued by US Bank are not being reviewed by the department prior to distribution to the various contractors.</li> </ul> <p><b>Cause</b> -</p> <ul style="list-style-type: none"> <li>• There was a lack of segregation of duties related to the ability to initiate and approve wage and salary changes.</li> <li>• There is not a formal process in place for review and approval of vendor applications, changes to suppliers' and vendors' account information, and documentation to verify receipt of receiving information.</li> <li>• The housing and revitalization department does not have an approved formal process in place for handling contractor payments outside of the City's accounts payable system and for the review of contractor distributions.</li> </ul> <p><b>Effect</b> -</p> <ul style="list-style-type: none"> <li>• Since human resources and the payroll audit functions have the ability to initiate and approve compensation changes, there is a potential for improper rates to be initiated and approved without a secondary review.</li> <li>• Without a formal process for approval of vendor applications and review of change requests, fictitious accounts and fraudulent changes could occur. Without verification of a three-way match, items not received may not be identified.</li> <li>• Without a formal process in place for contractor payments and review of check distributions, misappropriation of cash could occur.</li> </ul>

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2018

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2018-003 (Continued)	<p><b>Recommendation -</b></p> <ul style="list-style-type: none"> <li>• The City should review the duties of human resources and the payroll audit departments to determine which department should initiate wage changes and which should review and approve them to ensure proper segregation of duties.</li> <li>• The City should establish a formal approval process for vendor applications, procedures to verify a three-way match, and a formal review process to verify account change requests. It was noted during audit fieldwork that new procedures related to the Internet Supply Portal were implemented.</li> <li>• The City should determine if the City’s normal AP process can be used for contractor payments; in addition the City should establish a formal approval process for the Housing and Revitalization Department to follow in regards to contractor payments to ensure the proper review of information is taking place.</li> </ul> <p><b>Views of Responsible Officials and Planned Corrective Actions -</b> Human resources will continue with the implementation of the Ultipro Human Resources Information System (HRIS) and Payroll System. Phase 1 was implemented in October 2018. It includes new policies, procedures, and internal controls, and staff will monitor, track, and measure the adequacy of the internal controls. We have also reassigned the initiation of wage changes from payroll audit to human resources to ensure proper segregation of duties. These new policies and procedures will also include controls over compensated absence bank payouts, validation checks to ensure that accumulated hours are accurate based on source data, and a separate review and authorization process to ensure accuracy.</p> <p>In addition, OCFO will determine if the normal AP process will work with First Trust payments, and if so, we will work to implement this change of policy in fiscal year 2019. OCFO current process includes scanning and uploading the verification of receipt to goods/services when the items are "received" in the Oracle. OCFO will review existing processes and provide additional training to staff.</p> <p>Effective July 1, 2018, OCFO has established a written policy and procedure detailing the requirements for the Supplier Registration and Automatic Clearing House (ACH) processes. In part, the policy requires that the supplier is solely responsible for the accuracy of the data provided to the City. An Office of Contracting and Procurement (OCP) Administrator shall be responsible for reviewing the completeness of the information provided by the supplier during the registration process. For any changes/updates to the supplier’s ACH data, an OCP administrator will follow up a member of the supplier’s finance department to verify the authenticity of the change request to the extent possible.</p>

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2018

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2018-004	<p><b>Finding Type</b> - Material weakness (repeat finding)</p> <p><b>Criteria</b> - The City, in conjunction with the City's retirement systems (police and fire and general) (the "Retirement Systems"), as well as the Detroit Transportation Corporation (DTC), a component unit of the City, should have a documented process to ensure timely and accurate accumulation, review, and submission of census data to the Retirement Systems' actuary in order to obtain the information required to comply with GASB Statement Nos. 67 and 68.</p> <p><b>Condition</b> - During the audit of the census data provided to the actuary, several instances of errors were noted in the data or there was missing data that resulted in incomplete information.</p> <p><b>Context</b> - The specific issues noted include the following:</p> <p><i>City</i></p> <ul style="list-style-type: none"> <li>• Frozen Accrued Benefits (Police and Fire and General Employees Retirement Systems Component II) - As Component II is frozen as of June 30, 2014, a calculation of individuals' frozen accrued benefits for active members should be performed and provided to the actuary. Currently, these calculations have not been performed, and the actuary is estimating based on average final compensation (AFC) and sick bank data as of June 30, 2014 provided by the system.</li> <li>• Completeness of Census Data (Police and Fire and General Employees Retirement Systems Component I and II) - Based on the testing performed, it was noted some members were either improperly included or excluded from the data sent to the actuary. In addition, some key employee data was missing for members.</li> <li>• Active Pay Amount (Police and Fire and General Employees Retirement Systems Component I) - The actuary uses an active member's current pay in its calculation for determining a member's estimated future benefit. Based on the testing performed, some discrepancies were noted between the pay information provided to the actuary and pay information from the City.</li> <li>• Member Classifications (Police and Fire and General Employees Retirement Systems Component I and II) - Based on the testing performed, some members were incorrectly classified between the three statuses (active, deferred, or retired). Incorrect classification leads to inaccurate actuarial calculations being performed on those members.</li> <li>• Death Audit (Police and Fire and General Employees Retirement Systems Component I and II) - It was noted a death audit was not performed on the deferred members list sent to the actuary. These issues could lead to the pension liability being misstated due to incomplete or inaccurate information.</li> <li>• Based on discussions with the actuary and review of the actuarial valuations, it was noted that significant work is performed on the original census provided by the Police and Fire and General Employees Retirement Systems that is ultimately used in the valuations. This includes removing ineligible individuals and reclassifying individuals between the different statuses (active, deferred, or retired).</li> </ul>

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2018

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2018-004 (Continued)	<p data-bbox="362 533 623 558"><b>Context</b> (Continued) -</p> <p data-bbox="362 581 566 606"><i>Component Units</i></p> <ul data-bbox="362 632 1484 747" style="list-style-type: none"><li>• During the audit of DTC, it was noted that the census reconciliation to the actuaries was not readily available. In addition, there were discrepancies noted in the data related to the following: missing census data, inaccurate reconciliations and lack of support for payments made, and inaccurate employee data.</li></ul> <p data-bbox="362 772 456 798"><b>Cause</b> -</p> <p data-bbox="362 823 410 848"><i>City</i></p> <p data-bbox="362 873 1484 1020">The City provides active pay data to the Retirement Systems, but sometimes that data is not accurate or complete. The Retirement Systems maintain census information for retired or deferred members. While the Retirement Systems do have a process in place to review the census data prior to providing it to the actuary, the City should have a process in place to ensure that the census information is complete and accurate.</p> <p data-bbox="362 1045 566 1071"><i>Component Units</i></p> <p data-bbox="362 1096 1484 1152">DTC should have a process in place to ensure that the census information is complete and accurate, as well as the related reconciliations.</p> <p data-bbox="362 1178 1484 1262"><b>Effect</b> - Without procedures to ensure timely accumulation of complete and accurate census data, the City's net pension liability that is recorded on the statement of net position of each affected opinion unit, as well as DTC's net pension liability, could be materially misstated.</p> <p data-bbox="362 1287 602 1312"><b>Recommendation</b> -</p> <p data-bbox="362 1337 410 1362"><i>City</i></p> <p data-bbox="362 1388 1484 1444">We recommend the City, in conjunction with the Retirement Systems, implement the following processes and controls:</p> <ul data-bbox="362 1470 1484 1843" style="list-style-type: none"><li>• Frozen Accrued Benefits (Police and Fire and General Employees Retirement Systems Component II) - It is recommended the City and the Retirement Systems complete the calculations of the final frozen accrued benefits as of June 30, 2014 and provide the data to the actuary as soon as possible; this would result in the most accurate calculation of the total pension liability of Component II.</li><li>• Completeness of Census Data (Police and Fire and General Employees Retirement Systems Component I and II) - As the Component I and II census data is retained in the same database, it is recommended the City and the Retirement Systems have a process in place to accurately determine which members are eligible for each plan. Also, we recommend a more robust review of census data prior to sending the census information to the actuary to identify any missing data; subsequent follow up should be performed timely prior to remitting the data to the actuary.</li></ul>

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2018

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2018-004 (Continued)	<p><b>Recommendation</b> (Continued) -</p> <ul style="list-style-type: none"> <li>• Active Pay Amount (Police and Fire and General Employees Retirement Systems Component I) - It is recommended the City and/or the Retirement Systems perform sample testing on the data sent to the actuary to ensure it is providing the proper compensation information, as defined in the plan of adjustment.</li> <li>• Member Classifications (Police and Fire and General Employees Retirement Systems Component I and II) - It is recommended the City and/or the Retirement Systems perform more robust review of census data prior to sending the census information to the actuary to identify errors between the classification of employees as active, deferred, or retired.</li> <li>• Death Audit (Police and Fire and General Employees Retirement Systems Component I and II) - We encourage the City and/or the Retirement Systems to put in place more comprehensive procedures to further ensure the accuracy of this census data, particularly for deferred members who were not subject to a death audit this past year.</li> <li>• We recommend the Retirement Systems perform high level analytical procedures on the census data to ensure the ultimate reporting by the actuary encompasses the totality of the information that the Retirement Systems actually provided.</li> </ul> <p><i>Component Units</i></p> <p>We strongly recommend that DTC collaborate with the plan actuary and review the census data files for all pension plan participants in their entirety to ensure that all components agree to DTC's information. Once this complete review is performed, we recommend that DTC develop a procedure to periodically check samples or portions of the census data files that the actuary utilizes on a recurring basis. We also recommend that any over/under benefit payments should be corrected, as per correct benefit payment calculations.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - The Retirement System will develop and document a process to ensure accurate information is provided to the actuary. This process includes an application that will compare the pay information received from the City to the information sent to the actuary. In addition, the Retirement System will perform sample testing on data received prior to providing the actuary.</p>

Reference Number	Finding
2018-005	<p><b>Finding Type</b> - Material weakness (repeat finding)</p> <p><b>Criteria</b> - The City and Greater Detroit Resource Recovery Authority (GDRRA) should have appropriate continual overall monitoring procedures in place over the general ledger and external financial reporting function to ensure timely and accurate financial statements are able to be produced throughout the fiscal year.</p> <p>DWSD should have a process in place to ensure that customer accounts are updated and billed at the appropriate rates for water and sewage consumption.</p>

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2018

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2018-005 (Continued)	<p><b>Condition</b> - The City lacked appropriate reconciliation procedures and overall monitoring of account balances that are necessary for accurate financial reporting during the year. A variety of systems, decentralized staff, and manual procedures are required to compile complete and accurate financial reports, which, in some cases, are not being done in a timely manner during the year. In addition, procedures are not in place to ensure that accounts and funds are reviewed regularly for accuracy and for completeness of all transactions involving the City. There is no overall monitoring of each department or funds' general ledger activity either during the year or at year end.</p> <p>GDRRA lacked the appropriate segregation of duties due to the limited number of people working for GDRRA. At present, a single individual performs the majority of the accounting functions. To the extent possible, duties should be segregated to serve as a check and balance and to maintain the best control system possible.</p> <p>DWSD's process to ensure that all customer accounts are updated and billed at the appropriate rates for water and sewage consumption did not properly update all customer accounts to the appropriate water and sewage billing rate when the rates were changed during the year.</p> <p><b>Context</b> - The City did not have a process to assign all general ledger accounts to the appropriate person for overall monitoring, including analytical analysis for completeness of all necessary activity. Reconciliations in several areas, including interfunds, cash, receivables, payables, and transfers, were not performed on a monthly basis during the year. A procedure is not in place to ensure that all transactions the City is involved in are known and recorded in the general ledger. Several payroll processes are performed manually without a review process, and this further contributes to delays and potential for inaccurate reporting.</p> <p>Within GDRRA, many critical duties are not segregated and, therefore, proper checks and balances are not in place. In addition, a process should be put in place to resolve prior findings timely.</p> <p>DWSD's water and sewage billing system does not update all customer accounts when there is a rate change and, as a result, there is a manual process required to review and update customer accounts. DWSD was able to identify that certain customers were billed at the wrong rate and subsequently updated these customers' rates in the system.</p> <p><b>Cause</b> - The City did not have processes in place to ensure general ledger accounts were monitored and analyzed by appropriate individuals regularly. Monthly reconciliation procedures were not in place. In addition, procedures are not in place to ensure that all transactions involving the City are recorded in the general ledger. Several payroll procedures have not been automated.</p> <p>GDRRA has one individual that performs the majority of accounting functions.</p> <p>DWSD's process for updating customer accounts for water and sewage rate changes did not properly update all customer accounts prior to billing.</p>

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2018

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2018-005 (Continued)	<p><b>Effect</b> - As a result of the lack of appropriate overall monitoring procedures, the City is not able to produce accurate financial reports during the year. In addition, during the audit, auditor-proposed journal entries were necessary to account for transactions involving the City that were not addressed as a result of monitoring procedures not being in place. In addition, there is an increased risk of error or fraud.</p> <p>Without proper segregation of duties at GDRRA, proper checks and balances are not in place.</p> <p>Without proper updates to customer accounts within the water and sewage billing systems, there is potential for the DWSD to under- or over-bill customers throughout the year.</p> <p><b>Recommendation</b> - The City should develop overall monitoring procedures to aid in ensuring that all activity in a fund is complete, accurate, and logical throughout the year. This includes assigning an appropriate individual to each general ledger account and/or fund, as well as several individuals who would be responsible for the entire general ledger and city financial statements, to perform monitoring, analytical analysis, and adjustment, as needed. We recommend reconciliations, review, and analysis be performed at least on a monthly basis. In addition, procedures should be in place to ensure all transactions the City is involved in are reflected timely and accurately in the general ledger. Furthermore, to the extent possible, payroll processes should be automated, and a system should be implemented to investigate vendor and employee address matches.</p> <p>At GDRRA, duties should be segregated to ensure there are proper checks and balances in place.</p> <p>We recommend DWSD review and update its current processes related to updating customer accounts for water and sewage billing rate changes to ensure that when rates are changed, every customer's account is appropriately updated.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - During fiscal year 2018, OCFO began documenting new policies and procedures for all the major OCFO business process lifecycles. This provided standardized and consistent administration across all OCFO divisions. OCFO has begun implementation of the new standardized policies and procedures in fiscal year 2019. In addition, OCFO established a task team to identify root causes and develop solutions to the findings noted. OCFO also assigned responsible person to each General Fund ledger account. In addition, OCFO is continually working to optimize the functionality of the Oracle Cloud ERP system, which will assist with overall efficiency and productivity.</p> <p>GDRRA believes acceptable checks and balances vis-à-vis accounting transactions and reporting are in place. All transactions are approved by the director of GDRRA and the board treasurer, ensuring adequate approvals for both departmental and nondepartmental.</p> <p>DWSD was aware of an error regarding certain billing rate changes. DWSD identified a total of three customers whose rates were not being updated correctly. The error resulted in an under-billing of up to 10.4 percent of those affected customers over a period of not more than 36 months. The error only occurred when an old account was mirrored in connection with the creation of a new account. DWSD has implemented changes to its processes and controls to eliminate future such errors.</p>

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2018

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2018-006	<p><b>Finding Type</b> - Material noncompliance and material weakness (repeat finding)</p> <p><b>Criteria</b> - There should be a process in place to ensure that the City and the Detroit Transportation Corporation, a component unit of the City (DTC), comply with laws and regulations.</p> <ul style="list-style-type: none"> <li>• The Uniform Unclaimed Property Act (Public Act 29 of 1995) requires the Michigan Holder Transmittal Annual Report of Unclaimed Property to be submitted annually by November 1. Any holder of unclaimed property who fails to file a report of unclaimed property is subject to fines and penalties, as prescribed in Public Act 29 of 1995.</li> <li>• Per Public Act 2 of 1968, Section 141.435 (2), states' total budgeted expenditures shall not exceed estimated revenue plus accumulated fund balance. Per Section 141.438 (3), "Except as otherwise provided in Section 19, an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body." In addition, all funds must have a legally adopted budget.</li> <li>• Public Act 213 of 2007 requires that quarterly investment reports be provided to the City Council.</li> <li>• Per 2 CFR 200.302(a), nonfederal entities' financial management systems, including records documenting compliance with federal statutes, regulations, and the terms and conditions of the federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions, and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the federal statutes, regulations, and the terms and conditions of the federal award.</li> <li>• According to the Detroit-Based Business certification process, verification must be performed for race, gender, and ownership percentages provided in the minority/women-owned business affidavit. In addition, supporting documentation must be obtained to show one-year residency in Detroit in order to establish business base.</li> </ul> <p><b>Condition</b> - There were instances identified where the City and DTC were not in compliance with laws and regulations as follows:</p> <ul style="list-style-type: none"> <li>• The City has outstanding checks related to payroll, accounts payable, and property tax refunds that have not been escheated to the State of Michigan. Many of these checks have been outstanding for several years.</li> <li>• The City's final budget for certain nonmajor funds resulted in a projected deficit. There were expenditures incurred against appropriations in excess of the amount appropriated by the City Council. In addition, several funds did not have an approved budget.</li> <li>• Quarterly investment reports were not provided to the City Council.</li> <li>• The City and DTC's process to accumulate transactions related to fiscal year 2018 into its general ledger did not allow for timely identification of and proper reporting of accurate financial information.</li> <li>• The City was unable to provide support of verification in accordance with the Detroit-Based Business certification process and also did not require a vendor to have a year of residency in Detroit.</li> </ul>



Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2018

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2018-006 (Continued)	<p><b>Context -</b></p> <ul style="list-style-type: none"> <li>• The City has recorded a liability for amounts to be escheated to the State of Michigan, including estimated penalties and interest, at June 30, 2018.</li> <li>• For certain nonmajor funds, the City’s final budget resulted in a projected fund deficit, as presented in the required supplementary information. For certain appropriations, the City’s actual expenditures exceeded its corresponding appropriation, as presented in the notes to the basic financial statements. The City did not have a legally adopted budget for all funds.</li> <li>• The required quarterly reporting was not provided to the City Council during the fiscal year.</li> <li>• The City and DTC did not have a process to ensure grant expenditures were identified in a timely manner and properly recorded in the general ledger, as required by 2 CFR Part 200.</li> <li>• The City did not maintain documentation and support in accordance with the Detroit-Based Business certification process.</li> </ul> <p><b>Cause -</b> There is not a process in place to fully monitor compliance with laws and regulations throughout the year.</p> <p><b>Effect -</b> The City and the DTC were out of compliance with the laws and regulations identified above.</p> <p><b>Recommendation -</b> We recommend the City and DTC implement a process that identifies specific individuals responsible for identifying and monitoring applicable compliance requirements throughout the year. In addition, the City should consider filing a Voluntary Disclosure Agreement (Form 4869) when submitting escheatments to the State.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions -</b> In fiscal year 2019, OCFO will develop, document, and implement a procedure to escheat all applicable liabilities to the State of Michigan. This procedure will require escheatment to the State within the appropriate amount of time to avoid incurring additional fees. OCFO has prepared an investment report and began submitting it to City Council in fiscal year 2019.</p> <p>OCFO has an existing policy and standardized process to ensure grant expenditures are identified in a timely manner and properly recorded in the general ledger throughout the fiscal year. OCFO also has an established process to review subsequent payments made after the fiscal year to identify any required accruals. Given the lag experienced with vendor billings, the accrual review process can extend up to 120 days after the fiscal year end. OCFO will continue our efforts to ensure that the grant ledger are accurate and complete.</p> <p>As part of the CFO’s strategic objectives to restructure and reorganize the financial operations of the City, monthly budget reports are prepared and meetings conducted by OCFO and the city departments to monitor and analyze the budget to prevent recurring violations of the Uniform Budgeting and Accounting Act. These monthly budget-to-actual reports are shared with the CFO and the mayor’s team to maintain compliance with the budget and will allow us to continue our efforts to address these violations that occur as a result of posting errors.</p> <p>The civil rights, inclusion, and opportunity department will continue to follow the established certification process and perform quality checks. We have updated our database monitoring systems, and we are expanding the team to meet the demand of business certification applications.</p>

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2018

Section III - Federal Program Audit Findings

Reference Number	Finding
2018-007	<p><b>CFDA Number, Federal Agency, and Program Name:</b></p> <p>10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)</p> <p>93.914 - Department of Health and Human Services Health Resources and Services Administration - HIV Emergency Relief Program Grants (Ryan White)</p> <p><b>Federal Award Identification Number and Year:</b></p> <p>WIC - W500342 and IW100342 (October 1, 2016 - September 30, 2017; October 1, 2017 - September 30, 2018)</p> <p>Ryan White - H89HA00021-25-00 (March 1, 2017 - February 28, 2018) and H89HA00021-26-00 (March 1, 2018 - February 28, 2019)</p> <p><b>Pass-through Entity</b> - WIC is passed through the Michigan Department of Health and Human Services.</p> <p><b>Finding Type</b> - Significant deficiency</p> <p><b>Repeat Finding</b> - Yes</p> <p>Finding No. 2017-012</p> <p><b>Criteria</b> - In accordance with 45 CFR 75.305 2(b), for nonfederal entities other than states, payment methods must minimize the time elapsing between the transfer of funds from the United States Treasury or the pass-through entity and the disbursement by the nonfederal entity whether the payment is made by electronic funds transfer or issuance or redemption of checks, warrants, or payments by other means.</p> <p>In accordance with 2 CFR 305 (b) (3), when the reimbursement method is used, the federal awarding agency or pass-through entity must make payment within 30 calendar days after receipt of billing, unless it is believed the request to be improper.</p> <p><b>Condition</b> - Controls in place did not minimize the time elapsing between the transfer of funds from HRSA (Ryan White HIV/AIDS Program Part A) and Michigan Department of Health and Human Services (WIC) and the disbursements to the City of Detroit, Michigan’s subrecipients.</p> <p><b>Questioned Costs</b> - None</p> <p><b>Identification of How Questioned Costs Were Computed</b> - Not applicable, as there are no questioned costs</p> <p><b>Context</b> - For WIC, in one out of the 13 billings received from the City of Detroit, Michigan’s subrecipient and selected for testing, the remittance occurred at 31 calendar days, which is greater than 30 calendar days to make payment to subrecipients after receipt of billing. The City of Detroit, Michigan received a total of 62 billings during the year.</p> <p>For Ryan White, zero of the five billings received from the City of Detroit, Michigan’s subrecipient and selected for testing were paid in excess of 30 calendar days. However, Ryan White operates under the same control framework as WIC. The City of Detroit, Michigan received a total of 17 billings for Ryan White during the year.</p>

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2018

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2018-007 (Continued)	<p><b>Cause and Effect</b> - Controls in place did not result in the City of Detroit, Michigan minimizing the time elapsed between the transfer of funds from HRSA (Ryan White) and Michigan Department of Health and Human Services (WIC) and the disbursement to its subrecipients.</p> <p><b>Recommendation</b> - We recommend that City of Detroit, Michigan review its procedures and controls to ensure disbursement of funds to its subrecipients is consistent with <i>Uniform Administrative Requirements, Cost Principles, and Audit Requirements for HHS Awards</i>.</p> <p><b>Views of Responsible Officials and Corrective Action Plan</b> - OCFO is continuing to implement process improvements to ensure that vendor invoices are approved for payment in a timely manner and that payments are made within a time frame not exceeding the 30-day requirement.</p>

Reference Number	Finding
2018-008	<p><b>CFDA Number, Federal Agency, and Program Name</b> - 93.914 - Department of Health and Human Services Health Resources and Services Administration - HIV Emergency Relief Program Grants (Ryan White)</p> <p><b>Federal Award Identification Number and Year</b> - H89HA00021-25-00 (March 1, 2017 - February 28, 2018) and H89HA00021-26-00 (March 1, 2018 - February 28, 2019)</p> <p><b>Pass-through Entity</b> - N/A</p> <p><b>Finding Type</b> - Material weakness and material noncompliance with laws and regulations</p> <p><b>Repeat Finding</b> - No</p> <p><b>Criteria</b> - During fiscal year 2018, HRSA monitored the Ryan White program at the City and identified conflict-of-interest findings specific to the following: 45 CFR 75.112, 45 CFR 75.327(c)(J), and 45 CFR 75.327(c)(2). HRSA's finding indicated there was no evidence the City had and was adhering to a conflict-of-interest policy and standards of conduct covering organizational conflicts of interest. The City did not provide evidence that it disclosed, in writing, any potential conflict of interest between the City and its subrecipient to HRSA, nor did the City provide evidence that it maintained written standards of conduct covering organizational conflicts of interest, as it related to its subrecipient and its responsibilities as the administrative agent for the Part A Grant.</p> <p><b>Condition</b> - The City's contracts with a subrecipient to assist with administering the Ryan White program. The City did not clearly identify its relationship with the subrecipient, resulting in a potential noncompliance with its conflict-of-interest policies.</p> <p><b>Questioned Costs</b> - None</p> <p><b>Identification of How Questioned Costs Were Computed</b> - Not applicable, as there are no questioned costs</p> <p><b>Context</b> - The City passes through all of Ryan White funding to one subrecipient, and that subrecipient further passes through funds to various subrecipients. The subrecipient works with the City to monitor the administration of funds, which creates the conflict of interest.</p>

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2018

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2018-008 (Continued)	<p><b>Cause and Effect</b> - The controls in place did not identify potential conflicts of interest between the City and its subrecipient.</p> <p><b>Recommendation</b> - The City must address any potential or real conflicts of interest that exist between the City and its subrecipients; this work should include reviewing the City's conflict-of-interest policy in relation to its subrecipients' contracts with their subrecipients, as well as ensuring the subrecipients institute written standards of conduct covering organizational conflicts of interest, as it relates to any administrative duties performed as the administrative agent for the Ryan White Part A grant, while also serving as the fiduciary agent for some of the recipient's subrecipient providers.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - The City of Detroit, Michigan will review, and update as necessary, the conflict-of-interest policy in relation to (1) subrecipient contracts with its subrecipients and (2) written standards of conduct covering conflicts of interest, as it relates to any administrative or other duties or services performed for subrecipients.</p>

Reference Number	Finding
2018-009	<p><b>CFDA Number, Federal Agency, and Program Name</b> - CFDA #14.218, Housing and Urban Development (HUD), Community Development Block Grant Entitlement Cluster, Community Development Block Grant Program (CDBG)</p> <p><b>Federal Award Identification Number and Year</b> - B-16-MC-26-0006 and B-17-MC-26-0006</p> <p><b>Pass-through Entity</b> - N/A</p> <p><b>Finding Type</b> - Material weakness and material noncompliance with laws and regulations</p> <p><b>Repeat Finding</b> - No</p> <p><b>Criteria</b> -</p> <ol style="list-style-type: none"> <li>Per 24 CFR 570.200(a)(2), a CDBG Recipient "...must ensure and maintain evidence that each of its activities assisted with CDBG funds meets one of the three national objectives contained in its certification. Criteria for determining whether an activity addresses one or more of these objectives are found in §570.208." In accordance with 24 CFR 570.506(b), records are to be maintained to evidence meeting a national objective. Per 24 CFR 91.525(a)(3), the information is to be reported accurately.</li> </ol>

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2018

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2018-009 (Continued)	<p><b>Criteria</b> (Continued) -</p> <ol style="list-style-type: none"> <li>2. The guidelines per 24 CFR 570.209 are “to assist the recipient to evaluate and select activities to be carried out for economic development purposes. Specifically, these guidelines are applicable to activities that are eligible for CDBG assistance under 24 CFR 570.203.” These guidelines are composed of two components: guidelines for evaluating project costs and financial requirements and standards for evaluating public benefit. The expectation is that underwriting to evaluate project costs and financial viability will be conducted for all CDBG direct assistance to for-profit entities. If the funds are from FY2015 or later, the for-profit CDBG activities have to be evaluated and selected in accordance with Appendix A to 24 CFR 570 - Guidelines and Objectives for Evaluating Project Costs and Financial Requirements, pursuant to section 105(a)(17) of the Act (P.L. 113-235, Consolidated and Further Continuing Appropriations Act, 2015, Division K, Title II, Community Development Fund and subsequent annual Appropriations Acts). The standards for evaluating public benefit are mandatory.</li> <li>3. Per 24 CFR 570.502, grantees and subrecipients shall comply with 2 CFR 200, <i>Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards</i> (the "Uniform Guidance"). All funds must satisfy a CDBG-eligible activity regulation. There were insufficient records to adequately support how a particular subrecipient’s costs complied with the CDBG-eligible activity that the City reported in IDIS, which was 24 CFR 570.203(b) - the provision of assistance to a private for-profit business.</li> </ol> <p><b>Condition</b> - In May 2018, the HUD Detroit Field Office conducted an on-site monitoring of the CDBG program in order to assess the City’s performance and compliance with applicable program regulations and requirements. The following matters were identified:</p> <ol style="list-style-type: none"> <li>1. There were insufficient records to support that a subrecipient’s program activities met the Low-to-Moderate Income Area (LMA) national objective per 24 CFR 570.208(a)(1) and 24 CFR 570.506(b)(2) and erroneous reporting in the Integrated Disbursement and Information System (IDIS).</li> <li>2. There were insufficient records to evidence meeting the Economic Development Underwriting and Public Benefit Standard requirements for the City’s subrecipient’s activity.</li> <li>3. The City did not maintain adequate oversight of a particular subrecipient to ensure costs complied with a CDBG-eligible activity and the cost principles per the Uniform Guidance.</li> </ol> <p><b>Questioned Costs</b> - Unknown</p> <p><b>Identification of How Questioned Costs Were Computed</b> - The City is currently drafting responses to the above-mentioned monitoring report. As such, a management decision from HUD is not yet rendered.</p> <p><b>Context</b> - The City executed an agreement with a subrecipient to administer CDBG-eligible activity. During a recent monitoring visit performed by HUD, HUD noted certain instances where adequate support was not available to show evidence that CDBG and Uniform Guidance requirements were met.</p>

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2018

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2018-009 (Continued)	<p><b>Cause and Effect</b> - As noted by HUD Detroit Field Office:</p> <ol style="list-style-type: none"> <li>1. There were no established policies and procedures required of the subrecipient to correctly qualify the CDBG assistance under the national objective requirements. There were no procedures required of the subrecipient to ensure the proper documentation was maintained to evidence every assisted activity met a CDBG National Objective. The City did not have procedures for correctly setting up activities in IDIS. Because the City's subrecipient was not verifying and maintaining evidence that the disbursed CDBG funds met a required national objective and was incorrectly reporting in IDIS that every business provided services to low-to-moderate income residents on a citywide basis, it was not clear that the use of the funds was eligible in every instance of providing CDBG dollars to the for-profit entities.</li> <li>2. The City of Detroit, Michigan did not have policies and procedures for documenting compliance with the CDBG Economic Development Underwriting and Public Benefit Standard requirements. If the underwriting is not performed for economic development activities, then the City does not have the requisite records to evidence that the projects are financially viable and the most effective use of CDBG. If the minimum level of public benefit is not documented, then the City does not have the requisite records to evidence that the projects are the most effective use of CDBG.</li> <li>3. There were no policies and procedures for documenting costs in a way that evidenced compliance with an applicable CDBG eligible activity and the cost principles cited in the Uniform Guidance and cited in 24 CFR 570.203(b). The intent of the Uniform Guidance is to guard against the risk of charging disallowed costs to the grant. By missing key compliance points under these requirements, the likelihood of charging disallowed costs increases, calling into question the integrity of the federally funded program. Moreover, without identifying the appropriate CDBG-eligible activities and maintaining sufficient support for complying with the requirements, it becomes unclear if the costs were eligible for CDBG funds.</li> </ol> <p><b>Recommendation</b> - We recommend that the City review its policies and procedures to ensure that they ensure compliance with CDBG requirements. Based on the City's review, modification to its policies and procedures may be required.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - The housing and revitalization department concurs with this finding and is working to revise policies and procedures, as well as implement all other appropriate corrective action for future compliance.</p>

Reference Number	Finding
2018-010	<p><b>CFDA Number, Federal Agency, and Program Name</b> - CFDA #14.218, Housing and Urban Development (HUD), Community Development Block Grant Entitlement Cluster, Community Development Block Grant Program (CDBG).</p> <p><b>Federal Award Identification Number and Year</b> - B-16-MC-26-0006 and B-17-MC-26-0006</p> <p><b>Pass-through Entity</b> - N/A</p> <p><b>Finding Type</b> - Material weakness</p>

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2018

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2018-010 (Continued)	<p><b>Repeat Finding - No</b></p> <p><b>Criteria</b> - Per 2 CFR 200.318(a): “The Non-Federal entity must use its own documented procurement procedures which reflect applicable State, local, and tribal laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this part.”</p> <p><b>Condition</b> - In May 2018, the HUD Detroit Field Office, conducted an on-site monitoring of the CDBG program in order to assess the City’s performance and compliance with applicable program regulations and requirements. The following matter was identified:</p> <p>During HUD’s limited review of the Detroit 0 percent Home Repair Loans Program, it was noted that the City violated its federal procurement requirements in securing construction management services.</p> <p><b>Questioned Costs - Unknown</b></p> <p><b>Identification of How Questioned Costs Were Computed</b> - The City is currently drafting responses to the above-mentioned monitoring report. As such, a management decision from HUD is not yet rendered.</p> <p><b>Context</b> - The City had contracted with an organization for management services. It was determined that the two-year \$1,050,000 contract with the organization expired on June 30, 2017, with a provision which allowed for a one-year renewal. The City’s procurement policy requires optional extensions to be approved by the City Council. The total paid invoices since July 1, 2017 through June 30, 2018 amounted to \$405,210. Based on the monitoring report received from HUD, these amounts will be considered questioned costs if the City does not perform certain corrective actions. As of the date of the report, the City has not yet finalized its corrective action to conform with HUD’s requirements. Once the plan is submitted, HUD will issue a management decision as to the corrective action.</p> <p><b>Cause and Effect</b> - As noted by HUD Detroit Field Office, the City lacked sufficient policies and written procedures to ensure that its program was in compliance with all of the City’s procurement requirements. The City’s housing and revitalization department, which has oversight responsibilities over all Community Planning and Development-funded programs, does not have management responsibilities over the other departments that are responsible for procurement and financial management. As a result, improperly procured contracts may result in disallowed costs.</p> <p><b>Recommendation</b> - We recommend that City of Detroit, Michigan ensure all procurement is conducted in accordance with the City’s procurement policy.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - The housing and revitalization department concurs with this finding and is working to revise policies and procedures, as well as implement all other appropriate corrective action for future compliance.</p>