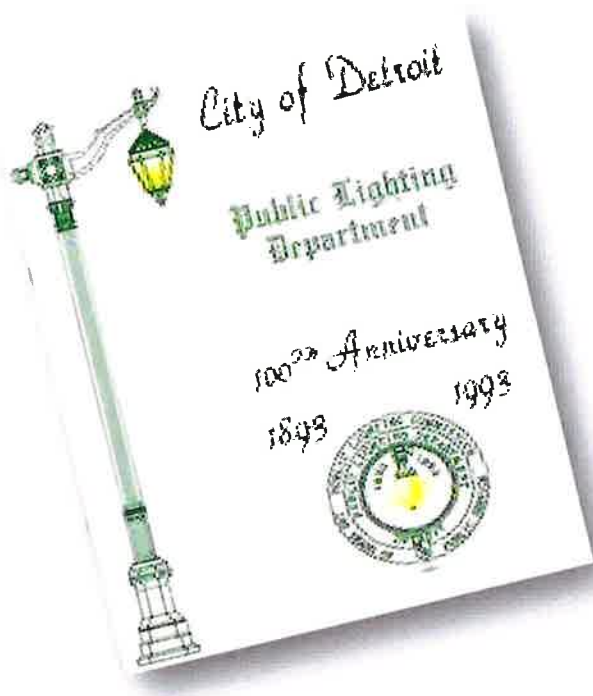


City of Detroit

OFFICE OF THE AUDITOR GENERAL



**Audit of the Public Lighting Department
Interim Report
On
Salvage Operations**

February 2020



Office of the Auditor General

Mark W. Lockridge, Auditor General

Coleman A. Young Municipal Center
2 Woodward Avenue, Suite 216
Detroit, Michigan 48226
Phone: (313) 224-3101
Fax: (313) 224-4091
www.detroitmi.gov

MEMORANDUM

DATE: February 28, 2020

TO: Honorable City Council

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

RE: Audit of the Public Lighting Department Interim Report on Salvage Operations

CC: Mayor Mike Duggan
Hakim Berry, Group Executive, and Chief Operations Officer
Katie Hammer, Chief Deputy Chief Financial Officer, Office of the Chief Financial Officer, Policy & Administration Division
Boysie Jackson, Chief Procurement Officer, Office of the Chief Financial Officer, Office of Contracting and Procurement
David Massaron, Chief Financial Officer, Office of the Chief Financial Officer
John Naglick, Chief Deputy CFO/Finance Director, Office of the Chief Financial Officer
John Prymack, Interim Director, Public Lighting Department

Attached for your review is our Interim Report on Salvage Operations in conjunction with our ongoing audit of the Public Lighting Department. This report contains our audit purpose, scope, objectives, approach and methodology, and conclusions; background; our audit findings and recommendations; and the responses from the Public Lighting Department and the Office of the Chief Financial Officer, Office of Contracting and Procurement and the Office of Departmental Financial Services Divisions.

We would like to thank the employees of the above named organizations for their cooperation and assistance extended to us during this phase of the audit.

Copies of all of the Office of the Auditor General reports can be found on the City's Website: <https://www.detroitmi.gov/government/auditor-general>.

**AUDIT OF THE PUBLIC LIGHTING DEPARTMENT
INTERIM REPORT ON
SALVAGE OPERATIONS
FEBRUARY 2020**

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Agency/Department Legend*

- * Public Lighting Department (PLD)
- * Office of the Chief Financial Officer, Office of Departmental Financial Service (ODFS)
- * Office of the Chief Financial Officer, Office of Contracting and Procurement (OCP)

**AUDIT OF THE PUBLIC LIGHTING DEPARTMENT
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EXECUTIVE OVERVIEW

In March, 2017, the Office of the Auditor General was requested by City Council to conduct a comprehensive audit of the Public Lighting Department. Later, in July 2017, we were requested by City Council to audit the Public Lighting Authority. Both performance audits focus on activities from fiscal years 2016 through 2019. During this period the City's operations relative to public lighting changed dramatically.

Prior to the bankruptcy, the City entered into a long-term agreement with DTE Energy Company (DTE) to allow the Public Lighting Department (PLD) to effectively "get out of" the electrical power business by (1) transferring all existing customers to DTE, and (2) and ceasing from providing electrical power in the City. The end result is that all of PLD's power-generating substations will eventually be "decommissioned" as DTE assumes full control of providing electrical power to Detroit residents.

During the bankruptcy, new laws enacted by the State of Michigan, and made effective by the specific Emergency Manger Orders, paved the way for the City to establish the Public Lighting Authority (PLA). The Authority was given the legal right to sell bonds and raise the capital needed to "light up" the City. The bond proceeds financed the project of totally replacing the City's 65,000 old and aging street lights. The project was completed in 2016.

As independent internal auditors, we approach our audits with an unbiased focus on "adding value and improving an organization's operations." This first Interim Report focuses on PLD's Salvage Operations. We found several weaknesses in internal controls, a salvage operation that is neither effective nor efficient, and City policies and procedures governing procurement and cash handling that are not being followed.

In closing, the responsibility for the installation and maintenance of a system of internal control that minimizes errors and provides reasonable safeguards rests entirely with the management of those agencies/departments directly responsible for the activity.

Responsibility for monitoring the implementation of recommendations is set forth in Section 7.5-105(4) of the City Charter which states in part that:

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

AUDIT PURPOSE, SCOPE, OBJECTIVES, APPROACH AND METHODOLOGY, AND CONCLUSIONS

Audit Purpose

The Audit of Public Lighting Department is being performed in accordance with the Office of the Auditor General's charter mandate to make audits of the financial transactions, performance and operations of City agencies based on an annual risk-based audit plan prepared by the Auditor General, or as otherwise directed by the City Council, and report findings and recommendations to the City Council and the Mayor.

Audit Scope

This is a performance audit conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) as compiled by the United States Government Accountability Office except for a Peer Review (See "**Appendix A: Generally Accepted Government Auditing Standards**" for more information on GAGAS" on page 31 of this report).

This performance audit focuses on the activities of the Public Lighting Department (PLD) for the period July 1, 2015 through June 30, 2019. Specifically, this interim audit report focuses on the salvage operations of PLD.

Audit Objectives

The objectives of the audit of the Public Lighting Department specifically related to Salvage Operations are to determine if:

- PLD performed procurement and contract activities in accordance with City policies and procedures;
- Salvageable assets are properly safeguarded;
- Internal controls, policies and procedures governing salvage operations are adequate;
- The accounting for salvage revenues are accurate, and if they are collected and deposited on a timely basis in accordance with City policies and procedures;
- There is proper oversight of salvage revenue contracts;

And to determine the status of prior audit findings related to salvage operations.

Audit Approach and Methodology

To accomplish our objectives, our audit approach and methodology included:

- Reading relative prior audit reports;
- Reviewing prior audit work papers, the City Charter, Executive Orders, financial reports, budget reports, the City's Comprehensive Annual Financial Report, organization charts, Finance Directives, Chief Financial Officer Directives, and any other reports or directives pertinent to PLD Operations;
- Gathering policies and procedures of core operations and other similar data;

- Conducting audit-planning meetings to determine the scope and audit objectives, and to determine the financial transactions and/or areas to audit;
- Developing questions regarding transactions, processes and procedures, controls, functions, records, and personnel;
- Interviewing relevant personnel of entities directly involved in public lighting affairs and other relevant City personnel;
- Observing, documenting and testing of relevant processes, procedures, contracts and agreements;
- Examining salvage revenues and observing salvage operations;
- Conducting any necessary additional testing, and completing any other audit steps necessary to draw conclusions to the relevant objectives;
- Developing recommendations for all findings.

*Note: See “**Appendix A: Generally Accepted Government Auditing Standards**” for more information on Fieldwork, Developing Findings, Reporting Conclusions and Recommendations in a Performance Audit on page 31 of this report.*

Conclusions

Based upon the results of our audit, we have concluded that:

- Procurement and contracting activities were not performed in accordance with City policies and procedures, and PLD operated salvage activities without a valid approved City contract;
- There are several weaknesses in the physical control over salvageable assets;
- There is a lack of internal controls over the valuation of salvageable assets;
- PLD did not collect salvage revenue on a timely basis;
- There is a lack of efficiency and effectiveness in PLD’s salvage operations;
- City-owned assets were removed and transported by non-city contractors.

We also found that there is an unresolved prior audit finding for the Office of the Chief Financial Officer, Office of Contracting and Procurement (formerly known as the “Finance Department’s Purchasing Division”) relating to the deficiencies in the procurement competitive bidding process.

BACKGROUND

The mission of the Public Lighting Department (PLD) is to support the Public Lighting Authority (PLA) as it maintains the upgraded street light system. PLD works with TMC Alliance (TMCA) and DTE Energy to assure the safety of the general public and to provide reliable power to customers through the City's distribution system as the City assists with converting customers to DTE's system.

On February 5, 2013, the City created PLA, a separate municipal corporation pursuant to Michigan Public Act 392 of 2012 (as amended), the Municipal Lighting Authority Act, MCL 123.1261, and Emergency Manager Order No. 18 (October 2013), to manage and maintain the City's public lighting system. Pursuant to PA 392, PLA utilizes \$12.5 million in proceeds from the City's Utility User Tax collections to satisfy the debt service obligation of bonds issued by PLA and used to modernize the street light system. Through an inter-local agreement, the City provides additional funds to PLA to finance the operations and maintenance of the new street lighting system, now that the capital project is completed.

The agreement with PLA excludes decommissioning, abatement, and salvage operations of the City's public lighting assets. Instead, PLA is responsible for the upkeep and maintenance of the 65,000 new street lights installed in 2016.

On July 1, 2014, the City entered into an agreement with DTE Energy (DTE) to transition its electric customers to DTE's customer base. The conversion is expected to be accomplished over a five to seven year period. During this time, the City continues to operate and maintain an electric grid until the conversion is completed, and DTE reimburses the City for all expenses related to the upkeep and delivery of electric power for this system.

PLD is charged with the decommissioning of the City's public lighting assets in conjunction with DTE's timeline and strategic plans to provide electrical power to Detroit residents.

In summary, PLD's departmental goals are to:

- Maintain the electrical distribution grid during the transition to DTE, as the City phases out of the electric service business completely;
- Maintain legacy electric conduit grids and make them available to the City's Department of Innovations and Technology for the use of fiber optic communication cables. PLD also leases this "excess capacity" to private companies during the transition to DTE.

At the start of the audit period, July 2015, Beau Taylor was the Director of PLD. In October 2017, Mr. Taylor was appointed Director of PLA. In 2016, John Prymack assumed the position as Interim Director of PLD. We have requested, but have not

received the letter appointing Mr. Prymack as the Interim Director of PLD, therefore the exact date of his appointment is unknown.

The following table shows budgeted appropriations and revenues for PLD for fiscal years ending 2016 through 2019:

Budget Item	Fiscal Years Ended June 30,			
	2016	2017	2018	2019
Appropriations	\$38,785,574	\$30,828,091	\$31,464,262	\$31,268,656
Revenues	26,108,486	14,610,075	14,797,000	14,100,000
Net Tax Cost	\$12,677,088	\$16,218,016	\$16,667,262	\$17,168,656
Budgeted Staff	17	6	6	5

PLD's salvage operations are depicted in "**Appendix B: Public Lighting Department Current Salvage Operations – Physical Movement Flowchart**" on page 34 of this report.

STATUS OF PRIOR AUDIT FINDINGS

Listed below are prior audit findings relating to salvage operations (only), and the status of each finding. The date listed is reflective of the last audit report in which the finding was published. The status of all other prior audit findings for PLD will be disclosed in future interim reports.

PRIOR AUDIT FINDINGS ON THE OFFICE OF THE CHIEF FINANCIAL OFFICER, OFFICE OF CONTRACTING AND PROCUREMENT (Formerly known as the "Finance Department's Purchasing Division"):

1. There are Several Deficiencies in the Procurement Competitive Bidding Process (July 2007 – March 2010)

This finding has not been resolved and is discussed in Finding 1 on page 7 of this report.

AUDIT FINDINGS AND RECOMMENDATIONS

1. Material Weaknesses In The Administration of Salvage Service And Revenue Contracts

The Public Lighting Department (PLD) and two Divisions within the Office of the Chief Financial Officer (OCFO), specifically the Office Contracting and Procurement (OCP) and the Office of Departmental Financial Services (ODFS), did not adequately administer salvage service and revenue contracts.

Conditions

Our review of the administration of salvage service and revenue contracts revealed the following material weaknesses:

- A. Since March 2017, PLD has conducted salvaging activities without an approved City of Detroit contract:
 1. From March 2017 to June 2018, shipments of salvageable materials from the Mistersky Plant to the salvage processor were made under an oral agreement. Shipments under the oral agreement comprised 55% of all material shipped to the salvage processor, and weighed 432,510 pounds. The total weight of all materials shipped to the salvage processor during the audit period is 789,432 pounds.
 2. PLD did not go through the OCP to engage and contract for the salvage contracts. Instead, PLD entered into a "Letter of Agreement" with a salvage processor (i.e. contractor/vendor) on July 20, 2018. The salvage processor agreed to provide processing and sales services for recyclable materials owned by the City of Detroit and approved for salvage:
 - a. There was no formal advertising to invite vendors to compete;
 - b. The salvage processor was awarded the service and sales agreement without competitive bidding;
 - c. City Council did not approve the Letter of Agreement;
 - d. The Letter of Agreement was signed by John Prymack, as Director of the Greater Detroit Resource Recovery Authority (GDRRA), and not as Interim Director of PLD.
- B. PLD did not obtain a separate revenue contract for sales of salvaged assets. The "Letter of Agreement" included both salvage processing and sales services;
- C. Neither OCP or ODFS ensured that PLD's salvage contract was in compliance with the City's Finance Directives or the Chief Financial Officer's (CFO) Directives;
- D. There is no evidence that TMCA secured "an acceptable firm to PLD and the City of Detroit to recover the substation metals and reusable equipment" as required by the contract.

Criteria

The following table depicts applicable criterion based on the City's Charter; OCFO Directives, and a Finance Directive:

Criteria	Finance Directive # 104	City Charter	CFO Directive No. 2018-101-020	CFO Directive No. 2018-101-021
			Contracting and Procurement	Revenues and Revenue Management
Effective Date	2/14/1986	2012	10/17/2018	10/18/2018
A. OCP is the only City division authorized to, (1) conduct the bid solicitation process for all purchases, (2) issue a purchase order, and (3) create contracts for purchases, with the exception of legal service-related contracts that are the responsibility of the Law Department			X	
B. All agreements must be approved and signed by the CPO			X	
C. Formal advertising is required on all purchases for which competitive bids are solicited in excess of \$2,000. The City, through OCP, must competitively bid all new contracts to the greatest extent possible. A bid solicitation shall not be issued without a requisition	X		X	
D. Competitive bidding for the purchase of all goods and non-professional services, and some personal services, regardless of dollar value	X			

Criteria	Finance Directive # 104	City Charter	CFO Directive No. 2018-101-020	CFO Directive No. 2018-101-021
			Contracting and Procurement	Revenues and Revenue Management
Effective Date	2/14/1986	2012	10/17/2018	10/18/2018
E. Section 18-5-21 of the Charter requires City Council approval for goods and services over the value of \$25,000 and certain contracts including all revenue contracts, regardless of dollar value		X		
F. In the event an unauthorized purchase occurs, Department Directors must submit documentation to the Chief Procurement Officer			X	
G. All City purchases shall be made under a valid legal agreement. Purchases made without a valid legal agreement are considered unauthorized purchases			X	
H. Each department shall have the responsibility for monitoring contracts. Follow-up and careful inspection are required to make sure that all contractual terms and provisions are met	X			
I. Contract monitoring shall jointly be performed by OCP and Departments; ODFS shall monitor revenue-related contracts			X	

The approved and authorized contract between the City and TMCA, states that TMCA will propose an alternative option rather than provide a price to decommission PLD substations. The contract also states that:

- TMCA would secure an acceptable firm for PLD and the City to recover the substation metals and reusable equipment, thus providing the City with a revenue stream and a potential cap and seal, decommission or complete demolition of the substation;
- None of the Service covered by this Contract shall be subcontracted without the prior written approval of the City and, if required, any grantor agency. The City reserves the right to withhold approval of subcontracting if it is not in the City's best interest (Article 13.01.)

Effect

Due to the lack of competition in PLD salvage sales, the City did not meet its charter mandate to assure fairness in procuring the City's goods and services. As a result, the City may be faced with legal actions, could incur bad publicity, and incur a loss of reputation if property is not obtained in compliance with applicable laws and regulations. In addition, the lack of competitive bidding can result in loss revenues and a lower rate of return on sales of the City's assets.

Procurement activities are subject to various forms of abuse resulting from corrupt practices of government employees and/or actions by suppliers of goods and services such as:

- Circumventing competitive bidding requirements;
- Using emergency procurement procedures in the absence of an emergency;
- Using sole source when competition is available;
- Circumventing City Council approvals;
- Forgoing reviews by the Law Department;
- Creating unenforceable contracts.

Causes

According to PLD and ODFS representatives:

- A. The Energy Delivery Service Agreement (EDSA) was approved by the Michigan Legislature and the City's Emergency Manager. Under EDSA, salvaging and scrap handling is allowed. The agreement can be terminated by either party and there is no specific end date. Once EDSA is no longer in effect, PLD will consult with City of Detroit Office of Contract & Procurement (OCP) for moving forward in the salvage process.

Note: Based on our review of the EDSA contract, we believe that it does not usurp City policies, which require contracting activities to be handled through OCP.

B. Relevant Articles from the EDSA agreement are:

§10.2: This Agreement shall be governed by, and construed in accordance with, the Laws of the State of Michigan applicable to contracts to be carried out wholly within such State, without regard to the conflicts of law principles that would require the application of any other law.

§10.3 Assignment: Except as expressly set forth in this Agreement, neither this Agreement nor any of the rights, interests, or obligations hereunder shall be transferred, delegated, subcontracted or assigned by a Party without the prior written consent of the other Parties.

According to an OCP representative:

- A. They were not aware of PLD's salvage contracts in the past;
- B. They will ensure that PLD salvage contracts comply with the City Charter and CFO Directives.

Recommendations

We recommend that PLD:

- A. Follow City policies and procedures to ensure that competitive bidding occurs;
- B. Separate contracts for revenues versus services and ensure that contracts are approved in accordance with the City Charter, Finance Directives, and/or Directives from the Office of the Chief Financial Officer (i.e. – applicable CFO Directive's). Specifically, PLD should ensure that all revenue contracts are approved by City Council.
- C. Adequately monitor the performance of contractors/vendors in accordance with the approved scope of services.

We also recommend that OCP and ODFS follow the City Charter and all City Directives related to revenue contracts and other procurement and contracting requirements.

2. Several Weaknesses In The Physical Controls Over Salvageable Assets

There are several weaknesses in the physical control over salvageable assets at the Mistersky Plant.

The main gate at the Mistersky Plant is controlled by remote gate openers. Prior to 2016, twenty-three (23) gate openers were distributed and are currently assigned/reserved as follows:

Entity	DTE Security	PLD	TMCA	Spare	Damaged	Total
No. of Gate Openers	1	3	13	5	1	23

Conditions

Our review revealed the following weaknesses:

- A. Control over the entrance into the Mistersky Plant is inadequate:
 1. PLD does not have policies or procedures that govern the assigning and authorization of remote gate opener users. Currently, TMCA, an authorized City Contractor – is the project manager in charge of issuing the gate openers;
 2. Persons who are issued a remote gate opener are not required to sign an issue/receipt log.
- B. Although the Mistersky Plant is owned by the City, PLD employees who work there no longer have keys to their office area; but other contractors have keys to the work area;
- C. There is no system (i.e. - sign-in sheet) in place for tracking personnel entering and exiting the Mistersky Plant. According to PLD employees, in 2018, two unauthorized individuals gained entry at Mistersky. The two individuals identified themselves as City employees and took pictures of the site, then left. Later, it was discovered that they were not City employees. We were told that “security and the authorities came in afterwards” and said that nothing was “out of place or stolen.”
- D. City contractors are responsible for removing salvageable assets from various sites throughout the City and delivering the materials to the Mistersky Plant. PLD employees are not always present to observe, approve or verify, or sign for materials delivered to the site:
 1. Contractors regularly deliver materials after hours. PLD employees stated that the “Pole Yard Check-In Forms” are often “slid into the office beneath the door”, or left hanging on “big clips” for them in the office:



2. PLD does not have written procedures for verification of materials delivered after hours, weekends, and other non-regular workdays.

E. PLD did not properly safeguard the City's assets:

1. The garage lacks the necessary equipment to be secured (i.e. locks, chains, etc.). The garage was not properly fortified, could be opened manually, and the door was often left open (see below):



2. Old and new lead wire cables were not properly tagged or sorted, and some were stored openly in the yard.

F. Assets from City and other external sites are comingled at the Mistersky site. City versus non-City owned assets were together and not separately identified. The telephone poles below are both City and DTE assets and they are not easily distinguishable from each other:



The inventory pictured below is the property of DTE, yet it was not tagged or labeled as such. There was nothing to identify it as “non-City” owned inventory:



G. Old (unusable) and usable transformers are stockpiled together and are not separately labeled at the Mistersky Plant:



Criteria

- A. The Government Accounting Office (GAO) Standards for Internal Control in the Federal Government describes requirements for "Physical Control Over Vulnerable Assets" as follows:
1. An agency must establish physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, securities, inventories, and equipment which might be vulnerable to risk of loss or unauthorized use. Such assets should be periodically counted and compared to control records.
- B. The City's Directives from the Office of the Chief Financial Officer - CFO Directive 2018-101-042 on Internal Controls states that "Unauthorized access to City assets and data is strictly prohibited." Also, the Directive asserts that it is necessary for internal controls:
1. To provide the City a reasonable basis for believing and asserting that it is meeting its operational effectiveness, efficiency, safeguarding of assets, reporting and compliance objectives.
- C. The City's "Finance Directive No.95 - Capital Asset Policy Guide and Reporting Requirements", states that there should be "identification and segregation of damaged, obsolete, and scrapped assets to facilitate recognition of assets when the [physical inventory] counting begins."

Effect

The effects of weaknesses (or failures) in the physical control over assets, can potentially result in the following consequences:

- Theft of assets;
- Tampering, mishandling, and damaging of assets;
- Inadequate record keeping and tracking of inventories;
- Loss of revenue.

Causes

PLD staff and management stated that "it is not cost effective to spend funds to safeguard these assets," and that there "isn't much value in them." Other staff stated that "the operational processes changed once the Interim Director signed an agreement with the salvage processor."

Regarding the remote gate openers, it was stated that the use of the gate opener reduces the wait for security to open the gate for city and non-city personnel.

Non-city personnel and on-site security we interviewed during our visit to the Mistersky Plant stated that "various materials are dropped-off at Mistersky, and that PLD did not provide them with any written procedures for handling after-hours activity."

During the salvage and scrap process, we observed non-city personnel verbally deciding between commingled assets, which assets would be labeled as City-owned versus DTE-owned assets.

Recommendations

We recommend that PLD:

- A. Create procedures to safeguard the City's assets by:
 1. Developing and implementing effective policies and procedures for after-hours deliveries, including sign-in sheets and other necessary documentation;
 2. Implementing adequate policies and procedures for the authorization, user receipt, and tracking of the remote gate opener devices. Ensure that the user list includes names and dates of receipt of the device. We also recommend that there be periodic physical review of the devices, the custodian, and the user list updated accordingly;
 3. Deploying and using effective procedures for securing assets such as locking the garage door, securing bins when feasible, etc.
- B. Create a system to better identify ownership of assets, including but not limited to segregating assets on site, and labeling them accordingly;
- C. Ensure that assets are conspicuously labeled for transport and appropriately segregated upon arrival at the salvage processor's facility.

3. Lack Of Effective Internal Controls Over Salvageable Assets Valuation

There is a lack of effective internal controls over the salvaging process resulting in inadequate and inaccurate valuation of salvageable assets.

Note: See “Appendix B: Public Lighting Department Current Salvage Operations – Physical Movement Flowchart” on page 34 of this report for a flowchart of PLD’s Salvage Operations.

Conditions

Our review of the internal controls over valuation of salvage assets revealed the following weaknesses:

- A. PLD did not periodically calibrate its scale (located at the Mistersky Plant), which is used for weighing salvageable assets. No certificate of calibration was provided during the audit period;
- B. Although PLD creates a “Scale Receipt” to record the initial weight of the material prior to it being transported to the salvage processor, the receipts are not sequentially numbered. Therefore the receipting process is not effectively controlled;
- C. The bin tare weights were, in many cases, overstated because PLD staff persons did not enter the correct bin tare weight.



According to the Merriam-Webster Dictionary, the “tare weigh” is defined as “the officially accepted weight of an empty car, vehicle, or container that when subtracted from gross weight yields the net weight of cargo or shipment upon which charges can be calculated.

- 1. Bin tare weights were manually entered, and not actually weighed before each shipment. The bins were provided by the salvage processor with three different tare weights - 94, 100, and 125 pounds. Yet, PLD employees have entered 126 pounds as the “actual” tare weight since March 2017.
 - 2. On September 27, 2019, we observed two shipments of salvageable assets from the Mistersky Plant to the salvage processor. Out of fourteen (14) bins of salvage materials, thirteen (13) bins had actual tare weights of 94 pounds, and one (1) bin had a tare weight of 125 pounds. However, in all cases, PLD employees manually entered 126 pounds for the bin tare weights versus the actual weight of the bin tares. Based on our calculations, the net weight of the two shipments were understated by 417 pounds.
- D. PLD did not monitor the salvage materials once they were shipped to the salvage processor and the following weaknesses were found:

1. No City personnel (PLD) witnessed the unloading of shipments at the salvage processor to verify that all products leaving the Mistersky Plant arrived at the salvaging facility;
2. Material is stripped and reweighed at the salvage processor. PLD does not observe the reweighing of materials, nor do they record or track the final net wet of the salvage material;

Criteria

- A. The State of Michigan's "Weights and Measures Act 283 of 1964 (revised in 2012)" was enacted to:

Regulate and provide standards for weights and measures, and the packaging and advertising of certain commodities; to provide for a state director and other officials and to prescribe their powers and duties; to provide a fee system for certain inspections and tests; to provide penalties for fraud and deception in the use of false weights and measures and other violations; and to repeal certain acts and parts of acts.

Overall, the Act is designed "to promote the general objective of accuracy in the determination and representation of quantity in commercial transactions."

Other relevant sections of the Act are:

Section 290.609a Weighing device; measuring device; certificates of conformance; participating:

A weighing device placed in service after January 1, 1988 shall have valid certificates of conformance before use for commercial or law enforcement purposes.

Section 290.610 State director of weights and measures; inspecting and testing of weights and measures kept for sale or used commercially; sampling.

When not otherwise provided by law, the director may inspect, and test to ascertain if they are correct, all weights and measures kept, offered or exposed for sale. He shall inspect, and test to ascertain if they are correct, all weights and measures commercially used in:

1. Determining the weight, measurement or count of commodities or things sold or offered or exposed for sale on the basis of weight or of measure or count;
2. Computing the basic charge or payment for services rendered on the basis of weight or of measure or count

- B. The City's Finance Directive No.72 – "Salvage Disposal Procedure" states that:

1. If the item is being sold by weight, the releasing department should witness the weighing. The scale should always be a Bureau of Weights and Measures approved scale.
 2. Releasing departments are charged with the responsibility of releasing to the buyers only that quantity and that item which is shown on the Sales Release.
- C. Listed under the "Material Bidding" responsibilities in PLD's "Asset Recovery Transition Plan", is a requirement for the City to document and weigh assets.

Effects

Failure to comply with the State of Michigan regulations in the "Weights and Measures Act" can lead to fines, civil infractions, restraining orders, stop-use orders, stop-removal orders, removal orders if weights and measures are found to be incorrect, as well as temporary and permanent injunctions against the City and its sales activities;

Failure to comply with the Finance Directive reduces the effectiveness of the policy and the concurrent controls it is designed to impose;

Inaccurate (i.e. overstating) tare weights can understate the actual net weight of materials resulting in a loss of revenues for the City.

Causes

According to PLD staff, they:

- A. Did not have scrap sales every month, and the amount of revenue was small. They feel it is not cost effective to put many controls in place to track salvage activity and scrap sales;
- B. Did not know and were not aware of the fact that some bins had different weights (i.e. - 94 and 100 pounds bins.) They weighed one bin which had a weight of 126 pounds and this is what they manually entered as the bin tare weight for all weights. They felt this was practical given that the bins already contained salvage material;

A staff person in ODFS stated they did not use the weights performed at Mistersky Plant in any reconciliations, because it was the [gross] weight of the material before it was stripped of insulation, attachments, etc. They explained that the "net" weight is used in the sales revenue calculations.

Recommendations

We recommend that PLD comply with state law, the City's existing procedures, and where necessary, implement adequate procedures to include:

- A. Ensuring that all scales used in the salvage/sale process are calibrated in accordance with the State Laws governing Weights and Measures. PLD should request, require, obtain, and retain proof that the scales are certified as meeting the States' standards, including City owned scales;

- B. Weighing the empty bins to determine the correct bin tare weights and labeling them accordingly. This will help the staff to enter the correct bin tare weight resulting in an accurate net weight of the salvage material;
- C. Monitoring and reconciling the net weight of materials shipped to the salvage processor to insure that all material shipped was received intact at the site;
- D. Periodically witnessing the salvage activities at the salvage processor site by observing the unloading of materials, stripping of materials, and the final weighing process that determines the actual net weight of materials to be auctioned and sold.

4. Salvage Revenue Is Neither Reconciled Nor Collected On A Timely Basis

Salvage revenues are neither reconciled nor collected on a timely basis by PLD or ODFS.

Conditions

Our review of the reconciliation and collection of salvage revenues revealed the following weaknesses:

A. Reconciliation of Salvage Sales

1. Neither PLD nor ODFS complied with City Policy and the Letter of Agreement (between PLD and the salvage processor) for the reconciliation of salvage revenues due to the City. The Letter of Agreement states that:

“At a monthly reconciliation meeting, documentation of the previous month’s City owned material received, processed, and sold by the salvage processor will be provided. The documentation will be reviewed and discussed.”

However, the salvage processor combined salvage sales that occurred in February, March, and April 2019, into one reconciliation. Similarly, they combined June 2017 through January 2018 (or seven months of salvage sales) into one reconciliation. Overall, there were a total of forty-five (45) sales of salvage materials, spanning from May 2017 to June 2019. However, PLD and the salvage processor met only eleven (11) times during the two year period to reconcile salvage activity and sales;

2. We found calculation errors in three of the eleven reconciliations (or 27.3%), that resulted in the following over/(underpayments) to the City:

(Over)/ Underpayment	Amount
Underpayment (found in three invoices)	\$1,520.65
Overpayment (found in one invoice)	(646.90)
Net Underpayment to the City	<u>\$873.75</u>

Based on our immediate notification to both PLD and the salvage processor, the underpayment was rectified, and the City has since been paid the net amount due of \$873.75;

3. The last reconciliation meeting was held on August 6, 2019. However, several shipments of salvageable materials have been sent to the salvage processor after this date. As indicated earlier in this report, on September 27, 2019, we observed two truckloads of salvage materials that were transported to the salvage processor. We urged PLD to schedule a reconciliation meeting and requested to attend the meeting. As of the date of this report, we have no responses from PLD, and to our

knowledge, no reconciliation meeting has been scheduled since August 2019.

B. Revenues Were Not Remitted/Collected on A Timely Basis

1. From May 2017 through June 2019, the salvage processor received forty five (45) payments for the sale of salvaged materials totaling \$912,370.35. Of this amount, processing charges of \$213,257.65 (or 23% of total salvage sale receipts) were paid to the salvage processor to cover "processing and marketing costs." Thus, the City received net sales revenues of \$699,112.67 remitted via eleven payments as noted above;
2. We found that 90.9% (or 10 out of the 11 remittances) to the City were late, and the "days delayed" ranged 19 to 150 days. The following table illustrates PLD's "usual" practice which allowed the salvage processor to delay remitting salvage proceeds to the City:

Days Delay of Salvage Revenues Remittances				
Remittance #	Date Winning Bidder Remitted Payment to the Salvage Processor	Date Processor Remitted Salvage Revenues to the City	Net Proceeds Remitted (Dollars)	Days Delayed^(A)
1	5/10/2017	6/18/2017	\$ 107,732.35	37
2	5/31/2017	6/26/2017	\$ 35,968.80	24
3	8/31/2017	1/30/2018	\$ 175,809.10	150
4	4/16/2018	6/05/2018	\$ 22,703.66	48
5	5/15/2018	6/05/2018	\$ 98,196.37	19
6	6/29/2018	6/29/2018	\$ 51,294.04	-0-
7	7/30/2018	8/22/2018	\$ 28,954.93	21
8	10/30/2018	12/21/2018	\$ 77,571.65	50
9	12/04/2018	2/18/2019	\$ 90,836.24	74
10	2/28/2019	5/23/2019	\$ 163,543.49	82
11	6/26/2019	7/23/2019	\$ 59,759.73	25

Note^(A): We calculated the number of "Days Delayed" based on the City's' previous policies which required cash to be deposited within forty-eight (48) hours of receipt of payment (Finance Directive 18: Timely Deposits of Checks and Finance Directive 20: Cash Handling Procedures.) The current directive (CFO Directive No. 2018-109-001 Cash Handling) states that "deposits shall be made each day, when the cumulative total of cash and checks to be deposited reaches \$500, or once per week, whichever comes first, regardless of whether or not the deposit reconciles to department or agency records."

Criteria

We applied the following City directives promulgated by the Office of the Chief Financial Officer (CFO Directives) to the timeliness of reconciliations and remittances:

A. CFO Directive No. 2018-101-042 Internal Controls

This Directive requires “timely and accurate reviews and reconciliations.” It states that:

Accounting records and documents be reviewed by employees who have sufficient understanding of the City’s accounting and financial systems to verify that recorded transactions actually took place and were made in accordance with City policies and procedures. Departmental accounting records and documentation are compared to financial reports to verify their reasonableness, accuracy, and completeness.

B. CFO Directive No. 2018-101-021 Revenue and Revenue Management

This Directive requires the City “collect as efficiently as possible the resources to which it is already entitled.” The practical application of this Directive means that:

1. Department Directors shall ensure applicable departmental operations are designed in a manner that allows for an efficient and effective billing and collection process;
2. Unless otherwise required by ordinance, resolution, or other authority, all invoices shall have established terms (e.g. due 30 days from the date of issuance);
3. Where feasible, language shall be included on invoices to explicitly state the penalties and interest to be charged and the timeframe for which they will be charged;
4. The City shall collect and record all receipts and receivables in accordance with an internal controls framework established by the Office of the Controller;
5. The City shall regularly monitor revenue collections and accounts receivable. The City shall monitor both actual and forecasted revenues at least monthly. The City shall thoroughly investigate any significant variance between actual and forecasted revenues.

C. CFO Directive No. 2018-109-001 Cash Handling

This Directive requires a “reconciliation”, and states that:

1. Departments shall ensure that copies of all deposit information required for reconciliation or tracking purposes is retained prior to deposit with the bank;
2. Deposits shall be made each day, when the cumulative total of cash and checks to be deposited reaches \$500, or once per week, whichever comes first, regardless of whether or not the deposit reconciles to department or agency records.

Additionally, the Letter of Agreement states that:

At a monthly reconciliation meeting, documentation of the previous month's City owned material received, processed, and sold by the salvage processor will be provided. The documentation will be reviewed and discussed.

Effects

The effects of forgoing timely reconciliations can result in late remittances to the City. Late remittances of cash (including not invoicing, collecting, and receiving payments on a timely basis) can result in the loss of interest revenues for the City, and they are violations of City policies and procedures.

The lack of complying with the terms of a written or oral contract can potentially lead to legal damages against the City.

Persistent violation of rules, policies, and procedures can result in:

- Potentially rendering them ineffective and useless;
- A diminished view of the culture and ethics of the organization;
- Employees perceiving that the rules, policies, and procedures do not matter and that they are not important;
- Work being left undone.

Causes

According to PLD and ODFS representatives:

- Monthly reconciliations are not done in months when there is nothing to reconcile;
- The City does not receive payments from the salvage processor until after the successful bidder has verified amounts and quality of metals received and remitted to the salvage processor and that there is no delay of payments to the City:

Note: Currently, the payment terms of the salvage processor require that the winning bidder "pre-pay" by wire transfer only, 80% of the total load value prior to loading/picking-up the auctioned materials. The remaining 20% of the monies are usually due prior to the end of the month of the sale.

Recommendations

We recommend that PLD and ODFS:

- A. Monitor the salvage processor's auctions and perform reconciliations concurrent with sales/auction activity;
- B. Verify the mathematical accuracy of all invoices and reconciliations;

- C. Review PLD's salvage operations, and their current invoicing, collection, and remittance processes, to align with the OCFO's current policies and procedures. If appropriate, the City should receive/collect its salvage revenues immediately or soon thereafter the salvage processor receives their final installment. This recommendation is based on the current Letter of Agreement with the salvage processor who receives 80% of the winning bid amount "upfront" and prior to the close of the sale. The reconciliation process can occur after we receive the monies and any adjustments handled later;
- D. Create a revenue contract with appropriate language to include (but not limited to):
 - 1. Invoices with established terms (e.g.- due within 10, or 30 days from the date of issuance);
 - 2. Where feasible, include language on invoices that explicitly state the penalties and interest to be charged, and the timeframe for which they will be charged.

5. Lack of Efficiency and Effectiveness in Salvage Operations

There is a lack of efficiency and effectiveness in PLD's salvage operations.

Conditions

Our review of PLD salvage operations revealed its operations are not effective, and the following inefficiencies:

- A. PLD does not have operational policies and procedures relating to salvage operations;
- B. According to PLD's full-time employees at the Mistersky Plant, they do not have job descriptions governing their day-to-day activities at the site;
- C. There are several weaknesses in the controls over the physical movements in and out of Mistersky, and in the tracking of salvageable materials:
 1. No one reconciled the quantity of salvage materials dropped in and/or shipped out of the plant;
 2. Quantities listed on the "Pole Yard Check-In Form" were not witnessed or validated by PLD personnel at the time of the deliveries;
 3. We reviewed 140 "Pole Yard Check-In Forms" completed by the City's contractor who were hired to remove overhead wire and underground cable. We compared the forms to a "Master Scrap Sheet" (which was created by a PLD employee to track the movement of materials) and found the following discrepancies:
 - a) Nineteen (or 13.6%) of forms with materials were not recorded on the master scrap sheet;
 - b) There were records on the Master Scrap Sheet that related to twenty-one (or 15.0%) missing Pole Yard Check-In Forms;
 - c) Eighty-three (or 59.3%) of the forms were not signed by a PLD or other City representative;
 - d) Twenty (or 14.3%) had materials without an indication of the unit of measurement;
 - e) Three (or 0.2%) deliveries were documented by "handwritten notes" on a sheet of paper, and not on the standard "Pole Yard Form."
- D. There are several weaknesses with tracking materials as they are being readied for salvage sales (i.e. - movement within the Mistersky site):
 1. A non-city contractor "broke the agreed chain of custody" of City assets by sorting and cutting materials prior to PLD weighing the salvage materials. It should be noted that this same vendor was responsible for transporting the materials to the salvage processor and allowed to subsequently bid on purchasing the materials. We noted that the non-city contractor was the winning bidder for a majority of the salvage auctions/sales;

2. Bins were not serially numbered or tracked. There was no record that quantified or compared the number of bins that contained material that had been cut and sorted, to the number of bins of materials that were shipped out.

Criteria

The following criteria applies to these conditions:

A. Sawyer's Internal Auditing: The Practice of Modern Internal Auditing (5th Edition)
Sawyer's recommend the following best practice guidelines:

1. Written policies and procedures be stated clearly, communicated to appropriate employees, and be designed to reduce the possibility of errors;
2. Written policies and procedures be periodically reviewed and revised as circumstances change;
3. Job descriptions should define the duties, authority, and responsibilities for each position. They should be designed to (1) provide guidance for new employees, (2) form the basis for job specifications, (3) provide the means for reconciling grievances, (4) be a tool for setting wage rates, and (5) aid in organizing.

B. CFO Directive No. 2018-101-042 Internal Controls

This Directive states that:

1. It is necessary [for a department] to provide the City with a reasonable basis for believing and asserting that it is meeting its operational (effectiveness, efficiency, safeguarding of assets), reporting and compliance objectives;
2. All City staff with delegated approval authority (Deputy CFO's, directors department head, etc.) shall be responsible for establishing, maintaining and supporting a system of internal controls within their areas of responsibility and for creating the control environment that encourages compliance with applicable laws, regulations, and internal policies and procedures;
3. All levels of management and supervision shall be responsible for strengthening internal controls when weaknesses are detected. Periodic review of procedures shall be performed to ensure internal controls are being adhered to and continue to be effective.

C. The Government Accounting Office (GAO) "Standards for Internal Control in Federal Government"

GAO's recommended best practices state that:

1. An agency must establish physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, securities, inventories, and equipment which might

be vulnerable to risk of loss or unauthorized use. Such assets should be periodically counted and compared to control records.

2. Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained.

Effects

Failure to comply with the City's Directive and other standards for good internal controls reduces the effectiveness of the policy and the concurrent controls it is designed to impose. Non-compliance also impairs the City's ability to properly record all assets in the financial records of the City and safeguard its assets. The ability to detect theft of assets is weakened when adequate salvage inventory control is not in place.

In addition, persistent violation of rules, policies, and procedures can result in:

- Potentially rendering them ineffective and useless;
- A diminished view of the culture and ethics of the organization;
- Employees perceiving that the rules, policies, and procedures do not matter and that they are not important;
- Work being left undone

Causes

According to PLD staff:

- Shortages in staff is the reason for the lack of timely reconciliations. They noted that PLD is "operating with a skeleton crew;"
- PLD's employees are "long-term and they know their job descriptions;"
- Materials were delivered to the site after working hours, and no PLD employees were available to verify or sign the forms.

Recommendations

We recommend that PLD:

- Create or update departmental policies and procedures to reflect the current operating environment, including detailed written policies and procedures for day-to-day salvage operations;
- Create or update employee's job descriptions and day-to-day responsibilities. Where appropriate, responsibilities should clearly define how "after-hour" drop-offs should be handled;
- Ensure that materials delivered to and transported from the Mistersky site are properly and adequately verified, quantified, and recorded.

6. Improper Movement and Transport of City Owned Assets by and to Non-City Contractors

There was improper movement and transport of City-owned assets by and to non-city contractors.

Conditions

Overall, PLD does not have any policies or procedures that define the proper handling of transformers, which may contain hazardous chemicals. It was stated that older transformers could contain oil that has “polychlorinated biphenyl” chemicals, better known as PCB’s. As defined in the Merriam-Webster Dictionary, PCB’s are:

Any of several compounds that are produced by replacing hydrogen atoms in biphenyl with chlorine, have various industrial applications, and are toxic environmental pollutants which tend to accumulate in animal tissues.

We randomly selected and reviewed five of TMCA’s “Equipment Sign Out Forms” and found the following conditions:

1. A non-City contractor removed five transformers (also known as “Padmounts”) from various locations, and transported them directly to the salvage processor. These assets by-passed delivery to the Mistersky site;
2. PLD operations did not document the authorization to remove and transfer of the transformers prior to the non-city contractor commencing the salvage activities. Instead, the “Equipment Sign Out Forms” were subsequently signed by an ODFS staff person several days later;
3. No PLD employee weighed the transformers prior to removal or after delivery of the transformers to the salvage processor;

The following table shows the details of the movement of five transformers from the location to the salvage processor:

Material	Location Equipment Removed From	Date Transported To Salvage Processor	Date ODFS Signed The “Equipment Sign Out Form”
225 KVA Padmount	Clemente Recreation Center	4/2/2018	4/4/2018
225 KVA Padmount	Oakman Pumphouse	4/10/2018	4/12/2018
125 KVA Padmount	Ford Regulator House	4/20/2018	4/24/2018
300 KVA Padmount	6th Precinct	4/23/2018	4/24/2018
225 KVA Padmount	9th Precinct	5/4/2018	Not Signed

Criteria

The City’s Finance Directive No.72 “Salvage Disposal Procedure” requires that:

If the item is being sold by weight, the releasing department should witness the weighing. The scale should always be a Bureau of Weights and Measures approved scale. Releasing departments are charged with the responsibility of

releasing to the buyers only that quantity and that item which is shown on the Sales Release.

Further, PLD's Asset Recovery Transition Plan Material Bidding Responsibility requires that the City documents and weighs assets.

Effect

Failure to comply with the Finance Directive reduces the effectiveness of the policy and the concurrent controls it is designed to impose. It also impairs the City's ability to properly safeguard assets.

Causes

According to PLD staff:

- PLD used a cost effective approach to handle salvaged transformers. They stated transferring all transformers to the Mistersky Plant from decommission sites, would "double the delivery costs." They also stated that it could result in the leakage of hazardous chemicals such as PCB's;
- It was not cost effective to put many controls in place to track scrap sales since they did not have scrap sales every month and the amount of revenue is small;
- Weights performed at the Mistersky Plant are not used in the reconciliations. It was explained that "those weights" are the weights of the wires and cables before they are stripped of insulation, attachments, etc., and represent a gross weight. PLD explained that only the "net weight" is used to calculate sales revenue.

Recommendations

We recommend that PLD:

- A. Ensure that all persons involved with the removal, transport, and salvaging of the City's assets are operating under City-approved contracts;
- B. Create policies and procedures (as needed) that specifically address the removal and transport of specific assets that could pose an environmental hazard to the public;
- C. Authorize, monitor, and track/document removal and transport of all salvageable assets prior to the start of the activity;
- D. Witness, track, and document the reweight of materials in the final sales at salvage processor's warehouse.

Generally Accepted Government Auditing Standards for Performance Audits

The following excerpt is related to Generally Accepted Government Auditing Standards as compiled by the United States Government Accountability Office (GAO) for Performance Audits. According to the GAO and GAGAS¹:

§2.10: Performance audits are defined as audits that provide findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability. The term “program” is used in GAGAS to include government entities, organizations, programs, activities, and functions.

§2.11 Performance audit objectives vary widely and include assessments of program effectiveness, economy, and efficiency; internal control; Administration; and prospective analyses. These overall objectives are not mutually exclusive. Thus, a performance audit may have more than one overall objective. For example, a performance audit with an objective of determining or evaluating program effectiveness may also involve an additional objective of evaluating internal controls to determine the reasons for a program’s lack of effectiveness or how effectiveness can be improved.

- a. Program effectiveness and results audit objectives are frequently interrelated with economy and efficiency objectives. Audit objectives that focus on program effectiveness and results typically measure the extent to which a program is achieving its goals and objectives. Audit objectives that focus on economy and efficiency address the costs and resources used to achieve program results.
- b. Internal control audit objectives relate to an assessment of one or more components of an organization’s system of internal control that is designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, or Administration with applicable laws and regulations. Internal control objectives also may be relevant when determining the cause of unsatisfactory program performance. Internal control comprises the plans, policies, methods, and procedures used to meet the organization’s mission, goals, and objectives. Internal control includes the processes and procedures for planning, organizing, directing, and controlling program operations, and management’s system for measuring, reporting, and monitoring program performance.
- c. Administration audit objectives relate to an assessment of Administration with criteria established by provisions of laws, regulations, contracts, or grant agreements, or other requirements that could affect the acquisition, protection, use, and disposition of the entity’s resources and the quantity, quality, timeliness, and cost of services the entity produces and delivers. Administration requirements can be either financial or nonfinancial.

¹ Government Auditing Standards (Yellow Book) 2011 Revision; www.gao.gov/yellowbook.

Generally Accepted Government Auditing Standards for Performance Audits

There are four “Elements of a Finding” in a Performance Audit. The following excerpt(s) from GAGAS describe how auditors develop Findings

§6.73 Auditors should plan and perform procedures to develop the elements of a finding necessary to address the audit objectives. In addition, if auditors are able to sufficiently develop the elements of a finding, they should develop recommendations for corrective action if they are significant within the context of the audit objectives. The elements needed for a finding are related to the objectives of the audit. Thus, a finding or set of findings is complete to the extent that the audit objectives are addressed and the report clearly relates those objectives to the elements of a finding.

§6.75 **Condition:** Condition is a situation that exists. The condition is determined and documented during the audit.

§6.37 **Criteria:** Auditors should identify criteria. Criteria represent the laws, regulations, contracts, grant agreements, standards, specific requirements, measures, expected performance, defined business practices, and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation. Criteria provide a context for evaluating evidence and understanding the findings, conclusions, and recommendations included in the report. Auditors should use criteria that are relevant to the audit.

§6.76 **Cause:** The cause identifies the reason or explanation for the condition or the factor or factors responsible for the difference between the situation that exists (condition) and the required or desired state (criteria), which may also serve as a basis for recommendations for corrective actions. Common factors include poorly designed policies, procedures, or criteria; inconsistent, incomplete, or incorrect implementation; or factors beyond the control of program management. Auditors may assess whether the evidence provides a reasonable and convincing argument for why the stated cause is the key factor or factors contributing to the difference between the condition and the criteria.

§6.77 **Effect or potential effect:** The effect is a clear, logical link to establish the impact or potential impact of the difference between the situation that exists (condition) and the required or desired state (criteria). The effect or potential effect identifies the outcomes or consequences of the condition. When the audit objectives include identifying the actual or potential consequences of a condition that varies (either positively or negatively) from the criteria identified in the audit, “effect” is a measure of those consequences. Effect or potential effect may be used to demonstrate the need for corrective action in response to identified problems or relevant risks.

Generally Accepted Government Auditing Standards for Performance Audits

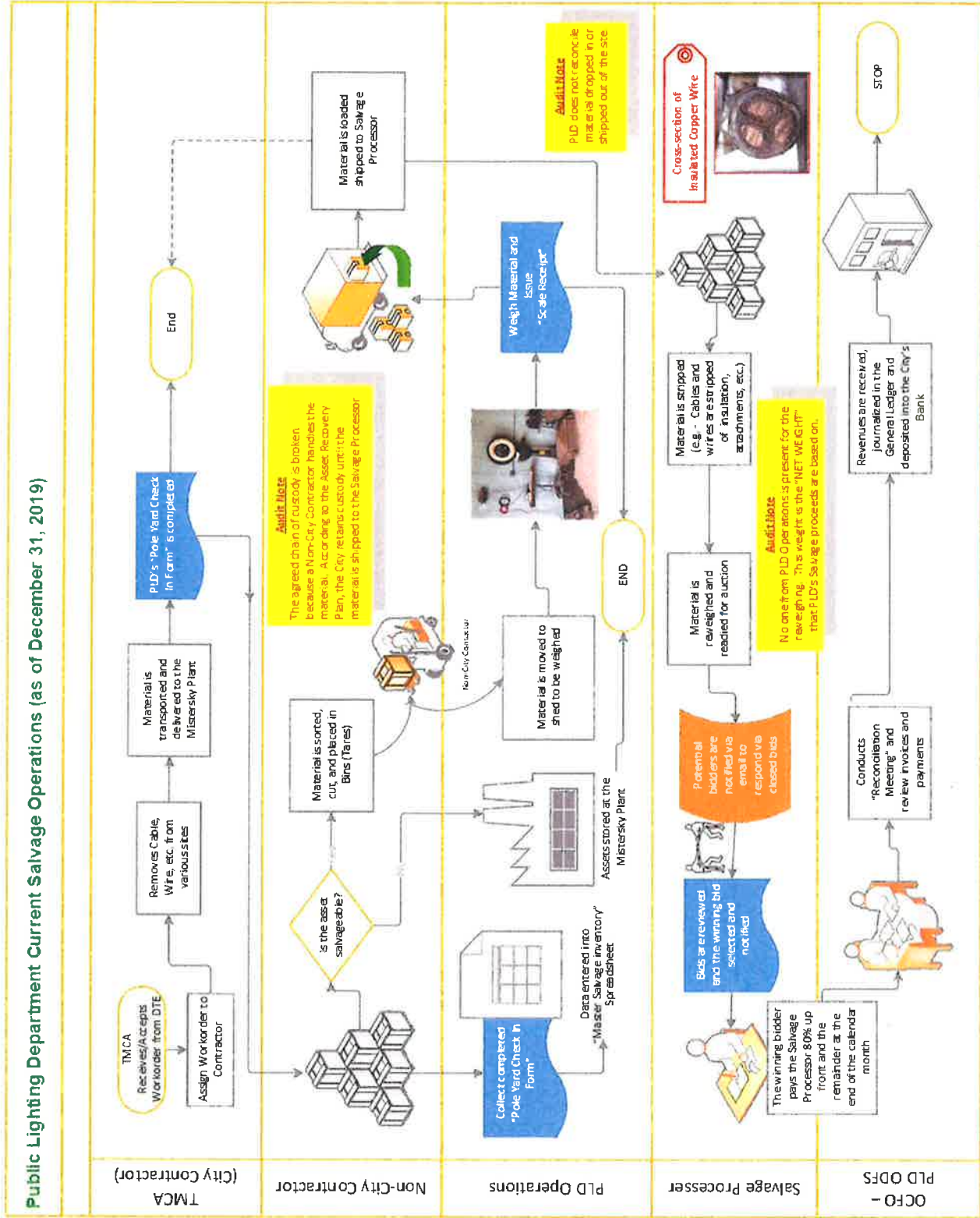
GAGAS, also provides the following "Reporting Standards for Performance Audits":

§7.27 Conclusions: Auditors should report conclusions based on the audit objectives and the audit findings. Report conclusions are logical inferences about the program based on the auditors' findings, not merely a summary of the findings. The strength of the auditors' conclusions depends on the sufficiency and appropriateness of the evidence supporting the findings and the soundness of the logic used to formulate the conclusions. Conclusions are more compelling if they lead to the auditors' recommendations and convince the knowledgeable user of the report that action is necessary.

§7.28 Recommendations: Auditors should recommend actions to correct deficiencies and other findings identified during the audit and to improve programs and operations when the potential for improvement in programs, operations, and performance is substantiated by the reported findings and conclusions. Auditors should make recommendations that flow logically from the findings and conclusions, are directed at resolving the cause of identified deficiencies and findings, and clearly state the actions recommended.

§7.29 Effective recommendations encourage improvements in the conduct of government programs and operations. Recommendations are effective when they are addressed to parties that have the authority to act and when the recommended actions are specific, practical, cost effective, and measurable.

APPENDIX B Public Lighting Department Current Salvage Operations Flowchart



Consolidated Agencies/Departments Response



1340 THIRD STREET
DETROIT, MICHIGAN 48226
PHONE 313•267•5130
FAX 313•267•8152
WWW.DETROITMI.GOV

ATTACHMENT A

February 27, 2020

**Mark Lockridge, Auditor General
Office of the Auditor General
2 Woodward Avenue, Suite 216
Detroit, Michigan 48226**

Dear Mr. Lockridge:

The following presents the Department's response for the indicated findings and related recommendations in the Audit of the Public Lighting Department Interim Report On Salvage Operations of February 2020 prepared by the Office of the Auditor General.

Finding No. 1 Material Weaknesses In The Administration of Salvage And Revenue Contracts

Department Response

A., B., C, and D. The City of Detroit Law Department opinion stated the following:

The TMC agreement was approved by the City's Emergency Manager and was entered into to effectuate the purposes of the Consent Agreement for Public Utility Facilities (the "Consent Agreement") and an Energy Delivery Services Agreement ("EDSA"). The Consent Agreement and the EDSA were approved and signed by the Emergency Manager.

The System Conversion Plan is part of the EDSA, and assigned to the City the responsibility for the decommissioning of substations and the removal of substation equipment. TMC's recommendation of GreenWorks in connection with decommissioning is within the scope of its duties under the TMC Agreement. PLD's using the company recommended by TMC to satisfy certain of its contractual obligations under the EDSA was expressly contemplated by the TMC Agreement. The City's receipt from GreenWorks of cost recovery revenue from substation metals and equipment was also expressly contemplated by the TMC Agreement.

The TMC Agreement, the Consent Agreement, and the EDSA are legal, valid, and binding obligations of the City. The retention of GreenWorks and receipt of funds from GreenWorks are consistent with the terms of these contracts. No further approvals or authorizations by City Council were necessary.

Post EDSA, PLD will secure a salvage handling contract through OCP and with City Council approval.

Please see attached letter and procedures from Goodwill's Green Works (GGW) describing their status mission, and processes.

Finding No. 2 Several Weaknesses In The Physical Controls Over Salvageable Assets

Department Response

A. It should be noted the Mistersky site is an active substation and switchyard which is under continuous monitoring via closed circuit television cameras including the gate. The Public Lighting Department (PLD) will reexamine procedures regarding after hour deliveries of industrial waste. If it is found additional steps are cost effective, they will be implemented. All assets are secure.

Regarding the gate opening devices, TMC Alliance (TMCA) is contracted by PLD and DTE Energy (DTEE) under the EDSA for monitoring the comings and goings at Mistersky. PLD contends it is totally appropriate for TMCA to track and issue gate monitors on PLD's behalf.

- B. All assets on the site are segregated and controlled by DTEE per the EDSA. All existing assets are the property of the City but per the EDSA can be used to maintain integrity of the portions of the grid owned by the City but used by DTEE to transmit electric power.
- C. Please refer to procedures established by PLD in cooperation with GGW attached.

Finding No. 3 Lack Of Effective Internal Controls Over Salvageable Assets Valuation

Department Response

- A. Michigan State Law regarding scale calibration refers only to scales used for commerce. The PLD scale is used only so we have a rough estimate of how much material we are working with. No sales of the PLD industrial waste is based on the PLD owned scale therefore the State Law does not apply.
- B. PLD agrees. Personnel at Mistersky will be instructed to weigh all empty bins prior to use and accurately record tare weight on same. Implementation has begun.
- C. Please refer to procedures established by PLD in cooperation with GGW attached.
- D. PLD has minimal staff but will ensure we periodically do visit GGW's site and witness salvaging procedures.

Finding No. 4 Salvage Revenue Is Neither Reconciled Nor Collected On A Timely Basis

Department Response

- A. It is a sealed bid auction through Materialsplus. PLD is notified when the auction begins and receives copies of all bids.
- B. PLD agrees and will perform verifications.
- C. PLD will work with salvage processor to ensure proceeds are received timely.

- D. PLD will work with OCP to ensure that all salvage operations comply with City of Detroit ordinances and procedures on all future contracts.

Finding No. 5. Lack of Efficiency and Effectiveness in Salvage Operations

Department Response

PLD will review current policies, procedures, and job descriptions and update where needed.

Finding No. 6 Improper Movement and Transport of City Owned Assets by and to Non-City Contractors

Department Response

- A. PLD will work with OCP to ensure compliance with City of Detroit policies and procedures.
- B. PLD has always and will continue to comply with all Federal and State regulations regarding transport of hazardous materials. PLD will also include the Building, Safety Engineering and Environmental Department (BSEED) in all activities where appropriate.
- C. PLD has always and will continue to authorize, monitor, and document removal of salvageable assets.
- D. As the reweight of materials at the processor's facility is an on-going activity. Witnessing all reweights would be cost prohibited requiring a City employee or representative to be present all day, every day.

Sincerely,



John Prymack
Acting Director, Public Lighting Department



Goodwill's Green Works, Inc.

Date: February 24th, 2020
To: John Prymack,
Director
Greater Detroit Resource Recovery Authority
5700 Russell Street
Detroit, MI 48211

Subject: Goodwill's Green Works, Inc.

Mr. Prymack,

Green Works is a 501(c)(3) non-profit subsidiary of Goodwill Industries of Greater Detroit and produces revenue to fund vital job training, education and placement programs for those facing employment challenges in Metro Detroit.

Located in a 94,000-square-foot industrial facility on Detroit's east side, Green Works began operations in 2010. State-of-the-art equipment and processes make the company an invaluable resource for sorting, refurbishing, recycling and reprocessing metals, oils and other industrial materials.

Green Works lowers material costs for clients and reduces waste by breaking down industrial recyclables into their most raw form. These materials are then resold in commodity markets or reused in manufacturing processes.

Just some of the options Green Works offers.

- Low-cost contract labor
- Pole and Pad-mount transformer decommissioning. (Non-Hazardous)
- Overhead and Underground wire processing.
- Material Return to Stock and Customized Kitting
- Appliance Recycling.
- Small dismantle

Since 2010 Green Works has recycled over 150,000,000 lbs of material and kept it out of the landfill.

Caleb Rutledge
President, Goodwill's Green Works
313-657-9242

Caleb.Rutledge@ggw-us.org

"Co-creating independence and dignity through personal and workforce development"

green works

Goodwill Industries of Greater Detroit



INTERNAL REVENUE SERVICE
P. O. BOX 2508
CINCINNATI, OH 45201

DEPARTMENT OF THE TREASURY

Date: **APR 30 2010**
GOODWILLS GREEN WORKS INC
C/O UHY ADVISORS MI INC
HEATHER RASCHKE
26200 AMERICAN DR STE 500
SOUTHFIELD, MI 48034

Employer Identification Number:
27-1387647
DLN:
17053092317000
Contact Person:
ROGER W VANCE ID# 31173
Contact Telephone Number:
(877) 829-5500
Accounting Period Ending:
December 31
Public Charity Status:
509(a)(2)
Form 990 Required:
Yes
Effective Date of Exemption:
November 24, 2009
Contribution Deductibility:
Yes
Addendum Applies:
No

Dear Applicant:

We are pleased to inform you that upon review of your application for tax exempt status we have determined that you are exempt from Federal income tax under section 501(c)(3) of the Internal Revenue Code. Contributions to you are deductible under section 170 of the Code. You are also qualified to receive tax deductible bequests, devises, transfers or gifts under section 2055, 2106 or 2522 of the Code. Because this letter could help resolve any questions regarding your exempt status, you should keep it in your permanent records.

Organizations exempt under section 501(c)(3) of the Code are further classified as either public charities or private foundations. We determined that you are a public charity under the Code section(s) listed in the heading of this letter.

Please see enclosed Publication 4221-PC, Compliance Guide for 501(c)(3) Public Charities, for some helpful information about your responsibilities as an exempt organization.

Letter 947 (DO/CG)

GOODWILLS GREEN WORKS INC

We have sent a copy of this letter to your representative as indicated in your power of attorney.

Sincerely,

A handwritten signature in cursive script, appearing to read "Robert Choi".

Robert Choi
Director, Exempt Organizations
Rulings and Agreements

Enclosure: Publication 4221-PC

CITY OF DETROIT PICKUP AND RECEIVING PROCESS:

When Green Works is informed of material awaiting pickup at the City yard the following steps are followed.

1. A Green Works approved driver is sent to the City yard where the material is stored.
2. The City Official on site weights the material by tub and type.
 - i. The weights are documented for the City and a copy of the weights are provided to the driver.
 - ii. Material is loaded to the Green Works approved vehicle and a lockable seal is put in place on the truck.
 - iii. The seal number is documented on the paperwork for the City Official and on the driver's paperwork.
 - iv. When the truck arrives at Green Works (6421 Lynch Rd, Detroit MI) a Marketer verifies the number on the seal with the driver. The seal is then cut off. (The only way a shipping seal can be removed) *If any discrepancy is found Green Works Management and the City Officer is contacted immediately.*
 - v. The material is verified by tub, type and reweighed. Any discrepancy is documented at the time of unloading.
3. Unloaded material is tagged as City of Detroit with date of receiving and staged to await processing.
4. All Non City of Detroit material is kept separate and processed on a separate shift.
5. Processed and finished material is tagged as City of Detroit and staged into rows to await bid process for sale.

BID PROCESS:

When a full truckload of material (*40,000 to 44,000 lbs*) is available to be bid. A bid package is put together to be sent out to various approved customers based on type of commodities that company is interested in.

1. A bid package will be put together based on type of processed material and by customer whom Green Works is selling it for.
2. A bid package could contain multiple customer material to obtain a full truckload quantity. A total breakdown of material will be kept by GGW for reference and internal auditing for payment separation.
3. A bid sheet will be created with photos of the material being bid along with detail of weights by type of commodity along with the following. A bid deadline date, time of when the bid must be received back to Green Works and payment details. (*80% prior to shipping and the remaining 20% three days after receiving shipment.*)
4. An email will be created restating all the information residing in the bid sheet. Additionally, in the email is a contact for requests of further information if requested. (*ie. photos or requests to view the material first hand*)
5. Based on the type of material being bid up to 12+ companies that may have expressed interest in bidding are sent the bid email.
6. All bids are collected and reviewed after the deadline time has passed. The winning bidder is determined by the highest value based on the full truckload of material.
7. The winning customer is contacted and informed of winning the bid and reminded of pre-payment prior to shipping. Material will not be shipped unless 80% load value pre-payment is made first.
8. Non-winning customers are informed of the winning price but not whom the winning customer is. This will allow bidders to know of prices paid and also allows them know how close their bids were of the winning price.

SALES REFERENCE SHEET CREATION & RECONCILIATION DOCUMENTS:

A Sales Reference Sheet is to be created for every sale. Copies of all sales and receiving documents and shipments will be included in the monthly Reconciliation documents.

Note: For Reconciliation payment terms please reference City of Detroit signed "Letter of Agreement" dated July, 20th 2018.

1. A Sales Reference Sheet is obtained from the Sales Reference Log along with the next corresponding Sales Reference Number.
2. The Customer is to be added to the Log next to the corresponding Sales Reference #.
3. The Sales Reference # is to be placed at the top right corner of the Sales Reference Sheet.
4. The following General Information is to be placed on the Sale Reference Sheet.
 - i. Date Written Up
 - ii. Account Info. (Customer whom selling material for.)
 - iii. Terms: (80% payment prior to shipping then 20% after receipt of material)
 - iv. Total: Complete Total \$ including any tax
5. Customer Information to be placed on the Sales Reference Sheet:
 - i. Customer's Name or Company Name
 - ii. Address, city, state, and zip code (If known)
6. Material Sale Description Information needed.
 - i. Winning bid, should be placed in the Material Description area.
 - ii. The Qty of the Material bought placed in the Qty Delivered (if Lot Sale 1 is the Qty)
 - iii. The Items Descriptions (indicating if Lot Sale)
 - iv. The Unit Price
 - v. Sale Amount for that Item =(Qty Delivered X Unit Price)
 - vi. The Total Tax Amount if Applicable
 - vii. Customer #
 - viii. Wire Transfer, Check or Money Order#
 - ix. The Complete Total amount on the first line under Total Amount.

7. Material Description Information Needed for Load Shipments.
 - i. Load #
 - ii. Qty. Delivered
 - iii. Photos of the material loaded to the customers transportation.
 - iv. Quick Description of Material
 - v. Date Shipped
 - vi. Transportation Carrier Name
 - vii. Truck #
 - viii. Trailer or Container #
 - ix. Seal #
 - x. Gross, Tare, Net weight
 - xi. Wire Transfer, Check or Money Order # (If Applicable)
8. Remaining Details that should be completed:
 - i. Shipped Via: Customer P/U, Trailer or container
 - ii. From: Company Shipped From (GGWI or other)
 - iii. Ship Date: date material shipped
 - iv. Location: Site sale shipped from (example: Green Works or Customer location)



CITY OF DETROIT
OFFICE OF THE CHIEF FINANCIAL OFFICER
OFFICE OF CONTRACTING & PROCUREMENT

Coleman A. Young Municipal Center
2 Woodward Avenue, Suite 1008
Detroit, MI 48226
Phone: (313) 224-4600
Fax: (313) 628-1160

ATTACHMENT

February 28, 2020

Boysie Jackson, Chief Procurement Officer
Office of the Chief Financial Officer
Office of Contracting and Procurement
2 Woodward Avenue, Suite 1008
Detroit, Michigan 48226

Mark Lockridge, Auditor General
Office of the Auditor General
2 Woodward Avenue, Suite 216
Detroit, Michigan 48226

Dear Mr. Lockridge:

The following presents the Department' response for the indicated findings and related recommendations in the Audit of the Public Lighting Department Interim Report on Salvage Operations.

Finding No. 1 - Material Weaknesses In the Administration of Salvage Service And Revenue Contracts

- The Office of Contracting and Procurement ("OCP") does not agree with the finding in the audit report which states that OCP did not ensure that PLD's salvage contract was in compliance with the City's Finance Directives or the Chief Financial Officer's ("CFO") Directives. The City's Law Department opined that the work performed was in accordance with applicable laws, rules, and regulations. Please refer to "Exhibit A" which details the opinion of the City's Law Department.
- The Office of Contracting and Procurement has documented policies and procedures and adheres to applicable rules, regulations, laws, codes, ordinances, directives, etc. The OCP will continue to ensure that staff are trained of any changes to policies, procedures, rules, regulations, etc. to ensure compliance with applicable laws.
- Boysie Jackson, Chief Procurement Officer 313.224.4619

Exhibit A

Kevin Nosotti

From: Bruce Goldman
Sent: Wednesday, February 26, 2020 7:25 PM
To: Kevin Nosotti
Cc: Boysie Jackson; Christopher Jones; Charles Raimi; John Prymack
Subject: Re: TMCA Contract - Decommissioning Verification
Attachments: EDSA_Final-Signed & Executed_Docs.pdf; TMC ALLIANCE PO CONTRACT.PDF

Kevin -

The TMC agreement was approved by the City's Emergency Manager and was entered into to effectuate the purposes of the Consent Agreement for Public Utility Facilities (the "Consent Agreement") and an Energy Delivery Services Agreement ("EDSA"). The Consent Agreement and the EDSA were approved and signed by the Emergency Manager.

The System Conversion Plan is part of the EDSA, and assigned to the City the responsibility for the decommissioning of substations and the removal of substation equipment. TMC's recommendation of GreenWorks in connection with decommissioning is within the scope of its duties under the TMC Agreement. PLD's using the company recommended by TMC to satisfy certain of its contractual obligations under the EDSA was expressly contemplated by the TMC Agreement. The City's receipt from GreenWorks of cost recovery revenue from substation metals and equipment was also expressly contemplated by the TMC Agreement.

The TMC Agreement, the Consent Agreement, and the EDSA are legal, valid, and binding obligations of the City. The retention of GreenWorks and receipt of funds from GreenWorks are consistent with the terms of these contracts. No further approvals or authorizations by City Council were necessary.

If you have any questions or wish to discuss this matter further, please do not hesitate to contact me.

- Bruce

Bruce N. Goldman
Supervising Assistant Corporation Counsel
City of Detroit Law Department
2 Woodward Ave., Suite 500
Detroit, MI 48226
ph - (313) 237-3026
email - goldb@detroitmi.gov
