

**City of Detroit**

**OFFICE OF THE AUDITOR GENERAL**

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**Audit of the Public Lighting Department**  
**Second Interim Report**  
**On**  
**Operational Revenues**

**September 2020**



## Office of the Auditor General


**Mark W. Lockridge, Auditor General**

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### MEMORANDUM

**DATE:** September 30, 2020

**TO:** Honorable City Council

**FROM:** Mark Lockridge, CPA <sup>DS</sup>   
Auditor General

**RE:** Audit of the Public Lighting Department  
Second Interim Audit Report On Operational Revenues

**CC:** Mayor Mike Duggan  
David Bell, Director,  
Buildings, Safety Engineering, and Environmental Department  
Ron Brundidge, Director, Department of Public Works  
Hakim Berry, Group Executive, and Chief Operations Officer  
Regina Greear, Deputy CFO, Office of the Chief Financial Officer,  
Office of Departmental Financial Services  
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

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Attached for your review is our second interim report on operational revenues 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's 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  
SECOND INTERIM REPORT ON OPERATIONAL REVENUES  
SEPTEMBER 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  
SECOND INTERIM REPORT ON OPERATIONAL REVENUES  
SEPTEMBER 2020**

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## **EXECUTIVE OVERVIEW**

The Office of the Auditor General (OAG) was requested by City Council (March 2017) to conduct a comprehensive audit of the Public Lighting Department. Our audit encompasses Public Lighting Department (PLD) activities from the period of July 1, 2015 to June 30, 2019. This is the second interim report published during the audit and focuses on PLD's Operational Revenues.

Our first interim report focused on PLD's Salvage Operations (Audit of the Public Lighting Department, Interim Report On Salvage Operations, February 2020.) 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. The first finding in the report revealed material weaknesses surrounding salvage operations revenue and service contracts.

A key focus of a performance audit, is to determine if the operations are effective and efficient. Again, we have found that PLD's operations are neither effective nor efficient along with other conditions in line with previous findings. We also found that PLD has not reviewed rental rates in several years, and failed to charge application fees uniformly resulting in potential loss revenues to the City of over \$450,000.

As independent internal auditors, we approach our audits with an unbiased focus on "adding value and improving an organization's operations." 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" on page 37 of this report for more information on GAGAS.**)

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 second interim audit report focuses on PLD's operational revenues.

### **Audit Objectives**

The objectives of the Audit of the Public Lighting Department specifically related to Operational Revenues are to determine if:

- PLD performed revenue contract activities in accordance with City policies and procedures;
- Rental rates are properly adjusted;
- The internal controls, policies and procedures governing operational revenues are adequate;
- Operational revenues are processed effectively and efficiently in accordance with revenue contracts and department budget objectives;
- Revenues are billed and collected on a timely basis;
- Customer deposits are recorded and recognized as revenue timely;

And to determine the status of prior audit findings related to operational revenues.

### **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 directly involved in PLD operations and other relevant City personnel;
- Observing, documenting and testing of relevant processes, procedures, contracts and agreements;
- Examining revenue transactions and observing revenue 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 37 of this report.*

## **Conclusions**

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

- Revenue contracting activities were not performed in accordance with City policies and procedures.
- Rental rates have not been adjusted for over thirty-four (34) years;
- There are no uniform policies and procedures to manage rental contracts;
- There is a lack of operational effectiveness resulting in potential or real loss of revenues;
- Rental revenue is neither billed nor collected on a timely basis;
- Customer refundable deposits were neither recognized nor recorded timely.

We also found that there are two unresolved prior audit findings for divisions in the Office of the Chief Financial Officer. One relates to deficiencies in the procurement contracting process in the Office of Contracting and Procurement (formerly known as the Finance Department “Purchasing Division”). The other unresolved prior audit finding relates to a failure to provide documentation to calculate bill amounts in the Office of Department Financial Service.

## 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. 6, to manage and maintain the City's public lighting system. Pursuant to PA 392, the PLA utilizes \$12.5 million in utility user tax proceeds to satisfy the debt service obligation of bonds issued to modernize the street lighting system. Through an inter-local agreement, the City provides additional funds to PLA to finance the operations and maintenance of the street lighting system after the capital project is complete.

On July 1, 2014, the City entered into an agreement with DTE Energy to transition electric customers to DTE Energy (DTE). The agreement stipulates that the City will allow customers to become DTE customers. The conversion will be accomplished over a 5-7 year period. During this time, the City (PLD), through its contractor, will operate and maintain an electric grid with DTE reimbursing the City and its contractor for all expenses related to the delivery of electric power.

The \$12.5 million bond proceeds for PLA are counted as part of PLD budgeted revenue for each fiscal year of the audit period. DTE reimbursements, pole attachment and conduit rental, and salvage sales are three major sources of PLD revenue. Other revenues include customer refundable deposits, gain on sale of assets, and other miscellaneous receipts. The table below details PLD operational revenues during the audit period:

<b>PLD Operational Revenues July 1, 2015 to June 30, 2019</b>	
<b>Source of Revenue</b>	<b>Amount</b>
DTE Reimbursement	\$3,902,419
Rental Contracts	\$1,474,314
Salvage Sales	\$1,186,127
All Other Revenues	\$2,403,616
<b>Total Operational Revenues</b>	<b><u>\$8,966,476</u></b>



The Department's goals are to:

- Maintain electricity distribution grids during the transition to DTE Energy, and as the City of Detroit phases out of the electric service business;
- Maintain legacy electric conduit grids and make available to City of Detroit Information Technology Department for fiber optic communication cables, and also lease excess capacity to private fiber optic companies.

Beau Taylor served as the Interim Director during the initial part of the audit period, which commenced July 1, 2015. We have requested, but have not received the letter appointing John Prymack as the Interim Director, therefore the exact date of his appointment is unknown as of this report.

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

<b>Budget Category</b>	<b>Fiscal Years Ended June 30,</b>			
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
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
<b>Net Tax Cost</b>	<b>\$12,677,088</b>	<b>\$16,218,016</b>	<b>\$16,667,262</b>	<b>\$17,168,656</b>
<b>Budgeted Staff</b>	<b>17</b>	<b>6</b>	<b>6</b>	<b>5</b>

## STATUS OF PRIOR AUDIT FINDINGS

Listed below are prior audit findings relating to operational revenues (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 a future interim report.

### PRIOR AUDIT FINDINGS ON THE PUBLIC LIGHTING DEPARTMENT (FEBRURAY 2015)

1. **Failure To Include All Costs In Electric Rates Charged To External Customers**  
This finding is not applicable. PLD no longer charges electricity to external customers.
2. **Failure To Deposit Cash Receipts Timely**  
This finding has been resolved.
3. **Failure To Provide Documentation Essential To Examine Electric Bills For Accuracy And Failure To Comply With The Charter**  
This finding is not applicable. PLD no longer provide electric service to external customers.
4. **Several Deficiencies In Practice Pertaining To Meters**  
This finding is not applicable. PLD no longer has external customers for electric service.
5. **Lacking Agreements For Electric Service**  
This finding is not applicable. PLD no longer has external customers for electric service.

### PRIOR AUDIT FINDINGS ON THE FINANCE DEPARTMENT (FEBRURAY 2015)

1. **Failure To Comply With Finance Directive 20 (Cash Handling Procedures - Revised)**  
This finding is resolved.
2. **Inaccurate Calculations And Failure To Comply With The Electric Rate Book And Charter**  
This finding is not applicable. PLD no longer has external customers for electric service.
3. **Failure To Provide Documentation To Calculate Bill Amounts**  
This finding has not been resolved and is discussed in Finding 3 on page 16 of this report.
4. **Inadequate Separation Of Duties**  
This finding is not applicable. PLD no longer has external customers for electric service.

**PRIOR AUDIT FINDINGS ON THE OFFICE OF THE CHIEF FINANCIAL OFFICER,  
OFFICE OF CONTRACTING AND PROCUREMENT (Formerly known as the  
“Purchasing Division”) (MARCH 2011)**

**1. Purchasing Division Does Not Effectively Monitor Contracts Or Contract  
Files**

This finding has not been resolved and is discussed in Finding 1 on page 8 of this report.

## **AUDIT FINDINGS AND RECOMMENDATIONS**

### **1. Rental Contracts Were Not Renewed On A Timely Basis**

The Public Lighting Department (PLD) and two Divisions within the Office of the Chief Financial Officer (OCFO), specifically, the Office of Contracting and Procurement (OCP) and the Office of Departmental Financial Services (ODFS), did not renew rental contracts on a timely basis.

#### **Conditions**

Our review of the administration of rental contracts revealed the following conditions in that the:

- A. "Standard Joint Pole Practices" Agreement was never formalized in a contract:

On Feb. 21, 1955, a "Standard Joint Pole Practices" was adopted by the City of Detroit Public Lighting Commission and Detroit Edison, however no contract was executed for pole and conduit rental.

- B. Comcast rental contract has not been renewed for thirty-four (34) years:

On July 9, 1986, City Council approved an agreement between Barden Cablevision of Detroit and PLD for pole, conduit, and trench use.

In August 1995, Barden Cablevision entered into a partnership agreement with Comcast Holdings of Michigan, and agreed to continue its operations under the name of Comcast Cablevision of Detroit.

- C. Verizon rental contract has not been renewed for twenty-five (25) years:

Metropolitan Fiber Systems of Detroit (Verizon) signed a pole attachment, conduit and trench use agreement with PLD on June 22, 1995.

- D. Nextel rental contract has not been renewed for eighteen (18) years:

In April 2002, Nextel signed a rental lease agreement to rent space at a PLD substation. Included in this space rental agreement was also an agreement for a pole attachment, conduit, and trench.

In 2005, Nextel merged with Sprint and changed its name to Sprint Nextel Corporation. In 2013, the company resumed using the name Sprint Corporation. On April 1, 2020, T-Mobile US and Sprint Corporation completed their merger with T-Mobile emerging as the whole owner of Sprint. Sprint will remain a subsidiary of T-Mobile until the Sprint brand is officially phased out.

The following table provides an overview of the effective dates of PLD's current rental contracts:

<b>PLD Rental Contract Effective Dates</b>		
<b>Customer Name</b>	<b>Start Date</b>	<b>End Date</b>
Detroit Edison (DTE)	2/21/1955	Unknown
Barden/Comcast	4/22/1986	Not less than 1 year
Verizon	6/22/1995	Not less than 10 years
Nextel/Sprint/T-Mobile	11/14/2002	Not less than 1 year
Rocket Fiber	11/9/2016	11/8/2021
ExteNet	6/13/2017	6/12/2022
New Cingular Wireless	11/27/2017	11/26/2022

### Criteria

- A. The City's Finance Directive No. 104 requires that 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;
- B. CFO Directive No. 2018-101-020 Contracting and Procurement states that contract monitoring shall jointly be performed by OCP and Departments, ODFS shall monitor revenue-related contracts;
- C. Common elements of lease agreements include: (1) the parties, (2) the property, (3) the amount of rent to be paid, and (4) the duration of the lease;
- D. National Audit Office Good Practice Contract Management Framework regarding effective handling of changes to the contract states:
  - The contract is regularly reviewed (with a view to updating where necessary) to ensure it meets evolving business needs;
  - Where appropriate, value for money testing of existing services takes place through benchmarking or other processes.

### Effect

- A. Contracts that are not reviewed and or not renewed periodically can result in obsolete terms and languages in the contract and the contracts may not reflect changed market conditions, federal and state laws;
- B. Contracts that are not reviewed and or not renewed may not reflect the current legal name of the customer;
- C. Failure to comply with the City Charter and Finance and OCFO Directive reduces the effectiveness of the policy and the concurrent controls it is designed to impose;

D. 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, ODFS, and OCP representatives:

- A. The Comcast, Verizon, and Nextel contracts were intended to be, and are living up to their purpose as, long term contracts. The simple fact that a contract is 18-34 years old does not mean that the contract terms are stale;
- B. The terms of each contract are mutually beneficial and the parties to each contract have continued to be satisfied by the terms thereof, as evidenced by the fact that no party has terminated any of the contracts, which would be expressly permitted for any reason by the terms of the contracts;
- C. The agreement between DTE and the City, though reached in 1955, is perfectly legitimate, and the longstanding practice continues to satisfy both parties.

### **Recommendations**

We recommend that PLD and OCP:

- A. Terminate, update and/or renew contracts to reflect the actual and current company:
  - Comcast versus Barden Cablevision;
  - Verizon versus Metropolitan Systems;
  - T-Mobile versus Nextel.
- B. Create revenue contracts with appropriate language to include contract terms in accordance with the City's current practices applicable to the operational activity;
- C. Stipulate City Department's responsibilities in the contract or Administrative Practices for written permission, applications, installation, inspection and billing;
- D. Conduct an annual review of all revenue contracts to be in alignment with market conditions and applicable federal and state laws.

We also recommend that PLD, OCP, and ODFS:

- E. Follow CFO Directive No. 2018-101-020 and monitor the performance of contactors in accordance with contract terms.

**2. Rental Rates Have Not Been Adjusted for Over Thirty-Four (34) Years**

PLD and ODFS did not regularly monitor the rates on rental contracts.

**Conditions**

Our review of the PLD's rental contracts revealed that rental rates have not been adjusted since 1986, or for over thirty-four (34) years.

- A. PLD has been charging Comcast \$4.95 per pole attachment annually since 1986. This is the longest length of time that the rates have not been adjusted which is over thirty-four (34) years;
- B. PLD has been charging Verizon \$4.95 per pole attachment annually since 1995;
- C. Rental rates for Nextel should have been set in 2002. PLD could not provide any proof of pole and conduit rental rates charged to Nextel since it was not stipulated in the contract. In practice, PLD charged the same rental rate set for Comcast in 1986, which is \$4.95 per pole attachment;
- D. The contract with DTE called for a "flat rate" and not a rental-rate based on the number of pole attachments. However, we found that PLD did not charge DTE any rental fees since the inception of the contract;
- E. For the three relatively new rental contracts - with Extent, Rocket Fiber, and New Cingular Wireless, the rate is \$5.00 per pole attachment. This rate is not significantly more than the rates set in 1986 with Comcast for \$4.95 per pole attachment.

The following information was provided by PLD, and shows rental revenues detailed by customer, rates, number of poles/conduit, and annual billings, of June 30, 2019:

<b>Customer Rental Revenue</b>				
<b>Pole Attachments (Cable Only)</b>				
<b>Customer Name</b>	<b>Contract Start Date</b>	<b># Poles</b>	<b>Annual Rate</b>	<b>Annual Billing Amount</b>
Detroit Edison (DTE)	2/21/1955	N/A	Flat Rate	Never Charged
Comcast	4/22/1986	15,520	\$4.95	\$76,824.00
Verizon	6/22/1995	257	\$4.95	\$1,272.15
Nextel (Sprint)	11/14/2002	74	\$4.95	\$366.30
Rocket Fiber	11/9/2016	239	\$5.00	\$1,195.00
ExteNet	6/13/2017	49	\$5.00	\$245.00
New Cingular Wireless	11/27/2017	0	\$5.00	\$0.00
<b>Total Revenue at the Actual Rates for Pole Attachments (Cable Only)</b>				<b><u>\$79,902.45</u></b>

<b>Customer Rental Revenue</b>			
<b>Pole Attachments (Equipment)</b>			
<b>Customer Name</b>	<b># Poles</b>	<b>Annual Rate</b>	<b>Annual Billing Amount</b>
ExteNet	25	\$1,500.00	\$37,500.00
Rocket Fiber	0	\$1,500.00	\$0.00
New Cingular Wireless	0	\$1,500.00	\$0.00
<b>Total Revenue at the Actual Rates Pole Attachments (Equipment Only)</b>			<b><u>\$37,500.00</u></b>

<b>Customer Rental Revenue</b>			
<b>Street Light Poles (Electricity for Equipment)</b>			
<b>Customer Name</b>	<b># Poles</b>	<b>Annual Rate</b>	<b>Annual Billing Amount</b>
ExteNet	25	\$600.00	<u>\$15,000.00</u>
<b>Total Revenue at the Actual Rates Street Light Poles (Electricity for Equipment))</b>			<b><u>\$15,000.00</u></b>

<b>Customer Rental Revenue</b>			
<b>Conduit Rental</b>			
<b>Customer</b>	<b># Linear Feet</b>	<b>Annual Rate</b>	<b>Annual Billing Amount</b>
Verizon	4,278	\$4.30	\$18,395.40
Comcast	14,992	\$4.30	\$64,465.60
Nextel (Sprint)	22,695	\$4.30	\$97,588.50
ExteNet	885.17	\$4.30	\$3,806.23
Rocket Fiber	10,085	\$4.30	\$43,365.50
New Cingular Wireless	0	\$4.30	\$0.00
<b>Total Revenue at the Actual Rates Conduit Rental</b>			<b><u>\$227,621.23</u></b>

<b>RECAP: Total Actual Rental Revenues</b>	
Pole Attachments (Cable Only)	\$79,902.45
Pole Attachments (Equipment)	\$37,500.00
Street Light Poles (Electricity for Equipment)	\$15,000.00
Conduit Rental	\$227,621.23
<b>Total Actual Rental Revenues</b>	<b><u>\$360,023.68</u></b>



## Criteria

The following criteria are taken from relevant sections from the " Pole, Conduit, and Trench Use/License" agreements between PLD and its customers. Specifically, the:

A. Comcast Contract states that:

- 1986 Rental rates: Pole rental rate is \$4.95 per pole/per year. The Conduit rental rate is \$4.30 per foot of duct /per year;
- The rental rate for a pole and per foot of duct shall be as stated in the Administrative Practices;
- A separate written "Administrative Practices shall be established to facilitate administration of the terms of this agreement. Such Administrative Practices shall contain specifications and drawings, rental rates, billing procedures, forms and any practice or procedure essential to the detailed administration and operation of this Agreement."

B. Verizon Contract states that:

- The rental rate for a pole and per foot of duct shall be as stated in Administrative Practices. The City may periodically adjust said rental rates; provided such rates are imposed in a uniform and nondiscriminatory manner on all such companies within the City. The method of billing shall be as shown in Administrative Practices;
- Poles or ducts found attached in the field without permission shall be subject to 3 years retroactive billing and so noted on the formal permit.

C. Nextel Contract states that:

- The rental rate for a pole and per foot of duct shall be as stated in Administrative Practices;
- A separate written "Administrative Practices" shall be established to facilitate administration of the terms of this agreement. Such Administrative Practices shall contain specifications and drawings, rental rates, billing procedures, forms and any practice or procedure essential to the detailed administration and operation of this Agreement.

D. Joint Pole Use Policies with Detroit Edison state that:

- The annual rental shall be a flat charge per year, regardless of the number, size, or kind of wires, cables, or attachments;
- All poles which have been used jointly for any part of a year shall be subject to the full annual rental rate for that year.

The Michigan Small Wireless Communications Facilities Deployment Act (enrolled senate bill no. 637, effective date of March 12, 2019) applies to small wireless attachment. We included language from the Act as a guide to establishing cable

attachment rates, since small wireless attachments are similar to cable attachments that both are attached to poles. Section 13 of the Act states:

An authority shall not charge a wireless provider a rate for each utility pole or wireless support structure in the Right of Way (ROW) in the authority's geographic jurisdiction on which the wireless provider has collocated a small cell wireless facility that exceeds the following:

- (a.) \$20.00 annually, unless subdivision (b) applies.
- (b.) \$125.00 annually, if the utility pole or wireless support structure was erected by or on behalf of the wireless provider on or after the effective date of this act. This subdivision does not apply to the replacement of a utility pole that was not designed to support small cell wireless facilities. Every 5 years after the effective date of this act, the maximum rates then authorized under subdivisions (a) and (b) are increased by 10% and rounded to the nearest dollar.

### **Effect**

- A. The lack of timely rate reviews can result in the loss of rental revenues because rates are not renewed or renegotiated with a focus on maximizing revenues;
- B. The lack of complying with the terms of a written or oral contract can potentially lead to legal damages against the City;
- C. Persistent violation of rules, policies, and procedures can result in:
  - 1. Potentially rendering them ineffective and useless;
  - 2. A diminished view of the culture and ethics of the organization;
  - 3. Employees perceiving that the rules, policies, and procedures do not matter and that they are not important;
  - 4. Work being left undone.

### **Causes**

According to PLD and ODFS representatives:

- A. The rental rates set by the older contracts were market rate at the time, and continue to reflect the market rate, as evidenced by the comparable rates set by the new contracts entered into in the past 5 years with New Cingular Wireless, Rocket Fiber, and ExteNet;
- B. City Council sets the rates, not PLD – pursuant to Article 9 Chapter 5 of the City Charter, the authority to set rates for rent, tolls, service fees, etc., lies exclusively with City Council;
- C. City policy has been to set rates one percent (1%) less than the rates set by DTE – this is a legitimate business decision that the City made in order to compete in the market. According to an ODFS staff person, “The discount rate was relayed to them verbally in 1995 and they have no input on what rates that were to be

used for anything; they were told what to charge and did so.”

D. Other local municipalities have rates set at a lower level than the City.

**Auditor's Note**

*We reviewed the “Survey of Rates for Pole Attachment and Access to Right of Way” conducted by the University of Pennsylvania Law School and found that other municipalities have set rates higher than the City. The Survey concluded that among different types of facility owners, rates for wired pole attachments were highest for municipalities (mean \$23.32, median \$20.40) and lowest for private companies (mean \$7.69, median \$5.30). The following table is an excerpt from the Survey:*

***Survey of Rates for Pole Attachment and Access to Right of Way  
Annual Wired Pole Attachment Rates by Types of Facility Owners<sup>1</sup>***

<b>Type of Facility Owner</b>	<b>Number of Survey Participants</b>	<b>Mean</b>	<b>Median</b>	<b>Std. Dev.</b>
<i>Investors-owned Utilities</i>	188	\$16.18	\$10.72	\$12.51
<i>Municipalities</i>	78	23.32	20.40	17.47
<i>Cooperatives</i>	133	20.25	20.00	7.72
<i>Public Utilities</i>	17	too small	too small	too small
<i>Private Companies</i>	66	7.69	5.30	7.89
<i>Unknown</i>	95	16.96	15.78	8.40
<b><i>Wired Pole Attachments</i></b>	<b><i>577</i></b>	<b><i>\$17.58</i></b>	<b><i>\$15.56</i></b>	<b><i>\$12.47</i></b>

**Recommendations**

We recommend that PLD:

- A. Review all rental rates periodically (but not less than annually) as required by City policies and procedures, and according to best practices;
- B. Conduct a benchmark study of pole attachment rates among comparable municipalities periodically and recommend appropriate rate adjustments to City Council for their approval;
- C. Adjust rental rates to reflect current Michigan state and federal laws, and to be sufficient to meet the department's budget objectives.

<sup>1</sup> “Survey of Rates for Pole Attachment and Access to Right of Way (as of April 24, 2018)”, University of Pennsylvania Law School Center for Technology, Innovation, and Competition, <https://www.fcc.gov/sites/default/files/ad-hoc-committee-survey-04242018.pdf>

### **3. No Uniform Policies and Procedures Exists That Govern Rental Contracts**

PLD and ODFS do not have uniform policies and procedures that govern rental contracts.

#### **Conditions**

Our review of PLD operations related to rental revenues revealed the following conditions:

- A. PLD nor ODFS have uniform policies and procedures that govern the applications, written permissions, installations, inspections, and billing processes for pole and conduit rentals:
  - 1) PLD established “Administrative Practices” for pole and conduit rental in 1995 as an integral part of Pole, Conduit, and Trench Use Agreement with Verizon. PLD did not follow the practice of application, written permission, installation, inspection, and billing processes as stipulated in the Administrative Practices;
  - 2) However, the “Administrative Practices” only applies to the Verizon contract, not any other contracts, or customers;
  - 3) The Comcast, Nextel, Rocket Fiber, ExteNet, and New Cingular Wireless contracts did not have the Administrative Practices as an integral part of their pole and conduit rental contracts. Each individual contract stipulated different procedures regarding application, written permission, installation, inspection and billing processes for pole and conduit rental. There are no standard procedures to follow.
- B. The number of poles with attachments (cable or equipment), and the linear feet of conduit in use for customers (attaching parties) form the basis for the rental charges. However, no written permission, application, inspection, or counting documents were provided to us that contain this information. Dates of installations, counts, and inspections of pole attachments or conduit rentals were unknown.

Given that this information is not available, we cannot determine if the number of poles and linear feet of conduit used by PLD for billing purposes is appropriate or accurate as described in the “Customer Rental Revenue” Tables in Finding 2 on page 11 of this report.
- C. PLD did not adequately protect the City’s records which documented the use of City assets by third party customers.

#### **Criteria**

The following criteria applies to these conditions:

- A. Sawyer’s Internal Auditing The Practice of Modern Internal Auditing 5<sup>th</sup> Edition:

Written policies and procedures should be stated clearly, communicated to appropriate employees, and designed to reduce the possibility of errors.

Written policies and procedures should be periodically reviewed and revised as circumstances change.

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

Department Directors shall ensure applicable operations are designed in a manner that provides complete and accurate information to enable efficient and effective billing.

**C. Finance Directive #99 Records Retention Section R Public Utilities:**

<b>Record Series</b>	<b>Minimum Retention Period</b>
Maps, Plans, Tracing of System: Master Original	Permanent
Customer Records: Application for Service	Termination Plus One Year

**D. The Administrative Practices 1995:**

1. The following terms and conditions as outlined in these Administrative Practices are by reference incorporated in and are deemed to be an integral part of a Pole, Conduit and Trench Use Agreement dated June 14, 1995 between the PLD and Verizon;
2. No attachments on poles or use of conduit shall be made by the attaching party on any pole or poles or in any conduit of Public Lighting before written permission is received from Public Lighting;
3. Application for permission to attach poles or for conduit use shall be in writing and addressed to a specified representative of Public Lighting. The request shall be accompanied by a sketch showing the location of the conduit poles and power supplies involved with respect to streets, alleys, or easements and other suitable geographical markings;
4. Charges for inspection shall be computed in accordance with the then established policy and rates of Public Lighting.

**E. Relevant excerpts from the "Pole, Conduit and Trench Use/License Agreements" between PLD and its customers:**

1. Comcast Contract states that:  
A Separate written Administrative Practices shall be established to facilitate administration of the terms of this agreement. Such Administrative Practices shall contain specifications and drawings, rental rates, billing procedures, forms and any practice or procedure essential to the detailed administration and operation of this Agreement.
2. Verizon Contract states that:  
Poles or ducts found attached in the field without permission shall be subject to 3 years retroactive billing and so noted on the formal permit.

3. Nextel Contract states that:

- a. A Separate written Administrative Practices shall be established to facilitate administration of the terms of this agreement. Such Administrative Practices shall contain specifications and drawings, rental rates, billing procedures, forms and any practice or procedure essential to the detailed administration and operation of this Agreement;
- b. No attachment, placement, or installation shall be made by Attaching Party on any poles, ducts or trenches or the City before written permission is received from the City;
- c. The procedure and forms to be used in making application and receiving permission for attachment, placements, or installation shall be as provided for in the Administrative Practice;
- d. The City reserves the right to inspect each new installation of attaching party and to make periodic inspections. Attaching party shall, on demand, reimburse the City for the expense of all inspections under this Article at the then current rate in use by the City which shall include burden or overhead as determined by the City.

4. ExteNet contract states that:

City Asset for Licensee Equipment under this Agreement, Licensee must seek written approval from PLD with information and drawings reasonably necessary for PLD to sufficiently assess and approve Licensee's request to attach to or utilize a City Asset. Licensee shall not access, enter, climb, or work on, etc. any City Asset or PLD equipment without prior written approval in each occurrence.

5. Rocket Fiber contract states that:

The Licensee shall provide the Licensor with a schedule that outlines the Licensee's installations, as well as "as-built" drawings for all installed Licensee Equipment.

**Effect**

- A. The lack of policies and procedures to manage the usage of poles and conduit can lead to inaccuracies in the revenue to the City;
- B. 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 control is not in place;

C. 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.

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

### **Causes**

According to PLD and ODFS representatives:

- A. Policies were maintained by PLD Engineering Division. Mayor Bing laid off the Division. The records at 9449 Grinnell were moved to 1340 Third Street but it appears those policies did not survive the transfer;
- B. Numerous records were lost when PLD Administration was moved from 9449 Grinnell to 1340 Third St. Pole and conduit rental records were lost over the years, specifically, during City's bankruptcy. Records were moved and consolidated and can no longer be located. The General Services Department (GSD) and other departments used to have some pole/conduit attachment location and map records.

### **Recommendations**

We recommend that PLD and ODFS:

- A. Update and enforce departmental policies and procedures to reflect the current operating environment;
- B. Establish detailed written policies and procedures for application, written permission, installation, inspection, and billing to manage rental contracts.

We recommend that PLD:

- C. Coordinate with the Building Safety, Engineering and Environmental Department (BSEED), and the Department of Public Works (DPW), and other departments who use geographic information systems (GIS) to map and identify the number of pole attachments and conduits in use;
- D. Perform periodic inspections for all pole attachments and conduits;
- E. Review customer's annual rental report as well as examining written permission, application records to recreate supporting document such as installation dates, as well as "as-built" drawings for all installed Licensee equipment;
- F. Comply with Finance Directive #99 regarding retention of customer records and master files.

#### 4. **Lack Of Operational Effectiveness Resulting In Potential Loss Of Revenues**

PLD has a lack of operational effectiveness and failed to maximize revenues resulting in potential loss of revenues to the City.

##### **Conditions**

We found the following conditions based on our review of the State of Michigan Laws, PLD rental contracts, and PLD's Administrative Policies:

- A. There is a potential loss of revenue for pole attachments because PLD consistently charged rental rates as low as \$4.95 per pole, versus the maximum allowable rate by the State of Michigan.

Michigan Small Wireless Communications Facilities Deployment Act became effective on March 12, 2019 and capped the annual rental rate per pole attachment to \$20.00. However, there was no cap before the Act became effective.

Our office calculated a potential loss of pole attachment revenue of \$242,101.55 annually by using assumed \$20 rate (Michigan Limit) per pole attachments (cable only) instead of actual rate per pole.

The following tables compare the actual rates charged (Table 1) versus our calculation of the maximum potential revenue to the City (Table 2). Table 3 is a recap of our calculation of potential loss revenues for pole attachment rentals:

<b>Table 1</b>			
<b>Pole Attachments (Cable Only) Per Pole – Actual Rate Charged</b>			
<b>Customer</b>	<b># Poles</b>	<b>Annual Rate</b>	<b>Annual Billing</b>
Verizon	257	\$4.95	\$1272.15
Comcast	15,520	\$4.95	\$76,824.00
Nextel (Sprint)	74	\$4.95	\$366.30
ExteNet	49	\$5.00	\$245.00
Rocket Fiber	239	\$5.00	\$1,195.00
New Cingular Wireless	0	\$5.00	\$0.00
<b>Total Revenue at the Actual Rates</b>			<b><u>\$79,902.45</u></b>



<b>Table 2</b>			
<b>OAG Calculation of Maximum Potential Revenues</b>			
<b>Pole Attachments (Cable Only) \$20.00 Per Pole – Maximum Rate</b>			
<b>Customer</b>	<b># Poles</b>	<b>Annual Rate</b>	<b>Annual Billing</b>
Verizon	257	\$20.00	\$5,140.00
Comcast	15,520	\$20.00	\$310,400.00
Nextel (Sprint)	74	\$20.00	\$1,480.00
ExteNet	49	\$20.00	\$980.00
Rocket Fiber	239	\$20.00	\$4,780.00
New Cingular Wireless	0	\$20.00	\$0.00
<b>Total Potential Revenue at the Maximum Rate</b>			<b><u>\$322,780.00</u></b>

<b>Table 3</b>	
<b>OAG Calculation of Maximum Potential Revenues</b>	
<b>RECAP: Potential Loss of Revenue on Pole Rental Rates</b>	
Total Revenue at Actual Rates	\$79,902.45
Total Revenue at Maximum Rates	\$322,780.00
<b>OAG Calculated Potential Loss of Revenues on Pole Rental Rates</b>	<b><u>\$242,877.55</u></b>

- B. PLD failed to collect application fees for pole attachment and conduit rental. Both Comcast and Verizon contracts state:

Pole Application Fee: \$80 per request. Maximum number of poles at above rate is 6 poles. Application fee for application involving 7 or more poles is \$80 plus \$13 per pole for each pole over 6 poles. Conduit Application Fee: \$625 per request.

1. The application fees were never charged to Comcast and Verizon.
2. Further, application fees were not stipulated in the ExteNet, Nextel, and Rocket Fiber contracts and were not charged.

The following tables show our calculation of the City's additional potential loss of revenues due PLD's failure to charge application fees uniformly for pole and conduit rentals:

OAG Calculation of Potential Loss of Revenues Due to Failure to Charge Application Fees						
Pole Attachments (Cable Only)						
Customer Name	No. of Poles	Request Fee First 6 poles*(1)	Poles @ Per Charge Fee (# Poles above 6)	Fee Per Pole	Subtotal Poles @ Per Charge Fee	Total Potential Application Fees
Verizon	257	\$80.00	251	\$13.00	\$3,263.00	\$3,343.00
Comcast	15520	\$80.00	15,514	\$13.00	\$201,682.00	\$201,762.00
Nextel (Sprint)	74	\$80.00	68	\$13.00	\$884.00	\$964.00
ExteNet	49	\$80.00	43	\$13.00	\$559.00	\$639.00
Rocket Fiber	239	\$80.00	233	\$13.00	\$3,029.00	\$3,109.00
<b>Total Potential Revenue Application Fees Pole Attachments (Cable Only)</b>						<b><u>\$209,817.00</u></b>

OAG Calculation of Potential Loss of Revenues Due to Failure to Charge Application Fees						
Pole Attachments (Equipment)						
Customer Name	No. of Poles	Request Fee First 6 poles*(1)	Poles @ Per Charge Fee (# Poles above 6)	Fee Per Pole	Subtotal Poles @ Per Charge Fee	Total Potential Application Fees
ExteNet	25	\$80.00	19	\$13.00	\$247.00	<b><u>\$327.00</u></b>

OAG Calculation of Potential Loss of Revenues Due to Failure to Charge Application Fees						
Street Light Poles (Electricity for Equipment)						
Customer Name	No. of Poles	Request Fee First 6 poles <sup>(1)</sup>	Poles @ Per Charge Fee (# Poles above 6)	Fee Per Pole	Subtotal Poles @ Per Charge Fee	Total Potential Application Fees
ExteNet	25	\$80.00	19	\$13.00	\$247.00	<b><u>\$327.00</u></b>

<b>OAG Calculation of Potential Loss of Revenues Due to Failure to Charge Application Fees</b>			
<b>Conduits</b>			
<b>Customer Name</b>	<b>Conduit Request <sup>(2)</sup></b>	<b>Fee Per Conduit</b>	<b>Total Potential Application Fees</b>
Verizon	1	\$625.00	\$625.00
Comcast	1	\$625.00	\$625.00
Nextel (Sprint)	1	\$625.00	\$625.00
ExteNet	1	\$625.00	\$625.00
Rocket Fiber	1	\$625.00	\$625.00
<b>Total Potential Revenue Application Fees Conduits</b>			<b><u>\$3,125.00</u></b>

<b>RECAP: OAG Calculation Potential Loss of Revenue on Pole Rental Rates</b>	
Pole Attachments (Cable Only)	\$209,817.00
Pole Attachments (Equipment)	\$327,00
Street Light Poles (Electricity for Equipment)	\$327.00
Conduits	\$3,125.00
<b>Total Potential Loss of Revenue Due to Failure to Charge Application Fees</b>	<b><u>\$213,596.00</u></b>

*Auditor's Notes:*

- (1) *PLD did not provide any document which shows how many pole application requests were made, therefore we used the minimum one pole attachment application for each customer;*
- (2) *PLD did not provide any document which shows how many conduit application requests were made, therefore we used the minimum one conduit application request for each customer.*

**C. The space-rental rate is not proper:**

Nextel (Sprint) signed a rental lease agreement with the City in April 2002 to rent space at a PLD substation. The space-rental lease agreement also included a "Pole Attachment, Conduit, and Trench Use Agreement" that was signed by PLD.

The rental rate for the "Pole Attachment, Conduit, and Trench Use Agreement" was \$97,588.50 annually. This rental amount is based on multiplying the linear feet by a per foot amount. In this agreement, the annual amount was calculated by multiplying 22,695 linear feet of conduit at \$4.30 per foot which equals \$97,588.50.

PLD charged this same amount of \$97,588.50 for the substation space-rental. However, no information was included, nor was the rate stipulated in the contract to show how PLD derived the space-rental amount.

## **Criteria**

The following criteria applies to these conditions:

### **A. 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. The City should maximize and diversify its revenue base to raise sufficient revenue to support essential City services and to maintain services during period of declining economic activity;
2. City should seek new resources, consistent with its financial policies and City goals;
3. The City shall thrive to keep a total revenue mix that encourages growth and keeps Detroit competitive in the metropolitan area and among its peers;
4. Department Directors and the ODFS shall periodically review and update departmental fees and charges in accordance with the City’s policies regarding user fees and charges and other applicable law.

### **B. Michigan Small Wireless Communications Facilities Deployment Act**

The Act applies to small wireless attachments and the effective date of the Act is March 12, 2019. The Act states:

#### **1. Rental fees:**

An authority shall not charge a wireless provider a rate for each utility pole or wireless support structure in the ROW in the authority’s geographic jurisdiction on which the wireless provider has collocated a small cell wireless facility that exceeds the following:

- (a) \$20.00 annually, unless subdivision (b) applies;
- (b) \$125.00 annually, if the utility pole or wireless support structure was erected by or on behalf of the wireless provider on or after the effective date of this act. This subdivision does not apply to the replacement of a utility pole that was not designed to support small cell wireless facilities. Every 5 years after the effective date of this act, the maximum rates then authorized under subdivisions (a) and (b) are increased by 10% and rounded to the nearest dollar.

#### **2. Application fees:**

Subsection (2): Except as otherwise provided in subsection (5), an authority may require a permit to co-locate a small cell wireless

facility or install, modify, or replace a utility pole on which a small cell wireless facility will be collocated if the permit is of general applicability.

Subsection (3): An application fee for a permit under subsection (2) shall not exceed the lesser of the following:

- (a) \$200.00 for each small cell wireless facility alone;
- (b) \$300.00 for each small cell wireless facility and a new utility pole to which it will be attached. Every 5 years after the effective date of this act, the maximum fees then authorized under this subsection are increased by 10% and rounded to the nearest dollar.

*Note: There is neither state law nor a rate cap on cable attachments. For illustrative purposes, we decided to use the Act as a benchmark for maximizing rental rates for cable attachments.*

C. Both the Comcast and Verizon contracts included the following language:

Pole Application Fee: \$80 per request. Maximum number of poles at above rate is 6 poles. Application fee for application involving 7 or more poles is \$80 plus \$13 per pole for each pole over 6 poles. Conduit Application Fee: \$625 per request.

D. The Nextel contract included the following language:

A separate written "Administrative Practices" shall be established to facilitate administration of the terms of this agreement. Such Administrative Practices shall contain specifications and drawings, rental rates, billing procedures, forms, and any practice or procedure essential to the detailed administration and operation of this Agreement.

## **Effect**

- A. The lack of timely rate reviews and by not charging application fees can result in the loss of rental revenues because rates are not renewed or renegotiated with a focus on maximizing revenues;
- B. The lack of complying with the terms of a written or oral contract can potentially lead to legal damages against the City;
- C. 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:

- A. Michigan Small Wireless Communications Facilities Deployment Act applies to small wireless attachments, not cable attachments;
- B. Applications are made through the Detroit Public Works Department Engineering Division;
- C. The space-rental rate currently in use is reasonable. No other explanation was provided by PLD regarding how the substation space-rental rate was determined.

## **Recommendations**

We recommend that PLD:

- A. Benchmark other municipality pole and conduit rental rates;
- B. Adjust rates to maximize revenue and meet the department budget objectives;
- C. Coordinate with DPW and other City Departments to charge application fees for new poles and conduits;
- D. Stipulate Nextel space rental rate in the Administrative Practice or in the Nextel contract renewal.

## **5. Rental Revenue Is Neither Billed Nor Collected On A Timely Basis**

Neither PLD nor ODFS complied with City policy and the pole/conduit license agreements between PLD (licensor) and attaching parties (the licensees) for rental revenues billings due to the City.

### **Conditions**

Our review of the internal control over revenue collections revealed the following weaknesses.

#### **A. Rental charges were not invoiced timely:**

1. ODFS combined ExteNet rental fees that were due on July 15, 2011 through July 15, 2018 into one invoice. The invoice is for eight years of rental revenues.

Furthermore, the above mentioned invoice to ExteNet was created by ODFS on February 8, 2019, after the City received pole and conduit rental revenue of \$201,818.69 remitted by one single payment on February 5, 2019.

ODFS did not create an invoice to ExteNet due on July 15, 2019 for July 2018 through June 2019 rental fees in the amount of \$43,816.23 as of August 31, 2020. Therefore, the amount due is not collected.

2. According to the license agreement between the City and Rocket Fiber, pole and conduit rental fees of \$44,560.50 for July 2017 through June 2018 were due on July 15, 2018. Therefore, ODFS should have sent the invoice to Rocket Fiber before July 15, 2018. However, ODFS created an invoice on February 21, 2019, which is a delay of invoicing of 221 days.

Pole and conduit rental fees of \$50,877.60 for July 2018 through June 2019 were due on July 15, 2019. Therefore, ODFS should have sent the invoice to Rocket Fiber before July 15, 2019. However, ODFS created an invoice on November 8, 2019, which is a delay of invoicing of 116 days.

The following table illustrates PLD's rental invoicing activities related to charges through June 30, 2019 and as of June 2020:

Number of Days of Delayed Customer Invoicing					
Customer	Payment Due Date	PLD Invoice Date	Date Customer Remit to City	Amount	Delayed Days of Invoicing*
ExteNet	7/15/2011	2/8/2019	2/5/2019	\$7,565.00	2,765
ExteNet	7/15/2012	2/8/2019	2/5/2019	\$7,565.00	2,399
ExteNet	7/15/2013	2/8/2019	2/5/2019	\$7,565.00	2,034
ExteNet	7/15/2014	2/8/2019	2/5/2019	\$7,565.00	1,669
ExteNet	7/15/2015	2/8/2019	2/5/2019	\$40,010.00	1,304
ExteNet	7/15/2016	2/8/2019	2/5/2019	\$43,816.23	938
ExteNet	7/15/2017	2/8/2019	2/5/2019	\$43,816.23	573
ExteNet	7/15/2018	2/8/2019	2/5/2019	\$43,816.23	208
ExteNet	7/15/2019	Not invoiced	Not Paid	\$43,816.23	413
Rocket Fiber	7/15/2018	2/21/2019	2/21/2019	\$ 44,560.50	221
Rocket Fiber	7/15/2019	11/8/2019	11/8/2019	\$ 50,877.60	116
Average Days of Delayed Invoicing					1,149

\*Note: "Delayed Days of Invoicing" calculated using "Planetcalc" online tool as of 8/31/2020.

- B. The City did not collect rental revenue timely. Due to ODFS not invoicing the customers on a timely basis, the customers remitted the rental revenue late to the City as depicted in the following table. The dates and amounts refer to charges through June 30, 2019 and as of June 2020:

Days Delay of Rental Revenue Remittances Due to ODFS not Invoicing On Time					
Customer	Payment Due Dates	PLD Invoice Date	Date Customer Remitted Payment to City	Amount	Comments
ExteNet	7/15/2011 through 7/15/2018	2/8/2019	2/5/2019	\$201,818.69	One Invoice for eight years of activity
ExteNet	7/15/2019	Not Invoiced	Not Paid	\$43,816.23	Not Paid
Rocket Fiber	7/15/2018	2/21/2019	2/21/2019	\$44,560.50	221 Days of Delay
Rocket Fiber	7/15/2019	11/8/2019	11/8/2019	\$50,877.60	116 Days of Delay



## **Criteria**

The following criteria applies to these conditions:

### **A. 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 Directive states 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. The Office of Departmental Financial Services shall be responsible for invoicing and recording the Departmental revenues;
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.

### **B. Both the ExteNet and Rocket Fiber contracts included the following language:**

Licensee shall pay to the City a fee per City Asset for use of the licensed premises during the license term. Fees shall be paid annually to the City by the Licensor on the 15<sup>th</sup> day of July of each respective year of the license term for the prior year running July 1<sup>st</sup> to June 30<sup>th</sup>. Each annual fees payment shall be accompanied by an Annual Report.

## **Causes**

According to PLD and ODFS representatives:

- A. PLD and ODFS agree, initial ExteNet revenue was not collected on a timely basis and ExteNet appears to have used PLD assets prior to a contract being granted. When the contract was approaching the first payment date, ODFS personnel inquired of recently appointed PLD Administration if there was anything to report. Inquiries were made resulting in ExteNet submitting a check covering the previous several years including years that preceded the contract;
- B. ODFS has no basis for creating an invoice without the occupancy report that is due with the check.

## **Recommendations**

We recommend that ODFS:

- A. Invoice rental customers on a timely basis;
- B. Create invoices that explicitly state the penalties and interest to be charged; and the timeframe for which they will be charged;
- C. Create and run monthly reports to monitor rental revenues; the reports should ensure that the City is receiving the appropriate amount of revenues according to the contracts;

We also recommend that PLD:

- D. Review PLD's pole and rental contracts, and their current invoicing, collection, and remittance processes, to align with the OCFO's current policies and procedures.

**6. Operational Revenues Are Not Recognized Timely**

PLD and ODFS does not recognize operational revenues timely, and thereby overstating the City's liabilities.

**Conditions**

In December 2018, ExteNet contracted with PLD to perform a survey and route verification on various conduits. PLD in turn authorized its sub-contractor (TMCA) to proceed with the requested work for ExteNet. As noted previously in this report, TMCA provides operational support for PLD.

During our review of the transactions to record the revenue and expense activity, we found the following conditions and internal control weaknesses:

A. ODFS did not record customer prepayments on a timely basis:

ExteNet submitted three prepayments for the project totaling \$174,959.19. One of the three prepayments was dated April 6, 2019 according to the check deposit slip, however, the transaction was not recorded in Oracle as of June 30, 2019. In fact, the check was recorded on July 16, 2020, only after we inquired about the recording of the prepayment. This was effectively a 465-day delay in posting entries in the City's financial system to properly reflect customer prepayments – which is a liability for the City.

B. PLD did not reconcile ExteNet survey project to allow for the proper recognition of revenue and account balances. Further, ODFS did not post appropriate entries to match revenue and expenses timely:

Based on our analysis, the following table reflects the incorrect and correct amounts and account balances for the ExteNet Survey Project as of June 30, 2019:

<b>EXTENET SURVEY PROJECT AMOUNTS AND ACCOUNT BALANCES AS OF JUNE 30, 2019</b>			
<b>General Ledger Amount/ Balances</b>	<b>Revenue</b>	<b>Expenditures</b>	<b>Customer Refundable Deposits (Liability)</b>
Amounts/Balances per the General Ledger	\$0.00	\$149,148.28	\$174,959.16
Correct Amounts and Account Balances	\$149,148.28	\$149,148.28	\$25,810.88

It should be noted that this condition is a part of a repeat finding for the City, and it is listed in the audit of City of Detroit Comprehensive Annual Financial Report (CAFR). City of Detroit Federal Award Supplement Information June 30, 2019 had this repeat findings (2019-005) citywide as follows (excerpt):

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 completed 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 comprehensive system that ensures overall monitoring of each department or fund's general ledger activity, both during the year and at year end.

- C. The City does not have written policies or standard operating procedures for handling customer pre-payments and/or refundable deposits.

### **Criteria**

The following criteria applies to these conditions:

- A. Generally Accepted Accounting Principles (GAAP) include the following:
1. Revenue Recognition Principle is an accounting principal that requires the revenue be recognized and recorded when it is realized and earned, regardless of when the payment is made.
  2. Matching principal is the accounting principal that requires that the expenses incurred during a period be recorded in the same period in which the related revenues are earned.

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

- B. 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.

C. CFO Directive No. 2018-101-021 Revenue and Revenue Management:

The Directive states that:

1. The Office of Departmental Financial Services (ODFS) shall be responsible for invoicing and recording the Departmental revenues;
2. City should record all receipts and receivables in accordance with Generally Accepted Accounting Principles (GAAP) for local units of government and Governmental Accounting Standards Board (GASB) pronouncements in the general ledger;
3. The City shall collect and record all receipts and receivables in accordance with an internal controls framework established by the Office of the Controller.

D. As it relates to written policies and procedures, Sawyer's Internal Auditing: The Practice of Modern Internal Auditing (5<sup>th</sup> Edition) recommend the following best practice guidelines:

Written policies and procedures should be stated clearly, communicated to appropriate employees, and designed to reduce the possibility of errors. Written policies and procedures should be periodically reviewed and revised as circumstances change.

**Effect**

- A. Recognizing the revenue at the wrong time may distort the financial statements greatly and provide an inaccurate financial position of the business. The matching principle helps businesses avoid misstating profits for the accounting period;
- B. Not complying 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 control is not in place;
- C. The effects of forgoing timely reconciliations can result in late revenue recognitions which lead to overstatement of liabilities and understatement of revenues in City's general ledger;
- D. The lack of standard operating procedures to manage prepayment leads to misstatement in the City's general ledger.

### **Cause**

According to ODFS representatives, they do not reconcile revenue and expenditures until the end of the project. As the project is completed and reconciled, the liability account will be debited for the amount earned and the revenue account will be credited. However, ODFS stated that going forward, they will be reviewing the customer prepayments annually to ensure proper accounting.

### **Recommendations**

We recommend that PLD and ODFS:

- A. Ensure that customer deposits and prepayments are appropriately recorded in the City's financial systems on a timely basis;
- B. Match revenue and expenditures in the same accounting period and recognize operational revenue according to GAAP;
- C. Follow the external auditors recommendation for the City's finding in the CAFR finding:
  - The City develop comprehensive overall monitoring procedures to aid in ensuring that all activity in a fund is complete, accurate, and logical throughout the year;
  - Assign an appropriate individual to each general ledger account and/or fund, as well as assigning several individuals to be responsible for the entire general ledger and City financial statements to perform monitoring, analytical analysis, and adjustment, as needed;
  - Perform reconciliations, reviews, and analyses at least on a monthly basis;
  - Put procedures in place to ensure all transactions the City is involved in are reflected timely and accurately in the general ledger.
- D. Establish written policies and standard operating procedure for the proper accounting for customer deposits and prepayments.

## NOTE OF CONCERN

During the administration of this audit and as previously noted in this report, we found that the Public Lighting Department (PLD) is not maximizing the revenue potential available through wireless network connections. This would include the current 4G and previous technologies.

In May 2017, at the request of City Council, the Legislative Policy Division (LPD) produced a report called “5G Wireless Technology”<sup>2</sup> In that report LPD concluded that:

The City's control over telecommunications and wireless technology is decentralized and in need of improvement. The City needs to establish a central authority to control and coordinate wireless technology activity among the various departments and authorities involved including reporting to the City Assessor all the leases with the telecommunications providers. An annual inventory of telecommunication providers and equipment installed on City owned assets and/or in the Public Right of Way (PROW) needs to be done. There needs to be assurance that all the telecommunications providers are following the law and City procedures, and contracting for use of the street light poles, land, and other City infrastructure in the PROW. In addition, there needs to be assurance that the City is properly collecting the application fees, annual lease revenue, and property tax revenue from all the telecommunication providers.

In 2018, the National League of Cities produced a Municipal Action Guide on “Small Cell Wireless Technology in Cities”<sup>3</sup>. Within that report it states that:

As various wireless providers maintain that the roll out of 5G internet service is approaching, and the Internet of things proliferates with the connection of millions of new smart devices to the internet, cities must face the reality that to meet the increasing demands of residents, more wireless facilities and infrastructure must be deployed. With that reality, city officials must also face a number of policy, public safety, and land-use and right-of-way considerations.

The report included the following recommendations for cities to take to prepare and act strategically:

1. Gain a full understanding of technology and important safety considerations;
2. Articulate your priorities for accommodating this technology;
3. Create clear policies for permit review that let both city staff, and industry applicants know the expectations;
4. Develop a template right-of-way access policy/ agreement, as well as a standard city pole attachment agreement;

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<sup>2</sup> “5G Wireless”, City of Detroit Legislative Policy Division Report to City Council, May 25, 2017, [www.detroitmi.gov](http://www.detroitmi.gov).

<sup>3</sup> “Municipal Action Guide: Small Cell Wireless Technology in Cities”, National League of Cities [https://www.nlc.org/sites/default/files/2018-08/CS\\_SmallCell\\_MAG\\_FINAL.pdf](https://www.nlc.org/sites/default/files/2018-08/CS_SmallCell_MAG_FINAL.pdf).

5. Think through in advance any beneficial items the city could negotiate with industry in exchange for use of the right-of-way;
6. Give careful consideration to fee structures.

We are concerned that the City did not take notice or heed the recommendations of the LPD. Now that 5G technology has been rolled out to the public, the City may not be maximizing its communication opportunities and potential additional revenues. We agree with LPD's recommendation in that "the City needs to establish a central authority to control and coordinate wireless technology activity among the various departments and authorities involved." This would also provide a collective body of responsible parties, who would look at all aspects of the 5G technology, including potential health hazards and any other potential or real risks to the citizens of Detroit.



**APPENDIX A****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 GAGAS<sup>4</sup>:

§1.21: 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.

§1.22 Performance audit objectives vary widely and include assessments of program effectiveness, economy, and efficiency; internal control; compliance; and prospective analyses. Audit objectives may also pertain to the current status or condition of a program. These overall objectives are not mutually exclusive. For example, a performance audit with an objective of determining or evaluating program effectiveness may also involve an additional objective of evaluating the program’s internal controls. Key categories of performance audit objectives include the following:

- a. Program effectiveness and results audit objectives. These 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. These relate to an assessment of one or more aspects of an entity’s system of internal control that is designed to provide reasonable assurance of achieving effective and efficient operations, reliability of reporting for internal and external use, or compliance with provisions of applicable laws and regulations. Internal control objectives also may be relevant when determining the cause of unsatisfactory program performance. Internal control is a process effected by an entity’s oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved. Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the entity.
- c. Compliance audit objectives. These relate to an assessment of compliance 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. Compliance requirements can be either financial or nonfinancial.
- d. Prospective analysis audit objectives. These provide analysis or conclusions about information that is based on assumptions about events

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<sup>4</sup> Government Auditing Standards (Yellow Book) 2018 Revision; [www.gao.gov/yellowbook](http://www.gao.gov/yellowbook).

**APPENDIX A****Generally Accepted Government Auditing Standards for Performance Audits**

that may occur in the future, along with possible actions that the entity may take in response to the future events.

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

§8.116 As part of a performance audit, when auditors identify findings, they should plan and perform procedures to develop the criteria, condition, cause, and effect of the findings to the extent that these elements are relevant and necessary to achieve the audit objectives.

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

§8.124 **Criteria:** To develop findings, criteria may include the laws, regulations, contracts, grant agreements, standards, 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. The term program includes processes, projects, studies, policies, operations, activities, entities, and functions. Criteria provide a context for evaluating evidence and understanding the findings, conclusions, and recommendations in the report.

§8.126 **Cause:** The cause is the factor or factors responsible for the difference between the condition and the criteria, and 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 contributing to the difference between the condition and the criteria.

§8.127 **Effect** or potential effect: The effect or potential effect is the outcome or consequence resulting from the difference between the condition and the criteria. 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.

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

§9.27 **Conclusions:** 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 persuasiveness 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.

§9.23 **Recommendations:** When feasible, 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

## **APPENDIX A**

### **Generally Accepted Government Auditing Standards for Performance Audits**

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.

§9.28 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, feasible, cost effective, and measurable.

## ATTACHMENT A: OCP DEPARTMENT RESPONSE



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

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September 23, 2020

Office of Contracting and Procurement  
Coleman A. Young Municipal Center  
2 Woodward Ave., Suite 1008  
Detroit, MI 48226

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

Dear Mr. Lockridge:

The following attachment represents the Department/Agency's response for the indicated findings and related recommendations in the "Audit of the Public Lighting Department Second Interim Audit Report On Operational Revenues (September 2020)" prepared by the Office of the Auditor General.

We have provided the response, along with an estimated/projected implementation date, contact person, and contact person number and email address, in the formatted template as requested.

Sincerely,

Boysie Jackson  
Chief Procurement Officer

OFFICE OF THE AUDITOR GENERAL  
AUDIT OF PUBLIC LIGHTING DEPARTMENT SECOND INTERIM REPORT ON  
OPERATIONAL REVENUES  
September 2020

Implementation Tracking of Departmental Responses

FINDING #	AUDIT FINDING	RECOMMENDATIONS		RESPONSIBLE DEPARTMENT	DEPARTMENT RESPONSE(S)	ESTIMATED/ PLANNED IMPLEMENTATION DATE	CONTACT PERSON	CONTACT PERSON NUMBER/ EMAIL ADDRESS
		REF.	SPECIFIC RECOMMENDATION					
1.	Rental Contracts Were Not Renewed On A Timely Basis	A	Terminate, update and/or renew contracts to reflect the actual and current company: <ul style="list-style-type: none"><li>Comcast versus Barden Cablevision;</li><li>Verizon versus Metropolitan Systems;</li><li>T-Mobile versus Nextel.</li></ul>	PLD and OCP	OCP Response - Upon receipt of an approved requisition, the Office of Contracting and Procurement will begin the process to create revenue agreements currently in effect.	June 30, 2021	Kevin Nosotti	<a href="mailto:nosottik@detroitmi.gov">nosottik@detroitmi.gov</a> 313-549-1585
		B	Create revenue contracts with appropriate language to include contract terms in accordance with the City's current practices applicable to the operational activity	PLD and OCP	OCP Response - The Office of Contracting and Procurement enters into contractual agreements using Law Department approved terms and conditions. OCP will continue to use approved contract language.	June 30, 2021	Kevin Nosotti	<a href="mailto:nosottik@detroitmi.gov">nosottik@detroitmi.gov</a> 313-549-1585
		C	Stipulate City Department's responsibilities in the contract or Administrative Practices for written permission, applications installation, inspection and billing	PLD and OCP	OCP Response - A Scope of Services clearly defining roles and responsibilities shall be provided by the Department as part of the requisition process. The Scope of Services shall be incorporated into Exhibit A "Scope of Services" of the contractual agreement.	June 30, 2021	Kevin Nosotti	<a href="mailto:nosottik@detroitmi.gov">nosottik@detroitmi.gov</a> 313-549-1585
		D	Conduct an annual review of all revenue contracts to be in alignment with market conditions and applicable federal and state laws	PLD and OCP	OCP Response - The Office of Contract and Procurement currently monitors the expiration of contractual agreements on an ongoing basis and will continue to monitor agreements as part of this process.	Implemented – Contractual Agreements will continued to be monitored on an on-going basis.	Kevin Nosotti	<a href="mailto:nosottik@detroitmi.gov">nosottik@detroitmi.gov</a> 313-549-1585

OFFICE OF THE AUDITOR GENERAL  
AUDIT OF PUBLIC LIGHTING DEPARTMENT SECOND INTERIM REPORT ON  
OPERATIONAL REVENUES  
September 2020

Implementation Tracking of Departmental Responses

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		REF.	SPECIFIC RECOMMENDATION					
		E	Follow CFO Directive No. 2018-101-020 (Contracting and Procurement) and monitor the performance of contactors in accordance with contract terms	PLD, OCP, and ODFS	The Office of Contracting and Procurement will continue to monitor the expiration of contract agreements on an ongoing basis and communicate with ODFS and Departments. As noted in Finance Directive 2018-101-020, “ODFS shall monitor revenue-related contracts”.	Implemented – The Office of Contract continuously monitors the expiration of contracts and provides notification. OCP shall be notified by Departments of any non-compliance to the contractual agreement as noted in the Scope of Services.	Kevin Nosotti	<a href="mailto:nosottik@detroitmi.gov">nosottik@detroitmi.gov</a> 313-549-1585



CITY OF DETROIT  
PUBLIC LIGHTING DEPARTMENT

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

**September 24, 2020**

**Public Lighting Department  
1340 Third Street  
Detroit MI 48226**

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

**Dear Mr. Lockridge:**

**The following attachment represents the Department/Agency's response for the indicated findings and related recommendations in the "Audit of the Public Lighting Department Second Interim Audit Report On Operational Revenues (September 2020)" prepared by the Office of the Auditor General. We have provided the response, along with an estimated/projected implementation date, contact person, and contact person number and email address, in the formatted template as requested.**

**Sincerely,**

A handwritten signature in blue ink, appearing to read "John Prymack". The signature is fluid and cursive, with a large, sweeping "P" and "M".

**John Prymack  
Interim Director**

**Attached:**

**PLD/ODFS response to Auditor General Report on Operational Services  
Conduit Lease Rate Comparison  
Response to End of Field Work Report**



OFFICE OF THE AUDITOR GENERAL  
AUDIT OF PUBLIC LIGHTING DEPARTMENT SECOND INTERIM REPORT ON  
OPERATIONAL REVENUES  
September 2020

Implementation Tracking of Departmental Responses

FINDING #	AUDIT FINDING	RECOMMENDATIONS		RESPONSIBLE DEPARTMENT	DEPARTMENT RESPONSE(S)	ESTIMATED/ PLANNED IMPLEMENTATION DATE	CONTACT PERSON	CONTACT PERSON NUMBER/ EMAIL ADDRESS
		REF.	SPECIFIC RECOMMENDATION					
1.	Rental Contracts Were Not Renewed On A Timely Basis	A	Terminate, update and/or renew contracts to reflect the actual and current company: <ul style="list-style-type: none"><li>Comcast versus Barden Cablevision;</li><li>Verizon versus Metropolitan Systems;</li><li>T-Mobile versus Nextel.</li></ul>	PLD and OCP	Comcast, Verizon, and Nextel are living up to the terms of the contracts. Per the Law Department, updating the name is unnecessary.		Taylor Leonard	237-3006 leonardta@detroitmi.gov
		B	Create revenue contracts with appropriate language to include contract terms in accordance with the City's current practices applicable to the operational activity	PLD and OCP	PLD will work with the Law Department, ODFS, and OCP to ensure all contract include language reflecting current City practices.	At renewal time	Taylor Leonard	237-3006 <a href="mailto:leonardta@detroitmi.gov">leonardta@detroitmi.gov</a>
		C	Stipulate City Department's responsibilities in the contract or Administrative Practices for written permission, applications installation, inspection and billing	PLD and OCP	PLD will work with the Law Department, ODFS, and OCP to ensure all contract include language reflecting current City practices.	At renewal time	Taylor Leonard	237-3006 leonardta@detroitmi.gov
		D	Conduct an annual review of all revenue contracts to be in alignment with market conditions and applicable federal and state laws	PLD and OCP	PLD and ODFS will request OCP review all contracts to ensure compliance.	Ongoing..	John Prymack	<a href="mailto:prymackj@detroitmi.gov">prymackj@detroitmi.gov</a>
		E	Follow CFO Directive No. 2018-101-020 (Contracting and Procurement) and monitor the performance of contactors in accordance with contract terms	PLD, OCP, and ODFS	Directive No. 2018-101-020 does not address revenues.			



## ATTACHMENT B: PLD AND ODFS DEPARTMENT RESPONSES

**OFFICE OF THE AUDITOR GENERAL  
AUDIT OF PUBLIC LIGHTING DEPARTMENT SECOND INTERIM REPORT ON  
OPERATIONAL REVENUES  
September 2020**

**Implementation Tracking of Departmental Responses**

FINDING #	AUDIT FINDING	RECOMMENDATIONS		RESPONSIBLE DEPARTMENT	DEPARTMENT RESPONSE(S)	ESTIMATED/ PLANNED IMPLEMENTATION DATE	CONTACT PERSON	CONTACT PERSON NUMBER/ EMAIL ADDRESS
		REF.	SPECIFIC RECOMMENDATION					
2.	<b>Rental Rates Have Not Been Adjusted for Over Thirty-Four 34 Years</b>	A	Review all rental rates periodically (but not less than annually) as required by City policies and procedures, and according to best practices	PLD	PLD does report our current rate structure on an annual basis in accordance to City policies and procedures and according to best practices.	PLD will continue to comply.	John Prymack	prymackj@detroitmi.gov
		B	Conduct a benchmark study of pole attachment rates among comparable municipalities periodically and recommend appropriate rate adjustments to City Council for their approval	PLD	Done. See attached file.		John Prymack	<a href="mailto:prymackj@detroitmi.gov">prymackj@detroitmi.gov</a>
		C	Adjust rental rates to reflect current Michigan state and federal laws, and to be sufficient to meet the department's budget objectives	PLD	PLD abides with all Michigan Public Service Commission guidelines.		John Prymack	<a href="mailto:prymack@detroitmi.gov">prymack@detroitmi.gov</a>
3.	<b>No Uniform Policies and Procedures Exist That Govern Rental Contracts</b>	A	Update and enforce departmental policies and procedures to reflect the current operating environment	PLD and ODFS	PLD will comply	On-going. Estimate complet by December 31, 2020.	Dan Woitulewicz	<a href="mailto:woitulewicz@detroitmi.gov">woitulewicz@detroitmi.gov</a>
		B	Establish detailed written policies and procedures for application, written permission, installation, inspection, and billing to manage rental contracts	PLD and ODFS	PLD will comply	On-going. Estimate complet by December 31, 2020.	Dan Woitulewicz	<a href="mailto:Woitulewicz@detroitmi.gov">Woitulewicz@detroitmi.gov</a>
		C	Coordinate with BSEED, DPW and other department who use geographic information systems (GIS) to map and identify number of pole attachments and conduits in use	PLD	PLD does corrordinate with City Engineering (DPW) on location of conduit and poles. Mapping only states location.			

OFFICE OF THE AUDITOR GENERAL  
AUDIT OF PUBLIC LIGHTING DEPARTMENT SECOND INTERIM REPORT ON  
OPERATIONAL REVENUES  
September 2020

Implementation Tracking of Departmental Responses

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		REF.	SPECIFIC RECOMMENDATION					
		D	Perform a periodic inspections for all pole attachments and conduits	PLD	100% inspection not cost effective. Will conduct random sampling annually..	Immediate	John Prymack	<a href="mailto:prymackj@detroitmi.gov">prymackj@detroitmi.gov</a>
		E	Review customer’s annual rental report as well as examining written permission, application records to recreate supporting document such as installation dates, as well as “as-built” drawings for all installed Licensee equipment;	PLD	PLD will coordinate with other City Departments to ensure records are maintained.	Immediate	John Prymack	<a href="mailto:prymackj@detroitmi.gov">prymackj@detroitmi.gov</a>
		F	Comply with Finance Directive #99 regarding retention of customer records and master files	PLD	PLD will comply.	Immediate	Dan Woitulewicz	<a href="mailto:woitulewiczd@detroit.gov">woitulewiczd@detroit.gov</a>
4.	Lack Of Operational Effectiveness Resulting In Potential Loss Of Revenues	A	Benchmark other municipality pole and conduit rental rates	PLD	Done (See 2. B. above)			
		B	Adjust rates to maximize revenue and meet the department budget objectives	PLD	PLD will comply.	When contracts are up for renewal.	John Prymack	<a href="mailto:prymackj@detroitmi.gov">prymackj@detroitmi.gov</a>
		C	Coordinate with DPW and other City Department to charge application fees for new poles and conduits	PLD	Will address with all deparments involved.	Immediate	John Prymack	<a href="mailto:prymackj@detroitmi.gov">prymackj@detroitmi.gov</a>
		D	Stipulate Nextel space rental rate in the Administrative Practice or in the Nextel contract renewal	PLD	PLD will comply.	At contract renewal.	John Prymack	<a href="mailto:prymackj@detroitmi.gov">prymackj@detroitmi.gov</a>
5.	Rental Revenue Is Neither Billed Nor Collected On A Timely Basis	A	Invoice rental customers on a timely basis	ODFS	ODFS/PLD currently does based on the contract language..	On-going	John Prymack	<a href="mailto:prymackj@detroitmi.gov">prymackj@detroitmi.gov</a>
		B	Create invoices that explicitly state the penalties and interest to be charged; and the timeframe for which they will be charged	ODFS	The language for penalties is not in the contact.			

OFFICE OF THE AUDITOR GENERAL  
AUDIT OF PUBLIC LIGHTING DEPARTMENT SECOND INTERIM REPORT ON  
OPERATIONAL REVENUES  
September 2020

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		REF.	SPECIFIC RECOMMENDATION					
		C	Create and run monthly reports to monitor rental revenues; the reports should ensure that the City is receiving the appropriate amount of revenues according to the contracts	ODFS	Done			
		D	Review PLD's pole and rental contracts, and their current invoicing, collection, and remittance processes, to align with the OCFO's current policies and procedures	PLD	Done			
6	Operational Revenues Are Not Recognized Timely	A	Ensure that customer deposits and prepayments are appropriately recorded in the City's financial systems on a timely basis	PLD and ODFS	As a general rule, deposits and prepayments are recorded within seven days of receipt. Audit finding is inaccurate.			
		B	Match revenue and expenditures in the same accounting period and recognize operational revenue according to GAAP	PLD and ODFS	Will continue to comply.			

OFFICE OF THE AUDITOR GENERAL  
AUDIT OF PUBLIC LIGHTING DEPARTMENT SECOND INTERIM REPORT ON  
OPERATIONAL REVENUES  
September 2020

Implementation Tracking of Departmental Responses

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		REF.	SPECIFIC RECOMMENDATION					
		C	Follow the external auditors recommendation for the City's finding in the CAFR finding: <ul style="list-style-type: none"><li>The City develop comprehensive overall monitoring procedures to aid in ensuring that all activity in a fund is complete, accurate, and logical throughout the year;</li><li>Assign an appropriate individual to each general ledger account and/or fund, as well as assigning several individuals to be responsible for the entire general ledger and City financial statements to perform monitoring, analytical analysis, and adjustment, as needed;</li><li>Perform reconciliations, reviews, and analyses at least on a monthly basis;</li><li>Put procedures in place to ensure all transactions the City is involved in are reflected timely and accurately in the general ledger.</li></ul>	PLD and ODFS	Will continue to comply.	On-going.		
		D	Establish written policies and standard operating procedure for the proper accounting for customer deposits and prepayments.	PLD and ODFS	Will comply.	On-going.	Dan Woitulewicz	<a href="mailto:woitulewiczd@detroitmi.gov">woitulewiczd@detroitmi.gov</a>



## ATTACHMENT B: PLD AND ODFS DEPARTMENT RESPONSES



## Conduit Lease Rate Comparison

City Entity	Year	Inner Duct Size	Inner Duct Lease Cost	Full Duct Size	Full Duct Lease Cost	Contract Type		Additional Comments	Source
						Lump Sum	Per Year		
Grand Rapids, MI	2013	1"	\$ 0.73 / LF	4"	\$ 4.38 / LF*	N/A	x	Per Year	Geotechnical Study
New York - Empire City Subway	2014	1"	\$ 0.70 / LF	4"	\$ 1.10 / LF	N/A	x	Per Year; Rates Approved by City of New York	Website
Palmdale, California	2012	1"	\$ 0.49 / LF	N/A	N/A	N/A	x	Per Year	Contract with Freedom
City of Newark, NJ	2007	Any Size	\$ 5.00 / LF	N/A	N/A	N/A	x	Per Year	Contract with Verizon
City of Tumwater, WA	2011	1"	\$ 2.05 / LF	N/A	N/A	N/A	x	Per Year	Contract with Century Link
Lynchburg City Council, VA	2013	3"	\$ 2.40 / LF	N/A	N/A	N/A	x	Per Year	Contract with Mid-Atlantic Broadband Cooperative
Boulder, Colorado	N/A	1.25"	\$ 5.50 / LF	N/A	N/A	x	N/A	Lump Sum for 10 years; includes (Zayo - Telecommunication's Provider's) responsibilities of constructing additional ducts and installing Fiber cable for city use	Contract with Zayo Telecom
Louisville, Colorado	2014	1.25"	\$ 5.50 / LF	N/A	N/A	x	N/A	Lump Sum for 10 years; includes (Zayo - Telecommunication's Provider's) responsibilities of constructing additional ducts and installing Fiber Cable for city use	Contract with Zayo Telecom

**Note:** City of Detroit has various Duct sizes (i.e. 3", 4" & 5"), to be confirmed with the City of Detroit Engineering Drawings

**\* Based on the City of Grand Rapids (GR) Pole Line & Duct System Rate Study 2013**

(Source: Pg 10 of 'City of Grand Rapids-2013\_10thJune2014')

1.) The typical (GR) innerduct configuration = six (6) 1" Innerducts within a 4" duct.

**2.) Calculations for a 4" Duct Lease:**

a.) Lease Rate for six (6) 1" Innerducts = \$0.73 / LF multiplied by six(6) 1" Innerducts

b.) Lease Rate for a Full 4" Duct = **\$ 4.38 / LF**