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

Kevyn Orr, Emergency Financial Manager,  
The Honorable Mayor Mike Duggan,  
The Honorable Members of the City Council  
City of Detroit, Michigan:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Detroit, Michigan (the City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 25, 2014. Our report included an emphasis of matter paragraph which states, along with other matters, that the City has filed a voluntary petition under Chapter 9 of the Bankruptcy Code, which raises substantial doubt about the City's ability to continue as a going concern. Other auditors audited the financial statements of the General Retirement System, the Police and Fire Retirement System, and all of the discretely presented component units, as described in our report on the City's basic financial statements. The financial statements of the General Retirement System, Policemen and Firemen Retirement System, and certain discretely presented component units identified in note I(a) to the City's basic financial statements were not audited in accordance with *Government Auditing Standards*.

**Internal Control over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of



deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as findings 2013-01, 2013-02, and 2013-03 to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as findings 2013-04, 2013-05, 2013-06, 2013-07, 2013-08, 2013-09, and 2013-10.

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

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

### **Purpose of this Report**

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

**KPMG LLP**

Detroit, Michigan  
July 25, 2014

## CITY OF DETROIT, MICHIGAN

### Schedule of Findings and Responses

Year ended June 30, 2013

#### **Finding 2013-01 – Financial Closing and Reporting**

The City of Detroit (the City) had internal control deficiencies in the financial closing and reporting processes, the processes to evaluate accounts, and in the processes to record entries into the general ledger in a timely, complete, and accurate manner. These deficiencies included the following:

- The process to prepare closing entries and financial statements relied partly upon decentralized accounting staff and software applications other than the City's DRMS general ledger. The process required a significant amount of manual intervention in order to get information from these other systems into DRMS.
- The process to identify significant transactions throughout the City's fiscal year to determine the appropriate accounting treatment did not result in timely consideration of how to record or report such transactions. Certain of these transactions were not identified until the end of the fiscal year during the financial reporting process. There was inadequate communication between various City departments on transactions and on how they affected the individual stand-alone financial reports and the Comprehensive Annual Financial Report (CAFR). Information necessary to effectuate a timely and accurate closing of the books was not consistently communicated between certain departments and agencies of the City.
- The process to close the books and prepare financial statements included the recording of a significant number of manual post-closing entries. For the year ended June 30, 2013, there were 537 manual journal entries that were made after the books were closed for the year (i.e., after frozen trial balance).
- The process to close the books and evaluate accounts occurred only on an annual basis instead of monthly or quarterly. As a result, certain key account reconciliations and account evaluations were not performed timely and required an extended amount of time to complete during the year-end closing process.
- The management review control for review of the financial statements prior to submitting to the auditors did not operate at an appropriate level of precision.
- The procedures to identify and accurately disclose certain information within the notes to the financial statements were not consistently followed.
- Continuing professional education and training was not offered or required to maintain an appropriate level of skills and knowledge of the accounting staff. Additionally, the employee evaluation process was not consistently utilized or enforced to assist the accounting staff in managing their performance.

#### ***Recommendation***

We recommend management continue to develop and refine its financial reporting systems and processes. Refinements should include assignment of accounts and reporting units to qualified personnel to conduct detailed analysis of accounts throughout the year on a monthly and quarterly basis. We further recommend management conduct a thorough assessment of the adequacy and completeness of the City's accounting and financial reporting policies and procedures. Management should perform an annual risk assessment process at the entity and process levels to identify and evaluate past internal control deficiencies and any internal and external changes that may impact the design or operating effectiveness of control activities. Based on the results of the assessments, management should determine the need to develop new policies, procedures, and internal controls and should reinforce the new and existing policies and procedures to personnel through training and monitoring. The process to close the books and prepare closing entries does not utilize enough adequately trained and

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appropriately experienced employees to appropriately monitor reporting issues throughout the year. We recommend management evaluate the City's organizational structure and personnel composition to determine the adequacy of the accounting and internal control related skills and knowledge of assigned personnel in relation to their assigned duties.

***Views of Responsible Officials***

We have reviewed the finding and concur with the recommendations. The City continues to make improvements and is working on a plan to implement the recommendations herein. The revised Financial Stability Agreement requirements with the State of Michigan includes submitting a monthly Budget to Actual Revenues and Expenditures Report (FSA Section 2.1), which has caused the Finance Department to put more effort into overall financial reporting. In addition, the quality of life loan, restructuring initiatives, and the pending bankruptcy plan of adjustment has funding and strategies incorporated to specifically address these internal control deficiencies by reorganizing the accounting staff under the Office of the Chief Financial Officer, increasing training and implementing a new Enterprise Resource Planning (ERP) system. In the interim, we continue to work on improving the monthly financial reports, which will enable the City's management to make informed decisions.

## CITY OF DETROIT, MICHIGAN

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#### **Finding 2013-02 – Reconciliations, Transaction Processing, Account Analysis, and Document Retention**

Operations of the City are carried out by numerous City departments utilizing a variety of people, processes, and systems. This type of environment requires diligence in ensuring accurate information is processed and shared with others in the City. Performing reconciliations of data reported from different systems and sources and account analysis are an integral part of ensuring transactional data integrity and accurate financial reporting. During our audit, we noted deficiencies in the areas of transaction processing, account analysis, data integrity, reconciliation performance, and document retention. Those deficiencies include the following:

- The City's process to identify necessary expense accruals is not adequate to ensure expenses are recorded in the proper fiscal year. Although the City has implemented a second level review over accruals, the review does not operate at an appropriate level of precision considering the knowledge and skill sets of the operators of the first level accrual control activity.
- 5 out of 40 employee terminations tested contained termination dates in the human resources system that did not match information on documents in the personnel files. Upon researching the discrepancies, the City was unable to provide adequate explanations for the discrepancies.
- The City's controls to ensure only active employees are listed as active with valid data in the human resources and payroll systems were not operating effectively. Based on a test of all employees, the following discrepancies were noted: 15 employees were included as active even though they were deceased prior to fiscal year 2013; 1 employee had the incorrect birth date, 1 employee had the incorrect social security number, and 1 employee was included as active that was terminated in fiscal year 2010.
- Employee census data that is provided by the City to the pension actuaries contained inaccuracies and the City does not have a process in place to ensure the completeness and accuracy of such data prior to submission.
- The City's payroll system, PPS, and the related manual procedures do not provide a mechanism to track paid time off to supporting documents. The paid time off is tracked manually and input into the system, however, the paper timesheet data that supports the actual paid time off used is not maintained.
- The management review control over the calculation of the net pension asset is not designed to operate at the appropriate level of precision. The calculation of the net pension asset is a significant estimate. The management level review of the estimate requires a high degree of judgment. The design of the control did not appropriately consider the criteria or metrics that the operator of the control should consider when conducting their review. Additionally, the design of the control did not appropriately consider whether the criteria are consistently applied, what would constitute an outlier or an exception, or whether the operator has the appropriate knowledge or skill set to operate the control. Additionally, the design of the control did not take into account the process level controls that should have been utilized in compiling the underlying data used in making the estimate.
- The data provided to the actuary for the actuarial determination of the liability for Other Postemployment Benefits (OPEB) was incomplete. Several assumptions related to coverage were required to be made in order to complete the valuation. Information related to spouses was not consistently available for persons identified as having healthcare coverage for multiple people.
- Reconciliations of subsidiary ledgers to general ledgers and other IT systems to DRMS were either not completed, not completed timely, or contained inappropriately aged, unsupported, or unreconciled items.

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- The City used various service organizations to process significant transactions on its behalf such as health and dental claims, payroll, parking operations, fines and fee collections, and EMS fee collections. A listing of internal controls employed by service organizations was not prepared and evaluated for adequacy by the City. The City did not review the service organization auditor reports (SOC1 Reports) to ensure that the service organizations have effective internal controls. Further, the City did not evaluate the user controls (i.e., controls that should be in place at the City) outlined in the SOC1 reports to ensure that the City had these controls in place.
- Certain bank, investment, and imprest cash reconciliations were either not prepared properly, not prepared timely, or not reviewed timely and contained aged or uncorrected reconciling items. Additionally, an error existed related to the recording of a cash account that did not belong to the City. Additionally, certain bank balances were inappropriately excluded from the trial balance until corrected by management. Additionally, the City relied on the investment valuations provided by the custodians without understanding or approving the investment valuation methods utilized by the custodians.
- Interfund and inter-departmental transfers, balances, and other transactions were not reconciled throughout the year on a timely basis or reviewed for accuracy and proper financial statement classification. Additionally, committed fund balance was transferred from the Risk Management Fund to the General Fund without obtaining the approvals required by the City's accounting policies.
- A physical inventory count of fixed assets was not completed by all agencies, as required by the City's asset management policies. Additionally, the City did not record capital assets in the capital asset subledger on a timely basis. Additionally, capital asset impairments were not recorded in the appropriate fiscal year.
- The calculations of average weekly wages as a basis for weekly payments of workers' compensation are a manual calculation that contained errors. No management level review control existed over the calculations.
- The City did not maintain individual claim data typically maintained as insurance statistics for self-insurance programs for its workers compensation program. Additionally, data provided by the City to the actuaries for estimating workers' compensation liabilities was not reviewed by the City for accuracy nor reconciled by the City to supporting data prior to submission.
- The City's process to follow up and resolve prior audit findings was not operating effectively.
- The City did not have effectively operating controls in place to record, administer, and monitor grant revenues and the related deferred revenues.
- Manual journal entries were not reviewed at the appropriate level of precision. Certain manual journal entries were posted after being reviewed and approved for posting even though they contained errors. Additionally, certain other journal entries were posted before being reviewed and approved.
- The City did not perform a sufficient review of open accounts receivable items and their related collectability for certain revenue streams. The City's accounts receivable write-off policy was not specific enough to explain when and how amounts determined to be uncollectable should be written off. Additionally, the City did not follow its existing policy for the write-off of accounts receivable balances.
- The accounting records related to legal reserve liabilities were not consistently updated in a timely manner when new facts pertaining to the status of cases became available. Additionally, the management review

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control did not operate at an appropriate level of precision considering the volume of cases and the level of accounting knowledge and skills of the operator of the process level control.

- The City did not have a process for anonymous reporting of ethical or fraud violations to the City Board of Ethics. Additionally, the Office of Inspector General (OIG) was required to submit quarterly reports to the City Council and Mayor regarding the results of open investigations and audits undertaken by the OIG; however, quarterly reports have not been provided.
- Supporting documentation was not retained in accordance with the City's record retention policies.
- The City did not have effectively operating controls in place regarding the recording of financing transactions. Bond proceeds and bond premiums were recorded incorrectly until discovered in the audit and subsequently corrected by management. Additionally, the City's process for monitoring compliance with debt covenants and disclosure requirements did not operate at an appropriate level of precision to identify and track all pertinent requirements.
- The City did not perform a sufficient review of the projects within the construction work in progress accounts balance to properly capitalize or expense costs within a timely manner.
- The City did not have a control in place to identify and assess potential related-party relationships including relationships between employees and vendors. During a comparison of street addresses between the vendor file and employee file, there were 65 matches. The City did not have a process in place to assess and monitor the appropriateness of these relationships.

#### ***Recommendation***

We recommend management develop or improve existing policies and procedures related to reconciliations and account analysis such that transactions are recorded in the general ledger completely, accurately, and in a timely manner. We recommend the City undertakes a comprehensive risk assessment process that would consider risks to organizational and operational objectives. Such an approach should take place at both the entity wide and the individual activity level. The risk assessment should be undertaken not as a theoretical exercise but instead as a practical means to identify actions required by management to mitigate risks and to identify areas that require the establishment or strengthening of control activities.

We further recommend that the City review its document retention and filing policies and procedures and make necessary adjustments such that information is accessible and provides for an adequate audit trail. Also, an electronic filing system should be created with file locations and file naming conventions specified so that all reconciliations and reports are saved to well-organized file servers instead of just desktop computers.

We recommend the creation of a comprehensive listing of required reconciliations. Individuals and departments should be provided a subset of the listing (a checklist) to indicate which specific reconciliations they are responsible for, what frequency is required, who is responsible for monitoring to ensure timeliness, and who is responsible for reviewing to ensure accuracy. Additionally, specific parameters should be developed for how to conduct an appropriate management level review for each reconciliation. Each reconciliation needs to have its own review parameters that take into consideration the level of judgment required in the operation of the control activities, the underlying process level controls, and the skills and knowledge of the reviewer and the operator of the process level controls. Additionally, we recommend training staff how to prepare reconciliations that are thorough and well documented and how to conduct effective reviews of the work of others.

## **CITY OF DETROIT, MICHIGAN**

### Schedule of Findings and Responses

Year ended June 30, 2013

#### ***Views of Responsible Officials***

##### **Accounting**

We have reviewed the finding and concur with the recommendations. We have been evaluating the City's diverse accounting systems and operations to consolidate and improve the City's accounting. As a result, the quality of life loan, restructuring initiatives, and the pending bankruptcy plan of adjustment has funding and strategies incorporated to specifically address the accounting deficiencies by adding new accounting staff, increasing training and implementing a new ERP. Additionally, in concert with this process, the Finance Department will continue to develop and enforce bank/general ledger account reconciliation policies and procedures to ensure reconciling differences are identified and researched in a timely manner. We will also continue to improve the City's accounting including implementing the recommendations herein.

##### **Human Resources**

The City is looking at a new integrated Human Resource Management Information System to replace our current legacy system. This will result in increased efficiencies and a reduction in the current error rates, as a result of manual processes. In addition, HR conducted a dependent verification audit in 2013, which required employees/retirees to provide proper support documentation of covered dependents/spouses to ensure the validity and completeness of data.

##### **Office of Inspector General**

We have reviewed the finding and concur. The OIG is currently implementing a new software based case management system, which will allow them to track the progress of their caseload. This new system will enable the OIG to meet all of its quarterly reporting requirements going forward.

##### **Treasury**

We have reviewed the finding and concur with the recommendation. Treasury is currently performing a comprehensive analysis of delinquent accounts receivable to determine the likelihood of collectability. Any accounts receivable deemed uncollectible or exceeding the statute of limitations for debt collection, will be presented to the Law Department and City Council for write-off as prescribed by the City Charter. In addition, Treasury will work with Finance Administration and the Accounts Division to develop a bad debt write-off policy/Finance Directive that details the accounts receivable write-off methodology; this will augment the delinquent account collection requirements defined by the City Charter.

##### **Legal**

We have reviewed the finding and concur with the recommendation. The Law Department is currently engaged in a restructuring initiative, using quality of life funds that addresses case, time, and data management issues outlined herein.

##### **Grants**

We have reviewed the finding and concur with the recommendation. The City is in the process of creating an Office of Grants Management that will be responsible for all aspects of Grants, which includes Grant accounting, reporting, and compliance.



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**Risk Management**

We have reviewed the finding and concur with the recommendation. These manual processes are being replaced through the engagement of a Third-Party Administrator (TPA) for workers' compensation.

***Procurement***

We have reviewed the finding and concur with the recommendation. Purchasing will implement a process to identify potential related-party relationships by periodically vouching vendor data against employee information. Any matches will be reviewed and analyzed for appropriateness. In addition, a new future state model of the procurement process has been designed and is in the process of being implemented.

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#### **Finding 2013-03 – Information Technology**

General controls and application controls work together to ensure the completeness, accuracy, and validity of financial and other information in the systems. Deficiencies existed in the areas of general and application controls. Those deficiencies include the following for some or all systems:

- Administrative access was granted to unauthorized accounts.
- Segregation of duties conflicts existed between the database administration function and the back-end database administration function.
- Adequate procedures were not in place to remove and review segregation of duties conflicts.
- Automated methods were not in place for tracking of the changes and customizations made to certain applications.
- Program developers had access to move program changes into production for certain applications.
- The City's payroll system inappropriately included nonpay hours in the calculation of overtime pay, resulting in overpayment to City employees.

#### ***Recommendation***

We recommend the following:

- Access to the back-end database should be restricted to database administrators or compensating controls should be implemented to mitigate the risk associated with concurrent access at the front-end and back-end levels.
- Administrative access to the front-end application should be restricted to application administrators or compensating controls should be implemented to mitigate the risk associated with concurrent access at the front-end and back-end levels.
- Create a matrix to identify application functions that when granted together will give rise to segregation of duties conflict. Follow and enforce the segregation of duties matrix to ensure that segregation of duties conflicts do not exist at the time of role/profile creation.
- Create and enforce a policy to log all confirmation changes, obtain approval from authorized individuals for all configuration changes, and perform appropriate testing on all confirmation changes prior to promoting changes to production.
- Develop and enforce a policy that does not grant access to developers to promote changes into production and access to promote changes into production should be restricted to authorized individuals.
- Correct the calculation used by the City's payroll system to excluded nonpay hours in order to properly calculate overtime pay.

#### ***Views of Responsible Officials***

We have reviewed the findings and concur with the recommendations. The Information Technology Services Department (ITSD) is implementing the recommendations for those systems supported by ITSD. Additionally, ITSD is working with technology staff in other agencies to implement the recommendations for findings related

## **CITY OF DETROIT, MICHIGAN**

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to the systems supported directly by the agencies themselves. The City identified legacy systems where technology does not support the parameters recommended and the systems are scheduled for retirement.

#### **Separation of duties and Administrative/System Access**

Procedures used by the central IT staff are being developed and will be shared with technology staff in other agencies to facilitate consistency in compliance. The lack of human resources will create challenges for improving separation of duties. However, the City will continue to work toward improving IT controls by implementing a standard IT governance model via embedded system controls when possible. For legacy systems, ITSD will work with the system owners to develop standard operating procedures and policies for compliance with the new policies. Chief among these will be the implementation of a formal process for periodic review of user access, the development of a technical "Separation of Duties" matrix, a role based access control matrix, and the implementation of change management and technical review process. Policies and procedures already exist that require such authorization prior to granting/changing access and implementing configuration changes. The ITSD will also develop a method for ensuring that documentation of authorizations is maintained and retrievable for audit reviews.

The City is exploring the implementation of a new Cloud based ERP and HRMIS that will include automated controls to aid the system owners and administrators in enforcing access and security policies. The new Cloud based system(s) along with security policies will aid ITSD with mitigating the conflicting and concurrent access issues by database and application administrators. Moving to a cloud based managed service environment will force the City to comply with standard security and application protocols including the tracking of application changes, customization, promotion of applications to production, and maintaining back-up job logs.

The City will also provide more centralization of IT functions to improve consistency in development and enforcement of policies, which will help with those systems currently outside of centralized IT control.

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**Finding 2013-04 – Escheatment Law**

The City filed the required annual report of unclaimed property to the State of Michigan; however, it was inaccurate as it did not include property tax overpayments. Additionally, the City did not remit escheatable property to the State.

The Uniform Unclaimed Property Act (Public Act 29 of 1995) requires the Michigan Holder Transmittal Annual Report of Unclaimed Property be submitted annually by November 1.

Any holder of unclaimed property who fails to file a report of unclaimed property is subject to fines and penalties as prescribed in Public Act 29 of 1995.

***Recommendation***

We recommend the City conduct an assessment and evaluation of unclaimed property held and file the required report within the annual required deadlines and remit all property required to be remitted.

***Views of Responsible Officials***

We have reviewed the findings and concur with the recommendation. Treasury is currently developing a process to identify and remit property tax overpayments to the State of Michigan in accordance with annual required deadlines. In addition, as part of the property tax refund process, Treasury will routinely review tax payer overpayments and issue overpayment refunds in a timely manner. This measure will mitigate the likelihood of any escheatable items. Treasury is also coordinating efforts with Income Tax, A/P, Payroll, and the Accounts Division to identify other potential escheatable items that will need to be addressed.

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**Finding 2013-05 – Act 451**

The City's Solid Waste fund was not in compliance with Michigan Public Act 451 Part 115. The General Fund borrowed cash from the Solid Waste fund, which should be restricted for a specific purpose.

Public Act 451 Part 115 Section 324.11520 states that Solid Waste fees collected under the Part shall be deposited in a special fund designated for the use in implementing this Part.

***Recommendation***

We recommend the City assesses which funding has restricted purposes and create individual bank accounts for those cash and investments and restrict access to appropriate personnel who are aware of the restrictions.

***Views of Responsible Officials***

Treasury has opened a new account for the Solid Waste fund and will cease comingling restricted Solid Waste funds with the General Fund.

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Year ended June 30, 2013

#### **Finding 2013-06 – Uniform Budgeting and Accounting Act**

The City was not in compliance with Michigan Compiled Laws Act 2 of 1968, Uniform Budgeting and Accounting Act. For certain appropriations stated in note 2(d), the City's actual expenditures were more than budgeted expenditures.

Per Act 2 of 1968, Section 141.438 (3), "Except as otherwise provided in section 19, an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body."

Additionally, the City was not in compliance with State of Michigan Public Act 2 of 1968, which requires a local unit to pass a general appropriations act for all funds except trust or agency, internal service, enterprise, debt service, or capital projects funds for which the legislative body may pass a special appropriation act. Specifically, the Public Lighting Authority (PLA) a special revenue fund and blended component unit of the City that was established during FY13 did not adopt a budget prior to year-end.

#### ***Recommendation***

The Budget Act requires budget amendments before any expenditures exceed the budget. There is no authority to amend the budget after year-end. We recommend budget projections to be prepared on a monthly basis and for amendments to be made as soon as a variance becomes apparent.

#### ***Views of Responsible Officials***

We concur with the finding and City management has taken steps to prevent recurring violations of the Uniform Budgeting and Accounting Act. The Chief Financial Officer issued a budget directive to all city departments in August 2012 that reminded employees of City Charter prohibitions on actions that would violate this act and the severe penalties to individuals who violate these Charter provisions. The directive also clarified and narrowed the types of transactions that the City would consider legal obligations going forward. The Budget Department had meetings with departments in FY 2014 to assist in compliance with the budget. This resulted in amendments to better align the budget with actual spending. The Budget Department is in the process of restructuring our operations and adding additional staff to continue this effort. The Budget Department will begin preparing monthly budget to actual reports that will be shared with the department, the CFO, and the Mayor to maintain compliance with the budget.

**CITY OF DETROIT, MICHIGAN**

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**Finding 2013-07 – Act 346**

The City participates in PILOT (Payment in Lieu of Taxes) programs governed under the Michigan State Housing Development Act of 1966 (MSHDA p.A. 346). Under this act, developers may propose a building project to the City's Assessment Division to be approved for the PILOT program, which would allow the developer to pay a service fee instead of property taxes. The development project must meet several requirements to be approved, including providing a portion of housing to low-income or a disadvantaged group of persons and the City will bill the development owner (customer) once a year for the PILOT service fee.

Per MSHDA p.A.346, the City must distribute PILOT service fee collections to Wayne County, the State of Michigan, and to Detroit Public Schools (DPS). The MSHDA Fee Annual Return is provided to the City each year by the State, indicating the millage rates to be used to determine the allocation for distribution to the three entities. The City did not distribute the 2010 and 2012 PILOT collections to the State of Michigan in a timely manner and, therefore, is not in compliance with the State of Michigan Public Act 346 of 1966.

***Recommendation***

We recommend the City identify all compliance related regulations and implement control processes to ensure compliance is maintained and monitored.

***Views of Responsible Officials***

We have reviewed the finding and concur with the recommendation. We will monitor and implement controls to ensure PILOT compliance is maintained.

**CITY OF DETROIT, MICHIGAN**

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**Finding 2013-08 – Retirement Pension Contributions**

The City is required by State of Michigan law to fund its minimally required pension contributions for the fiscal year ended June 30, 2013, prior to said date. The City failed to remit its complete contribution prior to June 30, 2013.

***Recommendation***

We recommend the City identify all compliance related regulations and implement control processes to ensure compliance is maintained and monitored.

***Views of Responsible Officials***

The City acknowledges noncompliance with the State of Michigan law to fund its minimally required pension contributions. However, this is indicative of the City's overall liquidity issue and the eventual filing for Chapter 9 bankruptcy on July 18, 2013. The pending bankruptcy plan of adjustment submitted to the court details the City's intent post-bankruptcy to make all required pension payments to ensure compliance with the State law.



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**Finding 2013-09 – Public Act 206 Property Tax Act**

The City is required by the State of Michigan Public Act 2005 and the General Property Tax Act, MCL 211.43(3)(a) to deliver within 10 business days after the 1st and 15th of each month, the tax collections on hand to the county treasurer and other tax assessing units. The City did not deliver within 10 days, and thus, was noncompliant with PA 206 related to property tax collections and disbursements.

***Recommendation***

We recommend Management assesses the process in place to distribute General Property Tax Act collections to the county treasurer and other tax assessing units and implement control procedures to ensure timely distribution of collections subject to the General Property Tax Act.

***Views of Responsible Officials***

We have reviewed the finding and concur with the recommendation. Treasury has completely revamped the property tax distribution process and has hired adequate staff to ensure that property tax collections for the appropriate taxing authorities are remitted by the PA 206 statutory distribution deadline. In addition, a process and procedure is being implemented to monitor all General Property Tax transactions using discrete bank and general ledger accounts to ensure compliance with State of Michigan Public Act 2005 and General Property Tax Act, MCL 211.43(3)(a).

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**Finding 2013-10 – OMB Circular A-133, Section 300**

The City did not appropriately track grant activities in the general ledger for the fiscal year ended June 30, 2013. The general ledger records are not accurate at the individual grant level, as required by OMB Circular A-133, Section 300.

OMB Circular A-133, Section 300 states, “The auditee shall:

- 1) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- 2) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
- 3) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.”

***Recommendation***

The City should implement a comprehensive grants management program that addresses risks of noncompliance with the terms of grant agreements and other related laws and regulations.

***Views of Responsible Officials***

We have reviewed the finding and concur with the recommendation. The City has created an Office of Grants Management within the office of the CFO and implemented a new grants management system. The Office of Grants Management will be responsible for all nonprogrammatic aspects of the grants process, which includes grant management, accounting, reporting, and compliance.