MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT

FINANCIAL AUDIT
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT
OF THE

LAND BANK FAST TRACK AUTHORITY

(A Discretely Presented Component Unit of the State of Michigan)

October 1, 2008 through September 30, 2010

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

641-0425-11

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

– Article IV, Section 53 of the Michigan Constitution

Michigan

Office of the Auditor General

REPORT SUMMARY

Financial Audit

Including the Provisions of the Single Audit Act

Land Bank Fast Track Authority

(A Discretely Presented Component Unit of the State of Michigan)

October 1, 2008 through September 30, 2010

Report Number:
641-0425-11

Released:
June 2011

A single audit is designed to meet the needs of all financial report users, including an entity's federal grantor agencies. The audit determines if the financial schedules and/or financial statements are fairly presented; considers internal control over financial reporting and internal control over federal program compliance; determines compliance with requirements material to the financial schedules and/or financial statements; and assesses compliance with direct and material requirements of the major federal programs.

Financial Statements:

Auditor's Report Issued

We issued an unqualified opinion on the Land Bank Fast Track Authority's basic financial statements.

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Internal Control Over Financial Reporting

We identified a material weakness in internal control over financial reporting (Finding 1). We also identified a significant deficiency in internal control over financial reporting (Finding 2).

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Noncompliance and Other Matters Material to the Financial Statements

We did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under *Government Auditing Standards*.

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Federal Awards:

Auditor's Reports Issued on Compliance

We audited 2 programs as major programs (including 1 ARRA related program) and reported known questioned costs of $36,372. The Land Bank Fast Track Authority expended a total of $9.3 million in federal awards, including $155,000 of ARRA funding, during the two-year period ended September 30, 2010. We issued 2 qualified opinions. The federal programs audited as major programs are identified on the back of this summary.

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Internal Control Over Major Programs

We identified material weaknesses in internal control over federal program compliance (Findings 3 and 4). We also identified significant deficiencies in internal control over federal program compliance (Findings 3 and 4).

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Required Reporting of Noncompliance
We identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133 (Findings 3 and 4).

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Internal Accounting and Administrative Control System:
Section 18.1489 of the *Michigan Compiled Laws* requires the Auditor General to evaluate the implementation of Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* and report to the Legislature in the financial audit of each department. As a result of Executive Reorganization Order No. 2007-31 (Consolidating Internal Audit Functions), in which responsibility for most of the sections was moved to the Office of Internal Audit Services, Department of Management and Budget, we have evaluated the implementation of only Section 18.1485 in this financial audit. Section 18.1485 requires each department director to establish an internal accounting and administrative control system, defines the elements of that system, defines the duties of the department director, and provides for certain reports. We determined that the Land Bank Fast Track Authority was in substantial compliance with Section 18.1485 of the *Michigan Compiled Laws*.

The remaining sections (Sections 18.1483, 18.1484, and 18.1486 - 18.1488 of the *Michigan Compiled Laws*) will be evaluated and reported on in the performance audit of the Office of Internal Audit Services, Department of Technology, Management & Budget.

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We audited the following programs as major programs:

CFDA Number	***Program or Cluster Title***	***Compliance Opinion***
	CDBG - State-Administered Small Cities Program Cluster:	Qualified
14.228	• Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	
14.256	ARRA - Neighborhood Stabilization Program (Recovery Act Funded)	Qualified

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: http://audgen.michigan.gov

Michigan Office of the Auditor General
201 N. Washington Square
Lansing, Michigan 48913

Thomas H. McTavish, C.P.A.
Auditor General

Scott M. Strong, C.P.A., C.I.A.
Deputy Auditor General

STATE OF MICHIGAN
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

June 22, 2011

Mr. Andrew Meisner, Chair
Land Bank Fast Track Authority Board
Building 12 East
Pontiac, Michigan
and
Ms. Kim Homan, Executive Director
Land Bank Fast Track Authority
State Office Secondary Complex
General Office Building
Lansing, Michigan
and
Mr. Steven H. Hilfinger, Director
Department of Licensing and Regulatory Affairs
Ottawa Building
Lansing, Michigan

Mr. Andy Dillon
State Treasurer
Richard H. Austin Building
Lansing, Michigan
and
Mr. Michael Finney, President
Michigan Strategic Fund
300 North Washington Square
Lansing, Michigan

Dear Mr. Meisner, Ms. Homan, Mr. Hilfinger, Mr. Dillon, and Mr. Finney:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Land Bank Fast Track Authority (LBFTA), a discretely presented component unit of the State of Michigan, for the period October 1, 2008 through September 30, 2010.

This report contains our report summary, our independent auditor's report on the financial statements, the LBFTA management's discussion and analysis, and the LBFTA financial statements and schedule of expenditures of federal awards. This report also contains our independent auditor's report on internal control over financial reporting and on compliance and other matters, our independent auditor's report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133, and our schedule of findings and questioned costs. In addition, this report contains the LBFTA's summary schedule of prior audit findings, its corrective action plan, and a glossary of acronyms and terms.

Our findings and recommendations are contained in Section II and Section III of the schedule of findings and questioned costs. The agency preliminary responses are contained in the corrective action plan. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a plan to address the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

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INDEPENDENT AUDITOR'S REPORT

STATE OF MICHIGAN
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on the Financial Statements

Mr. Andrew Meisner, Chair
Land Bank Fast Track Authority Board
Building 12 East
Pontiac, Michigan
and
Ms. Kim Homan, Executive Director
Land Bank Fast Track Authority
State Office Secondary Complex
General Office Building
Lansing, Michigan
and
Mr. Steven H. Hilfinger, Director
Department of Licensing and Regulatory Affairs
Ottawa Building
Lansing, Michigan

Mr. Andy Dillon
State Treasurer
Richard H. Austin Building
Lansing, Michigan
and
Mr. Michael Finney, President
Michigan Strategic Fund
300 North Washington Square
Lansing, Michigan

Dear Mr. Meisner, Ms. Homan, Mr. Hilfinger, Mr. Dillon, and Mr. Finney:

We have audited the accompanying basic financial statements of the Land Bank Fast Track Authority, a discretely presented component unit of the State of Michigan, as of and for the fiscal years ended September 30, 2010 and September 30, 2009, as identified in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the basic financial statements present only the Land Bank Fast Track Authority and do not purport to, and do not, present fairly the financial position of the State of Michigan or its component units as of September 30, 2010 and September 30, 2009 and the changes in financial position and cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Land Bank Fast Track Authority as of September 30, 2010 and September 30, 2009 and the changes in financial position and cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2011 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 11 through 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the Authority's basic financial statements referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial schedules taken as a whole.

AUDITOR GENERAL

June 13, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Land Bank Fast Track Authority (LBFTA) has prepared this discussion and analysis of the financial performance of LBFTA for the period October 1, 2008 through September 30, 2010, with the assistance of the Department of Energy, Labor & Economic Growth (DELEG) for the financial details. LBFTA is a discretely presented component unit of the State of Michigan, which was created by the Michigan Legislature in January 2004 under Act 258, P.A. 2003. LBFTA was created as a public body corporate and politic independent, but within DELEG, with budgeting, procurement, and related administrative or management functions of the State authority to be performed under the direction and supervision of the director of DELEG. LBFTA's management, in coordination with DELEG, is responsible for the basic financial statements, supplemental financial schedule, and this discussion.

Using the Financial Report

This financial report is prepared in accordance with Governmental Accounting Standards Board standards.

The reporting standards require a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows. This financial report includes the reports of independent auditors, management's discussion and analysis, the basic financial statements, the notes to the financial statements that explain some of the information in the financial statements and provide more detailed data, and a supplemental financial schedule.

The financial statements are interrelated and represent the financial status of LBFTA. The statement of net assets presents assets and liabilities as of the end of fiscal years 2009-10 and 2008-09. The statement of revenues, expenses, and changes in net assets presents the revenues earned and expenses incurred during fiscal years 2009-10 and 2008-09. The statement of cash flows presents information related to cash in-flows and out-flows summarized by operating, noncapital financing, capital and related financing, and investing activities.

Major Changes

Executive Orders

Executive Order No. 2010-2, issued by Governor Granholm on March 4, 2010 and effective May 30, 2010, transferred LBFTA by Type I transfer from DELEG to the

Department of Treasury. The actual transfer of responsibilities for budgeting and finance from DELEG to the Department of Treasury was not finalized until the close of fiscal year 2009-10.

Subsequently, Executive Order No. 2011-4 was issued by Governor Snyder on February 23, 2011 and became effective on April 24, 2011. As a result, LBFTA was transferred from the Department of Treasury to the Michigan Strategic Fund, and the budgeting, procurement, and related management functions of LBFTA are to be performed under the direction and supervision of the president of the Michigan Strategic Fund.

Federally Funded Neighborhood Stabilization Programs

LBFTA for the first time received federal funds beginning in fiscal year 2008-09. LBFTA is a subrecipient and/or grantee of federal funding for two U.S. Department of Housing and Urban Development (HUD) programs passed through the Michigan State Housing Development Authority (MSHDA). The projects were awarded for the periods beginning March 2009 and February 2010, respectively. The projects cover a period of four and three years, respectively, and require that LBFTA expend funds on eligible activities and then request reimbursement from MSHDA.

NSP1: The Neighborhood Stabilization Program 1 (NSP1) was established for the purpose of stabilizing communities that suffered from foreclosures and abandonment through the purchase and redevelopment of foreclosed and abandoned homes and residential properties and was authorized under Division B, Title III of the Housing and Economic Recovery Act of 2008 (HERA). LBFTA was awarded $12.6 million in federal funds for demolition of blighted structures that were in LBFTA's inventory and acquisition of properties for redevelopment.

NSP2: Under the American Recovery and Reinvestment Act of 2009 (ARRA), Congress established the Neighborhood Stabilization Program 2 (NSP2), in reaction to the mortgage foreclosure crisis, to stabilize neighborhoods whose viability is negatively affected by properties that have been foreclosed upon and abandoned. LBFTA is the NSP2 partner land bank for six cities, including Detroit, Grand Rapids, Hamtramck, Highland Park, Pontiac, and Wyandotte, and each partnership has a HUD-approved allocation of funding divided between the city and partner land bank based on eligible program activities. In February 2010, LBFTA received an allocation of NSP2 funds from MSHDA. LBFTA's total NSP2 allocation was originally $17,871,439, of which $155,243 was expended by the end of this audit period.

Analysis of Financial Activities

The assets of LBFTA exceeded its liabilities by $13.3 million at September 30, 2010 and by $10.4 million at September 30, 2009.

Condensed Financial Information
From the Statement of Net Assets
As of September 30

	2010	2009
Current assets	$ 3,466,698	$ 3,157,799
Capital assets	12,073,954	8,645,000
Total assets	$ 15,540,652	$ 11,802,799
Current liabilities	$ 2,257,605	$ 1,188,150
Long-term liabilities	7,787	255,623
Total liabilities	$ 2,265,392	$ 1,443,773
Net assets		
Invested in capital assets	$ 12,073,954	$ 8,645,000
Unrestricted net assets	1,201,306	1,714,026
Total net assets	$ 13,275,260	$ 10,359,026

Current assets primarily consist of amounts in the State of Michigan's equity in common cash and receivables from the federal government. Current assets realized a net increase of $309,000 in fiscal year 2009-10 primarily due to a $2.7 million decrease in equity in common cash and a $3.0 million increase in receivables from the federal government related to the federally funded NSP1 program. Current assets realized a net increase of $936,000 in fiscal year 2008-09 primarily due to a $503,000 increase in equity in common cash and a $433,000 increase in amounts due from federal government related to the federally funded NSP1 program.

Capital assets primarily consist of tax reverted properties transferred from the Department of Natural Resources (DNR) in 2004 and 2006. Since changes to the tax laws in 1999, LBFTA now receives only a small number of tax-foreclosed properties from DNR each year. Capital assets increased by $3.4 million in fiscal year 2009-10 primarily due to the acquisition of two properties for redevelopment under the federally funded NSP1 program. Capital assets decreased by $154,000 in fiscal year 2008-09 as a result of the normal course of operations, which includes acquiring and selling properties.

Current liabilities increased by $1.1 million in fiscal year 2009-10. In fiscal year 2009-10, LBFTA had a negative cash balance due to timing related to drawing federal funds. As a result of the negative cash balance, LBFTA borrowed cash from the primary government, creating a $567,000 increase in current liabilities. Also, in fiscal year 2009-10, accounts payable increased by $484,000, which primarily consists of amounts due to LBFTA's contractors for operation of the federally funded NSP1 program. Current liabilities increased by $1.1 million in fiscal year 2008-09 primarily due to a $760,000 increase in the current portion of other long-term obligations and a $361,000 increase in accounts payable and other liabilities related to LBFTA's operation of the federally funded NSP1 program.

Overall, net assets increased by $2.9 million during fiscal year 2009-10 and decreased by $528,000 during fiscal year 2008-09 as a result of the preceding activities.

Condensed Financial Information

From the Statement of Revenues, Expenses, and Changes in Net Assets

For the Fiscal Years Ended September 30

	2010	2009
Operating revenues		
Operating grants and contributions	$ 9,116,089	$ 527,705
Other operating revenues and interest earnings	33,143	135,919
Total operating revenues	$ 9,149,232	$ 663,624
Operating expenses		
Salaries, wages, and administrative expenses	$ 861,223	$ 701,664
Contractual services and utilities	5,264,848	490,340
Loss on sales	106,927	
Total operating expenses	$ 6,232,998	$ 1,192,004
Operating income (loss)	$ 2,916,234	$ (528,380)
Change in net assets	$ 2,916,234	$ (528,380)
Net assets - Beginning of the fiscal year	10,359,026	10,887,406
Net assets - End of fiscal year	$ 13,275,260	$ 10,359,026

Operating grants and contributions increased by $8.6 million in fiscal year 2009-10 and by $443,000 in fiscal year 2008-09 primarily due to the receipt of federal revenues related to LBFTA's operation of the federally funded NSP1 program.

Other operating revenues and interest earnings decreased by $103,000 in fiscal year 2009-10 and decreased by $283,000 in fiscal year 2008-09 due to decreased gains on property sales, decreased other operating revenue, and decreased interest earnings.

Contractual services and utilities increased by $4.8 million in fiscal year 2009-10 and increased by $129,000 in fiscal year 2008-09 primarily due to LBFTA's operation of its first federally funded program, the NSP1 program. Beginning in fiscal year 2008-09, LBFTA contracted with a number of entities to achieve the program's objectives. LBFTA began making payments to these contractors during fiscal year 2008-09, with a significant amount of payments occurring in fiscal year 2009-10.

BASIC FINANCIAL STATEMENTS

LAND BANK FAST TRACK AUTHORITY
Statement of Net Assets
As of September 30

	2010	2009
ASSETS		
Current assets:		
Equity in common cash (Note 2)	$	$ 2,724,690
Amounts due from federal government	3,466,698	433,108
Total current assets	$ 3,466,698	$ 3,157,799
Capital assets:		
Land and other nondepreciable assets (Note 3)	12,073,954	8,645,000
Total assets	$ 15,540,652	$ 11,802,799
LIABILITIES		
Current liabilities:		
Warrants outstanding	$ 18,371	$ 38
Accounts payable and other liabilities	877,080	393,082
Amounts due to primary government (Note 1)	570,897	7,514
Bonds and notes payable		25,000
Current portion of other long-term obligations (Note 1)	791,257	762,516
Total current liabilities	$ 2,257,605	$ 1,188,150
Noncurrent liabilities:		
Noncurrent portion of other long-term obligations (Note 1)	7,787	255,623
Total liabilities	$ 2,265,392	$ 1,443,773
NET ASSETS		
Invested in capital assets, net of related debt	$ 12,073,954	$ 8,645,000
Unrestricted	1,201,306	1,714,026
Total net assets	$ 13,275,260	$ 10,359,026

The accompanying notes are an integral part of the financial statements.

LAND BANK FAST TRACK AUTHORITY
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Years Ended September 30

	2010	2009
OPERATING REVENUES		
Operating grants and contributions (Note 1)		
Federal revenues	$ 9,073,089	$ 431,705
Capital contributions	43,000	96,000
Total operating grants and contributions	$ 9,116,089	$ 527,705
Other operating revenues and interest earnings		
Gain on sales	$	$ 60,832
Other operating revenues	25,901	51,779
Interest earnings	7,242	23,308
Total other operating revenues and interest earnings	$ 33,143	$ 135,919
Total operating revenues	$ 9,149,232	$ 663,624
OPERATING EXPENSES		
Salaries, wages, and administrative expenses	$ 861,223	$ 701,664
Contractual services and utilities (Note 1)	5,264,848	490,340
Loss on sales	106,927	
Total operating expenses	$ 6,232,998	$ 1,192,004
Operating income (loss)	$ 2,916,234	$ (528,380)
Change in net assets	$ 2,916,234	$ (528,380)
Total net assets - Beginning of fiscal year	10,359,026	10,887,406
Total net assets - End of fiscal year	$ 13,275,260	$ 10,359,026

The accompanying notes are an integral part of the financial statements.

LAND BANK FAST TRACK AUTHORITY
Statement of Cash Flows
For the Fiscal Years Ended September 30

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from federal government	$ 6,039,499	$
Payments to employees	(807,326)	(628,140)
Payments to suppliers	(4,833,291)	(196,906)
Other receipts	900	6,778
Other payments		(1,403)
Net cash provided (used) by operating activities	$ 399,782	$ (819,671)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Advance or advance repayments to component units	$ (224,454)	$ 1,000,000
Loans or loan repayments from primary government	567,288	
Net cash provided (used) by noncapital financing activities	$ 342,834	$ 1,000,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	$ (3,592,954)	$
Proceeds from sale of capital assets	100,073	301,833
Net cash provided (used) by capital and related financing activities	$ (3,492,881)	$ 301,833
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends on investments	$ 7,242	$ 23,308
Net cash provided (used) by investing activities	$ 7,242	$ 23,308
Net cash provided (used) - All activities	$ (2,743,024)	$ 505,469
Cash and cash equivalents at beginning of year	2,724,653	2,219,183
Cash and cash equivalents at end of year	$ (18,371)	$ 2,724,653
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Per statement of net assets classifications:		
Equity in common cash	$	$ 2,724,690
Warrants outstanding	(18,371)	(38)
Cash and cash equivalents at end of year	$ (18,371)	$ 2,724,653
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	$ 2,916,234	$ (528,380)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Interest earnings	(7,242)	(23,308)
Capital contributions	(43,000)	(96,000)
Forgiveness of debt	(25,000)	(45,000)
Gain on disposal of capital assets		(60,832)
Loss on disposal of capital assets	106,927	9,000
Net changes in assets and liabilities:		
Amounts due from federal agencies	(3,039,596)	(433,108)
Accounts payable and other liabilities	491,459	357,957
Net cash provided (used) by operating activities	$ 399,782	$ (819,671)
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Capital contributions	$ 43,000	$ 96,000
Forgiveness of debt	(25,000)	(45,000)
Gain on disposal of capital assets		60,832
Loss on disposal of capital assets	(106,927)	(9,000)
Total noncash investing, capital, and financing activities	$ (88,927)	$ 102,832

The accompanying notes are an integral part of the financial statements.

Note 1 Summary of Significant Accounting Policies

a. Reporting Entity

The Land Bank Fast Track Authority (LBFTA), a discretely presented component unit of the State of Michigan, was created by the Michigan Legislature in January 2004 under Act 258, P.A. 2003. LBFTA was created to assemble or dispose of public property, including tax reverted property, in a coordinated manner to foster the development of that property and to promote economic growth in Michigan. LBFTA was created as a public body corporate and politic independent, but within the Department of Energy, Labor & Economic Growth (DELEG), with budgeting, procurement, and related administrative or management functions of the State authority to be performed under the direction and supervision of the director of DELEG.

Effective May 30, 2010, the Governor issued Executive Order No. 2010-2, transferring LBFTA to the Department of Treasury. However, DELEG continued providing accounting functions for LBFTA through September 30, 2010.

Effective April 24, 2011, the Governor issued Executive Order No. 2011-4, renamed DELEG as the Department of Licensing and Regulatory Affairs, and transferred LBFTA to the Michigan Strategic Fund.

b. Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The accompanying financial statements present only LBFTA for the fiscal years ended September 30, 2010 and September 30, 2009. Accordingly, they do not purport to, and do not, present fairly the financial position and the changes in financial position and cash flows of the State of Michigan or its component units in conformity with accounting principles generally accepted in the United States of America. The financial transactions of LBFTA are reported within the *State of Michigan Comprehensive Annual Financial Report* (*SOMCAFR*).

The notes accompanying these financial statements relate directly to LBFTA. The *SOMCAFR* provides more extensive disclosures regarding the State's significant accounting policies; budgeting, budgetary control, and legal compliance; pension benefits; and other postemployment benefits.

c. Measurement Focus and Basis of Accounting

The financial statements contained in this report are presented using the economic resources measurement focus and the accrual basis of accounting, as provided by accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

As allowed by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* LBFTA follows all GASB pronouncements and those Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

d. Financial Data

LBFTA financial statements present the following:

(1) LBFTA Cash Account: LBFTA utilizes the State Treasurer's Common Cash pool as its primary cash account for LBFTA's activities. Revenues collected are deposited and expenses are paid from this account. For the purpose of the statement of cash flows, LBFTA considers equity in the State Treasurer's Common Cash pool, net of warrants outstanding, to be cash and cash equivalents.

(2) Capital Assets: Capital assets consist of parcels of land purchased and acquired tax reverted properties. Purchased land is recorded at the purchase price of the land plus the cost to ready the land for its intended use. Tax reverted properties are valued at $1,000 per parcel. In fiscal year 2008-09, LBFTA held 8,645 tax reverted properties. In fiscal year 2009-10, LBFTA held 8,481 tax reverted properties.

(3) Amounts Due to Primary Government: At the end of fiscal year 2009-10, LBFTA had a negative cash balance due to timing related to drawing federal funds. As a result of the negative cash balance, LBFTA borrowed cash from the primary government in the amount of $567,288.

(4) Other Long-Term Obligations: Effective May 2009, LBFTA entered into an agreement with the Michigan State Housing Development Authority (MSHDA) to receive an advance of $1 million from MSHDA's general operating funds to be repaid by March 19, 2013. In fiscal year 2009-10, LBFTA repaid $224,454, leaving a current balance outstanding of $775,546. LBFTA plans to repay the balance of the advance in fiscal year 2010-11. Other long-term obligations also include compensated absence costs, which are accrued when earned by employees.

(5) Revenues/Expenses: Operating revenues and expenses generally result from the purchase and resale of properties and the receipt of federal grants for the demolition of structures on existing properties and the acquisition of properties. LBFTA did not have any nonoperating revenues and expenses. Revenues are recognized at the time they are earned. Operating grants and contributions increased by $8.6 million in fiscal year 2009-10 primarily due to the receipt of federal revenues related to LBFTA's operation of the federally funded NSP1 program. Contractual services and utilities expenses increased by $4.8 million in fiscal year 2009-10 also primarily due to LBFTA's operation of the federally funded NSP1, in which LBFTA contracted with a number of entities to achieve the program's objectives.

Note 2 Equity in the State Treasurer's Common Cash

Equity in the State Treasurer's Common Cash pool represents LBFTA's interest, at market, in an investment pool managed by the State Treasurer.

The investment authority for the Common Cash pool is found in Sections 21.141 - 21.147 of the *Michigan Compiled Laws*. The State Treasurer may invest surplus funds belonging to the State in the bonds, notes, and other evidences of indebtedness of the United States government or its agencies and in prime commercial paper. Certificates of deposit are permitted in financial institutions whose principal office is located in the State of Michigan.

LBFTA's pro-rata share of the State Treasurer's Common Cash pool was $0 and $2,724,690 at September 30, 2010 and September 30, 2009, respectively. For the total amount of deposits and investments in the State Treasurer's Common Cash pool and their specific risks, please refer to the *SOMCAFR.*

a. Common Cash Deposits

(1) Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, the State's deposits may not be recovered.

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are:

(a) Uncollateralized,

(b) Collateralized with securities held by the pledging financial institution, or

(c) Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.

The State Treasurer's Common Cash pool policy requires the following criteria to lessen the custodial credit risk: All financial institutions holding the State's money must pledge collateral equal to the amount of the account balance for all demand and time deposits to secure the State's funds; a bank, savings and loan association, or credit union holding the State's funds must be organized under the laws of Michigan or federal law and maintain a principal office or branch office in the State of Michigan; and no deposit in any financial organization may be in excess of 50% of the net worth of the organization.

(2) Foreign Currency Risk: Foreign currency risk for deposits is the risk that changes in exchange rates will adversely affect the fair value of deposits.

Section 487.714 of the *Michigan Compiled Laws* requires State deposits to be held in a financial institution that maintains a principal office or branch office located in the State of Michigan. The State had no Common Cash pool deposits subject to foreign currency risk at September 30, 2010 or September 30, 2009.

b. Common Cash Investments

(1) Types of Investments: State Treasurer's Common Cash pool investments include prime commercial paper, corporate notes, and emergency municipal notes.

(2) Risk: In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, investments also require certain disclosures regarding policies and practices with respect to the risks associated with them. The custodial credit risk, the credit risk, the

interest rate risk, the concentration of credit risk, and the foreign currency risk are discussed in the following paragraphs:

(a) Custodial Credit Risk: Custodial credit risk for investments is the risk that, in the event of a failure of a counterparty, LBFTA will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either:

a. The counterparty or

b. The counterparty's trust department or agent, but not in the government's name.

The State Treasurer does not have an investment policy for managing custodial credit risk. At September 30, 2010 and September 30, 2009, Common Cash pooled investments were not exposed to custodial credit risk.

(b) Credit Risk: Credit risk is the risk that an issuer or another counterparty to an investment will not fulfill its obligations.

The State Treasurer requires that prime commercial paper investments be rated A-1 or P-1 at the time of purchase as rated by the two major rating services, Standard & Poor's (A-1) and Moody's Investors Service, Inc. (P-1). Borrowers must also have at least $400 million in commercial paper outstanding, and the State Treasurer may not invest in more than 10% of a borrower's outstanding debt. The Common Cash pooled investments are further limited to $200 million in any borrower, unless the borrower has an A-1+ rating, in which case the investment is not to exceed $300 million.

The State Treasurer's investment of the Common Cash pool in sugar beet loans is evidenced by unrated zero-interest promissory notes. The State Treasurer's investment in emergency municipal loans is evidenced by unrated notes held by the State in the State's name. In addition, at September 30, 2010 and September 30, 2009, prime commercial paper investments were rated at A-1, P-1, or above.

(c) Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The State Treasurer's Common Cash pool policy states that cash equivalents are to be invested in short-term fixed income securities with an average weighted maturity of less than one year to provide liquidity and safety of principal from capital market and default risk.

The State Treasurer does not have a policy for controlling interest rate risk regarding the Common Cash pool investments in special loan programs (Emergency Financial Assistance Loan Program and Michigan Sugar Beet Loan Program). These loan programs are investments created through legislation. Although some interest rate risk exposure exists, interest rate risk is not a consideration when entering into the special loan programs.

(d) Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of a government's investment with a single issuer.

LBFTA is invested in pooled investments in the State Treasurer's Common Cash pool, which is excluded from concentration of credit risk disclosure requirements.

(e) Foreign Currency Risk: Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the fair value of investments.

The State Treasurer's Common Cash pool investment policy does not allow for investment in foreign investments or currency; therefore, LBFTA is not exposed to foreign currency risk.

Note 3 Capital Assets

Capital asset activity for the fiscal years ended September 30, 2010 and September 30, 2009 was as follows:

	October 1, 2009	Additions	Disposals	September 30, 2010
Capital assets not being depreciated:				
Land	$ 8,645,000	$ 3,635,954	$ 207,000	$ 12,073,954
Total capital assets not being depreciated	$ 8,645,000	$ 3,635,954	$ 207,000	$ 12,073,954

	October 1, 2008	Additions	Disposals	September 30, 2009
Capital assets not being depreciated:				
Land	$ 8,799,000	$ 96,000	$ 250,000	$ 8,645,000
Total capital assets not being depreciated	$ 8,799,000	$ 96,000	$ 250,000	$ 8,645,000

Note 4 Long-Term Obligations

Long-term obligation activity for the fiscal years ended September 30, 2010 and September 30, 2009 was as follows:

	October 1, 2009	Additions	Reductions	September 30, 2010	Amounts Due Within One Year
Compensated absences	$ 18,139	$ 36,487	$ 31,128	$ 23,498	$ 15,711
Advances from component units	1,000,000		224,454	775,546	775,546
Total	$1,018,139	$ 36,487	$ 255,582	$ 799,044	$ 791,257

	October 1, 2008	Additions	Reductions	September 30, 2009	Amounts Due Within One Year
Compensated absences	$ 24,918	$ 22,454	$ 29,233	$ 18,139	$ 12,516
Advances from component units	0	1,000,000	0	1,000,000	750,000
Total	$ 24,918	$ 1,022,454	$ 29,233	$ 1,018,139	$ 762,516

The estimated portion of employee leave balances remaining relatively unchanged throughout the fiscal year is recorded as noncurrent.

Note 5 Risk Management

LBFTA participates in the State of Michigan's (primary government) risk management program. The State is self-insured for most general liability and property losses; portions of its employee insurance benefit and bonding programs; and automobile liability, workers' compensation, and unemployment claims. The State Sponsored Group Insurance Fund and Risk Management Fund (internal service funds) have been established by the State to account for these self-insured risk management programs. As a participant, LBFTA recognizes expenses for payments made to the State in a manner similar to purchasing commercial insurance. Charges to finance the self-insured programs are based on estimates of amounts needed to pay prior and current year claims as determined annually by the Department of Technology, Management & Budget.

Note 6 Pension Plans

LBFTA employees are State classified employees who are covered by the Michigan State Employees' Retirement System Defined Benefit or Defined Contribution Plans. Detail and data regarding the Plans' descriptions, accounting policies, vesting and eligibility requirements, actuarial cost methods and assumptions, funding status and requirements, and 10-year historical trend information are provided in the Plans' detailed financial reports. State statutes provide retired employees with other postemployment benefits, such as health, dental, vision, and life insurance coverage based on vesting and other requirements. The cost of retiree health care and other benefits is allocated by the Office of Retirement Services and funded on a pay-as-you-go basis.

LBFTA was billed and paid between 15.9% and 33.3% and between 15.8% and 30.6% of its payroll costs for pension charges and retiree postemployment benefits in fiscal years 2009-10 and 2008-09, respectively. The Plans' detailed financial statements can be obtained from the Office of Retirement Services, Department of Technology, Management & Budget, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan 48909.

Note 7 Differences in Reporting From the *SOMCAFR*

LBFTA did not record the acquisition of two parcels of property totaling $3.6 million dollars in fiscal year 2009-10. In addition, LBFTA did not record accounts payable and classify expenses in the proper year totaling $175,000 in fiscal year 2009-10 and $181,000 in fiscal year 2008-09. As a result, the fiscal year 2009-10 and 2008-09 statements were adjusted from the fiscal year 2009-10 and 2008-09 *SOMCAFR* to properly reflect the property acquisitions and incurred expenses. The Office of Financial Management, Department of Technology, Management & Budget, has issued a waiver that allows for this presentation that is different from the presentation in the *SOMCAFR* for the fiscal years ended September 30, 2010 and September 30, 2009.

Note 8 Subsequent Event

In November 2010, LBFTA purchased land in the amount of $606,537.

SUPPLEMENTAL FINANCIAL SCHEDULE

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LAND BANK FAST TRACK AUTHORITY
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2008 through September 30, 2010

Federal Agency/Program or Cluster	*CFDA* (2) Number	Pass-Through Identification Number	Directly Expended for the Fiscal Year Ended September 30 2009	Directly Expended for the Fiscal Year Ended September 30 2010	Total Expended for the Two-Year Period
U.S. Department of Housing and Urban Development					
CDBG - State-Administered Small Cities Program Cluster:					
Pass-Through Program:					
Michigan State Housing Development Authority					
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	B-08-DN-26-0001	$ 252,366	$ 8,923,852	$ 9,176,218
Total CDBG - State-Administered Small Cities Program Cluster			$ 252,366	$ 8,923,852	$ 9,176,218
Pass-Through Program:					
Michigan State Housing Development Authority					
ARRA - Neighborhood Stabilization Program (Recovery Act Funded)	14.256	B-09-CN-MI-0035	$	$ 155,243	$ 155,243
Total U.S. Department of Housing and Urban Development			**$ 252,366**	**$ 9,079,095**	**$ 9,331,461**
Total Expenditures of Federal Awards			$ 252,366	$ 9,079,095	$ 9,331,461

(1) Basis of Presentation: This schedule presents the federal grant activity of the Land Bank Fast Track Authority on the modified accrual basis of accounting and in accordance with the requirements of U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

(2) *CFDA* is defined as *Catalog of Federal Domestic Assistance.*

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INDEPENDENT AUDITOR'S REPORTS ON INTERNAL CONTROL AND COMPLIANCE

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Mr. Andrew Meisner, Chair
Land Bank Fast Track Authority Board
Building 12 East
Pontiac, Michigan
and
Ms. Kim Homan, Executive Director
Land Bank Fast Track Authority
State Office Secondary Complex
General Office Building
Lansing, Michigan
and
Mr. Steven H. Hilfinger, Director
Department of Licensing and Regulatory Affairs
Ottawa Building
Lansing, Michigan

Mr. Andy Dillon
State Treasurer
Richard H. Austin Building
Lansing, Michigan
and
Mr. Michael Finney, President
Michigan Strategic Fund
300 North Washington Square
Lansing, Michigan

Dear Mr. Meisner, Ms. Homan, Mr. Hilfinger, Mr. Dillon, and Mr. Finney:

We have audited the basic financial statements of the Land Bank Fast Track Authority, a discretely presented component unit of the State of Michigan, as of and for the fiscal years ended September 30, 2010 and September 30, 2009, as identified in the table of contents, and have issued our report thereon dated June 13, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs in Finding 1 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs in Finding 2 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Authority's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Governor; the Legislature; the Land Bank Fast Track Authority Board; management; others within the Department of Licensing and Regulatory Affairs, the Department of Treasury, and the Michigan Strategic Fund; federal awarding agencies; and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

June 13, 2011

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on Compliance With
Requirements That Could Have a Direct and Material Effect on
Each Major Program and on Internal Control Over Compliance in
Accordance With OMB Circular A-133

Mr. Andrew Meisner, Chair
Land Bank Fast Track Authority Board
Building 12 East
Pontiac, Michigan
and
Ms. Kim Homan, Executive Director
Land Bank Fast Track Authority
State Office Secondary Complex
General Office Building
Lansing, Michigan
and
Mr. Steven H. Hilfinger, Director
Department of Licensing and Regulatory Affairs
Ottawa Building
Lansing, Michigan

Mr. Andy Dillon
State Treasurer
Richard H. Austin Building
Lansing, Michigan
and
Mr. Michael Finney, President
Michigan Strategic Fund
300 North Washington Square
Lansing, Michigan

Dear Mr. Meisner, Ms. Homan, Mr. Hilfinger, Mr. Dillon, and Mr. Finney:

Compliance

We have audited the Land Bank Fast Track Authority's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the two-year period ended September 30, 2010. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the preceding paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

As described in Findings 3 and 4 in the accompanying schedule of findings and questioned costs, the Authority did not comply with requirements regarding real property acquisition and relocation assistance and reporting that are applicable to its CDBG - State-Administered Small Cities Program Cluster and Neighborhood

Stabilization Program (Recovery Act Funded). Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Land Bank Fast Track Authority complied, in all material respects, with the compliance requirements referred to in the first paragraph that could have a direct and material effect on each of its major federal programs for the two-year period ended September 30, 2010.

<u>Internal Control Over Compliance</u>
Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider certain deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs in Findings 3 and 4 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider certain deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs in Findings 3 and 4 to be significant deficiencies.

The Authority's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Governor; the Legislature; the Land Bank Fast Track Authority Board; management; others within the Department of Licensing and Regulatory Affairs, the Department of Treasury, and the Michigan Strategic Fund; federal awarding agencies; and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

June 13, 2011

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified*
Internal control* over financial reporting:	
Material weaknesses* identified?	Yes
Significant deficiencies* identified?	Yes
Noncompliance or other matters material to the financial statements?	No

Federal Awards

Internal control over major programs:	
Material weaknesses* identified?	Yes
Significant deficiencies* identified?	Yes
Type of auditor's report issued on compliance for major programs:	Qualified
Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget* (OMB) Circular A-133, Section 510(a)?	Yes

Identification of major programs:

*CFDA** Number	Name of Federal Program or Cluster*
	CDBG - State-Administered Small Cities Program Cluster:
14.228	• Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
14.256	ARRA***** - Neighborhood Stabilization Program (Recovery Act Funded)

Dollar threshold used to distinguish between type A and type B programs:	$300,000
Auditee qualified as a low-risk auditee*?	No

* *See glossary at end of report for definition.*

Section II: Findings Related to the Financial Statements

FINDING (6411101LBFTA)

1. Internal Control Over Accounting and Financial Reporting

The Land Bank Fast Track Authority's (LBFTA's) and the Department of Energy, Labor, & Economic Growth* (DELEG) Finance and Administrative Services' internal control over accounting and financial reporting did not prevent or detect certain accounting and reporting errors. As a result, we determined that the financial statements and the schedule of expenditures of federal awards (SEFA) were materially misstated. LBFTA and DELEG Finance and Administrative Services subsequently corrected the financial statements and SEFA for presentation in this report.

Internal control is a process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Section 18.1485 of the *Michigan Compiled Laws* requires LBFTA to establish and maintain an internal accounting and administrative control system that includes a system of authorization and recordkeeping procedures to control assets, liabilities, revenues, and expenditures; qualified personnel that maintain a level of competence; and internal control techniques that are effective and efficient.

We reviewed LBFTA's and DELEG Finance and Administrative Services' internal control over accounting and financial reporting:

a. Our review of LBFTA's and DELEG Finance and Administrative Services' internal control over accounting disclosed:

(1) LBFTA and DELEG Finance and Administrative Services did not establish procedures to ensure that LBFTA informed DELEG Finance and Administrative Services of all capital asset acquisitions. Specifically, LBFTA did not inform DELEG Finance and Administrative Services of all

* *See glossary at end of report for definition.*

acquisitions of properties made. As a result, DELEG Finance and Administrative Services did not record the capital asset acquisitions or the related federal revenue in the accounting records. We noted that LBFTA's financial statements were materially understated for capital assets and for federal revenues by $3.6 million. In addition, the statement of cash flows did not reflect the use of cash of $3.6 million for fiscal year 2009-10. Further, we noted that, in the statement of net assets, the capital assets line was understated by $25,900 for fiscal year 2008-09 because of another unrecorded and uncorrected transaction.

Section 1400.137 of the *Codification of Governmental Accounting and Financial Reporting Standards* (Codification), published by the Governmental Accounting Standards Board* (GASB), indicates that capital assets acquired through grants, contributions, or other nonexchange transactions should be reported at historical cost or fair value and depreciated as applicable in the statement of net assets and that related revenues should be reported in the statement of revenues, expenses, and changes in net assets. Also, GASB Codification Section 2450.112 indicates that the statement of cash flows should classify cash receipts and cash payments as resulting from operating, noncapital financing, capital and related financing, or investing activities. Further, the State of Michigan Financial Management Guide (FMG) (Part II, Chapter 21, Section 200) states that land is always capitalized, regardless of cost.

(2) LBFTA and DELEG Finance and Administrative Services did not review invoice dates to ensure that they recorded expenses and related accounts payable in the proper fiscal year. As a result, LBFTA's statement of net assets was materially misstated for accounts payable and other liabilities and related amounts due from federal government by $175,000 for fiscal year 2009-10 and $181,000 for fiscal year 2008-09. In addition, LBFTA's statement of revenues, expenses, and changes in net assets was materially misstated for revenues and expenses by $181,000 for fiscal year 2008-09.

* *See glossary at end of report for definition.*

GASB Codification Section 1600.130 indicates that proprietary funds should be presented using the accrual basis of accounting, and GASB Codification Section 1600.102 indicates that, under the accrual basis of accounting, most transactions are recognized when they occur, regardless of when cash is received or disbursed. Also, the FMG (Part II, Chapter 1, Section 300) indicates that, under accrual accounting, expenses are to be recognized as a liability is incurred, regardless of the timing of related cash flow. Further, the FMG (Part II, Chapter 14, Section 100) provides guidance on cutoff policies and indicates that dates mentioned will determine the fiscal year in which the expenditure is to be recorded.

b. Our review of LBFTA's and DELEG Finance and Administrative Services' internal control over financial reporting disclosed that LBFTA and DELEG Finance and Administrative Services did not ensure that they included the federal expenditures used to acquire properties on the SEFA. As a result, LBFTA's SEFA was materially understated by $3.6 million for fiscal year 2009-10.

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* Section 300(a) requires that LBFTA identify, in its accounts, all federal awards received and expended. Also, OMB Circular A-133, Section 310(b)(3) requires LBFTA's SEFA to report total federal awards expended for each individual federal program.

As a result of our audit, LBFTA and DELEG Finance and Administrative Services made the necessary corrections for the material misstatements* to the statement of net assets; statement of revenues, expenses, and changes in net assets; statement of cash flows; and the SEFA.

RECOMMENDATION

We recommend that LBFTA and Finance and Accounting Division, Department of Treasury, improve their internal control over accounting and financial reporting to prevent and detect accounting and reporting errors.

** See glossary at end of report for definition.*

FINDING (6411102LBFTA)

2. Cash Receipting

LBFTA did not establish internal control over mail opening and the processing and reconciliation of cash receipts. The lack of proper internal control could result in lost or misappropriated cash receipts.

The FMG (Part II, Chapter 9, Section 100) indicates that each agency has the responsibility to establish internal control to ensure the safeguarding of cash receipts. Cash received by mail should be opened by two mail openers and recorded on a log by the mail openers, and the log should include the initials of the cashier, acknowledging verification of the count and transfer from the mail openers. In addition, the FMG also requires the agency to ensure that all deposits are entered and posted accurately and that all receipts are cleared at least monthly.

LBFTA received checks totaling approximately $2.4 million and $1.3 million during fiscal years 2009-10 and 2008-09, respectively. Our review of LBFTA's cash receipting process disclosed:

a. LBFTA did not ensure that two employees opened the mail.

b. LBFTA did not ensure that it recorded all cash received on the cash receipts log (payment log). LBFTA did not record the 4 checks received from its pass-through entity* on its payment log; these checks totaled approximately $2.2 million for fiscal year 2009-10. In addition, LBFTA did not ensure separation of duties and allowed the same individual responsible for completing the payment request seeking funds from the pass-through entity to also receive the checks from the pass-through entity.

c. LBFTA did not ensure that it obtained the cashier's initials, acknowledging verification of the count and the amount of cash transferred from the LBFTA staff.

d. LBFTA did not document its reconciliations of deposits to the payment log. Also, LBFTA did not complete the reconciliations on a monthly basis.

* *See glossary at end of report for definition.*

e. LBFTA did not ensure that all checks received were deposited. We noted that LBFTA recorded 8 checks totaling $5,605 on the payment log; however, there was no record that the checks were deposited.

RECOMMENDATION

We recommend that LBFTA establish internal control over mail opening and the processing and reconciliation of cash receipts.

Section III: Findings and Questioned Costs* Related to Federal Awards

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires the auditor to test key controls at a level that would provide sufficient evidence that the established control structure would provide a high probability that material federal program noncompliance would be prevented or detected and corrected. This requires that the auditor set the tolerable exception rate of occurrence at a very low level. During the audit fieldwork, the auditor, in close consultation with the auditee, identifies the key controls that the auditee has established to ensure federal program compliance. In those cases in which the auditor's tests of key controls identify exception rates in excess of the tolerable exception rate of occurrence, the auditor must generally report the observed exception rate in the report finding.

Further, Circular A-133 requires the auditor to report in this section of the audit report known questioned costs that are greater than $10,000 for a type of compliance requirement for a major program and known questioned costs that are less than $10,000 for a type of compliance requirement for a major program if it is likely that total questioned costs would exceed $10,000.

As a result of these low required reporting thresholds, the reader may note that, in some cases, the observed exception rates of occurrence and reported known questioned costs appear insignificant in relation to the overall federal expenditures of the auditee. After the audit report is filed with the federal audit clearinghouse, the responsible federal agency is required to issue a management decision within six months of the receipt of the audit report. The management decision may include a request for the return of the known questioned costs.

* *See glossary at end of report for definition.*

FINDING (6411103LBFTA)

3. CDBG - State-Administered Small Cities Program Cluster, *CFDA* 14.228

U.S. Department of Housing and Urban Development	CDBG - State-Administered Small Cities Program Cluster: *CFDA* 14.228: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
Award Number: B-08-DN-26-0001	Award Period: 03/19/2009 - 03/19/2013
Pass-Through Entity: Michigan State Housing Development Authority	Known Questioned Costs: $0

LBFTA's internal control over the Community Development Block Grant (CDBG) - State-Administered Small Cities Program Cluster did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; period of availability; reporting; matching, level of effort, and earmarking; and procurement and suspension and debarment. Our review disclosed material weaknesses in internal control regarding activities allowed or unallowed, allowable costs/cost principles, period of availability, and reporting. Our review also disclosed material noncompliance* with federal laws and regulations regarding reporting. As a result, we issued a qualified opinion on compliance with federal laws and regulations for the CDBG - State-Administered Small Cities Program Cluster.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of CDBG - State-Administered Small Cities Program Cluster awards.

OMB Circular A-133, Section 300(b) requires LBFTA to maintain internal control over federal programs that provides reasonable assurance that LBFTA 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.

The Housing and Economic Recovery Act of 2008 (HERA) provided funds for emergency assistance for redevelopment of abandoned and foreclosed homes and

* *See glossary at end of report for definition.*

residential properties. The funds authorized by HERA are commonly known as NSP1* funds. NSP1 funds are considered CDBG funds and are subject to regular CDBG laws and regulations, unless different requirements are published. Federal expenditures for the CDBG - State-Administered Small Cities Program Cluster totaled $9.2 million for the two-year period ended September 30, 2010.

Our audit disclosed the following exceptions by compliance area:

a. Activities Allowed or Unallowed and Allowable Costs/Cost Principles
   LBFTA's internal control did not ensure that payments met activities allowed or unallowed and allowable costs/cost principles. Our review disclosed:

   (1) LBFTA did not have internal control in place to ensure that the Department of Technology, Management & Budget's (DTMB's) review and approval of demolition contract payments was appropriate and, therefore, that contractor expenditures were for allowable activities and for allowable costs. As the recipient of federal funds, LBFTA is required to maintain internal control over compliance with federal laws and regulations. However, LBFTA relied on DTMB's review of contractor invoices and work performed.

   LBFTA utilized DTMB to enter into contracts with a demolition facilitator and various demolition contractors for the demolition of blighted, tax reverted structures under the CDBG - State-Administered Small Cities Program Cluster. However, LBFTA did not have a process in place to monitor DTMB's activities to ensure that program funds were expended in compliance with the CDBG - State-Administered Small Cities Program Cluster requirements.

   (2) LBFTA did not have internal control procedures that required that noncontract payments, such as utility shut-off invoices, undergo LBFTA's documented review and approval. LBFTA received and paid certain grant related expenditures directly, such as billings from utility companies for water or gas shut-offs. Noncontract payments for the two-year audit period totaled $220,000. Without documented review and approval of

* *See glossary at end of report for definition.*

noncontract payments, LBFTA cannot ensure that grant expenditures are for allowable activities or for allowable costs.

b. Period of Availability

LBFTA did not ensure that property purchase agreements contained a provision that would allow LBFTA to rescind its offer if the seller did not accept the purchase offer by September 19, 2010. Our review disclosed that LBFTA purchased two properties totaling $3.6 million and entered into a purchase agreement for the purchase of a third property for $600,000 during the audit period. All three agreements were entered into before the September 19, 2010 obligation deadline. However, the purchase agreements for these properties did not include a provision that conditioned the purchase offer on an acceptance by the September 19, 2010 obligation date. Without such a provision, LBFTA risked that federal funds would not have been available if a purchase offer was accepted after the September 19, 2010 deadline.

HERA required that funds be used, or obligated, no later than 18 months after the receipt of such amounts. Further, *Federal Register* 73:194 (6 Oct. 2008) p. 58332 required that funds be obligated for a specific activity. The U.S. Department of Housing and Urban Development (HUD) provided guidance for obligations for specific activities in its Neighborhood Stabilization Program (NSP) Policy Alert dated April 23, 2010, which stated that costs for the acquisition of real property are considered obligated when the grantee makes a purchase offer and it is accepted by the seller. The NSP Policy Alert further advised that the grantee condition purchase offers on acceptance by the obligation deadline.

The Michigan State Housing Development Authority (MSHDA) entered into its grant agreement with HUD on March 19, 2009. In the interagency agreement between MSHDA and LBFTA, MSDHA required that LBFTA obligate funds, as evidenced by written commitments for specific NSP-eligible addresses, by September 19, 2010.

c. Reporting

Our review of LBFTA's process for preparing CDBG - State-Administered Small Cities Program Cluster financial status reports (FSRs) and quarterly progress reports (QPRs) disclosed:

(1) LBFTA did not have internal control procedures that required LBFTA to document its review and approval of FSRs and QPRs.

LBFTA prepared a total of 17 FSRs and 5 QPRs that covered the audit period and were submitted to LBFTA's pass-through entity. LBFTA did not document LBFTA's review and approval for any of the FSRs and did not document LBFTA's review and approval of 3 (60%) of the 5 QPRs.

(2) LBFTA did not maintain documentation supporting the amounts reported on QPRs. A reconciliation of total reported QPR expenditures of $9.7 million to LBFTA accounting records showed an unexplained difference of $872,000 (9%). Without retention of documentation supporting QPRs, LBFTA cannot demonstrate that expenditures were properly and accurately reported.

(3) LBFTA's accounting records did not support expenditures reported on LBFTA's FSRs. As a result, LBFTA did not comply with Title 24, Part 85, section 20(b)(2) of the *Code of Federal Regulations* (CFR)*.

LBFTA reported $3.6 million of expenditures on its FSRs related to the purchase of two properties, which were not recorded in the accounting records. The lack of accounting records for these property purchases resulted in inaccurate LBFTA financial statements, including the SEFA, as described in Finding 1. Upon discovery of this error, LBFTA made the required corrections to the accounting records and the financial statements, including the SEFA.

Federal regulation 24 *CFR* 85.20(b)(2) requires that grantees and subgrantees maintain records which adequately identify the source and application of funds provided for financially assisted activities. These records must contain

* *See glossary at end of report for definition.*

information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

LBFTA's grant agreement with its pass-through entity (MSHDA) required that LBFTA submit FSRs for reimbursement of expenditures. In addition, MSHDA required that LBFTA submit a QPR, which included cumulative financial information as well as various progress updates on grant activities.

d. Matching, Level of Effort, and Earmarking

LBFTA did not track NSP1 administrative expenditures in a manner sufficient to ensure compliance with the administrative earmarking requirement. Our review disclosed that LBFTA periodically tracked NSP1 payroll administrative expenditures on a spreadsheet. However, LBFTA did not accumulate nonpayroll administrative costs along with the payroll costs. Without an explicit comparison of accumulated payroll and nonpayroll administrative expenditures, LBFTA cannot ensure compliance with the 10% administrative earmarking requirement for the NSP1 program.

HUD provided an alternative earmarking requirement for the NSP1 program, as published in *Federal Register* 73:194 (6 Oct. 2008) p. 58337. The alternative requirement states that an amount of up to 10% of an NSP grant and up to 10% of program income earned may be used for general administration and planning activities.

e. Procurement and Suspension and Debarment

LBFTA did not require that 1 (17%) of its 6 CDBG - State-Administered Small Cities Program Cluster contracts included a certification from the contractor that the contractor was not an excluded or disqualified person. Our review disclosed that payments to the contractor totaled $2.1 million, which represented 49% of total CDBG - State-Administered Small Cities Program Cluster contract payments made during the audit period. Although we determined that the contract signatories were not included on the federal Excluded Parties List System, LBFTA risked involvement with a suspended or disbarred person(s) without the required certification.

Federal regulation 24 *CFR* 85.35 states that grantees and subgrantees must not make any award or permit any award at any tier to any party that is debarred or suspended or is otherwise excluded from or ineligible for participation in federal assistance. Also, federal regulation 2 *CFR* 2424.300 requires that grantees determine whether the grantee is entering into a covered transaction with an excluded or disqualified person.

RECOMMENDATION

We recommend that LBFTA improve its internal control over the CDBG - State-Administered Small Cities Program Cluster to ensure its compliance with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; period of availability; reporting; matching, level of effort, and earmarking; and procurement and suspension and debarment.

FINDING (6411104 LBFTA)

4. ARRA - Neighborhood Stabilization Program (Recovery Act Funded), *CFDA* 14.256

U.S. Department of Housing and Urban Development	*CFDA* 14.256: Neighborhood Stabilization Program (Recovery Act Funded)
Award Number: B-09-CN-MI-0035	Award Period: 02/11/2010 - 02/10/2013
Pass-Through Entity: Michigan State Housing Development Authority	Known Questioned Costs: $36,372

LBFTA's internal control over the Neighborhood Stabilization Program (NSP) (Recovery Act Funded) did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; matching, level of effort, and earmarking; real property acquisition and relocation assistance; and reporting. Our review disclosed material weaknesses in internal control regarding reporting. Our review also disclosed material noncompliance with federal laws and regulations regarding real property acquisition and relocation assistance. As a result, we issued a qualified opinion on compliance with federal laws and regulations for NSP (Recovery Act Funded). We also reported known questioned costs totaling $36,372.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of NSP (Recovery Act Funded) awards.

OMB Circular A-133, Section 300(b) requires LBFTA to maintain internal control over federal programs that provides reasonable assurance that LBFTA 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.

HERA provided funds for emergency assistance for redevelopment of abandoned and foreclosed homes and residential properties. Similarly, the American Recovery and Reinvestment Act of 2009 (ARRA) provided funds for comparable housing assistance. The funds authorized by ARRA are commonly known as NSP2* funds. NSP2 funds are considered CDBG funds and are subject to regular CDBG laws and regulations, unless different requirements are published. Federal expenditures for NSP (Recovery Act Funded) totaled $155,243 for the two-year period ended September 30, 2010. We reported known questioned costs totaling $36,372.

Our audit disclosed the following exceptions by compliance area:

a. Activities Allowed or Unallowed and Allowable Costs/Cost Principles
LBFTA did not have internal control procedures that required nonpayroll payments to undergo LBFTA's documented review and approval. Specifically, our review of three nonpayroll expenditures totaling $38,000 disclosed that none of the expenditures underwent LBFTA's documented review and approval. These three nonpayroll expenditures comprised 24% of the total NSP (Recovery Act Funded) expenditures during the audit period. Without documented review and approval of NSP (Recovery Act Funded) nonpayroll payments, LBFTA cannot ensure that grant expenditures are for allowable activities or for allowable costs.

* *See glossary at end of report for definition.*

b. Real Property Acquisition and Relocation Assistance

LBFTA did not maintain evidence of compliance with voluntary acquisition requirements contained within federal regulations 49 *CFR* 24.101(b)(1) through (5). As a result, we reported known questioned costs totaling $36,372.

Government-wide requirements for real property acquisition and relocation assistance are contained in the U.S. Department of Transportation's single government-wide rule at federal regulation 49 *CFR* Part 24, Uniform Relocation Assistance and Real Property Acquisition for Federal and Federally-Assisted Programs (URA). *Federal Register* 73:249 (29 Dec. 2008) p. 79552 requires that, in order to be exempt from URA's acquisition policies, real property acquisitions conducted without threat or use of eminent domain, commonly referred to as voluntary acquisitions, must satisfy the applicable requirements of federal regulations 49 *CFR* 24.101(b)(1) through (5). Evidence of compliance with these requirements must be maintained by the recipient.

During the audit period, LBFTA obligated funds for the purchase of four properties totaling $36,372 that were planned for demolition and/or land banking. Our review disclosed that LBFTA did not maintain evidence of compliance with URA's voluntary acquisition requirements for these four properties. Without evidence of compliance, LBFTA did not comply with *Federal Register* 73:249 (29 Dec. 2008) p. 79552 or the requirements of federal regulations 49 *CFR* 24.101(b)(1) through (5).

c. Reporting

Our review of LBFTA's process for preparing NSP (Recovery Act Funded) QPRs and ARRA reports disclosed:

(1) LBFTA did not have internal control procedures that required that QPRs or ARRA reports undergo LBFTA's documented review and approval. LBFTA submitted 7 QPRs and 2 ARRA reports during the audit period that did not undergo LBFTA's documented review and approval.

(2) LBFTA did not report total expenditures incurred on its QPRs. LBFTA accounting records showed that LBFTA incurred expenditures totaling $155,243 related to NSP (Recovery Act Funded), which primarily consisted of LBFTA administrative costs. However, LBFTA did not report these expenditures on its QPRs.

LBFTA's pass-through entity (MSHDA) required that LBFTA submit QPRs, which included cumulative financial information as well as various progress updates on grant activities. LBFTA was also required to submit reports to MSDHA in accordance with Section 1512 of ARRA, including reporting the number of jobs created and retained with grant funds.

d. <u>Matching, Level of Effort, and Earmarking</u>

LBFTA did not track NSP2 administrative expenditures in a manner sufficient to ensure compliance with the administrative earmarking requirement. Our review disclosed that LBFTA periodically tracked NSP2 payroll administrative expenditures on a spreadsheet. However, LBFTA did not accumulate nonpayroll administrative costs along with the payroll costs. Without an explicit comparison of accumulated payroll and nonpayroll administrative expenditures, LBFTA cannot ensure compliance with the 10% administrative earmarking requirement for the NSP2 program.

HUD provided an alternative earmarking requirement for the NSP2 program, as published in the NSP2 Compliance Supplement, which references Appendix I.H of the NSP2 Notice of Funding Availability. The alternative requirement states that an amount of up to 10% of an NSP grant and to 10% of program income earned may be used for general administration and planning activities.

RECOMMENDATION

We recommend that LBFTA improve its internal control over NSP (Recovery Act Funded) to ensure its compliance with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; matching, level of effort, and earmarking; real property acquisition and relocation assistance; and reporting.

OTHER SCHEDULES

LAND BANK FAST TRACK AUTHORITY
Summary Schedule of Prior Audit Findings
As of June 13, 2011

The Land Bank Fast Track Authority had not expended federal awards prior to fiscal year 2008-09. As a result, the Authority had not received a financial audit* that included the provisions of the Single Audit Act and did not have any prior audit findings to report on this schedule.

* *See glossary at end of report for definition.*

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

Finding Number: 6411101LBFTA

Finding Title: Internal Control Over Accounting and Financial Reporting

Management Views: The Land Bank Fast Track Authority (LBFTA) agrees that LBFTA and the accounting department to which it is assigned need to improve internal communication and control in order to prevent and detect certain accounting and reporting errors.

Part a.(1): LBFTA agrees that LBFTA did not inform the Department of Energy, Labor & Economic Growth (DELEG) of two acquisitions made with federal funds that were paid directly by Michigan State Housing Development Authority (MSHDA) as LBFTA did not know that DELEG required such information to prepare the financial statements. As a result, the financial statements were materially understated for capital assets and for federal revenues.

Part a.(2): LBFTA agrees that liabilities should be recorded in the same year that the expense was incurred. As a result, the financial statements were materially understated for accounts payable and the related federal revenues.

Part b: LBFTA agrees that LBFTA and DELEG accounting did not include federal expenditures to acquire properties on the schedule of expenditures of federal awards (SEFA).

Planned Corrective Action: The accounting department to which LBFTA is assigned will be notified by LBFTA and by MSDHA of all checks written by MSHDA on behalf of the LBFTA in order for the department to book the corresponding entry in Michigan Administrative Information Network* (MAIN). LBFTA will notify such department of any other financial transactions in order to reconcile all financial transactions timely.

Anticipated Completion Date: Ongoing

Responsible Individuals: LBFTA, MSHDA, and the department that assists LBFTA with financial processes.

Finding Number: 6411102LBFTA
Finding Title: Cash Receipting

Management Views: Part a.: LBFTA agrees that it did not ensure that two employees opened mail under controlled conditions. However, as a small component unit with only six full-time equated positions split between two locations, there are days that only one staff member is in the office.

Part b.: LBFTA agrees that four checks received from its pass-through entity were not recorded on the cash receipt log; however, copies of the NSP1 checks received from

** See glossary at end of report for definition.*

MSHDA and proof of the corresponding deposits were maintained with the NSP1 specific parcel files. Further, all mail, including the checks mailed from MSHDA, was received and opened by a separate staff member than the staff responsible for completing the pay request to MSHDA.

Part c.: LBFTA agrees that it did not obtain verification from the cashier of the financial department to which it was assigned, although LBFTA followed that department's procedures.

Part d.: LBFTA agrees that it did not document the reconciliation of deposits to the cash receipt log, although LBFTA did reconcile the reports every other month, for both months in the time period, as required for the LBFTA Board of Director's meetings.

Part e.: LBFTA agrees that eight checks were misplaced; however, LBFTA hand-delivered the eight checks to the accounts receivable department pursuant to the procedures required by DELEG. The additional set of checks similarly processed that same day by LBFTA to DELEG were property deposited, as were almost $2 million of checks in LBFTA's history. DELEG did locate a missing check in the amount of $550 in its office after six months.

Planned Corrective Action: Part a.: LBFTA will have its mail opened by a staff member of the department to which it is assigned for administrative supportive functions and that independent person will log in all checks received by LBFTA and hold the checks. Copies of the checks will be sent to LBFTA, which will have 15 days to verify the checks and to notify the department as to whether the checks should be deposited.

Part b.: LBFTA has created a process by which the authorized staff member who completes the payment request seeking funds from the pass-through entity is required to document the approval by a second authorized staff member. Additionally, the administrative support department to which LBFTA is assigned will have a staff member receive and log incoming checks for the LBFTA. Copies of the checks will be sent to LBFTA, which will have 15 days to verify the checks and to notify the department as to whether the checks should be deposited.

Part c.: LBFTA will request that the financial department to which LBFTA is assigned acknowledges verification of the count and amount of all checks transfers.

Part d.: LBFTA will complete the reconciliation of deposits to the cash receipt log on a monthly basis.

Part e.: LBFTA will have its mail opened by a staff member of the department to which it is assigned for administrative supportive functions and that independent person will log in all checks received by LBFTA and hold the checks. Copies of the checks will be sent to LBFTA, which will have 15 days to verify the checks and to notify the department as to whether the checks should be deposited.

Anticipated Completion Date: Ongoing, as part of the transfer to Michigan Strategic Fund per Executive Order No. 2011-4.

Responsible Individual: Kim Homan, Executive Director and Authorized Officer, LBFTA

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 6411103LBFTA

Finding Title: CDBG - State-Administered Small Cities Program Cluster, *CFDA* 14.228

Management Views: Part a.: LBFTA disagrees with the recommendation. LBFTA hired experts to review and verify the accuracy and completion of the requirements according to LBFTA's directions, as follows:

Part a.(1): LBFTA entered into a work order with the Department of Technology, Management & Budget (DTMB), pursuant to State procedures, and DTMB procured experienced contractors to assist LBFTA in meeting federal requirements as LBFTA staff does not have the technical expertise or certifications needed to verify that the demolition work was completed according to State and federal requirements.

LBFTA supplied the rules and requirements applicable to allowable Neighborhood Stabilization Program (NSP) expenditures and required procedures to DTMB and the procured contractors, as well as included DTMB staff and/or contractors in mandatory NSP trainings conducted by MSHDA, the lead entity for NSP. Additionally, the organizational structure created by LBFTA for NSP provided that several independent entities were required to monitor benchmarks by each contractor, including on-site inspections. Then, those entities reviewed each change order and invoice submitted by each contractor, including comparing initial cost estimates based on original site visits and independent environmental contaminants testing and measurements, against actual units abated from the site. Approval of any charges, and any change orders, was required from DTMB staff, independent environmental testing company staff, and the procured facilitator staff before any invoice was submitted to DTMB management for review. LBFTA did not review and approve any invoices for payment until it received approval from DTMB management.

Part a.(2): LBFTA, DTMB, and MSHDA management met with the utility companies at the initiation of NSP in order to create an efficient process for LBFTA to request and pay for utility disconnections. After a review of applicable State law regarding the extinguishing of any liens on properties held by land banks, the entities agreed to a process and a per unit pricing for shut-offs. Per the agreements, LBFTA provided Excel lists of all LBFTA properties needing disconnects to each utility company at the start of the project so that the companies could schedule the disconnections by their staff in a coordinated and geographic manner. The companies regularly updated LBFTA on the progress of each disconnect using the Excel list originally provided by LBFTA. Additionally, LBFTA's demolition facilitator maintained an Excel data system of all demolition properties. As the utility companies provided invoices and clearance documents for each property, the facilitator reviewed the documents against the master Excel list to verify the request and corresponding disconnect for each and every parcel, in order to recommend payment by LBFTA. Inaccuracies and/or mistakes were caught and corrected before payments were made by LBFTA.

Part b.: LBFTA disagrees with the recommendation as each transaction involved execution and performance deadlines well in advance of the NSP1 obligation deadline. Further, documentation included language that the transactions were dependent on the eligibility of NSP funds.

Part c.(1): LBFTA management agrees that its review and approval procedures for financial status reports (FSRs) and/or ARRA reports were not documented; however, the reports were jointly prepared by LBFTA management and highly authorized staff members, and all completed reports were reviewed by both prior to submission to MSHDA for review.

Part c.(2): LBFTA agrees that the quarterly progress report (QPR) expenditures may not reconcile with the accounting records of the State's MAIN system. LBFTA reconciled all QPRs with FSRs that had been submitted to MSHDA to ensure that MSHDA, as the grantee, could reconcile expenditures for U.S. Department of Housing and Urban Development's (HUD's) Disaster Recovery Grant Reporting System.

Part c.(3): LBFTA agrees that the accounting records did not match the FSR, as LBFTA had not informed the DELEG accounting department of the payment by MSHDA for the two acquisitions because LBFTA was not aware that DELEG required such information.

Part d.: LBFTA agrees with the review that it does not have control over the budgeted amounts entered into On-line Project Administration Link (OPAL), which is controlled by MSHDA, nor over the financial tools and/or software systems used by the department assisting LBFTA with financial processing, and that LBFTA needs its own internal control budgeting tool and procedures.

Part e.: LBFTA agrees that it did not ensure that its procurement partner, DTMB, required a certification from 1 of its 6 contractors for NSP1.

Planned Corrective Action: Part a.: LBFTA will maintain documentation evidencing its directives to contractors as well as those contractors' recommendations to LBFTA for approval and payment of invoices, as well as LBFTA's approval by management for payment.

Part b.: LBFTA will ensure that all transactions are completed prior to the federally-imposed NSP expenditure deadlines.

Part c.(1): LBFTA will maintain official documentation of management's review and approval in the files for each FSR and ARRA report submitted.

Part c.(2): LBFTA will maintain documentation for QPR reports and will attempt to reconcile QPR expenditures with MAIN accounting records as applicable. Such reconciliation is dependent on the resolution of OPAL processing issues by MSHDA, as well as upon timely review and approval of required documentation by MSHDA once submitted by LBFTA.

Part c.(3): The accounting department to which LBFTA is assigned will be notified by LBFTA and by MSDHA of all checks written by MSHDA on behalf of the LBFTA in order for the department to book the corresponding entry in MAIN. LBFTA will notify such department of any other financial transactions in order to reconcile all financial transactions.

Part d.: LBFTA has created its own financial tool to monitor actual expenditures on administrative and activity delivery costs, including staff costs and contractor expenses, in order to ensure compliance with the administrative earmarking requirement.

Part e.: LBFTA will require certifications from all contractors for CDBG contracts that the contractor is not an excluded or disqualified person, and LBFTA is documenting the HUD-approved verification process for every procured contractor.

Anticipated Completion Date: Ongoing

Responsible Individual: Kim Homan, Executive Director and Authorized Officer, LBFTA

Finding Number: 6411104LBFTA

Finding Title: ARRA - Neighborhood Stabilization Program (Recovery Act Funded), *CFDA* 14.256

Management Views: Part a.: LBFTA disagrees because it had internal control procedures for nonpayroll payments that involved management's review and approval, pursuant to standard State of Michigan procedures, as follows:

- Management requested that supplies be ordered from OfficeMax, as needed for NSP2 recordkeeping. The standard State of Michigan process is that an authorized LBFTA staff member enters an order into the OfficeMax on-line system. Once entered, a separate staff member with specific authority must review and approve the order in the OfficeMax on-line system.

- LBFTA receives the monthly invoice from OfficeMax, which is reviewed by the ordering staff member and entered into the State's MAIN system, after which the second authorized staff member is required to review and approve the release of the payment in MAIN. Therefore, the documentation of the required approvals was conducted and submitted electronically, per the State's standard procedures.

Part b.: LBFTA agrees that it did not send the standard voluntary acquisition letter/notification to the Wayne County Treasurer as part of the acquisition of four tax-reverted properties acquired by LBFTA as part of its statutory Right of First Refusal. LBFTA did ensure that the properties to be acquired were vacant, and thus not eligible for relocation assistance, based upon several on-site inspections to verify the records of the Wayne County Treasurer.

Part c.(1): LBFTA management agrees that its review and approval procedures for QPR and/or ARRA reports were not documented; however, the reports were jointly prepared by LBFTA management and authorized staff members and all completed reports were reviewed by both prior to submission to MSHDA for review.

Part c.(2): LBFTA agrees that it did not report administrative expenditures incurred in the amount of $155,243 during the period of this audit; however, LBFTA was unable to process the requests for reimbursement through MSHDA and OPAL until after the period of this audit because policy issues and software systems were still being decided by MSHDA as it pertains to separating eligible administrative expenses versus eligible activity delivery expenses. Further, $36,000 of the total amount was obligated during the period of this audit for the purchase of properties that did not occur until after the period of this audit. LBFTA included only actual reimbursements requested through OPAL on the QPR's, as instructed by MSHDA.

Part d.: LBFTA agrees with the review that it does not have control over the budgeted amounts entered into OPAL, which is controlled by MSHDA, nor over the financial tools used by the department assisting LBFTA with financial processing, and that LBFTA needs its own internal control budgeting tool and procedures.

Planned Corrective Action: Part a.: LBFTA will more clearly document management's review and approval process.

Part b.:	LBFTA will send standard voluntary acquisition letters to each seller of real property.
Part c.(1):	LBFTA will maintain official documentation of management's review and approval in the files for each QPR and ARRA report submitted.
Part c.(2):	LBFTA will coordinate with the pass-through entity MSHDA to ensure that the correct total expenditures are reported on LBFTA's QPRs.
Part d.:	LBFTA has created its own financial tool to monitor actual expenditures on administrative and activity delivery costs, including staff costs and contractor expenses, in order to ensure compliance with the administrative earmarking requirement.

Anticipated Completion Date: Ongoing

Responsible Individual: Kim Homan, Executive Director and Authorized Officer, LBFTA

GLOSSARY

American Recovery and Reinvestment Act of 2009 (ARRA)	An economic stimulus package enacted by the 111th United States Congress in February 2009.
Catalog of Federal Domestic Assistance (CFDA)	The catalog that provides a full listing, with detailed program descriptions, of all federal programs available to state and local governments.
CDBG	Community Development Block Grant.
cluster	A grouping of closely related federal programs that have similar compliance requirements. Although the programs within a cluster are administered as separate programs, a cluster of programs is treated as a single program for the purpose of meeting the audit requirements of OMB Circular A-133.
Code of Federal Regulations (CFR)	The codification of the general and permanent rules published by the departments and agencies of the federal government.
deficiency in internal control over federal program compliance	The design or operation of a control over compliance that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.
deficiency in internal control over financial reporting	The design or operation of a control that 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.

Department of Energy, Labor & Economic Growth (DELEG)	Renamed Department of Licensing and Regulatory Affairs effective April 24, 2011 under Executive Order No. 2011-4.
DNR	Department of Natural Resources.
DTMB	Department of Technology, Management & Budget.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are presented fairly in all material respects in conformity with the disclosed basis of accounting.
FMG	State of Michigan Financial Management Guide.
FSR	financial status report.
Governmental Accounting Standards Board (GASB)	An arm of the Financial Accounting Foundation established to promulgate standards of financial accounting and reporting with respect to activities and transactions of state and local governmental entities.
HERA	Housing and Economic Recovery Act of 2008.
HUD	U.S. Department of Housing and Urban Development.
internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
LBFTA	Land Bank Fast Track Authority.

low-risk auditee	As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual single audit and it meets other criteria related to prior audit results. In accordance with State statute, this single audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.
Michigan Administrative Information Network (MAIN)	The State's automated administrative management system that supports accounting, purchasing, and other financial management activities.
material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the changes in financial position or cash flows in conformity with the disclosed basis of accounting.
material noncompliance	Violations of laws, regulations, contracts, and grants that could have a direct and material effect on major federal programs or on financial schedule and/or financial statement amounts.
material weakness in internal control over federal program compliance	A deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.
material weakness in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial schedules and/or financial statements will not be prevented, or detected and corrected, on a timely basis.
MSHDA	Michigan State Housing Development Authority.

NSP	Neighborhood Stabilization Program.
NSP1	Funds authorized for the Neighborhood Stabilization Program under the Housing and Economic Recovery Act of 2008.
NSP2	Funds authorized for the Neighborhood Stabilization Program under the American Recovery and Reinvestment Act of 2009.
OPAL	On-line Project Administration Link.
pass-through entity	A nonfederal entity that provides a federal award to a subrecipient to carry out a federal program.
QPR	quarterly progress report.
qualified opinion	An auditor's opinion in which the auditor:

a. Identifies a scope limitation or one or more instances of misstatements that impact the fair presentation of the financial schedules and/or financial statements presenting the basic financial information of the audited agency in conformity with the disclosed basis of accounting or the financial schedules and/or financial statements presenting supplemental financial information in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules and/or financial statements to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules and/or financial statements taken by themselves; or

b. Expresses reservations about the audited agency's compliance, in all material respects, with the cited requirements that are applicable to each major federal program.

questioned cost	A cost that is questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.
SEFA	schedule of expenditures of federal awards.
significant deficiency in internal control over federal program compliance	A deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.
significant deficiency in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
single audit	A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of 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, a single audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.

SOMCAFR	*State of Michigan Comprehensive Annual Financial Report.*
subrecipient	A nonfederal entity that expends federal awards received from another nonfederal entity to carry out a federal program.
unqualified opinion	An auditor's opinion in which the auditor states that:

a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting; or

b. The financial schedules and/or financial statements presenting supplemental financial information are fairly stated in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules and/or financial statements to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules and/or financial statements taken by themselves; or

c. The audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.

URA	Uniform Relocation Assistance and Real Property Acquisition for Federal and Federally-Assisted Programs.
U.S. Office of Management and Budget (OMB)	A cabinet-level office that assists the President in overseeing the preparation of the federal budget and in supervising its administration in executive branch agencies.

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