



September 27, 2011

Doug Ringler
Office of Internal Audit Services
Office of the State Budget
George W. Romney Building
111 South Capitol, 6th Floor
Lansing, Michigan 48913

Dear Director Ringler:

In accordance with the State of Michigan, Financial Management Guide, Part VII, following is a summary table identifying our responses and corrective action plans to address recommendations contained within the Office of the Auditor General's audit report of the Land Bank Fast Track Authority (LBFTA) financial audit issued in June 2011.

Questions regarding the summary table or corrective action plans should be directed to:

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Sincerely,

Signature Redacted

Kim Homan
Executive Director
Michigan Land bank fast Track Authority

cc:

Executive Office
Office of the Auditor General
Sen. Jack Brandenburg
Sen. Roger Kahn
Sen. Mark Jansen
Sen. Mike Kowall
Sen. John Pappageorge

Rep. Jud Gilbert
Rep. Earl Poleski
Rep. Wayne Schmidt
Rep. Chuck Moss
Senate Fiscal Agency
House Fiscal Agency

Summary Table of 2011 LBFTA Financial Audit Findings

Finding	LBFTA Response	LBFTA Corrective Action	Date of Compliance
#1	Agree	Financial statements will be reconciled in a timely manner. Expenses and related accounts payable will be recorded in the proper fiscal year. Federal expenditures will be included in the SEFA.	Will comply by 12/31/11
#2	Agree	Mail handling will be improved to ensure separation of duties and proper recording of checks received and deposits. Reconciliations of the cash receipts log will be made on a monthly basis.	Will comply by 12/31/11
#3	Agree	The process for directives and payments to contractors will be improved and documented. All property purchase agreements will be completed by federal deadlines. NSP1 administrative expenses tracking will comply with federal earmarking requirement.	Will comply by 12/31/11
#4	Agree	Management approvals of non-payroll requests and payments will be documented. Standard notification letters will be created. Management's review and approval of QPRs and FSRs will be documented. Administrative expenses and activity delivery costs will be documented to comply with federal earmarking requirement.	Will comply by 12/31/11

LBFTA Financial Audit

60 Day Response Narrative

September 27, 2011

Section II: Findings Related to the Financial Statements

Finding 1. Internal Control over Accounting and Financial Reporting

The LBFTA and DELEG Finance Services' internal control over accounting and financial reporting did not prevent or detect certain accounting and reporting errors and the financial statements and schedule of expenditures of federal awards (SEFA) were materially misstated.

- a. (1) LBFTA and DELEG did not establish procedures to ensure that LBFTA inform DELEG of all capital asset acquisitions so financial statements prepared by DELEG, therefore, did not record the capital asset acquisitions or related federal revenue.
- a. (2) LBFTA and DELEG did not review invoice dates to ensure expenses and related accounts payable were recorded in the proper fiscal year so statements of assets, and revenues and expenses were materially misstated.
- b. LBFTA and DELEG's internal controls did not ensure that they included federal expenditures used to acquire properties on the SEFA.

Recommendation:

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

Response:

LBFTA agrees with the finding

Action Plan: LBFTA will notify the department handling financial processes for the LBFTA of all future transactions so financial statements can be reconciled in a timely manner. LBFTA will review invoice dates to ensure that expenses and related accounts payable are recorded in the proper fiscal year. Federal expenditures used to acquire properties will be included on the SEFA. These processes were initiated with the Department of Treasury and will be incorporated into all audit and reporting procedures issued by the MSF/MEDC after October 1, 2011, when the LBFTA is completely transferred to the MSF/MEDC, with a goal of final, approved procedures being in place by December 31, 2011.

Finding 2. Cash Receipting

The LBFTA did not have internal control over mail opening and the processing and reconciliation of cash receipts.

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

- b. LBFTA did not ensure that all checks received were recorded on the payment log and did not ensure separation of duties.
- c. LBFTA did not obtain the initials of the DELEG cashiers to verify the count and the transfer of checks to DELEG for deposit.
- d. LBFTA did not document its reconciliation of the deposits to the payment log and did not document the reconciliations on a monthly basis.
- e. LBFTA did not ensure that all checks were deposited.

Recommendation:

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

Response:

LBFTA agrees with the finding.

Action Plan:

The department handling administrative and financial processes for the LBFTA will receive the mail and process incoming checks, and copies of the checks will be sent to the LBFTA for verification and approval for deposit after October 1, 2011 when the LBFTA is fully incorporated into the MSF/MEDC. All payment requests will be created by one LBFTA staff member and will be approved by a separate LBFTA staff member and all approvals will be documented. The reconciliation of deposits to the cash receipt log will be completed on a monthly basis and will be verified by MSF/MEDC Finance. These processes were initiated with the Department of Treasury and will be incorporated into all financial processes and procedures issued by the MSF/MEDC after October 1, 2011, when the LBFTA is completely transferred to the MSF/MEDC, with a goal of final, approved procedures being in place by December 31, 2011.

Section III: Findings and Questioned Costs Related to Federal Awards

Finding 3. CDBG – State Administered Small Cities Program Cluster, CFDA 14.228

LBFTA's control over CDBG did not ensure its compliance with federal laws and regulations regarding activities allowed or un-allowed; allowable costs/cost principles; period of availability; reporting; matching, level of effort and earmarking; and procurement and suspension and debarment.

- a. (1) LBFTA did not have internal control in place to ensure that the DTMB's review and approval of demo contract payments were appropriate and, therefore, that contractor expenditures were allowable activities and for allowable costs. LBFTA did not have a

process in place to monitor DTMB's activities to ensure that program funds were expended in compliance with CDBG.

- a. (2) LBFTA did not have internal control procedures that required that noncontract payments, such as payments for utility disconnects, undergo LBFTA documented review and approval.
- 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, and that funds would no longer be available.
- c. (1) LBFTA did not have internal control procedures that required LBFTA to document its review and approval of FSRs (Financial Status Reports) and QPRs (Quarterly Progress Reports).
- c. (2) LBFTA did not maintain documentation that supported the amounts reported on the QPRs.
- c. (3) LBFTA's accounting records did not support expenditures reported on the LBFTA's FSRs.
- d. Earmarking: LBFTA did not track NSP1 administrative expenditures in a manner sufficient to ensure compliance with the administrative earmarking requirement.
- e. Procurement, Suspension and Debarment: LBFTA, through DTMB, did not require 1 of its 6 CDBG contracts to include certification that the contractor was not an excluded or disqualified person.

Recommendation:

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

Response:

LBFTA agrees with the finding.

Action Plan: The LBFTA will document its directives to contractors, as well as the recommendations for payments by contractors and the LBFTA's approval by management. LBFTA will document its review and approval of noncontract payments. LBFTA will ensure that all property purchase agreements are completed according to federally-imposed deadlines. LBFTA will track NSP1 administrative expenditures in a manner sufficient to ensure compliance with the administrative earmarking requirement. These processes will be initiated by the LBFTA

and will be incorporated into all financial processes and procedures issued by the MSF/MEDC after October 1, 2011, when the LBFTA is completely transferred to the MSF/MEDC, with a goal of final, approved procedures being in place by December 31, 2011.

Finding 4. ARRA – Neighborhood Stabilization Program (Recovery Act Funded), CFDA 14.256

LBFTA's internal control over the NSP did not ensure its compliance with federal laws and regulations regarding activities allowed or un-allowed; allowable costs/cost principles; matching, level of effort, and earmarking; real property acquisition and relocation assistance; and reporting.

- a. The LBFTA did not have internal control procedures that required non-payroll payments to undergo LBFTA's documented review and approval.
- b. LBFTA did not maintain evidence of compliance with voluntary acquisition requirements as required by federal regulations.
- c. (1) Reporting: LBFTA did not have internal control procedures that required QPRs or ARRA reports to undergo LBFTA's documented review and approval.
- c. (2) Reporting: LBFTA did not report total expenditures incurred on its QPRs.
- d. Earmarking: LBFTA did not track NSP2 administrative expenditures in a manner sufficient to ensure compliance with the federal earmarking requirement.

Recommendation:

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

Response:

LBFTA agrees with the finding.

Action Plan: LBFTA will document approval by management of all non-payroll requests and payments made through State systems. LBFTA has created three versions of the standard notification letters that are being submitted to all sellers during purchase negotiations. LBFTA will maintain documentation of management's review and approval of all QPRs and FSRs and will total expenditures on the QPRs. LBFTA has created its own financial tools and spreadsheets to monitor actual expenditures on administrative expenses and activity delivery costs, including staff costs and contractor expenses, in order to ensure compliance with the federal earmarking requirement. These processes will be initiated by the LBFTA and will be incorporated into all financial processes and procedures issued by the MSF/MEDC after October 1, 2011, when the LBFTA is completely transferred to the MSF/MEDC, with a goal of final, approved procedures being in place by December 31, 2011.