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March 25, 2014

FINAL REPORT TRANSMITTAL LETTER

Honorable Wayne County Commissioners:

Enclosed is our final copy of the Office of Legislative Auditor General's Performance Engagement of Wayne County's Parking Lot Operations, dated March 4, 2014; DAP No. 2013-57-001. The contents of this report did not change from the draft report previously issued. The report was accepted by the Audit Committee March 12, 2014, and formally received by the Wayne County Commission on March 20, 2014.

We are pleased to inform you those officials from the Departments of Public Services-Buildings, Management and Budget and the Economic Development Corporation provided their complete and full cooperation during our review. If you have any questions, concerns, or desire to discuss the report in greater detail, we would be happy to do so at your convenience. This report is intended for your information and should not be used for any other purpose. Copies of all Office of Legislative Auditor General's final reports can be found on our website at: http://www.waynecounty.com/commission/lagreports.htm.

Willie Mayo
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Wayne County Executive

DAP No: 2013-57-001

Independent Auditor's Report on

County of Wayne, Michigan
Department of Management & Budget and
Economic Development Corporation

PARKING LOT OPERATIONS

Performance Engagement

March 4, 2014

EXECUTIVE SUMMARY

Type of Engagement, Scope, and Methodology

The Office of Legislative Auditor General has conducted a Performance Engagement of Parking Lot Operations managed by the Economic Development Corporation (EDC) of Wayne County and the Department of Management & Budget. Our objectives for this engagement were to: (1) evaluate the control environment over parking lot operations; (2) assess internal controls over county parking lot operations; (3) assess compliance with key provisions in the contract, along with laws, regulations and ordinances; and (4) assess the financial activity of the parking lot operations.

The fieldwork was substantially completed on February 14, 2014, and the scope of our engagement was for fiscal years ending September 30, 2012 and 2013. The principal methodology used for this engagement was limited to interviews with key members of management, inquiries, examination of documents, observations, analytical procedures, and on-site visits.

Introduction

There are two county owned parking lots that operate within the Downtown Detroit Metropolitan area which are utilized for both employee and public parking. The First Street Garage, located at 641 Fort Street, is a 9-story structured parking lot and managed by the Economic Development Corporation of Wayne County, a component unit of the county.

The garage has been in operation since 2010 and is primarily funded from parking revenues from private patrons and county employees. The annual accrual of revenue and operating expenditures for FY 2012 (audited) and FY 2013 (unaudited) was $277,634 and $572,011, respectively. These residual funds are passed to the county's general fund.

The second parking facility, the Brush Street or CEO parking lot, adjacent to the Old County Building, is located at 400-440 E. Fort Street. This surface lot is primarily for public parking, but is also utilized for daily parking by a nominal number of county employees. The county receives 50 percent of monthly net income (gross revenues less allowable expenses) which is recorded in Fund 516 - Parking Lot. Administration over the CEO parking lot has been delegated to the Department of Management & Budget. The Brush Street Parking Lot has generated net operating revenue of $65,000 and $59,000 for FY 2012 and 2013, respectively.

A third county owned parking lot, 640 Temple, is used solely for employee parking and is not intended for general public parking. There was no revenue reported for this lot in FY 2012 and 2013.

Summary of Issues:

We determined there are 22 areas of concern and recommendations related to parking lot operations.

Fifteen (15) of the recommendations are considered to be operational and design control deficiencies which are classified as relatively low risk; (5) recommendations are classified as significant deficiencies which are deemed to be medium risk and could have an immediate negative impact on the county's payroll transaction process if not addressed; and (2) recommendations are classified as a material weakness that is deemed high risk and could impair management ability to operate in an effective and efficient manner and achieve its business objectives. See the appendix for a definition of the various types of deficiencies.

We discussed the findings and recommendations with management and they agreed, partially agreed, disagreed, will refer to the EDC Board for consideration, or have not responded. (See Report Details.)

Areas of controls within parking lot operations we identified that could be strengthened include:

- Board Approval of Annual Budget and Executed Contracts
- Lack of Policy & Procedures
- Lack of Monitoring over Parking Lot Operations
- Reporting on Newly Executed Contracts
- Americans with Disabilities Act (ADA) Violation
- Charging Fair and Equitable Parking Rates

Noteworthy Accomplishments

- Jones Lang LaSalle, Inc. of Royal Oak, Michigan were cited by Crain's Detroit Business in a September 2013 article as the largest non-residential Property Manager in the

Metropolitan Detroit area as of January 1, 2013. The Management Company is listed as having 62.9 million square feet of non-residential property in Metro Detroit and manages over 446 properties both inside and outside of Metro Detroit.

Corrective Action Plan (CAP) – A CAP will be due within 30 days after this report is formally received and filed by the Wayne County Commission. If sufficient corrective action is not taken, a follow-up review may be necessary.

This report is intended solely for the information and use of the Wayne County Commission, the Department of Management & Budget, and the Wayne County Economic Development Corporation and should not be used for any other purpose. This restriction is not intended to limit distribution of the report which is a matter of public record.

REPORT DETAILS

PURPOSE / OBJECTIVE

The Office of Legislative Auditor General has conducted a Performance audit of Parking Lot Operations managed by the Economic Development Corporation (EDC) of Wayne County and the Department of Management & Budget. The purpose of our audit was to identify key risks within the processes related to operating the county's parking facilities and to assess whether management has appropriate controls in place to sufficiently manage or mitigate the identified risks.

Our objectives for this engagement were to: (1) evaluate the control environment over parking lot operations; (2) assess the internal controls over county parking lot operations; (3) assess compliance with key provisions in the contract, along with laws, regulations and ordinances; and (4) assess the financial activity of the parking lot operations.

SCOPE

We conducted this performance engagement in accordance with Generally Accepted Governmental Auditing Standards (GAGAS) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable assurance basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of this engagement focused primarily on reviewing key business processes for parking lot operations and assessing the established control environment to mitigate risks, as well as the reporting of revenues and expenditures by contractors. The scope of our work primarily encompassed FY 2012 and FY 2013. The fieldwork for this engagement was substantially completed on February 14, 2014.

METHODOLOGY

To address the objectives outlined for this engagement and obtain an understanding of the county's control environment, we reviewed the contracts for the parking lot operators, made inquiries and interviewed staff and officials of the contractors, Management & Budget and EDC. We documented our understanding of the contractor's business processes and evaluated key controls in place to provide reasonable assurance that all funds were accounted for and deposited. We reviewed the contractors' and management company's monthly financial reports, assessed the recording and reporting of daily cash collections by the contractors and trace these amounts to the bank statements. We also traced monthly and annual parking revenue payments due to the county's general ledger. We assessed the approval process of expenditures and invoices submitted for parking lot operations and/or reimburse, and other relevant documents as deemed necessary. We reviewed financial activities and transactions recorded for parking lot operations including a trend analysis of revenues and expenditures.

We assessed compliance with key contract provisions for the Management Company, parking lot operators, and county officials. We made inquiries of other county officials from the Division of Risk Management related to insurance coverage requirements and assessed how M&B and EDC officials monitor compliance with the contracts. We identified risk related to the county's 640 Temple parking lot and interviewed officials from the Department of Public Services regarding control activities over the lot.

Finally, we met with management officials to discuss our findings, obtain their input, and their concurrence and\or disagreement with the report's findings and recommendations.

BACKGROUND

Wayne County owned two parking facilities in the downtown Detroit area that are available to the general public. One of the two facilities is the First Street Garage, located at 641 Fort Street, which is a nine story parking structure owned by the county since 2010 and is administered and governed by the Economic Development Corporation of Wayne County (EDC), a component unit of the county.

The EDC, a separate legal entity, was established under Michigan Public Act 338 of 1974. In accordance with the Public Act, its 11-member board is appointed by the Wayne County Executive. It acts on behalf of and at the direction of Wayne County. Services include financial packaging, site location services, and low-cost financing to businesses locating or expanding in the county. While EDC has no employees, its day to day activities are managed by employees from the Departments of Economic Development Growth Engine (EDGE) and Management & Budget.

First Street Parking Garage

The EDC contracted a management company, Jones Lang LaSalle, Inc. (Manager) as the property manager to manage three county owned properties (the Properties) in the downtown Detroit area: Guardian Building, First Street Parking Garage and 511 Building (Annex). The contract is for twenty four (24) months beginning June 1, 2012 and ending May 31, 2014.
In accordance with the Management Agreement:

- The EDC has authorized the Manager to open and maintain one or more bank accounts in the name of EDC for depositing all sums collected or received by the Manager from the Properties.
    - ➢ Parking tenant deposits are used to fund the on-going daily operations of the First Street Garage.
- The Manager may pay to EDC a sum from proceeds, as requested, from time to time.
- The Manager receives a monthly *management fee* of $18,133 a month and *fixed payroll expenses* in the amount of $50,190; or an annual cost of nearly $820,000.
- The Manager is also authorized to draw on such account in payment, on behalf of EDC, as and when required in connection with the operation and maintenance of the Properties for *operating expenses* (i) to the extent included in the approved Budget, (ii) which may exceed approved budgetary guidelines for emergencies, (iii) which are otherwise approved by EDC. Eligible operating expenses paid from EDC funds include, but are not limited to, the following:

    - ➢ Cost of software, forms, paper, ledgers and other supplies and equipment used in the Manager's office, including license fees for software used on-site and in required offices;
    - ➢ Cost of procuring and providing insurance permitted or required to be maintained by Manager pursuant to the Management Agreement;
    - ➢ Costs of a management office, including necessary furnishings and equipment;
    - ➢ All other costs and expenses reasonably incurred by Manager in performing its duties and that are necessary to the management, operation, and maintenance of the Properties.

The Management Agreement stipulates the Manager shall prepare and submit to EDC an annual operating budget that has to be approved in writing by EDC. Until such time the Manager receives *written confirmation* of EDC's budget approval, "EDC authorizes and directs Manager to manage the Property, and incur and pay such operating expenses, consistent with current practices for that Property." The annual budgeted parking revenues are projected and intended to cover the annual operating costs for the First Street Garage.

The Manager, as required, prepared a "Procurement Policy" for all contracts and procurement of supplies and services. The Management Agreement states the Procurement Policy is to be approved by the Board of Directors of the EDC.

The Manager in June 2012 contracted with Metropolitan Parking Services, LLC, to operate the First Street Garage. However, as of July 2013, Metropolitan Parking Services is now doing business as Universal Parking Management, LLC (Service Contractor).

The contract between the Manager and the Service Contractor is for a term of 23 months, commencing July 1, 2013 through May 31, 2015. The Service Contractor is paid a monthly management fee of $2,000 or $24,000 annually. The Service Contractor also receives compensation to pay the salaries, payroll taxes, benefits, and uniforms for its employees working at the garage. In total, annual compensation paid to the Service Contractor to manage and operate the First Street Garage is $220,100.

The First Street Garage has a capacity of 1,451 parking spaces. Parking tenants are comprised of patrons with both long-term and month to month contractual agreements, as well as a limited number of county employees that pay a monthly rate. As of March 2013, the parking garage omitted the availability of public parking during daytime hours, with the exception of some major downtown events (i.e., AutoShow). However, the garage is open for public parking in the evenings and weekends for other events throughout the year that have been identified by the Service Contractor.

The Manager is required to provide monthly financial reports as well as an annual financial statement of total revenues and expenditures/expenses incurred for both the First Street Garage and Guardian Building to EDC. The EDC records the annual net income/loss from the management company within Fund 101, business unit 92504 – General Fund General Purpose.

Brush Street Parking Lot

The county also has a contractual agreement with Park-Rite Detroit, Inc. (Parking Lot Operator) to manage the Brush Street lot. The Parking Lot Operator has managed the Brush Street lot for a number of years. A recent contract renewal extended the terms from October 1, 2013 through September 30, 2014

The Brush Street contract states "Revenue collected for the operation of the lot will be apportioned between the parties, with the County receiving 50% and the Contractor receiving 50% of revenues, net of allowable expenses..."

The contract identifies "Allowable Expenses" that the contractor may deduct from gross revenues include the following:

- Direct payroll costs, telephone expenses related to lot operation, janitorial supplies, uniforms, landscape maintenance, plowing and/or removal of snow, lighting maintenance, striping the lot, revenue equipment repairs and maintenance, stocking of tickets, parking passes, signage, and gate arm replacements.

The contract further states "Allowable expenses which exceed gross revenues in any month may be carried forward by Contractor."

The Parking Lot Operator shall forward to the county, no later than 30 days after month-end, a monthly business report, copies of all deposit slips, copies of revenue tapes, print-out tickets issued daily, the bank statement for the month and the revenue distribution (check) for the county's share of profits.

The parking capacity for the Brush Street lot is 106 spaces. During daytime hours, we calculated on average, monthly parkers occupy 80 spaces; 69 by private tenants and 11 by county employees. The remaining 26 parking spaces are available for public parking. In addition, the lot is open for public parking evenings and weekends.

The county's 50 percent share of the net revenues is recorded in Fund 516 – Parking Lots Funds, which is a non-major enterprise fund and used to account for parking activities.

640 Temple Parking Lot

Adjacent to the county owned building at 640 Temple, Detroit, MI is a parking lot that has 330 spaces. The parking lot is utilized by employees of county departments and agencies as well as visitors to the building. All employees who work at the 640 Temple and visitors receive free parking due to the number of available spaces.

For years prior to our period of review, the 640 Temple lot was made available for public parking during the evenings and weekends for events held at the Masonic Temple for a fee. The parking lot operator during that time period is the existing firm that presently operates the county's Brush Street lot. Under the parking agreement at that time, the lot operator was to remit to the county 50 percent of all parking fee revenues.

According to Management & Budget, the 640 Temple lot has not been authorized for public parking since 2012.

EVALUATE CONTROL ENVIRONMENT

Objective No. 1 - Evaluate the control environment and management of parking lot operations;

Conclusion

The control environment (also known as governance) is considered one of the most important elements of internal controls. The control environment sets the tone for an organization's program or activity, and provides discipline and structure while influencing the control consciousness of its employees. Control environment factors include: integrity, ethical values and competency of the organization's employees; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its employees.

The absence of a sound governance structure and lack of adherence to basic governance or management principles increases the risk of loss, fraudulent financial reporting, and misappropriation of the organization's assets and resources. Good governance is one of the key controls to reduce the risk of management overrides.

We interviewed personnel from the Economic Development Corporation, Department of Management & Budget, Department of Public Services-Building Division, and parking lot contractors to acquire an understanding of the control environment established by management officials delegated authority to oversee the parking lot operations.

Based on our inquiries and discussions with the various officials, and our review of policies and procedures, strategy plans, and contractual agreements, we found areas, such as the EDC Board's approval of the annual budget and contracts and mitigating the unauthorized use of county owned lot, where the control environment will need to be strengthened over parking lot operations.

EDC Board Does Not Approve Annual Budget for First Street Garage

Condition

From our review of the Fiscal Year (FY) 2012 financial statements, as well as discussions with Jones Lang LaSalle, Inc., (JLL/Manager), the current management company which assumed the duties of managing the Guardian Building and First Street Parking Garage in May 2012, we found JLL was operating under the budget prepared by the former management company through September 30, 2012 fiscal year end.

We were informed at that time they were in the process of completing their annual budget for FY 2013. According to a JLL official, JLL management and the parking lot operator each play a role in projecting the annual budgetary revenues and expenditures.

Our review of the FY 2013 annual budget provided by JLL on October 23, 2013, 13 months after the fiscal year began, found the budget to be mostly identical to the one adopted by the prior management company for FY 2012. In fact, the FY 2013 management fee budget was overstated by $72,000 because the budgeted amount was the fee paid to the prior management company.

Further, we found no documented evidence the annual FY 2013 budget for First Street Parking Garage, which totaled $1.64 million for revenues and $1.3 million in expenditures, was submitted and approved by an EDC official. Our discussion with two separate EDC officials overseeing the First Street Garage operations, disclosed the FY 2012 and FY 2013 budgets had not been presented and/or approved by the respective EDC officials nor presented to the EDC's Board of Directors for review and approval.

In addition, management was not able to provide evidence the bi-weekly budget meetings with JLL officials were formalized to writing.

Criteria

The Management Agreement executed between JLL and EDC, Section 3.3 – Agreement on Budget states:

> "Within thirty (30) days of the date of this Agreement is signed by EDC, Manager shall prepare and submit to EDC for EDC's approval an operating budget for the Property for the period commencing upon the Effective Date through May 31, 2013."
>
> - "The approval of the Budget is subject to appropriation by legislative [oversight] bodies of the County of Wayne."

Section 3.4 – Implementation of Budget states:

> "… in the event the EDC has not approved a Budget, the Manager shall manage the Properties and incur and pay such operating expenses consistent with its current practices."

GFOA best practices state methods should be developed and responsibilities assigned for the overall coordination, timely preparation and review of the budget. The person(s) assigned responsibility for coordinating the budget process should respond to stakeholders' (i.e., board of directors) issues and concerns prior to their approval and adoption of the annual budget.

Cause

EDC management stated the annual budget is not required to be approved by the Board of Directors. Based on our discussion with the EDC Director of Property Management, he stated that the FY 2013-2014 budget would be submitted to the EDC Board for review and approval.

Consequences

By not presenting the annual budget to the oversight body, EDC management officials are not in compliance with the contract agreement. Without an opportunity to review the annual budget, question management's projected revenues and expenditures for the fiscal year, including its goals and objectives, the approving body cannot fulfill its fiduciary responsibility to oversee and govern EDC funds.

Recommendation 2013-01 – Significant Deficiency

We recommend EDC management implement a policy and procedures that requires the annual budget for the First Street Garage, and if applicable, other managed county properties:

(a) Includes a review of the management company's criteria and analysis used to project annual budgeted revenues, expenditures, and capital improvements; and

(b) Ensure the budget is submitted to the Board of Directors prior to the beginning of the fiscal year for their review and approval.

Views of Responsible Officials

Management agrees with the recommendations. The EDC Director of Property Management meets and reviews the budget with Jones Lang LaSalle on a biweekly basis. They stated discussions included revenues, expenses and capital improvement issues.

The EDC Board reviewed and approved the Fiscal Year 2014 Budget in its meeting on February 25th, 2014. A resolution was adopted for Board review and approval of all annual First Street Parking Deck budgets.

Contracts not Required to be Approved by EDC's Board

Condition

The county has delegated to EDC the responsibility to manage and oversee two major county assets: The Guardian Building and First Street Parking Garage. EDC has contracted with JLL to manage the two properties.

The property management company is entering into contracts for elevator maintenance, security, landscaping, and parking structure repairs, as well as others as an agent for Wayne County.

However, we noted the Property Management Agreement between EDC and JLL states the Manager has the authority to enter into contracts, including contracts exceeding $50,000, without prior approval from EDC's Board of Directors.

Criteria

The procurement policy within the Management Agreement states contracts in excess of $50,000 are to be awarded based on competitive bid. Also, the agreement states: "contracts awarded by the Manager pursuant to this procurement policy and in accordance with the annual budget approved by EDC, shall be awarded by the Manager to the winning contractor without the need for subsequent approval by EDC."

EDC acts for the benefit and at the discretion of Wayne County as the primary governmental unit. While EDC procurements in excess of $50,000 would not have to come before the Wayne County Commission for approval, the procurements should be approved by EDC Board of Directors.

Cause

The property management contract does not require any contracts to obtain Board approval before execution.

Consequences

Without providing the oversight body the opportunity to review any major contracts exceeding $50,000 or more, before they are executed, the Board cannot fulfill its fiduciary responsibility to oversee and govern the operations and funding of EDC's assets and activities.

Recommendation 2013-02 – Significant Deficiency

(a) We recommend EDC management officials revise the existing Property Management Procurement Policy and adopt a procurement policy that requires all contracts that exceed $50,000 to be presented to the EDC Board of Directors for discussion and approval prior to executing the contract.

(b) We also recommend that any EDC Official delegated authority to execute contracts for the First Street Garage and other managed properties be required to file a Conflict of Interest form on an annual basis and a copy be retained by the EDC and its Board.

Views of Responsible Officials

Management disagrees with recommendation (a). In the bylaws of the EDC in Article III section 8, the EDC Board has the right to delegate powers and/or duties to any officer or director of the EDC. Under resolution E-12-007, the duties and powers to manage the First Street Parking Deck are designated to Chairperson of the EDC and he assigned them to the Director of Property Management via attached letter dated December 20, 2012.

The EDC Resolution E-12-2002 approves the First Street parking Deck management contract with JLL. In this agreement there is as procurement policy - attached as exhibit B. The EDC Board has approved a procurement policy. The board has decided to delegate approval authority to the assigned EDC Official for contracts over $50,000.

It is the EDC's opinion that this policy is sufficient for the management of the First Street Parking Deck and, therefore, no need to incorporate an additional policy. Because of the transactions associated with the management of the First Street Parking Deck, incorporating the OAG's recommended policy would make daily business cumbersome. The current procurement policy is common practice in the management of real estate assets.

Management agrees with recommendation (b). Management stated the recommendation is reasonable and have no issues with it.

OAG Response to Management's Comments

The OAG differs with management's position on approving contracts exceeding $50,000 for the First Street Garage and other properties managed by the EDC. The Amended EDC Articles of Incorporation, Article VII, section (B)(2), state "the Chair may sign and execute all authorized bonds, contracts, checks and other obligations ..... with a manual or facsimile signature in the name of the Corporation as and ***when authorized by the Board of Directors***."

This is further reiterated in the EDC's by-laws, Article III, section 8 – Delegation of Duties of Officers. It reads "...***The Board may delegate***, from time to time and for such time as it may deem appropriate, the powers and duties, or any of them, of any officer to any other officer, or to any direct ... ***provided a majority of the Board then in office concurs*** therein."

As stated in the Articles and the by-laws, the EDC Board is given the oversight and fiduciary responsibility to manage EDC assets and approve contracts, including those that may be executed by the Chair of the Board. The OAG asserts the Chair of the EDC Board cannot delegate or assign authority to a single officer of the EDC without a majority of the Board approval. The December 2012 letter is only signed by the EDC Chair.

Further, sound fiscal management requires an adequate segregation of duties over business processes to manage and mitigate the potential for abuse and misappropriation of an entity's resources.

Finally, we have not seen evidence to support that the implementation of this control would make daily business cumbersome. Based on our review, there are only a few contracts for the

First Street Parking Garage that exceeds the $50,000 threshold. Conversely, if there are numerous contracts in excess of $50,000 being processed on a regular basis, then this places the EDC at an even greater risk of fraud and abuse.

No Annual Audit of EDC Financial Statements

Condition

Upon our review of the EDC's Articles of Incorporation, we found that the Corporation is only required to submit an annual report of its financial activities to the CEO, County Commission and is not required to have an annual external audit performed to provide assurance that no material misstatements of financial transactions occurred. The EDC is responsible for overseeing the financial transactions recorded for the Guardian Building, an attached Annex, and the First Street Parking Garage. The combined fiscal year 2013 annual operating budgets for the Guardian Building and First Street Garage totaled $4.6 million.

As of fiscal year end September 30, 2012, EDC had a fiduciary responsibility over total assets of $5.3 million which included cash and investments of $4.9 million.

Criteria

The purpose of an audit is to provide an objective independent examination of the financial statements to provide reasonable assurance that the financial statements are presented fairly, in all material respects, as well as the respective financial position of the governmental entity, and in order to express an opinion on the financial statements. An audit includes examining, on a test basis, and applying auditing procedures to underlying accounting records and information used to prepare the financial statements. The financial statements are the responsibility of management.

Cause

The Articles of Incorporation are creation documents and were filed in order to form the EDC. The Articles of Incorporation comply with the dictates and requirements of the state of Michigan Economic Development Act. The Economic Development Act does not require an annual external audit of the EDC.

According to the Deputy Chief Financial Officer, their guidelines are to first determine if there is a directive by a component unit's board of directors, bond holders, granting agency, or other regulatory agency to require an audit. If there is no legal requirement for an audit, Management & Budget evaluates the extent of transactions, the risk, and cost to determine if a separate audit is necessary. Further, if there is no stand alone audit, the component unit is part of the County's aggregate audit of the CAFR.

Consequences

Without an annual audit, stakeholders, governing bodies, and management do not receive the same level of assurance that all material financial transactions and accompanying financial data has been recorded in accordance with generally accepted accounting principles. Further, material errors in recording financial transactions could go undetected and the opportunity to identify key areas for improvements in business processes and the strengthening of internal controls would be missed.

Recommendation 2013-03 – Control Deficiency – Design

We recommend the EDC's Board of Directors consider revising the Articles of Incorporation and/or bylaws to include a clause which requires the EDC to have an annual external financial audit performed of its internally prepared financial statements to reduce the risk of material misstatement of financial information as well as enhance the integrity of the financial statements.

In addition, the audited financial statements should be submitted to the Wayne County Commission.

Views of Responsible Officials

Management will refer the recommendation to the EDC Board. The Articles of Incorporation are creation documents and were filed in order to form the EDC. If the Board of Directors of the EDC were to include a requirement of an external financial audit, the same should be added to the EDC's bylaws, rather than the Articles of Incorporation. An annual external audit would create an additional cost to the EDC. The funds that flow through the EDC's ledger are passed through to the county's general ledger and are audited as part of the county's audit. It will be up to the EDC Board of Directors to assess. All financials related to the EDC are provided to the commission by the EDC.

Unauthorized Use of County Parking Lot

Condition

In prior audits of county owned parking lots, the 640 Temple parking lot was made available to the public during evenings and weekend hours. The parking lot has 330 parking spaces and made available for events at the Masonic Temple and surrounding venues.

We were informed by DPS & M&B management officials that there is no current agreement in place between Wayne County and the Detroit Masonic Temple Theatre Company (DMTTC) to use the county owned 640 Temple parking lot for any events specified in 2013. However, on Saturday, March 23, 2013, OAG staff observed the 640 Temple lot being used for temporary parking of vehicles by members of the general public during the Blues Festival event held at the Masonic Temple. Numerous cars were seen parked in the lot and the parking attendant was observed collecting cash from vehicles entering the lot. He wore a reflective vest and parking cones were visible. A sign displayed that a fee of ten dollars ($10) would be charged to the patrons. At 7:30pm, based on our observation, the lot appeared to contain approximately 125-150 vehicles and several others were seen aligned in the street awaiting entry into the lot.

On Tuesday, November 12, 2013, at approximately 8:00 pm, the OAG again observed the 640 Temple was being opened for public parking and operated without the county's consent. A concert, featuring Rick Ross, was being held at the Masonic Temple. However, this time the attendants wore no reflective clothing and parking cones were not visible. In addition, there was a sign displaying a $20 parking fee was to be charged to parking patrons.

It was recently reported the DMTTC is under new ownership and will be booking additional entertainment events at the DMTTC over the next year.

Criteria

The expired Temporary License Agreement between Wayne County (Licensor) and DMTTC (Licensee) stated the Wayne County Parking Lot located at 640 Temple will be used for temporary parking of vehicles by members of the general public during entertainment events at the Masonic Temple Complex. The agreement further states that Licensee is granted non exclusive use of the lot to park cars of patrons attending specified events at the Masonic Temple. The events will be agreed to by both parties and signed as an addendum to the License Agreement. It also stated that the Licensee shall pay the County $2.00 for each $5.00 it charges to park cars during events. This Temporary License Agreement expired on May 24, 2012.

Cause

The County has advised both the old management company and the new management company for DMTTC that it is no longer authorized to use the parking lot at 640 Temple. Also, it is not possible to completely block off or barricade the parking lot since this would prevent access to the city owned alley.

Consequences

Unauthorized use of the parking lot could expose the county to potential and/or significant risks if personal injury or accidents were to occur within the county owned lot. In addition, the county is not receiving any revenue generated from the parking activity.

Recommendation-2013-04 – Significant Deficiency

We recommend that the County immediately cease the lot operator from using the parking lot until a contract is executed with Masonic Temple officials, which authorizes the use of the county owned lot for events scheduled to be held at the Masonic Temple for 2013 and beyond.

Views of Responsible Officials

Management agrees with the recommendation. Management has pursued corrective action to address the unauthorized use of the 640 Temple parking lot. In addition, DPS-Building Division management stated they have pursued the following measures: (1) the County has finished negotiations with a parking vendor and a contract will be submitted to the Commission by February 2014 for approval; and (2) DPS is exploring the use of a hired security guard to monitor the lot at 640 Temple after-hours until a new contract has been entered; (3) Corporation Counsel has advised management to post additional signage indicating the lot is for county business only and that no unauthorized use is allowed; and violators will be subject to prosecution; and (4) Masonic Temple has been advised that in the absence of a current contract or license, the lot should not be used for parking vehicles.

ASSESS REPORTED REVENUES AND EXPENDITURES

Objective No. 2 – Assess the internal controls over parking lot operations to mitigate risks;

Conclusion

We met with officials within the Management & Budget, EDC, and parking lot contractors to acquire an understanding of the processing procedures for cash collections, expenditures, and the reporting of parking revenues and expenditures. We reviewed how the transactions were initiated, authorized, and recorded. We also performed sample testing and traced cash collections to daily cash receipts logs and monthly financial reports provided to county officials as well as reviewed invoices submitted for expenditures incurred by the parking lot operators. Further, we traced monthly revenue payments as well as fiscal year end net operating income due the county to the general ledger. We reviewed other relevant documents and interviewed management officials as deemed necessary.

We determined while the two parking lot operators have established an effective management structure and have established key business procedures over the parking lot operations, we found areas where internal control activities could be strengthened.

HealthCare Premiums Deducted from Brush Street Lot Revenues

Condition

We reviewed monthly accounting reports submitted by the Brush Street Parking Lot operator for FYs 2011 and 2012 and determined that the vendor has been deducting an unallowable expense from gross revenues. The County receives 50 percent of net operating income (revenues less allowable expenses).

The contractor reported as an expense HealthCare coverage costs for an employee. We calculated from the date the contract was renegotiated in April 2010 and until February 2013 (2 yrs, 4 months), the contractor deducted a monthly premium amount of $361.62 as healthcare costs; totaling $10,028.18. As a result, county revenues were reduced by $5,014.09 over this period of time.

Fringe benefits are primarily provided by an *employer to their employees* and not employees of contractors. Further, during the noted period, county employees were ***required*** by state statute to pay 20 percent of their own health care coverage.

Criteria

According to the U.S. Department of Labor, Prevailing Wage Resource Book 2010, Section 2(a)(2) of the Service Contract Act states the following: "Medical or hospital care, pensions, compensation for injuries or illness, life insurance, disability, vacation and holiday pay, etc, are considered to be fringe benefits and are not required by Federal, State, or local law to be provided by the contractor or subcontractor."

Appendix A of the contract executed between Park-Rite, Inc and the County of Wayne, Michigan states the Contractor may deduct the following expenses from gross revenue: Direct payroll costs.

Cause

Based on our review of communications held in May, 2010, between personnel within M&B, Corporation Counsel, and a key employee from the CEO's office, because the contract did not specifically define "direct payroll cost", it was decided that health care costs would be considered a direct payroll cost and allowed as a deductible expense from revenue.

Consequences

By not defining what direct payroll costs in the contract, it was open to interpretation. As a result, the parking lot operator was allowed to deduct 100% of the healthcare premiums for its employee and county revenues were reduced accordingly.

Recommendation 2013-05 – Control Deficiency – Operational

We recommend management within the Department of Management & Budget amend the existing contract to specifically define what costs comprise reimbursable direct payroll costs.

Views of Responsible Officials

Management agrees with the recommendation. In March 2010, the contractual agreement with Park-Rite was changed to a "no cost" contract for the County. The "no cost" contract allowed the County and Park-Rite Inc. the following:

1. Park-Rite to continue providing the same management services;
2. The 400 East Fort Street lot could be offered for daily public use due to the County moving its employees from the 600 Randolph location to the Guardian Building;

3. Alleviate the $4,900 management fee to Park-Rite;

4. Allow all expenses related to the maintenance of the parking lot to be paid by Park-Rite and deducted from the gross revenue from the daily, evening, and weekend public use, and

5. Establish a new revenue split of 50% to the County and 50% percent to Park-Rite from the net proceeds.

The idea was that whatever it cost the County to operate the parking lot would come off the top and then a 50%-50% split would take place. The rationale was that if the County were still operating the lot, it would have had to absorb these costs. As a result of the change in the contract structure, net income for the Parking Lot increased from net losses from 2008 to 2010 to becoming profitable beginning in 2011.

Appendix B of the professional services contract provided a listing of expenditures that are allowed to be deducted from gross revenue. The contract provides for direct payroll costs, and it was further determined that fringe benefit costs, such as Social Security and Medicare were included in the calculation. Additionally, health care costs were also included. Management and Budget will reevaluate the terms of the current contract with the parking lot operator and explicitly define direct payroll costs and clarify whether or not healthcare costs for employees will be an allowable business cost.

Unallowable Expenses Deducted / Lack of Supervisory Review

Condition

During our sample testing of the Contractor's expenses (Park-Rite-Detroit, Inc.) we found instances in which the Contractor deducted expenses not allowed under the provisions of the contract. More specifically, office expenses and business license renewals, totaling $855.99 were deducted from gross revenues; however, they were not allowable expenses per the Professional Services Contract.

In addition, we noted there is segregation of duties control deficiency because one individual is responsible for reviewing and approving the contractor's monthly financial reports that includes: revenues collected; detail ticket numbers, tickets issued, labor costs, and expenses deducted. From this report, the contractor forwards to the county a payment equal to a 50% share of net (revenues less allowable expenses) revenues. Our discussion with M&B officials revealed there is no secondary or supervisory review of the employee's work.

Criteria

Section 8-Compensation/Revenue Sharing of the Professional Services Contract states that the county and Contractor will be compensated by sharing in the revenue and that allowable expense shall be deducted from gross revenues. Appendix B of the contract states the county and the Contractor will each receive 50% of revenues, net of allowable expenses. Also, Appendix B provides a list of all expenses that may be deducted from gross revenue, they are listed as follows:

- Direct Payroll Costs
- Telephone Expenses
- Janitorial Supplies
- Uniforms
- Landscape Maintenance
- Plowing/Snow Removal
- Lighting Maintenance
- Stripping the Lot
- Revenue Equipment Repairs & Maintenance, including Stocking of Tickets
- Parking Passes
- Signage
- Gate Arm Replacement

Cause

We spoke with an M&B official who informed us that while the contract does list some expenses, the vendor is normally allowed to deduct any and all expenses required to operate the parking lot.

In March 2010, the contractual agreement with Park-Rite was changed to a "no cost" contract for the county. The "no cost" contract allowed the County and Park-Rite Inc. the following:

1. Park-Rite to continue providing the same management services;

2. The 400 East Fort Street lot could be offered for public use daily due to the County moving its employees from the 600 Randolph location to the Guardian Building;

3. Alleviate the $4,900 management fee to Park-Rite, Inc.

4. Allow all expenses related to the operation of the parking lot to be paid by Park-Rite, Inc. and deducted from the gross revenue from the daily, evening and weekend public use; and

5. Establish a new revenue split of 50% to the County and 50% percent to Park-Rite, Inc. from the net proceeds.

The idea was that whatever it cost the County to operate the parking lot would come off the top and then a 50%-50% split would take place. The rationale was that if the County were still operating the lot, it would have had to absorb these costs. As a result of the change in the contract structure, net income for the Parking Lot increased from net losses from 2008 to 2010 to becoming profitable beginning in 2011.

Consequences

While the current dollar amount is nominal, approving unallowable expenses not specified in the contract over time could be quite costly and resultantly reduces the county share of parking revenues.

Recommendation-2013-06 – Operational Control Deficiency

We recommend that M&B management establish policy and procedures to ensure a secondary and/or supervisory review over the Brush Street Parking Lot monthly reports is conducted to ensure contract compliance and that only those expenses as defined within the terms of the contract are approved as an offset to net revenue transferred to the county.

Views of Responsible Officials

Management agrees with the recommendation. In response to the segregation of duties matter, Management and Budget will implement procedures provisions for review and approval of the contractor's monthly financial reports.

Appendix B of the professional services contract provided a listing of expenditures that are allowed to be deducted from gross revenue. It has been past practice to allow miscellaneous office expenses and business license renewals to be deducted from gross revenues. Management and Budget will reevaluate the terms of the current contract with Park-Rite and explicitly clarify what expenses are allowable business costs and which ones are not.

Lack of Monitoring over First Street Operations

Condition

Based upon our review of vendor invoices submitted by the First Street parking lot operators' (MPS/Universal) to the Management Company (JLL) for payment, we found several areas where controls could be strengthened. We noted the following:

- An inadequate segregation of duties with the parking lot operator. One individual has delegated authority to order materials and supplies; receive the ordered materials and supplies, and approve the associated invoices for payment.
    - In addition, proper documentation, such as packing slips or work orders were not always maintained nor attached to the invoice to support the maintenance, supplies, and repair expenditures.
    - As of July 2013, a supervisor is presently responsible for reconciling and approving cash collections; preparing the bank deposit slip and making the deposit.
- The parking lot operator purchased a $2,500 golf cart without first seeking authorization from the Management Company and EDC, as required by the Property Management Agreement when expenditures exceed the budgeted line item. We were told the golf carts are used to transport patrons to their cars and the hauling of supplies.

- ➢ We noted a work order for electrical repairs at the First Street Garage was approved for payment by a Guardian Building Facility Maintenance Supervisor and not the First Street Garage Supervisor.

Criteria

GFOA best practices for establishing effective internal controls state management should establish a segregation of duties for authorizing transactions, executing transactions (receipting and disbursement) as well as daily processing and timely deposits.

According to Section 3.4 of the Property Management Agreement executed between EDC and JLL, "Manager shall not, without the prior written consent of EDC, make any expenditure on behalf of EDC for a budgeted item in excess of the amount set forth for such item in the most recent Budget that has been approved for the period in question by EDC."

Cause

The JLL Property Manager stated the parking lot supervisor only has to initial the invoice as evidence of approval for payment processing. They have not required the Supervisor to attach packing slips, work orders, etc. to support the invoice and payment request.

With regard to approving expenditures, the Property Manager stated it was her understanding that expenditures for parking lot operations are approved if within the budget appropriation for a given line item/account.

Also, according to First Street parking lot officials, they changed their prior process for reviewing and approving daily bank deposits in July 2013.

EDC officials stated the golf cart is used as a utility vehicle to haul trash, tools and other equipment, and in the winter it is used to haul salt to spread throughout the garage. There was an existing golf cart on the premises that was in a state of disrepair, therefore it was agreed to by JLL and the EDC to procure a new one.

Consequences

Without adequate controls and supporting documentation for processing payments for goods and services, several risk factors exist, such as:

- Unauthorized or unnecessary purchases could be made;
- Unauthorized work could be performed and payments made to fictitious vendors;
- Erroneous or fraudulent invoices could be approved for payment;
- Payments could be made for unallowable items or services that are not included in the contracts.

An inadequate segregation of duties within the cash collection and deposit process increases the risk of misappropriation of funds.

Recommendation-2013 - 07 - Operational Control Deficiency

(a) We recommend the EDC establishes a policy that ensures the Management Company implement procedures to provide a segregation of duties for the contracted First Street parking lot operator within the following areas: depositing of cash receipts and the purchasing and invoice processing functions.
(b) We also recommend EDC establishes a policy to ensure the Management Company obtain supporting documentation from the parking lot operator for all goods and services ordered and that proper authorization is obtained prior to processing invoices for payment.

Views of Responsible Officials

Management disagrees with recommendation (a). The EDC have a process and procedure for revenue collection and deposits, which includes segregation of duties. The process for revenue collection and deposits for First Street Parking Deck (FSPD) is that all payments are made at or sent to the garage office (remit to address is 621 First Street). Only exceptions are DTE and some Wayne County payments that are sent by Automated Clearing House (ACH) to the bank account (same account, the rest of the payments are deposited into). The Garage Manager deposit the payments received at FSPD; Universal runs an aging at least twice a month to see what tenants have made their payments compared to what invoices were sent out. In regards to comparing invoiced revenue to the budget, Universal keeps a Variance Analysis Excel report that records the budgeted numbers, actual billing numbers, and a column for variance totals.

Management disagrees with recommendation (b). The Garage Manager order goods or services as defined in the approved budget. This approved budget and the subsequent management of it is discussed with the EDC Asset Manager and the JLL Asset Manager at their bi-weekly meetings; if the costs end up being more than the budgeted amount or not budgeted, the Garage Manager will get approvals from both the EDC and JLL Asset Managers. The EDC manager will initial line item changes to the budget signifying approval at the biweekly reviews. After invoices are received, Garage Manager will approve them and forward to the JLL team for final approval and submit for payment.

OAG Response to Management's Comments –

The identified inadequate segregation of duties occurs within the cash collection and deposit process, as well as the ordering and approval of expenditures by the Garage Manager at the First Street Garage. The principle of segregating duties is to ensure no one person has sole responsibility over a process and that responsibilities are dispersed to more than one person to mitigate errors and the potential misappropriation of assets. Management will need to review the assigned duties and responsibilities delegated to the Garage Manager to ensure a segregation of duties exist.

In addition, EDC should establish a policy that outlines the procedures indicated for approving expenditures that exceed approved budgeted amounts and ensure verifiable supporting documentation is created that validates the authorization and approval of expenditures.

COMPLIANCE WITH CONTRACT PROVISIONS & REGULATIONS

Objective No. 3 – Assess compliance with key provisions in the contracts, laws, regulations and ordinances;

Conclusion

To assess key contract provisions, we reviewed the contractual agreements executed between EDC and the Management Company, as well as the Management Company and parking lot operator for the First Street Garage. We also evaluated the contract provisions for the contractual agreement between M&B and the Parking Lot Operator for the Brush Street lot.

We evaluated compliance with rules, regulations, and ordinances relevant to the county's parking lot operations. Our assessment also included, but was not limited to, determining compliance with the payment of annual payroll costs, insurance coverage requirements, monthly and annual financial reporting to management, EDC and the Wayne County Commission.

We determined, based on a limited review, that the Management Company, M&B, and the parking lot operators were in compliance with most of the key provisions within their respective contractual agreements, However, we found two areas of non-compliance; (1) Management Company did not report to EDC on newly executed contracts; and (2) there is no designated accessible parking at the Brush Street lot for handicap patrons.

No Reporting on Newly Executed Contracts

Condition

During the course of our engagement, we found the Management Company is not in compliance with the Property Management Agreement to report to EDC on newly executed contracts.

We requested a list of major service contracts for the First Street Garage, which included Grounds Services, Elevator Repairs, Security Services, Maintenance, etc. We noted the contracts had been executed from November 2012 through July 2013, however, were not reported in the monthly financial packages submitted to EDC.

We also identified two contracts whose expenditures exceeded $50,000 annually and were required to be competitively bid upon. Annual contractual expenditures to the three contractors are as follows:

- Payments to the First Street Garage operator totals $220,000; and
- The shuttle service operator is paid over $122,000 to provide bus services from/to the First Street Garage to/from the Guardian Building.

We inquired of management officials of JLL and EDC whether the contracts were competitively bid upon as required by the Procurement Policy established by the Management Agreement. As of the date of our report, we have not received any evidence the contracts had been competitively bid upon.

The noted conditions point to a lack of monitoring over the Management Agreement by EDC officials to ensure contract provisions are being adhered to.

Criteria

The Property Management Agreement, Exhibit B-PROCUREMENT POLICY- Item #6 states: "on a monthly basis, the Manager shall prepare a list of newly executed contracts for the EDC. This list shall include the contractor's name, the purpose of the contract, the dollar value of the contract, and the budget line item from which payments shall be credited."

The Procurement Policy further states that "Any contract that is anticipated to exceed $50,000 during any fiscal year will be awarded pursuant to competitive solicitation."

Cause

According to the JLL Property Manager, they were not aware that a list of new contracts was required to be reported to EDC on a monthly basis.

Consequences

The Management Company is out of compliance with the executed Property Management Agreement with EDC.

Further, by not ensuring they receive the monthly list of newly executed contracts, their purpose, and terms, management officials of EDC cannot fulfill their responsibility to oversee and govern the operations of the First Street Garage, nor ensure the executed contracts terms and amounts are fair and equitable for the services provided.

Recommendation 2013-08 – Material Weakness

(a) We recommend EDC establishes procedures to monitor key provisions of the Management Contract and that the Management Company comply with the contract by providing a list of all newly executed contracts as part of the financial reporting package being sent to EDC on a monthly basis.
(b) We also recommend EDC establish procedures to ensure the Management Company competitively bid all contracts in excess of $50,000 as required by the management contract in an effort to obtain the most competitive price for services to be provided.

Views of Responsible Officials

Management agrees with the recommendation (a). Based on the management agreement, JLL will get approval from the dedicated asset manager of the EDC for any amendments or new contracts for the Guardian Building or First Street Garage. Upon approval from the EDC we will include these amendments or new contracts as part of our monthly financial package.

Management agrees with the recommendation (b). The two contracts in question are Universal/ Metro Parking and Metro Cars. Universal Parking started as Metro Parking but in July of 2013 Metro Parking was acquired by Universal and a new contract was executed. The origins of Metropolitan Parking and its selection stem from the original Property Management (PM) RFP. All three firms responding to the RFP for Property Management services had brought Metropolitan Parking in as their partner to run First Street. It was determined at the time that given all three qualified PM firms had Metro as there parking operator, the winning firm (in this case JLL) would just use Metro and no additional bids for parking services were required.

Metro Cars was the shuttle service that the previous owner and management company of the Guardian Building had in place. This contract has yet to be competitively bid out, but EDC officials are in the process of clarifying the needs for shuttle services. Once this has been established, the contract will be competitively bid out as well.

Management stated it's their intention to always competitively bid contracts.

Lack of Accessible Handicap Parking Spaces

Condition

During our assessment of parking lot operators' compliance with laws, regulation, and rules, we were informed by the Brush Street Parking Lot Operator that the lot has no accessible spaces for handicap patrons. The Brush Street lot provides parking for the general public during its hours of operation. In accordance with the Americans with Disabilities Act (ADA), the lot is required to have at least four (4) spaces available for handicap patrons.

In a 2004 Operational Audit of the Downtown Detroit Area Parking Lot Operations, the OAG determined the same Parking Lot Operator had four (4) spaces designated.

Criteria

In accordance with the Americans with Disabilities Act (ADA), public parking lots are considered public accommodations and are required to create designated accessible parking spaces. The ADA states restriping existing parking lots is relatively inexpensive and readily achievable in most cases. The parking spaces should have at least a 60-inch-wide access aisle located adjacent to the designated parking space to permit a person using a wheelchair to enter and exit the car. The designated spaces should be identified by a sign and located on level ground.

The ADA standards specify four (4) as the minimum number of accessible parking spaces for a parking lot with 101 to 150 total parking spaces.

Cause

Park-Rite officials indicated they have 106 parking spaces, of which none are designated handicap accessible. They further indicated that this had not been a problem in the past.

Consequences

This is a violation of the federal law, Americans with Disabilities Act (ADA), and subjects the Parking Lot Operator and/or the county to potential litigation if a discrimination complaint is filed.

Recommendation 2013-09 – Design Control Deficiency

We recommend the Department of Management & Budget and Park-Rite officials designate the minimum number of accessible parking spaces as required by the ADA at the Brush Street parking lot.

Views of Responsible Officials

Management agrees with the recommendation. Wayne County has contracted with Park-Rite to maximize revenue potential from the Brush Street parking lot and parking lot services to the public for a fee. When the county occupied 600 Randolph and used the Brush Street lot, there were five spaces designated for handicap use. Upon the county's departure and the conversion of the lot primarily for public use, handicap spots were not maintained. Park-Rite indicates if someone came to the lot and asked for wheelchair accessibility, they would be accommodated by Park-Rite. Management and Budget agrees that there should be accommodations in accordance with the American with Disabilities Act and Park-Rite should designate accessible parking spaces with appropriate access for wheelchair use.

ASSESS FINANCIAL ACTIVITIES/TRANSACTIONS

Objective No. 4 – Assess the financial activities of the parking lot operations.

Conclusion

We reviewed monthly and annual financial reports and supporting schedules submitted by the parking lot operators as well as the Management Company for Fiscal Years 2012 and 2013 to obtain an understanding of the financial transactions being recorded for parking lot operations. There was a change in both the Management Company and First Street Garage Parking Lot Operator in June 2012. As a result, records were not readily available for our review prior to this period. Therefore, we primarily focused our assessment of financial transactions/activities recorded for the First Street Garage from June 2012 through September 30, 2013.

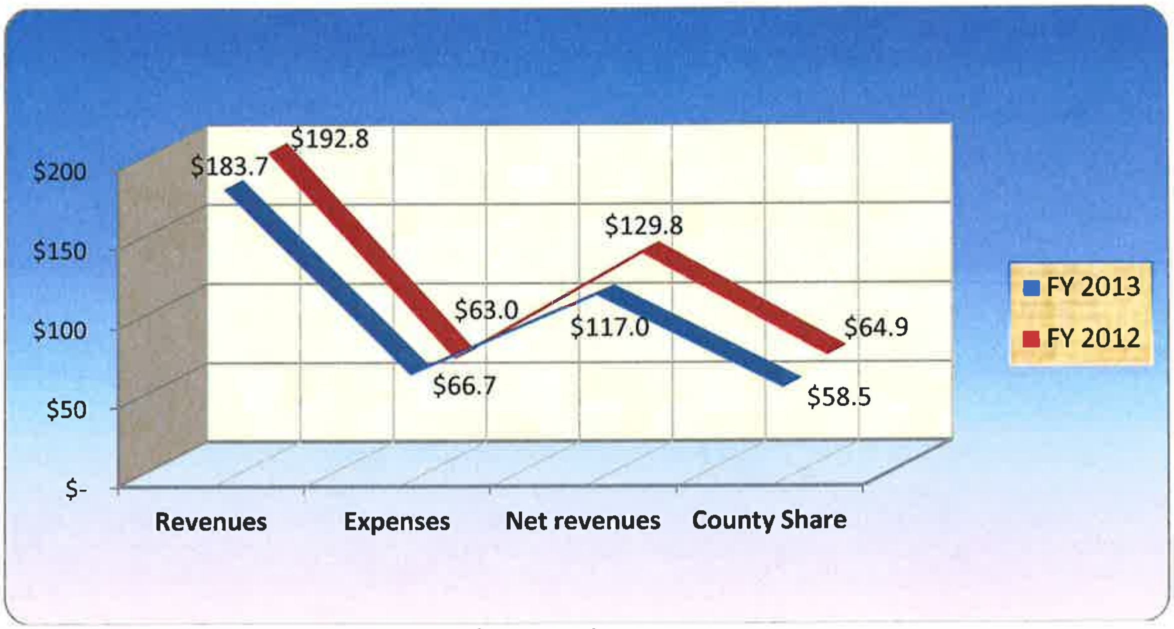
We reviewed financial transactions recorded in the books and records of the First Street Garage and Brush Street parking lot operators and the Management Company. We performed limited judgmental sample testing of cash receipts and expenditure transactions to assess accuracy and completeness. In addition, we obtained management's explanations for any questionable transactions noted. We traced revenue payments due to EDC and the County to the county's general ledger for accuracy. We reviewed other relevant documents as deemed necessary to validate financial transactions related to parking lot operations.

For our period of review Fiscal Years 2012 and 2013, the First Street Parking Garage and Brush Street lot both reported net income from parking lot operations (see charts below). Net income from First Street Garage parking operations is recorded in the county's General Fund.

Source: Fiscal Years 2013 and 2012 Jones, Lang and LaSalle, Inc. financial reports

- Net operating income from First Street Garage parking operations is recorded in the county's General Fund.

Brush Street Parking Lot
FY 2012 & FY 2013 Results
(thousands)



Source: Monthly Financial Reports – Park Rite – Detroit, Inc.

- 50% of net operating income is recorded in Fund 516 - Parking Lot Fund.

Based on our limited assessment of financial activities recorded for parking lot operations, we determined financial transactions were properly recorded in the books and records of the Parking Lot Operators and the Management Company. However, we identified areas, such as expenditures incurred in excess of budget, along with the potential to increase parking revenues, and reduce operational costs that management will need to address.

Expenditures Made in Excess of Budgeted Amounts

Condition

We reviewed, on a limited basis, monthly and fiscal year-end financial reports prepared by the Management Company for submission to the EDC to ascertain if line item (account) expenditures were in line with budgeted amounts. The periods reviewed were August 2012, September 2012, January 2013, February 2013 and September 2013. Our assessment was to identify expenditures that exceeded budgeted amounts by $10,000 or more, which was the variance threshold set by the Management Company and required explanations.

Based on our review of the fiscal-year end reports for 2012 and 2013, we identified certain parking lot repair and maintenance expenditures were in excess of the fiscal year budgeted amount. Subsequently, we reviewed management's explanations for the variances. For the six instances in which expenditures exceeded the budget, we noted the following:

- Expenditures were made without first obtaining authorization from EDC as stipulated in the Management Agreement.
- The Management Company stated they had obtained approval from the County, however, as of our report date, we requested but have not received the supporting documentation.

Criteria

Section 3.4 of the Property Management Agreement states that "Manager (JLL) shall not, without the prior written consent of EDC, make any expenditure on behalf of EDC for a budgeted item **in excess** of the amount set forth for such item in the most recent Budget that has been approved for the period in question by EDC."

Annually, the county's General Fund receives the net income (revenues exceeding expenditures) from First Street Garage operations.

Cause

JLL management explanations indicated that they received approval from EDC for certain expenditures, however we were not able to obtain any supporting documentation.

According to the EDC Asset Manager, EDC meets bi-weekly with the Asset Manager for Jones Lang LaSalle and this is how these approvals took place. There is no written documentation of the same.

In addition, we were informed by the EDC finance person that limited review is taking place and a more adequate review should take place.

Consequences

By not obtaining proper authorization, EDC funds could be spent on items, such as repairs and maintenance, which may not be warranted or justified at the time incurred.

Without adequate review of the parking lot expenditures to budget, management officials have no monitoring mechanism to question EDC funds spent, including those in excess of the budgeted amounts.

Recommendation-2013-10 – Operational – Control Deficiency

We recommend that EDC and M&B management officials establish policy and procedures:

(a) To set the dollar threshold that would require explanations for budget to actual variances;
(b) That will ensure the Management Company (JLL) obtains documented approval for any expenditure that will exceed the budgeted amount variance threshold.
(c) To ensure a financial review of reported actual to budget revenues and expenditures are performed, at a minimum, quarterly.

Views of Responsible Officials

Management agrees with the recommendations. In fact, the EDC Board of Directors is in the process of passing a resolution whereby any variances from the budget that exceed 25% of the line item, must be approved by the Board of Directors. Variances of less than 25% may be approved by the EDC official by initialing the line item after review. In the future, the expenditures exceeding budget will be documented as specified. In addition, Management and Budget will meet with Jones Lang LaSalle to perform the quarterly reviews.

Parking Rates Charged Less than Market / No Fee Charged

Condition

Metro Parking Services provided the OAG with a list of monthly parkers at the First Street Parking Garage as of March 2013. In addition, we reviewed a Comparative Market Rate Analysis, dated January 2013, that was provided by EDC which listed a monthly market rate for parking at the First Street Garage at $120/month. Based upon our review of the documents, we determined the following:

A. Two Guardian Building tenants had "free parking" clauses written into their lease agreements. Without the free parking clause, additional parking revenues of $5,400/month or $64,800/year could have been realized. Their lease agreements expire December 2015 and February 2016, respectively.

B. Some private firms that park at the First Street Parking Garage are charged a rate that is below the market study rate of $120/month. Had these firms been charged the market rate, additional parking revenues of $10,375/month or $124,500/year could be collected.

C. In addition, we noted another Guardian Building tenant receives a monthly rent credit of $120 as part of their lease agreement. An additional $1,440 in parking revenues could have been realized without the rent credit clause. The tenant's lease expires May 31, 2014.

D. Also, we were informed the prior management company executed verbal agreements with several firms contracted to provide services at the Guardian Building and First Street Garage, including the current Management Company and the Parking Lot Operator. In total, there are 32 employees working for these firms that are not charged for parking at the First Street Garage.
    - At a minimum, if these employees were charged the same monthly rate paid by county employees ($60/month), additional revenues of $1,920/month or $23,040 annually could be collected.

   In addition, a downtown cleaning firm also has a verbal agreement to park 7 of their maintenance trucks at the First Street Garage for free.

Had EDC management required these verbal agreements to be voided and executed parking agreements with these firms, an additional $4,600/month or $56,000 annually could have been realized.

In total, we calculated if the above parking tenants were charged the current market study rate or the county rate for parking at the First Street Parking Garage, EDC could potentially collect an additional $18,235 monthly or $218,820 annually in parking revenue generated. The additional revenue stream would potentially be forwarded to the county for general fund general purpose use.

Criteria

Downtown Detroit central business district has and continues to experience an influx of new businesses and development projects, which has, in turn increased the demand for parking for employees. With the limited amount of parking spaces in the central business district area and strong demand, there is opportunity to charge market rates for existing, renewals, and new contracts executed for firms and employees parking at the First Street Garage lot.

Cause

A. At commencement of these two leases, the Detroit Central Business District (CBD) office market was in an extremely challenged position; foreclosure, large vacancies, negative absorption were all crippling an already weak market. Landlords were forced to make tough decisions to secure or renew the limited tenants that were available; both of these firms are a result of that challenging time. In lieu of discounting rents or providing additional tenant improvement dollars, landlords in many cases and when available would include "free parking". This "Free parking" is a result of landlords doing whatever it takes to secure tenancy and were executed prior to the Wayne County purchasing the Guardian Building and therefore must be honored.

B. These leases were executed when parking rates and demand were at a 10-year low and in order to secure revenues for the First Street Garage, the predecessor Management Company entered into these long term agreements to support their need to maintain positive Net Operating Income, while not negatively impacting revenue growth opportunities due to the significant vacancy of the deck.

C. This concession was part of the overall negotiation with this tenant. When Wayne County purchased the Guardian Building, this tenant was a tenant on the mezzanine with multiple years remaining on their lease. When the mezzanine became the focus for the new County Commission Chamber, this tenant needed to be relocated; as part of this relocation and in lieu of paying damages it was agreed to provide free parking for the balance of their lease.

D. A consistent practice in Detroit regarding service vendors (i.e. dedicated management personnel, security; janitorial etc.) is to provide parking at no charge. The logic behind this is that if these firms are required to pay for parking they will bill this cost back as part of the contracts that they hold. This is a push; no revenue generated however no additional costs associated with parking charge recoveries.

With respect to Downtown Detroit Partnership and Clean Detroit, this was a decision originated by the prior Management Company and supported by Wayne County, to provide free parking to this non-profit entity that supports so many positive actions in Detroit's CBD.

Consequences

By charging below market rates and providing free parking, EDC and the Management Company are not maximizing parking revenues at the First Street Garage to offset the cost of operating the garage and capital improvements. Further, by negotiating and/or allowing the identified parking arrangements could be perceived as not being fair and equitable to all monthly parking patrons.

Recommendation-2013 - 11 - Operational Control Deficiency

We recommend that EDC management review existing contractual and verbal arrangements for parking patrons parking at the First Street Parking Garage and assess marketable parking rates to existing conditions in the Downtown Detroit Central Business District Area.

Views of Responsible Officials

Management agrees with the recommendation. The EDC will amend vendor contracts to clearly delineate the number of dedicated vendor parkers that are authorized to utilize the First Street Garage. With respect to Downtown Detroit Partnership and Clean Detroit, the EDC will develop a Memorandum of Understanding outlining this relationship as it relates to parking at the First Street Garage.

County Pays for Reserved / Unused Parking Spaces

Condition

A. Based on our review of documentation pertaining to monthly parking arrangements at the First Street Garage, we noted a major tenant is entitled to 666 spaces but is only required to pay for 625 spaces as of February 2012. Had the tenant been required to pay for the 41 additional spaces, this would result in an additional $4,305 per month ($105 per month for each space) or $51,660 annually in additional revenue to the county.

B. In addition, during discussions with M & B management and a review of parking assignments at Cobo Hall, as of December 2013, we found of the 150 parking spaces the county is currently paying Cobo Hall, *50 are unassigned but reserved* parking spaces.

This equates to $4,500 per month ($90 per space) or $54,000 on an annual basis that the county is paying for unassigned but reserved parking spaces that are not utilized on a daily basis by county employees.

Criteria

A. As stipulated in the Second Amendment to Comerica Bank's Parking License Agreement effective May 26, 2011, the agreement terms were extended from February 1, 2012 to January 31, 2022, with the option to extend until January 2027, and the parking spaces to be utilized were increased from 625 to 666 spaces.

- Further, Section 2 of the agreement states "the Licensee (Comerica) shall not be obligated to pay for the 41 uncovered spaces within the Dedicated Area."

B. Section 2.1 of the Cobo Hall contract states: " The EDC shall have the right to purchase, lease and pay for up to one hundred fifty (150) parking spaces or parking permits through the end of the Term. The initial term of the parking agreement between EDC and the City of Detroit is for six calendar months, beginning April 1, 2013 and ending September 30, 2013. The Lease will automatically renew without notice for an additional term of six (6) month upon the expiration of the initial term…"

Section 4.1 of the contract states "the EDC shall pay the operator $13,500 per month on a monthly basis for 150 parking permits at $90 per space."

Cause

A. EDC executed an amendment to Comerica's parking contract as of May 26, 2011 that stated Licensee shall not be obligated to the 41 uncovered spaces within the dedicated area.

According to EDC officials, this tenant is a credit-worthy, anchor tenant, providing an income stream for the operations of the First Street Garage. At the time of the lease in question, parking rates were lower, the inventory of parking garages in the area was high and the First Street Garage had fixed costs and expenses.

B. The County's parking leases at One Detroit Garage and Two Detroit Garage were set to expire, so the County determined, after a diligent search, that there was capacity at the Cobo Underground Garage/ Washington Street Garage At that time, the billings reflected that the County was paying for **124** Appointee at Two Detroit and **29** Appointee at One Detroit for a total of **153 Appointee Parkers.**

The County/EDC then negotiated a lease with Cobo Underground for 150 parking spaces. Cobo would NOT do an "up to 150 spaces" lease, so pursuant to Section 4.1 of the parking lease; the County/EDC must pay for exactly 150 spaces. At the time of the agreement, it was anticipated that all of the spaces would be utilized based on the inventory levels at the time of transition. Due to the attrition of executive staff and other elected officials making parking arrangements for their executive staff, all spaces were not utilized. At this time, there are only five (5) parking spaces at Cobo Underground Garage that are not currently being used by a county employee.

Consequences

By executing parking lease agreements that include unpaid (reserved) parking spaces for tenants results in loss revenue to the county. Additionally, agreeing to long-term arrangements with parking tenants negates EDC the opportunity to renegotiate lease agreements to existing market conditions and demand.

Given the county's existing monthly cash flow deficit spending an additional $4,590 a month for reserved parking spaces that may not be fully utilized on a daily basis. Prudent financial management principles would dictate one to pay or reimburse on an as need basis.

Recommendation-2013-12 - Operational Control Deficiency

(a) We recommend that EDC officials renegotiate existing parking contracts that allow for unpaid reserved parking spaces to maximize parking lot revenues.
(b) We recommend county management renegotiate the clause within the Cobo Hall contract that requires the payment for reserved but unassigned parking spaces and reimburse county employees and other officials parking at Cobo Hall as needed.

Views of Responsible Officials

Management agrees with recommendation (a). Management stated Comerica is a high credit rated tenant that is currently the largest customer, occupying approximately 50 percent of the spaces at the First Street Garage. Comerica has entered into a valid binding parking lease with the EDC. The only way to re-negotiate this lease with Comerica is to be able to offer Comerica some incentive in exchange for an increase in its monthly parking rental. At this time, the EDC and the County have no incentives to offer. However, this lease will be renegotiated in 2022.

Management partially agrees with recommendation (b). County management has reached out to the management company at Cobo Underground Garage and inquired about the possibility of modifying the lease. County management was informed that they only would consider doing so at an increased rate of $120 per space per monthly (EDC is currently paying $90 per space per month). Parking is at a premium, and parking management companies in downtown Detroit are increasing rates to maximize revenue due to increasing demand. Below is a comparison of total spaces at the possible rates under consideration for renegotiation:

Current monthly charge for 150 spaces at $90/space - $13,500/month
Proposed monthly charge for 110 spaces at $120/space - $13,200/month

The County does not believe it is in the best interest to renegotiate the contract with Cobo and believes the best approach to cover the cost of unassigned and non-chargeable parking is to aggressively market the parking spaces to other county employees. However, the County does believe it is in its best interest to recover non-chargeable parking costs. Effective March 2014, communication was sent to departments offering the 39 spaces to county employees at a rate of $60 per month, which is consistent with the rate charged to employees at First Street Garage. (a previous attempt to offer the spots at $90 per month did not receive any traction.). Due to these diligent efforts, there are only 5 parking spaces left at Cobo Underground.

As of March 2014, there are 112 executive spaces occupied at a charge of $90 per space to assigned departments, 28 spaces occupied by other county employees at a charge of $60 per space and 5 spaces remaining unassigned and non-chargeable. Although there is a reduction in the rate charged to employees, the costs for unassigned and non-chargeable space is reduced from $3,510 to $1,740 and will continue to be reduced as marketing for the remaining spaces continues.

	No. of spaces	Chargeable Rate	Chargeable Costs
Executive spaces - assigned	112	90	10,080
Spaces offered to employees	28	60	1,680
Vacant spaces - nonchargeable	10	-	-
	150		11,760
Monthly parking charge			13,500
Amount nonchargeable			(1,740)

Reimbursement of Administrative Services to EDC

Condition

Our review identified two county employees, one from M & B and one from EDGE, who are assigned responsibility for EDC's oversight of First Street Parking Garage operations. Based on a discussion with an M & B official, it was stated that the hours spent working on parking lot operations may not always be allocated directly to EDC. While the M & B officials' time is captured as a central service chargeback and allocated to other county departments, including EDC, the EDGE official's direct time is not being allocated.

Criteria

Sound financial management principles indicate the costs of administrative related services, should be charged directly to the benefiting business unit based on the services provided. These charges would be comparable to the services currently being provided by Corporation Counsel and directly charged back to EDC.

Cause

The M & B official indicated that while they have not developed a formal set of policies and procedures to capture costs that could be charged directly to EDC; she is open to the idea of properly allocating time spent for First Street parking operations to EDC for the EDGE official

Consequences

The county is not recovering personnel (salaries & fringes) cost for administrative services provided by county employees to the EDC.

Recommendation-2013-13 - Operational Control Deficiency

We recommend M & B management establish a policy, including criteria, for allocating costs to EDC for direct administrative services provided by county employees to the Economic Development Corporation.

Views of Responsible Officials

Management agrees with the recommendation. Management and Budget will develop a policy to allocate costs for administrative services, and is in the process of developing a policy that addresses services provided to all component units and instances where reimbursement to the County for those services could be recovered.

Accounting Treatment of EDC – First Street Garage

Condition

Based on Management & Budget analysis for implementing GASB Statement 61 – The Financial Reporting Entity, it was determined the EDC, a component unit, would be reclassified from a discretely presented component unit to a blended component unit of the county. The GASB stated the component unit's general operating fund should be reported as a Special Revenue Fund within the county's CAFR.

The EDC's First Street Garage operations primary revenue source is obtained from charges for services or parking rents from both private tenants and county employees that park at the facilty. Therefore, the First Street Garage annual financial activities are reflective of transactions for entities that are presently recorded within the county's Enterprise Funds. In addition, the Brush Street parking lot which also is made available for public parking and charges a fee is recorded in the CAFR as an Enterprise Fund.

We also received from the county's external auditors their opinion on whether the First Street Garage could be recorded as an Enterprise Fund. They stated there is no requirement to record the activities within an Enterprise Fund based on criterion in GASB 34, paragraph 67. However, since fees are charged to external users for the parking garage, it would be *acceptable* to treat it as an Enterprise Fund

Also, based on discussion with M&B management, we were informed that any capital improvements to the First Street Garage would need to be funded with earnings from operations.

Criteria

As defined in the County's CAFR, Enterprise Funds are used to account for operations that operate in a manner similar to private business enterprises, where the costs of providing goods and services to the general public will be recovered through user charges.

GASB Statement 61 states "if a component unit is blended, the funds of the component unit are subject to the same financial reporting requirements as the primary government's own funds. However, because the primary government's general fund is usually the main operating fund of the reporting entity…its general fund should be the only general fund for the reporting entity. The general fund of a blended component unit should be reported as a special revenue fund."

Construction industry best business practices recommend the establishment of a reserve fund to address provisions for maintenance, major capital improvements, unexpected repairs, or replacement of building systems should your regular operating budget fail to cover these expenses.

Cause

Management & Budget stated while the EDC will be classified and recorded as a Special Revenue Fund in FY 2013, an agreement could be made that the First Street Garage financial activities are more in line with business type entities whose revenues are primarily from charges for services.

Management & Budget indicated bond proceeds obtained to acquire the Guardian Building and First Street Garage, cannot be used to fund capital improvements for the First Street Garage.

Consequences

Because the implementation of GASB 61 is to *improve* financial reporting for users of the financial statements, reporting the financial activities of the First Street Garage in a Special Revenue Fund is not only inconsistent with the financial reporting for the Brush Street parking lot, the generated revenues are not restricted by grants or other authoritative sources that meet the definition for recording operations in a Special Revenue Fund.

Without the establishment of a reserve fund for the First Street Garage to offset unexpected contingencies and catastrophic events, the county's general fund may be liable to fund these unforeseen expenditures.

Recommendation-2013-14 - Design Control Deficiency

(a) We recommend Management & Budget consider classifying the cost of the asset and financial transactions of the First Street Garage to an Enterprise Fund to provide transparency and maintain consistency with its present financial reporting of parking lot operations.

(b) We also recommend Management & Budget set up a reserve fund for capital improvements at the First Street Garage that would be available to address any unforeseen catastrophic events.

Views of Responsible Officials

Management's comments to be provided.

Noteworthy Accomplishments

- Jones, Lang LaSalle, Inc. of Royal Oak, Michigan was cited by Crain's Detroit Business in a September 2013 article as the largest non-residential Property Manager in the Metropolitan Detroit area as of January 1, 2013. The Management Company is listed as having 62.9 million square feet of non-residential property in Metro Detroit and manages over 446 properties both inside and outside of Metro Detroit.

OAG OVERALL CONCLUSION

Based on our review of operations for county owned parking facilities, we determined the management structure to operate and manage the facilities has been established along with procedures for reporting parking lot revenues and expenditures. However, we did find several areas within the governance process, monitoring of operations, contract compliance, and ensuring rates are fair and equitable where controls will need to be strengthened. Some of the identified areas will require management to establish policy and procedures and/or contract revisions to address the noted control weaknesses.

There are 22 findings and recommendations related to this report. Fifteen (15) of the recommendations are considered to be operational and design control deficiencies which are classified as relatively low risk, five (5) are significant deficiencies which are deemed medium risk and two (2) are material weaknesses that will require corrective action by management in the near term.

Officials within EDC, M&B, DPS agreed or partially agreed in principle with 16 of the 19 recommendations; they disagreed with three (3), one (1) will be forwarded to the EDC Board for their consideration, and for two (2) recommendations we did not received responses from management prior to the report's distribution.

Because the EDC is responsible for First Street Garage as well as the Guardian Building, we are of the opinion that many of the control deficiencies identified in the report will apply to the management and operations of the Guardian Building. Therefore, we encourage EDC and county management officials to address the noted conditions in this report.

A corrective action plan will be due within 30 days after this report is formally received by the Wayne County Commission. If sufficient corrective action is not taken, a follow up review may be necessary.

This report is intended solely for the information and use of Central Payroll and Personnel/Human Resources officials and is not intended to be and should not be used by another other than these specified parties. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

Sincerely,

Willie Mayo, CPA, CIA, CGAP, CGMA, CICA
Auditor General

Appendix

Control Deficiency (low risk)
A control deficiency exists when the internal control design or operation does not allow management or employees, in the normal course of performing their assigned functions, to prevent, detect or correct errors in assertions made by management on a timely basis. A deficiency in design exists when (1) a control necessary to meet the control objective is missing or (2) an existing control is not properly designed is that, even if the control operates as designed, the control objective is not met.

A deficiency in operation exists when a properly designed control does not operate as intended, or when the person(s) performing the control does not possess the necessary authority or qualifications to perform the control effectively.

Significant Deficiency (medium risk)
A matter that, in the auditor's judgment, represents either an opportunity for improvement or significant deficiency in the management's ability to operate a program or department in an effective and efficient manner. A significant deficiency in internal control, or combination of deficiences, that adversely affects the organization's ability to initiate, authorize, record, process or report data reliably in accordance with applicable criteria or framework such that is more than a remote likelihood that a misstatement of the subject matter that is more than inconsequential will not be prevented or detected.

Material Weakness Deficiency (high risk)
A significant deficiency that could impair the ability of management to operate the department in an effective and efficient manner and\or affect the judgment of an interested person concerning the effectiveness and efficiency of the department. A significant or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of subject matter will not be prevented or detected.