Office of Legislative
Auditor General

MARCELLA CORA CPA, CIA, CICA, CGMA
AUDITOR GENERAL

500 GRISWOLD STREET
STE. 842 GUARDIAN BLDG
DETROIT, MICHIGAN 48226

TELEPHONE: (313) 224-8354

August 24, 2017

FINAL REPORT TRANSMITTAL LETTER

Honorable Wayne County Commission:

Enclosed is our final copy of the Office of Legislative Auditor General's Consulting Report on Budget Sensitive Issues/Review of the County's Comprehensive Annual Financial Report (CAFR) for Fiscal Year 2016. Our report is dated July 25, 2017; DAP No. 2017-57-802. The report was accepted by the Committee on Audit on August 16, 2017 and formally received by the Wayne County Commission on August 24, 2017.

We are pleased to inform you that officials from the county provided their full cooperation. 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: http://www.waynecounty.com/commission/843.htm.

Marcella Cora

Marcella Cora, CPA, CIA, CICA, CGMA
Auditor General

REPORT DISTRIBUTION

Wayne County Department of Management & Budget
Mathieu Dube, Deputy Chief Financial Officer
Kevin Haney, Deputy Chief Financial Officer, Budgeting and Planning
Terry L. Hasse, Director, Grants Compliance and Contracts Management
Ashley V. Johnson, Assistant Division Director, Grants and Contracts

Wayne County Commission Fiscal Agency
Mark J. Abbo, Chief Fiscal Advisor / Budget Director

Wayne County Executive

DAP No. 2017-57-802

BUDGET SENSITIVE ISSUES
REVIEW OF COUNTY's 2016 CAFR

Consulting Report

For the period: May 1, 2016 – April 30, 2017

July 25, 2017

Presented to:	*Ways and Means and Audit Committees* County of Wayne, MI
Prepared by:	*Office of Legislative Auditor General* County of Wayne, MI

TABLE OF CONTENTS

Office of Legislative
Auditor General

MARCELLA CORA CPA, CIA, CICA, CGMA
AUDITOR GENERAL

500 GRISWOLD STREET
STE. 842 GUARDIAN BLDG
DETROIT, MICHIGAN 48226

TELEPHONE: (313) 224-8354

July 25, 2017

DAP No. 2017-57-802

Honorable Gary Woronchak, Chairman, Wayne County Commission
Honorable Raymond Basham, Chairman, Wayne County Audit Committee
Honorable Joseph Palamara, Chairman, Ways and Means Committee, and
Members of the Wayne County Commission
Honorable Warren C. Evans, Wayne County Executive

Ladies and Gentlemen:

The Office of Legislative Auditor General (OAG) is pleased to provide its annual report of Budget Sensitive Issues and Review of the County's FY 2016 Comprehensive Annual Financial Report (CAFR) to the Wayne County Commission as it begins its fiscal year 2017-2018 budget deliberations. The report is based on matters of budgetary concerns, audits, consulting, and other engagement reports that contain issues which could have a budgetary impact on county operations and financial position.

In summary, this report identifies issues totaling $132 million that have a potential budgetary impact on FY 2017 – 2018 (see Appendix A). The report is primarily prepared for the benefit and use of the county's Ways and Means Committee during its budget deliberation process.

This report is classified as a consulting engagement and contains budgetary issues for the period May 1, 2016 – April 30, 2017, as well as issues contained in the county's Comprehensive Annual Financial Report (CAFR) for the Fiscal Year ending September 30, 2016.

You can be assured that the OAG will continue our efforts to strengthen the county's internal control environment by working to identify and mitigate risk, assess areas for potential cost saving and revenue enhancements, as well as assist the Wayne County Commission in its oversight responsibility of county operations.

Respectfully submitted,

Marcella Cora

Marcella Cora, CPA, CIA, CICA, CGMA
Auditor General

PURPOSE AND OBJECTIVE

The purpose of this engagement is to comply with both (1) Enrolled Appropriations Ordinance 2016-574 that requires the Office of Legislative Auditor General (OAG) to summarize issues which may be deemed to have a budgetary impact on the budget hearings and deliberations for the fiscal year 2017-2018 and beyond and to provide the report to the Ways and Means Committee and Wayne County Commission; and, (2) Home Rule Charter section 3.119(e) which requires the OAG report on the financial position of the county.

The objective of this engagement is to specifically identify matters and financial issues that impact county operations and have budgetary implications, with an assessment overview, suggested topics of discussion, and/or courses of action for consideration by the Ways and Means Committee in carrying out their oversight of the budget deliberations and approval responsibilities.

SCOPE

This report is not an audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

This is a consulting report and contains a summary of budgetary issues and observations that either came to the attention of the OAG or were presented in reports to the Wayne County Commission's Committee on Audit for the period May 1, 2016 – April 30, 2017. Also included was a review of the county's Comprehensive Annual Financial Report (CAFR) for Fiscal Year 2016.

The consulting engagement and the procedures performed were in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA). The IIA standards define consulting engagements as advisory and related management services/activities, the nature and scope of which are agreed with and/or requested by management and is intended to add value and improve the county's governance, risk management, and control processes without the internal auditor assuming management responsibility.

The fieldwork for this engagement was significantly completed on July 25, 2017.

METHODOLOGY

The procedures performed were limited to reviewing ordinances, laws, regulations, policies and procedures, the county's 2016 CAFR and other external auditor reports, third-party reports, and when necessary, limited interviews with appropriate management officials. We also reviewed and evaluated financial issues and matters that came to our attention as of June 30, 2017 that could potentially have a budgetary impact on county operations for the FY 2017-2018.

We shared the report with Management & Budget (M&B) management officials in order to obtain their comments on the budgetary issues presented in this report.

FISCAL YEAR 2017-2018 - BUDGETARY ISSUES

County Liquidity

We assessed the county's General Fund liquidity by calculating its current and quick ratios for fiscal years 2013 through 2016, as illustrated in the table below.

Wayne County Current and Quick Ratio Analyses General Fund Only Fiscal Years, 2013, 2014 2015, and 2016 (In Thousands)				
	FY 2013	**FY 2014**	**FY 2015**	**FY 2016**
Current Assets	151,090	125,492	205,828	215,170
Current Liabilities	296,656	139,404	85,553	48,789
Current Ratio	**0.51**	**0.90**	**2.41**	**4.41**
Cash + Current Investments + A/R	149,356	123,805	204,926	213,403
Current Liabilities	296,656	139,404	85,553	48,789
Quick Ratio	**0.50**	**0.89**	**2.40**	**4.37**

Liquidity is a measurement of an organization's ability to meet short-term obligations as they come due. The county's current ratio has consistently improved since FY 2013. In FY 2013, the county's General Fund had $0.51 in cash and liquid assets for every $1 in current liabilities. Thus, the county's General Fund did not have sufficient assets to satisfy its short-term obligations. By FY 2016, the current ratio increased approximately 766% to $4.41; meaning, there was $4.41 in cash and liquid assets for every $1 in current liabilities.

The quick ratio is a narrower measure of liquidity and a more conservative indicator of whether the county has enough cash and/or readily available liquid assets on hand to pay its obligations as they come due. This ratio also increased from FY 2013 through FY 2016. In FY 2013, the county had $0.50 in quick current assets for every $1 in current liabilities. However, by FY 2016, the quick ratio increased approximately 769% to $4.37. Therefore, the county had $4.37 in cash and/or readily liquid assets on hand for every $1 in current liabilities to pay its obligations as they become due.

The General Fund is the county's primary operating fund and payer of last resort. The above analysis indicates the county is steadily increasing its liquidity position to satisfy its short-term obligations. However, the county's liquidity is relatively weak when compared to Oakland and Macomb Counties. For comparative purposes, we performed the same analysis for Oakland and Macomb Counties as illustrated below.

Oakland County Current and Quick Ratio Analyses General Fund Only Fiscal Years 2013, 2014, 2015, and 2016				
	FY 2013	**FY 2014**	**FY 2015**	**FY 2016**
Current Ratio	**5.22**	**5.35**	**9.73**	**8.41**
Quick Ratio	**5.21**	**5.35**	**9.71**	**8.40**

Macomb County Current and Quick Ratio Analyses General Fund Only Fiscal Years 2013, 2014, 2015, and 2016				
	FY 2013	**FY 2014**	**FY 2015**	**FY 2016**
Current Ratio	**31.07**	**28.55**	**15.54**	**12.08**
Quick Ratio	**30.83**	**28.36**	**15.19**	**11.87**

➢ **Impact/Action**

- Commission leadership should ask M&B how has the increase in liquidity affected the county's financing abilities; specifically, the cost of financing the jail project. In January 2017, Moody's upgraded the county's rating on general obligation limited tax (GOLT) bonds from Ba2 to Ba1.
- Periodic updates on the county's liquidity should be requested, and the commission should inquire about M&B's intended use of the General Fund's surplus balance in FY 2016. In his 2017 State of the County Address, the CEO discussed increasing pension funding to 80 percent, and the county's need to renovate and/or build new infrastructure.

Views from Responsible Officials:

The increase in liquidity has a direct relationship, along with other factors, to the increase in the county's credit rating. As the county's credit ratings increased, the cost assessed to the county to borrow money decreases.

The commission receives periodic updates regarding the county's liquidity through the cash flow forecast reports. The Administration is continuing to work towards funding the pension system and to renovate and/or build new infrastructure.

Fund Deficits

Fund deficits have decreased approximately 90% from FY 2014. This is an indication that fiscally the county is moving in the right direction.

See schedule of undesignated/unassigned/unrestricted fund balance deficits, below:

County of Wayne Comprehensive Annual Financial Report Undesignated/Unassigned/Unrestricted Fund Balance Deficits Fiscal Years Ending September 30, 2014, 2015 and 2016						
Description by Fund	Unassigned/ Unrestricted Fund Balance 9/30/2014	Unassigned/ Unrestricted Fund Balance 9/30/2015	2014/2015 Increase (Decrease)	Unassigned/ Unrestricted Fund Balance 9/30/2016	2015/2016 Increase (Decrease)	2014-2016 Total Increase (Decrease)
General Fund	$ 82,804,000	$ -	$ (82,804,000)	$ -	$ -	$ (82,804,000)
Health	5,033,000	3,295,968	(1,737,032)	-	(3,295,968)	(5,033,000)
Victim Witness	6,000	143,753	137,753	113,768	(29,985)	107,768
Juvenile Justice/Abuse & Neglect	225,000	-	(225,000)	-	-	(225,000)
Drug Enforcement	-		-		-	-
Nutrition	3,212,000	3,380,780	168,780	4,160,587	779,807	948,587
Wetlands Mitigation	1,000		(1,000)		-	(1,000)
Community & Economic Development	2,279,000	2,816,274	537,274	3,351,849	535,575	1,072,849
Health & Family Services	-		-	1,171,033	1,171,033	1,171,033
Building and Ground Maintenance	281,000		(281,000)		-	(281,000)
Chapter 8	-		-		-	-
Economic Development Corporation				261,617		
Reg. Jobs Econ. Growth Fnd.(RJEGF)	1,000		(1,000)		-	(1,000)
Stadium & Land Development		12,111		-	12,111	12,111
Totals	**$ 93,842,000**	**$ 9,648,886**	**$ (84,205,225)**	**$ 9,058,854**	**$ (827,427)**	**$ (85,032,652)**

Undesignated/unreserved fund deficits have decreased from $93.8 million in FY 2014 to $9 million in FY 2016. This represents a decrease of approximately $85 million, or 90%, over the three (3) fiscal year periods.

- **Impact/Action**

  - The commission should request the administration to provide frequent updates on eliminating remaining fund deficits.

Views from Responsible Officials:

Deficits in the Nutrition, Victim Witness, Community and Economic Development funds were addressed through the 2016 Deficit Elimination Plan (TCM 2017-31-070) and approved by the State Treasurer's Office on July 11, 2017. The Victim Witness Fund deficit will be eliminated in the current year. The deficits for Nutrition and the Community and Economic Development Funds will be eliminated over 5 years and are included in the FY 2017-18 CEO Recommended

Budget. The Health and Family Services (Head Start) fund deficit was caused by a slow collection of grant revenues that were deferred.

Improvement in County Bond Rating

The county has experienced a slight improvement in its bond ratings. The three (3) major ratings agencies – Moody's Investor Services, Standard & Poor's, and Fitch Ratings – have previously downgraded the county's bond rating below investment grade; i.e., junk status. However, S&P has upgraded its outlook to "positive" and both Moody's and Fitch have upgraded their outlook from "negative" to "stable." See attached table for historical trend of county's bond ratings.

Wayne County Bond Rating
FY 2012 – FY 2016

	FY 2012	FY 2013	FY 2014	FY 2015	**FY 2016**	Outlook
S&P	BBB+	BBB-	BB+	BB+	BB+	Positive
Moody's	Baa2	Baa3	Ba3	Ba3	Ba1	Stable
Fitch	BBB+	BB-	B	B	BB+	Stable

Source: County's CAFR's

Fitch attributed its new Wayne County bond rating to the progress it has made toward eliminating its financial distress and realigning its long-term liabilities.

> "The disciplined implementation of our recovery plan has turned the county's finances around and put us on a path to fiscal stability," County Executive Warren Evans said in a statement. "Although there is still a lot of work to be done before the County's finances are completely stabilized, the Fitch upgrade of our credit rating is confirmation that we are on the right track."

Moody's upgraded the county's rating on General Obligation Limited Tax (GOLT) bonds from Ba2 to Ba1, the third such upgrade from Moody's for the county in less than two (2) years. Final surplus numbers will be available when audits conclude in the spring, but reflect the continued progress made under the administration.

S&P Global Ratings revised the outlook on Wayne Charter County, Mich.'s existing Limited-Tax General Obligation (GO) debt to positive from negative and assigned its 'SP-1' rating to the county's limited-tax GO delinquent tax notes series 2016. At the same time, we affirmed our 'BB+' underlying rating on the county.

> "The outlook revision to positive is based on significant cost savings and long-term liabilities reductions, which have been approved and are already being implemented," said S&P Global Ratings analyst John Sauter. It also reflects our improved view of management as it moves away from a state of gridlock and inability to execute reform.

➢ Impact/Action

- There has been a slight improvement in the "outlook" of the various rating agencies. The commission should request copies of the bond rating reports;

- The commission should request periodic updates from M&B regarding contemplated financial initiatives and what their impact may have on the county's bond ratings.

Views from Responsible Officials:

This response was provided by the County's Municipal Advisor First Southwest, a Division of Hilltop Securities:

The county's current ratings are as follows:

S&P	BB+	Positive Outlook
Moody's	Ba1	Positive Outlook
Fitch	BBB-	Stable Outlook

Since the end of the last fiscal year, two (2) of the three (3) rating agencies have made positive rating adjustments to the county's ratings. Moody's upgraded the rating to Ba1 and revised the outlook to "Positive" from "Stable". Fitch upgraded the rating to "BBB-" from "BB+." Additionally, while S&P did not revise the rating or outlook, their most recent report discussed many of the positive actions and results undertaken by the county and laid the ground work for a future increase.

Currently, the county's S&P and Moody's ratings are one "notch" under investment grade categorization, which applies to ratings of "BBB-" or higher. With the recent upgrade, the Fitch rating is now in the investment grade category. We will continue to remain in regular contact with and update the rating agencies as new financial and economic information becomes available. Below are excerpts from their most recent reports:

S&P (May 4, 2017): *"The positive outlook reflects our opinion that Wayne Charter County is currently operating with a structurally balanced budget position, achieved through substantial cost-cutting measures and improved management. We expect that it will likely maintain stable budgetary performance and at least strong available reserves, as we view the changes to be sustainable. Ongoing and future challenges for the county will include resolving the jail project, potential management turnover, bargaining negotiations, stagnant revenues, and likely increasing pension costs. If the county remains on this path of structural balance over the next year, in light of these near term pressures, and we feel it remains well-situated to also address pressures over the longer term, we will likely raise the rating.*

On the other hand, if these anticipated pressures or other unanticipated ones arise, and we feel the county is not sufficiently situated to address them without returning to deficit spending, the outlook could be revised back to stable. If the budget falls out of structural balance, we could in turn lower the rating."

Moody's (May 24, 2017): *"The Ba1 GOLT rating incorporates the county's comparatively weak and highly vulnerable economy indicated by slow labor market recovery and continued population loss. The rating also reflects an improved financial position balanced against dependence on capped property taxes and limitations on tax base and levy growth. The rating further considers high tax base leverage when considering liabilities of overlapping governments, but recent and significant reductions in long-term post-employment liabilities."*

Moody's further notes that factors that could lead to an upgrade include "*Sustained improvement in regional economic conditions that benefits revenue collection and Continued growth in operating reserves and liquidity coupled with improved pension plan funding.*"

Fitch (May 26, 2017): "*The upgrade to 'BBB-' from 'BB+' reflects the continued progress that the county has made in rebuilding its financial resilience and gap-closing capacity to adequate levels, consistent with an investment grade rating.*"

Fitch also notes the following rating sensitivities.

"*Financial Resilience: Continued improved financial resilience, through higher reserve levels and/or strengthened budgetary flexibility would provide additional protection against future potential revenue volatility and improve credit quality.*"

"*Structural Balance: Recently restored reserves and achievement of structural balance have been instrumental to credit quality improvement. Any reversal of such progress could put downward pressure on the rating.*"

DTRF Program

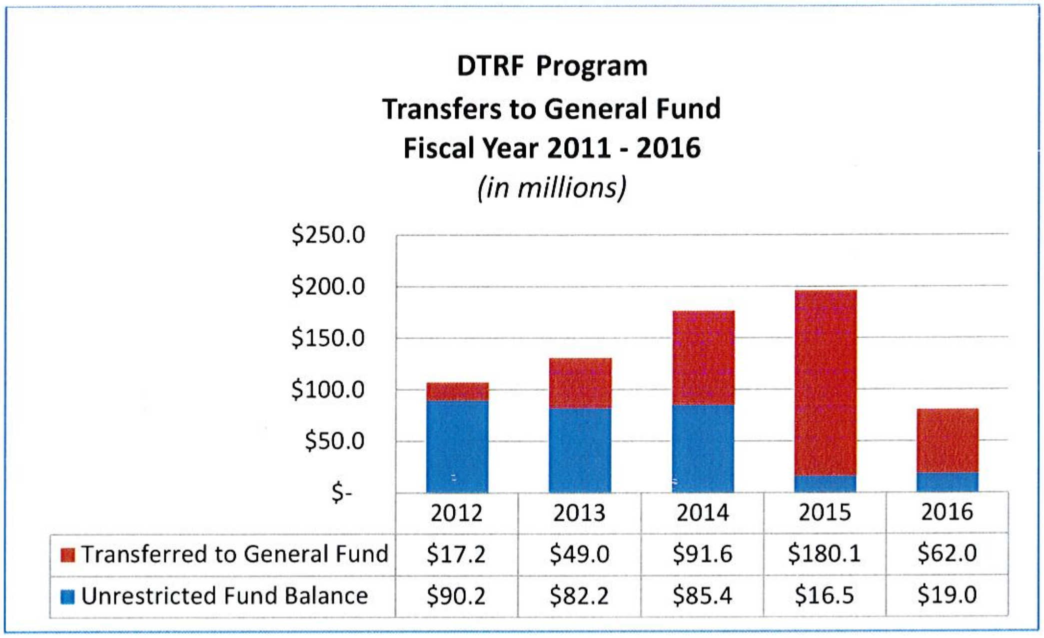
The county established its Delinquent Tax Revolving Fund (DTRF) in accordance with Michigan Public Act No. 206 of 1893, as amended, ("Act 206") in 1977. This Act authorizes any county within the State of Michigan to establish a delinquent tax revolving fund. The DTRF program is used to pay 100 percent of all delinquent real property taxes owed to the county and the Local Taxing Units (LTU) on an annual basis. The financial transactions of the DTRF program are recorded in an enterprise fund of the county under the full-accrual basis of accounting.

- On March 1 of each year, the Wayne County Treasurer's Office (WCTO) is entitled to collect all delinquent real property taxes within the county. The delinquent taxes to be received are from uncollected levies from the LTUs from the preceding year.

- Once the notes are paid in full, any remaining or residual surplus funds from the WCTO's administration of the DTRF program are determined by the Treasurer to be surplus funds. In accordance with Act 206, the surplus funds are transferrable to the county's General Fund by commission resolution.

Historically, as the agent for the DTRF, the Treasurer has determined and declared the amount of the surplus. The county's DTRF program over the years has provided financial stability to the LTUs to fund their operating budgets and provide services to their community constituents.

The following chart shows the amount of DTRF surplus transferred to the General Fund for FY 2011 – FY 2016.



- The recent transfers from the DTRF to the General Fund have increased substantially within the past three (3) years. The annual amounts of the DTRF transfers should still remain significant, although not at the level of recent transfers. For FY 2015-2016, DTRF funds of $62.0 million were transferred into the General Fund. The WCTO anticipates transferring $32,442,300 for FY ending September 30, 2017.

- Historically, as the agent for the county, the Treasurer has determined and declared the amount of the surplus. Public Act 206 of 1893, as amended, Section 211.87b (7) states that "Any surplus in the fund may be transferred to the county's General Fund by appropriate action of the county board of commissioners."

➢ **Impact/Action**

  - According to the Public Act creating the DTRF, the Treasurer is delegated the authority to declare a "surplus" in the DTRF. However, this same act (PA 206, Section 211.87b (7)) delegates the authority to appropriate the surplus to the General Fund, (and thereby designating use of the appropriated funds), to the county commission, and only the county commission.
  - Commission should request periodic updates from the Treasurer's office on any changes in the amount of DTRF available for transfer.

Views from Responsible Officials:

The Delinquent Tax Revolving Fund and Tax Foreclosure Programs fall under the responsibility of the Office of the Wayne County Treasurer. As such, a response was requested from that Office:

"Transfers to the General Fund are still anticipated; however, forecasts do anticipate declines in the amount available. As economic conditions improve, current tax collections are improving, resulting in reduced delinquencies transferred from the local treasurer. This reduction in base amount of taxes will result in decreased interest and fee revenues for the DTRF program. Representatives of the Wayne County Treasurer's office currently make periodic updates to the Commission primarily through the Committee on Ways and Means."

SAS 114 Comments and Recommendations

In its **Report to the Wayne County Commission, Audit Committee, and the County Executive (SAS 114 Letter)**, the external auditors made the following comments and recommendations:

- **Duplicate Receivables/Payables in Downriver Sewer Fund**
  Each March, the county invoices municipalities for principle and interest on outstanding bonds that is due in the next fiscal year. While the overall receivable from the municipalities and related long-term debt are already recorded on the books, the county makes an entry to record an additional set of receivables and payables for these billings (and does not reduce the overall or long-term receivables and payables). Although there is no effect on net income, assets and liabilities are overstated at year-end by the amount of these billings.

- **Dated, Unsupported and/or Unadjusted Account Balances**
  The external auditors noted a variety of asset and liability accounts that have old original transaction dates (some as old as ten years or more), unsupported account balances or balances that have not adjusted to levels that are supported. The cumulative balance at issue is approximately $5.0 million in receivables and $5.3 million in liabilities. The county has made progress during the year to properly dispose of the balances. It is recommended that the county continue the clean-up process and adjust any balances that are no longer valid receivables or payables. In addition, the county should review all of its accounts to verify that the supporting documents agree to the underlying accounting records.

Areas of Concern

- Improvement of the county's internal control structure of its information systems management.
- Implementation of procedures to identify and track assets purchased with federal funds.

➢ **Impact/Action**

- The commission should request periodic reports from M&B regarding corrective action to address SAS 114 comments.

Single Audit (A-133)

The county's Single Audit (A-133) for year ending September 30, 2016 contained 18 (eighteen) Findings and Questioned Costs. (Eight [8] were repeat findings from the September 3, 2015 A-133.) A summary of the more significant findings follows:

2016-001 – Accounting for Capital Assets (Repeat Comment)

- **Criteria:** The county should maintain complete and accurate capital assets records. The records should be updated and reviewed for completeness and propriety by the county.
- **Cause:** There has been turnover at the county during the fiscal year and temporarily assigned individuals have had to learn how to use the capital asset module and prepare the schedules. Additionally, the capital asset module is cumbersome and does not interface well with the general ledger software.
- **Recommendation:** Assign personnel to maintain the capital asset records, review activity and perform reconciliations throughout the year.

2016-002 – Charter Reporting Requirement (Repeat Comment)

- **Criteria:** The county's Charter requires audit report issuance within 120 days of fiscal year end (i.e. by January 28 of each year). The State requires audit report submission within six (6) months of year-end and the federal requirement (when a Single Audit is required) is generally nine (9) months after year-end.
- **Cause: "...**primary causes: (1) the need to establish and enforce a more aggressive year-end cutoff for expenditures and revenue determination; (2) new accounting software (the county is working on borrowed time with an antiquated system that is in danger of no longer being supported); and, (3) the lack of a commitment from top management to establish and follow a plan for timely task completion related to the annual closeout and audit."
- **Recommendation:** The county is advised to develop a plan to significantly improve its accounting systems and processes that will lead to compliance with the Charter reporting requirement.

2016-003 – Activities Allowed or Unallowed – Special Economic Projects

- **Criteria:** Federal regulation 24 CFR 570.209 prohibits activities that provide CDBG assistance for special economic development projects in which the amount of assistance exceeds $50,000 per full-time equivalent, permanent job created or retained.
- **Cause:** An oversight by the county when reviewing the billing detail provided by the subrecipient for reimbursement.
- **Questioned Costs:** Total of $37,388 (which is the excess of $50,000), because the county provided reimbursements for special economic development activities for one individual for $87,388.
- **Recommendation:** It is recommended that the county review its procedures for approving projects to verify that there is a supportable position for the costs.

2016-004 – Allowable Costs/Cost Principles – Payroll Documentation (Repeat Comment)

- **Criteria**: OMB Circular A-87 requires the county to support payroll charged to federal cost objectives with adequate documentation.
- **Cause**: Appears to have been caused by a combination of the complex and manual payroll processes that are different for each department responsible for managing grants, and the payroll system not allowing for time to be split by cost objective.

- **Questioned Costs:** Known questioned costs of $2,745 were identified for the Head Start program. The exceptions for the Women, Infants and Children (WIC), Community Development Block Grant (CDBG) and HOME programs resulted in likely questioned costs not exceeding $25,000.
- **Recommendation:** The county should implement procedures that standardize the payroll reconciliation process to ensure payroll is recorded in the general ledger in adherence to OMB Circular A-87.

2016-005 – Allowable Costs/Cost Principle – WIC Subrecipient Costs (Repeat Comment)

- **Criteria:** Per OMB Circular A-87, charges to grants should be for actual costs (not based on estimated, budgeted or projected amounts).
- **Cause:** The county overlooked this requirement when it entered into contracts with its sub-recipients. Although the error was identified at FYE 2015, the county was unable to make modifications on contracts that were already executed for the FYE 2016.
- **Questioned Costs:** Total expenditures incurred for the WIC program that were paid based on the three (3) fixed fee subrecipient contracts totaled $915,850.
- **Recommendation:** The county has modified the contracts to reimburse the subrecipients based on actual costs beginning with the FYE 2017. While this action does not impact the current year questioned costs, no further corrective action is considered necessary for future contracts.

2015-007 – Allowable Costs/Cost Principle – Pre-Award Costs

- **Criteria:** Under the provisions of 24 CFR 570.200, a recipient may authorize a sub-recipient to incur costs prior to the effective date of the CDBG grant agreement, provided that the CDBG payment will be made within the next two (2) program years following the effective date.
- **Cause:** The county appears to have inappropriately applied the provisions regarding pre-award costs.
- **Questioned Costs:** Total payments to subrecipients to reimburse expenditures for questioned principle and interest amount to $96,210.
- **Recommendation:** It is recommended that the county review its agreements with subrecipients to ensure that costs for repayment of principle and interest are not reimbursed by the county and charged to federal grants.

2016-010 – Period of Performance – Timely Liquidation of Costs

- **Criteria:** The Uniform Guidance requires that a Non-Federal entity charge to the Federal award only allowable costs incurred during the period of performance. All obligations incurred during the period of performance must be liquidated within 90 days of the end of the period of performance.
- **Cause:** The county's blanket purchase order and contract with one of its subrecipients was closed before payments could be made to the subrecipient for 2015 fiscal year expenditures. The contract and blanket purchase order were not amended and reopened until September 2016.

- **Questioned Costs:** Total expenditures of $101,015 were not liquidated within 90 days of fiscal year ended September 30, 2015.
- **Recommendation:** The county is advised to review and update its procedures to ensure timely approval of purchase orders for contracts charged to federal award programs.

Areas of Concern

- Staffing shortages/turnover.
- Outdated accounting software.
- Noncompliance with Charter and Federal reporting requirements.
- Noncompliance with Uniform Guidance relating to contracts, costs and expenditures.

➢ **Impact/Action**

- Commission should request periodic reports from M&B regarding corrective actions to address the noted Findings and Questionable Costs, especially those involving staff shortages, technical deficiencies, reporting requirements, and adherence to Uniform Guidance.

Views from Responsible Officials:

The Department of Management and Budget annually completes an A-133 mandated report of the "Status of Prior Year Audit Findings" (status). This report discloses, for each finding, whether the corrective action has been completed or at what stage of completion the corrective action is in. The auditors' final findings are not issued until the audit is complete, which is six (6) months after the fiscal year-end. Corrective actions are subsequently made and a new status is written, which is satisfactory for the funding sources. Reporting the status more often would not be productive.

Repeat findings do not necessarily indicate that a corrective action has not been taken. The audit is being performed months after the fiscal year-end being audited and thus deficiencies are not discovered until well after the end of the fiscal year which then results in a repeat finding.

Auditor disclosed questioned costs do not always result in a payback to the funding agency. Finding 2006-15 is a repeat finding which questions costs in excess of $900,000. The prior year finding was resolved and resulted in no payback of any dollars. The funding sources make the final decision as to any paybacks.

Budgeted Revenue and Expenditure Projections

In an effort to ascertain possible reasons for fund deficits, we performed a trend analysis of budgeted revenues vs. actual revenues for fiscal years 2014, 2015 and 2016 for both major and non-major governmental funds.

Revenue Projections
Budget to Actual Analysis
Major Governmental Funds
(General, Roads, Juvenile Justice/Abuse and Neglect, and Health)
Fiscal Years 2014 - 2016
(In Thousands)

Fiscal Year	Original Budget	Final Amended Budget	From Original Budget Increase/ (Decrease)	% Increase/ (Decrease)	Actual	From Amended Budget Favorable/ (Unfavorable)	% Increase/ (Decrease)
2014	866,279	803,060	(63,219)	(7.30%)	785,527	(17,533)	(2.18%)
2015	785,240	840,437	55,197	7.03%	795,050	(45,387)	(5.40%)
2016	780,491	820,094	39,603	5.07%	806,719	(13,375)	(1.63%)
Totals	2,432,010	2,463,591	31,581	1.30%	2,387,296	(76,295)	(3.10%)

Revenue Projections
Budget to Actual Analysis
Non-Major Governmental Funds
Fiscal Years 2014 - 2016
(In Thousands)

Fiscal Year	Original Budget	Final Amended Budget	From Original Budget Increase / (Decrease)	% Increase / (Decrease)	Actual	From Amended Budget Favorable/ (Unfavorable)	% Increase / (Decrease)
2014	105,748	107,126	1,378	1.30%	92,692	(14,434)	(13.47%)
2015	87,286	94,752	7,466	8.55%	77,873	(16,879)	(17.81%)
2016	91,838	94,656	2,818	3.07%	71,329	(23,327)	(24.64%)
Totals	284,872	296,534	11,662	4.09%	241,894	(54,640)	(18.43%)

Note: Does not include Debt Service or Capital Projects Funds

- Based on this analysis, for both major and non-major governmental funds, projected county revenues are not being received as budgeted; in fact, there has been a shortfall of approximately $131 million in government fund revenues for fiscal years 2014 through 2016. For Fiscal Year 2016, the shortfall was approximately $37 million even though final amended budgeted revenues for major and non-major governmental funds were increased ***by approximately $48 million from the original budget.*** With the exception of FY 2014, budgeted revenues have been amended upward and approved by the commission. More importantly, in most instances, actual revenues received were less than the original budget, with the exception of the General Fund. Throughout the year, approval of expenditures is based on the budget. This could be a large contributor toward the deficit spending.

- The 2016 Comprehensive Annual Financial Report states: "The County anticipates flat to slight increases in property tax revenues over the next few years coupled with an anticipated decline in the Wayne County Treasurer's Delinquent Tax Revolving Fund (DTRF) surplus transfers that will continue to put pressure on maintaining a balanced budget." With this in mind, budget reviews should take place periodically throughout the year to ensure alignment to annual projections.

➤ **Impact/Action**

- Over the past three (3) fiscal years, amended budgeted revenue fell short of actual revenue by approximately $131 million.
- The county was released from the Consent Agreement with the State of Michigan Treasurer in October 2016. The county was required to hold a revenue conference twice a year. The commission should request the administration communicate the results of these conferences, since they are a vital part of the FY 2017-2018 budget process.

We also performed a trend analysis of budgeted expenditures to actual expenditures for fiscal years 2014 through 2016 for both major and non-major governmental funds.

Expenditure Projections
Budget to Actual Analysis
Major Governmental Funds
(General, Roads, Juvenile Justice/Abuse and Neglect, and Health)
Fiscal Years 2014 - 2016
(In Thousands)

Fiscal Year	Original Budget	Final Amended Budget	From Original Budget Increase / (Decrease)	% Increase / (Decrease)	Actual	From Amended Budget Favorable/ (Unfavorable)	% Increase / (Decrease)
2014	890,883	833,529	(57,354)	(6.44%)	791,439	42,090	(5.05%)
2015	862,586	908,076	45,490	5.27%	820,115	87,961	(9.69%)
2016	817,817	870,536	52,719	6.06%	786,172	84,364	(9.69%)
Totals	2,571,286	2,612,141	40,855	1.56%	2,397,726	214,415	(8.21%)

Expenditure Projections Budget to Actual Analysis Non-Major Governmental Funds Fiscal Years 2014 - 2016 (In Thousands)							
Fiscal Year	Original Budget	Final Amended Budget	From Original Budget Increase / (Decrease)	% Increase / (Decrease)	Actual	From Amended Budget Favorable/ (Unfavorable)	% Increase / (Decrease)
2014	115,963	126,367	10,404	8.97%	92,958	33,409	(26.44%)
2015	95,823	114,672	18,849	19.67%	85,066	29,606	(25.82%)
2016	96,663	110,181	13,518	13.98%	73,761	36,420	(33.05%)
Totals	308,449	351,220	42,771	13.87%	251,785	99,435	(28.31%)

Note: Does not include Debt Service or Capital Projects Funds

- Based on this analysis: final amended budgeted expenditures exceeded the actual expenditures in the government fund statements by approximately $314 million over fiscal years 2014 through 2016. This implies that amendments to the budget are not being closely monitored in addition to adjustments not being made on a timely basis.

➢ **Impact/Action**

  - The commission needs to intensify their efforts to monitor material amendments to expenditures, as well as consider analyzing budget to actual expenditure trends on a periodic basis throughout the year.

Views from Responsible Officials:

Management and Budget will make its best effort at reducing the variance via a year-end reconciling adjustment. However, causes of variances within funds are usually specific to that fund and usually are not related to a variance in the other funds. For example, the Road Fund has historically shown a variance between budget to actual as a result of road projects that are budgeted by the department to be completed within the fiscal year but the status of completion is not known until well after the fiscal year ends, which results in the variance. Analysis of the cause of fund deficits or surpluses should be done at the fund level rather than at the consolidated level. The below chart breaks out the variances of the Major Funds table above the fund level:

Revenues

FY 2014		Adopted		Amended		Actual		Variance
General Fund	$	624.3	$	542.1	$	565.1	$	23.0
County Road		104.8		109.7		101.7		(8.0)
County Health		35.2		37.7		28.8		(8.9)
Juvenile Justice		102.0		113.6		89.9		(23.7)
Combined	$	866.3	$	803.1	$	785.5	$	(17.5)
FY 2015								
General Fund	$	525.4	$	560.1	$	567.9	$	7.8
County Road		129.1		138.2		108.4		(29.8)
County Health		29.4		38.4		29.5		(8.8)
Juvenile Justice		101.3		103.8		89.2		(14.6)
Combined	$	785.2	$	840.4	$	795.1	$	(45.4)
FY 2016								
General Fund	$	542.5	$	561.6	$	572.4	$	10.8
County Road		121.7		134.6		132.1		(2.5)
County Health		25.8		27.4		21.1		(6.2)
Juvenile Justice		90.4		96.5		81.1		(15.4)
Combined	$	780.5	$	820.1	$	806.7	$	(13.4)

Expenses

FY 2014		Adopted		Amended		Actual		Variance
General Fund	$	579.3	$	489.5	$	506.7	$	(17.2)
County Road		110.8		118.2		94.7		23.5
County Health		41.5		44.0		38.7		5.3
Juvenile Justice		159.3		181.9		151.3		30.6
Combined	$	890.9	$	833.5	$	791.4	$	42.1
FY 2015								
General Fund	$	503.9	$	539.7	$	531.4	$	8.3
County Road		146.6		152.2		100.6		51.6
County Health		43.9		45.5		36.8		8.6
Juvenile Justice		168.2		170.7		151.2		19.5
Combined	$	862.6	$	908.1	$	820.1	$	88.0
FY 2016								
General Fund	$	490.8	$	520.0	$	491.5	$	28.5
County Road		133.0		145.8		114.2		31.6
County Health		42.1		45.3		35.3		10.0
Juvenile Justice		151.9		159.3		145.1		14.3
Combined	$	817.8	$	870.5	$	786.2	$	84.4

As can be seen from the above tables, the large variances in the revenues and expenses of the Major Funds are due to the operations outside the General Fund. Further, good management dictates that if anticipated revenues are lower, there should be a similar reduction in expenditure as shown. A similar analysis could be done with Non-Major Funds.

Budget Stabilization (Rainy Day) Fund

The September 30, 2016 balance in the county's Budget Stabilization Fund was $23 million. The General Fund (Unassigned) balance at September 30, 2016 was $81,929,376. The balance in the Budget Stabilization Fund is approximately 28% of the General Fund (Unassigned) balance. It has been Management & Budget's past policy recommendation to maintain an unrestricted fund balance of no less than two (2) months of regular operating revenues or regular General Fund expenditures.

No additional funds were transferred into the Budget Stabilization Fund during Fiscal 2016. ($20 million was transferred into the fund in Fiscal 2015.) According to M&B management personnel, there are no plans to fund the Budget Stabilization Fund going forward.

➢ **Impact/Action**

- The Commission should inquire of management of their intent to fund this account in the future; and,
- Has the $23 million in this fund been earmarked for any initiatives and, if so, what are they?

Views from Responsible Officials:

The Budget Stabilization Fund (BSF) fund balance at the end of FY 2016 was $23 million and is included for CAFR presentation purposes as part of the General Fund's Unassigned Fund Balance. In FY 2017, there is a budgeted use of $6.667 million of the BSF to fund additional costs associated with the Collective Bargaining Agreements that were negotiated with the unions.

Revenue Enhancements – User Fees

In FY 2016, Charges for Services was $139.3 million, or 24.3% of the total county General Fund revenue.

- This represents an approximately $18.1 million increase from FY 2015.
- In FY 2016 the commission did not take any actions regarding the review of the county's fee ordinance, although in prior years, the Budget Task Force recommended to "Adjust fees for county services annually to reflect market changes and the rates charged for comparable services in peer counties."

➢ **Impact/Action**

- Commission leadership should request executive management to submit a report annually reviewing the costs of delivering mandated services and proposing fee increases as deemed necessary.

Views from Responsible Officials:

Management agrees that Charges For Services revenue should be reviewed on an annual basis. Each Department, Elected Office and Agency should be reviewing the charges included in the County Fee Ordinance on a regular basis.

Approximately $60 million of those fees are inter-department charges (Interdepartmental charge backs; sheriff and clerk charges to the courts and other elected officials; intra-departmental allocations of cost within departments) are based on the cost of services provided. These fees change on an annual basis based on the amount budgeted for these services. Many other fees are based on state law. The Administration would welcome an executive/legislative task force to assess County fees and make recommendations on possible adjustments.

Cash Flows

- Per Enrolled Ordinance 2016-574, M&B is required to submit monthly cash flow statements to the Committee on Ways & Means. Fiscal Agency also noted that M&B has been consistently late with providing the monthly cash flow statements.
- The February 2017 cash flow statement showed a positive position in General Fund pooled cash of $65 million. The projected cash balance at September 30, 2017 is a positive $116 million.

➢ **Impact/Action**

- Commission leadership should consider requesting M&B submit monthly cash flow statements on a timely basis.
- Late receipt of these important statements prevents the commission from exercising proper oversight of the county's finances.

Views from Responsible Officials:

Management & Budget recognizes the need for cash flow forecasts to be submitted monthly and on a timely basis. The county's general ledger accounting system (JD Edwards) has exceeded its useful life and had a significant processing error which delayed inter-fund settlements and thus prevented the timely completion of the cash flow forecasts. The JDE processing issue has been corrected and Management and Budget is expecting to get back on track of providing timely reporting.

Overtime

In FY 2016, overtime costs countywide were $24.4 million, of which $14.6 million, or 59.8%, was related to the Sheriff's Office.

Overtime Expenditures -Budget to Actual
(In Millions)

	FY 2014		FY 2015		FY 2016	
	Budget	**Actual**	**Budget**	**Actual**	**Budget**	**Actual**
Sheriff	$3.7	$15.7	$4.6	$16.9	$7.1	$14.6
Other Departments	$8.2	$10.2	$7.7	$9.3	$8.6	$9.8
Total Overtime	$11.8	$25.9	$12.3	$26.2	$15.7	$24.4
Sheriff/Total	31.4%	60.6%	37.4%	64.5%	45.2%	59.8%

There are currently approximately 178 vacancies in the Sheriff's Office (See **Succession Planning** section of report). Part of the contract negotiations for the sheriff deputies, included a 5 percent wage increase. While the wage increase may be justified for the deputies, it could contribute to an increase in overtime if the vacancies are not reduced.

In addition, for the last three (3) years, actual expenditures for overtime in the Sheriff's Office have exceeded the budget significantly. In FY 2016, actual expenditures for overtime were $14.6 million or $7.5 million more than budgeted as shown in the chart above.

➤ **Impact/Action**

- According to the officials within labor relations, the overtime modifications with the POAM contract awarded almost 100 percent more savings than projected. The savings appear to be approaching $6 million annually. While the savings from the modification to the collective bargaining agreement may have reduced overtime expenditures, the overall amount of overtime has not been reduced significantly. In addition, the recent 5 percent wage increase may have contributed to the county not receiving a significant decrease in overtime costs as a significant number of vacancies still remain. With the recent changes in retirement and healthcare, even with the increase in wages, it may be hard to attract individuals to fill the significant number of vacancies in the Sheriff's Office which will continue to cost the County for the overtime needed to cover unfilled positions.

Views from Responsible Officials:

(This response was developed in cooperation with the Wayne County Sheriff's Office): The most significant issue facing the Sheriff's Office in regards to overtime is recruitment and retention of officers. The administration agreed to 5% increases in FY 2016 and FY 2017 for POAM officers to bring salaries to a competitive rate in hopes that would attract candidates. While this helped, the Sheriff's Office still has 160 open uniform positions. As a result, overtime has increased from prior years in order to maintain required staffing levels in the jails.

The Administration is working closely with the Sheriff's Office in assisting in the filling of vacant positions and the retention of current deputies. The administration has proposed a Memorandum of Understanding (MOU) extending the sunset date for retiree health care benefits for POAM members. The MOU affects 114 uniform officers eligible for retirement who would lose the retirement healthcare benefit it they retire after 09-30-17. In order to forestall a mass retirement of officers further, that would exacerbate the WCSO already problematic staffing and recruitment problem, the MOU delays the end of the retiree health care benefit and therefore any need for the officers to retire by September 2017. The MOU is before the Commission for consideration.

The recruitment effort in FY 2017 has resulted in 55 graduates from Jailers Training to date. Although this was progress, the WCSO had 63 separations from the Sheriff's Office in the same time period for a net loss of eight (8) officers. In this respect, we are not keeping up with the attrition rate.

A contract for the installation of cameras in Division II is being proposed and is before the commission for consideration. If approved, it would reduce 10 FTE positions currently filled on an overtime basis associated with the need for increased rounds at Division II, because the current camera system is not working properly. Once installed, there would be a potential $1.0 million reduction in overtime in FY 2018.

During FY 2017, the Sheriff's Office civilized 16 positions in the Jails in order to redeploy Officers to vacant Jail positions. Further, nine (9) of the 14 positions agreed to in the County/Third Circuit funding agreement have been filled with retired Police Officers and are now deployed in Third Circuit - Civil Court Division. This change has allowed up to 10 officers to be redeployed to the Jails. Finally, efforts continue to recruit retired Police Officers for Tether positions to redeploy Officers to Jail positions.

Senior Citizen Nutrition Program

The mission of the Department of Senior Services is to provide advocacy, financial hardship, and nutrition services to Wayne County senior citizens and their families so they can live as independently as possible and maintain their quality of life. One of these services is home delivered meals which are available to housebound senior citizens aged 60 and older. These meals are delivered Monday through Friday. In 2016 there was a waiting list of 330 individuals for home-delivered meals.

Funding for the home-delivered meals in FY 2016 was $2,387,693. FY 2016 General Fund support for the entire Senior Nutrition Program was $239,245.

➢ **Impact/Action**

- Commission leadership should inquire what additional funding is required to eliminate the waiting list so that all eligible senior citizens are serviced.

Views from Responsible Officials:

In FY 2017, the General Fund appropriation to the Nutrition Fund to support Meals on Wheels program increased to $890,000 including a one-time funding increase by the Commission of $500,000. Of that amount, $100,000 was earmarked to assist the Meals on Wheels program within the City of Detroit. The balance of $400,000 was to be used to reduce the waiting list for the program outside of the city.

The home-delivered meals program, available to housebound senior citizens aged 60 and older, delivered Monday through Friday, experienced a wait list up to 525 clients. As of June 30, 2017, the wait list has been reduced to 213.

Note: The Nutrition Fund is currently under a State corrective action plan to reduce its accumulated deficit.

Funding of Retirement System

The funding objective for the Wayne County Employees Retirement System (WCERS) is to establish and receive contributions which will accumulate assets that will pay expected retirement benefits. The funded ratios for FYs 2013, 2014, 2015 and 2016 were 44%, 45%, 54%, and 54%, respectively. For FY beginning October 1, 2016 the minimum contribution, per the actuary, was $47,467,616.

The actuary's report suggested that the WCERS board reconsider the funding policy and make a determination whether the contribution dollar amount should be allowed to decrease from the Fiscal 2015 level of $66.4 million. In addition, the actuary suggested that the WCERS board take every action possible to increase the funding of the WCERS plan.

For FY beginning October 1, 2017 the minimum contribution, per the actuary, is $55,082,405. The actuary also stated that the amount deposited into the Retirement System for Fiscal Year 2018 should not be less than this amount assuming the payment occurs mid-year. If the payment occurs later, interest would need to be added.

The Administration has pledged to contribute approximately $57 million to WCERS from the potential sale of the Downriver Waste Water Treatment Facility. M&B management indicated that the 2017 budget includes $2.475 million in additional funding over and above the required Annual Required Contribution (ARC). An additional $10.5 million is budgeted for additional funding if not required for the Gratiot Jail project.

➢ **Impact/Action**

- Commission leadership should request management's plans to fund the ARC to ensure the pension fund is properly funded.

Views from Responsible Officials:
(This response was developed in cooperation with the Wayne County Employee Retirement System): In FY 2016, the county funded the WCERS DC plan 100% of its required funding ($9.1 million) and funded the Defined Contribution (DC) Plan at $63.7 million, the actuarially determined requirement. The county made additional contributions of over $16.5 million.

In FY 2017, the county has funded the ARC at the required funding level of $47.5 million in the current budget and will transfer that full amount to WCERS by year end. The county has already made additional payments of approximately $3.9 million. Also, the Road Fund and Environmental Services Group (ESG)/ Wastewater Treatment funds are making accelerated payments, which will total $6.06 million by year end in addition to their normal ARC payment. An additional $10.5 million is budgeted for additional funding if not required for the Gratiot Jail project.

In FY 2018, the county has budgeted for the full funding of the 2017 ARC payment of $55.1 million along with continuing accelerated payments from Roads and ESG. An additional $10.5 million is budgeted for additional funding if not required for the Gratiot Jail project.

Healthcare Costs

Healthcare costs are recorded in an Internal Service Fund (#676) - Health Fund. At September 30, 2016, this fund had a surplus of approximately $607,000 vs. an approximate deficit of $210,000 at September 30, 2015.The OAG performed an analysis of the Healthcare business unit and noted the following: *(See follwing charts).*

The budget for FY 2016-2017 was reduced approximately $21 million, apparently in anticipation of anticipated healthcare savings.

Analysis of Health Insurance Business Unit
FY 2017 versus FY 2016 Budget
(Millions)

	FY 2016 Budget	FY 2017 Budget	Difference Inc/(Dec)
Revenues	**$82.6**	**$61.9**	**($20.7)**
Expenditures	**82.6**	**61.9**	**($20.7)**
Surplus/(Deficit)	**0**	**0**	

Actual expenditures through May 31, 2017 as recorded in the county's general ledger, were approximately $37.9 million. This has resulted in a surplus of approximately $6.4 million through 5/31/17.

Analysis of Health Insurance Business Unit
FY 2017 Budget to FY 2017 Actual
(Through May 31, 2017)
(Millions)

	FY 2017 Budget	FY 2017 Actual Thru 5/31/17
Revenues	**$46.5**	**$44.3**
Expenditures	**$46.5**	**$37.9**
Surplus/(Deficit)	**0**	**$6.4**

The Deputy CFO/Budget Director stated that the surplus is due to a timing issue and the fund should be balanced by the 9/30/17 fiscal year-end.

➢ **Impact/Action** –

- Commission should request the administration provide an analysis of actual health care savings realized to-date vs. projected savings; and
- Request the Budget Director to explain how frequently reconciliations are performed and why they do not appear to be timely.

Views from Responsible Officials:

The Department of Management and Budget closely monitors the Health Fund, makes periodic adjustments to ensure proper funding and levels the costs so that all departments and agencies pay the same amounts as a percentage of salary. This analysis usually takes place first in the March/April timeframe of each year in conjunction with the upcoming budget process and is repeated, as necessary, with a final reconciliation in October once all of the expenditures are captured. For FY 2017, the fund will end the year with a planned surplus of approximately $1.5 million to boost the fund balance to a reasonable $1.7M in order to protect the fund from any unplanned costs that might occur.

For comparison purposes, in FY 2015, the year prior to the implementation of the Recovery Plan, the net healthcare costs required to be funded by the county was $77.1 million. The second quarter projection for the current year, FY 2017, the net cost to the county is projected to be $48.8 million, which is a reduction of $28.3 million. These savings are the result of savings in both retiree and active healthcare.

Retiree Healthcare Stipends

On November 19, 2015, the Wayne County Commission, through Enrolled Ordinance No. 2015-610, amended chapter 141 of the Wayne County Code of Ordinances by adding Section 141-44, *Payment of Stipends to Pre-Medicare eligible Members...*pursuant related to the Hugh MacDonald lawsuit settlement.

The purpose of the stipends was to enable retirees to purchase their own health insurance either privately, or through the Exchange via the Affordable Care Act (Obamacare). Total stipends paid in FY 2016 were $2,073,000 and $2,024,049 through May 31, 2017.

The current Presidential Administration is seeking legislation to repeal the Affordable Care Act. There is a possibility millions of Americans will lose their health care coverage.

Observations:

There have been some concerns expressed regarding the implementation of the stipend program.

- **Impact/Action** –

  The commission should request the administration provide the following periodic reports:

  - A quantification of the savings realized through the changes implemented to retiree healthcare;
  - A cost-benefit analysis of the providing monthly healthcare stipends vs. the original payments of monthly retiree healthcare expenditures;
  - The status, and potential financial impact, of stipends should the Affordable Care Act be repealed.

Views from Responsible Officials:

Retiree healthcare was eliminated for all non-mirror group retirees in December, 2016. Those affected retirees are provided one (1) of two (2) possible monthly stipends depending on their eligibility. The total stipend cost to the county is expected to be $10.18 million in FY 2017.

For comparison purposes, in FY 2015, the year prior to the implementation of the Recovery Plan, the net healthcare costs required to be funded by the county was $77.1 million. The second quarter projection for the current year, FY 2017, the net cost to the county is projected to be $48.8 million, a reduction of $28.3 million. These savings are the result of savings in both retiree and active healthcare costs.

Accounting For County Owned Vehicles

The *County Vehicle Use Ordinance* allows a county employee to be assigned the use of a county vehicle for the conduct of county business. One of the factors to be considered in the assignment of a county vehicle is whether the amount of mileage driven justifies that vehicles should be assigned or whether employees should be reimbursed for using their personal vehicles.

Based on the information available in the 2017 Vehicle Assignment Report for the Department of Public Services, there were 94 "pool" vehicles, described in the document as "vehicles to be assigned as needed."

The county has reimbursed employees for mileage as follows: FY 2016 - $1,283,144; and, FY 2017 thru 6/30/17 - $941,055 for a total of $2,224,199. There is an abundance of county-owned "pool" vehicles as detailed above. Thus, there is an opportunity to provide the use of a pool vehicle to employees that receive high dollar mileage reimbursements.

- **Impact/Action** –

  - The commission should request the Administration to perform an analysis of employees who incur high mileage reimbursements to determine if it would be more beneficial to assign the employee(s) a pool car to use in the conduct of county business.

Views from Responsible Officials:

The Administration is aware of certain positions wherein employees have historically incurred high mileage reimbursements. The Administration has updated the mileage reimbursement policy to ensure that it is in compliance with language written in the various Collective Bargaining Agreements. Further, in conjunction with other elected officials, the Administration has formed a committee to review alternatives to reduce employee mileage reimbursement. Unfortunately, certain county positions, by their nature, necessitate the use of mileage reimbursement.

Outside Legal Fees for County Representation

Per Enrolled Ordinance No. 2016-574 "The Department of Corporation Counsel shall provide a report on all outside legal counsel for FY 15-16. The report should include the name of the firm; the department/account number for whom the services were provided for; a brief description for obtaining outside counsel and the total amount budgeted and paid for each case." Corporation Counsel did submit the requested report.

For FY 2015-2016, there were contracts with a total value of $4,872,135; $1,958,062 had been spent on these contracts during FY 2015-2016. Total contract value for FY 2014-2015 was $7,539,406. There was a decrease of approximately $2,667,000, or 35.4%.

Summary of Outside Legal Counsel Services
Fiscal Years 2015/2016

	Total Contract Value	
Law Firm	**FY 2015**	**FY 2016**
Allen Brothers, PLLC	$325,000	$190,000
Allen Law Group	230,000	230,000
Axe & Ecklund	N/A	0
Ayad Law	0	35,000
Barris Sott Denn & Driker	60,000	0
Bodman, PLC	778,174	158,000
Butzel Long	127,131	0
Carson J. Tucker	50,000	80,000
Clark Hill, PLC	630,000	188,743
Cummings, McClorey, Davis & Acho, PLC	50,000	50,000
Dawda, Mann, Mulcahy & Sadler PLC	350,000	100,000
Dickinson Wright, PLLC	387,559	245,000
Driggers, Schultz & Herbst, PC	30,000	130,000
Dykema	80,000	30,000
Fink & Associate Law	364,900	331,547
Garan, Lucow & Miller, PC	7,500	0
Garcia Law Group	30,000	30,000
Gasiorek, Morgan	0	0
Jacobs and Diemer	20,000	20,000
Kilpatrick & Associates	1,227,983	460,000
Korkis Law Firm PC	50,628	0
Lewis & Munday	0	35,000
Materna Custer & Associates	30,000	80,000
Mike Cox Law Firm	60,000	120,000
Miller, Canfield, Paddock and Stone PLC	795,000	791,458
Mogill Posner & Cohen, PC	37,523	17,900
Nabih H. Ayad & Associates, PC	15,964	0
Nemeth Burwell PC	187,000	62,000
Perkins Law Group, LLC	34,000	69,000
Plunkett & Cooney	90,000	70,296
Saurbier & Siegan, PC	65,000	120,000
Schultz and Young PC	154,055	127,192
Seward, Peck & Henderson	0	35,000
Williams Acosta, PLLC	30,000	210,000
Zausmer, August, Caldwell, PC	1,242,000	786,000
Total	**$7,539,417**	**$4,872,135**

Also per Enrolled Ordinance No. 2016-74 "The Department of Corporation Counsel shall provide a report on a cost-benefit analysis of outsourcing legal services vs. providing the same services in-house." Corporation Counsel provided the requested report.

Corporation Counsel's budget for FY 2015/2016 was $8,169,374; total contract value for outside legal counsel was $7,539,417, or approximately 92% of the FY 2015/2016 budget. Corporation Counsel stated in their cost-benefit analysis that 2,447 new legal matters were handled in-house; 19 legal matters were handled by outside counsel.

The budget for FY 2016/2017 is $7,861,057; total contract value for outside legal counsel is $4,872,135, or approximately 62% of the FY 2016/2017 budget.

➤ **Impact/Action**

- There has been an approximate $2.7 million decrease from FY 2015 in the total outside contracted legal services.
- The commission should request periodic updates from Corporation Counsel on their efforts to decrease reliance on outside legal counsel by increasingly keeping matters in-house.

Views from Responsible Officials:

Unfortunately, the numbers noted by OAG staff above and the analysis provided is inaccurate for purposes of a cost-benefit analysis. While the Department of Corporation Counsel may have contracted more firms and therefore increased the amounts set aside, the amounts paid out are generally consistent. The following provides a breakdown of FY pay-outs beginning with FY 15/16:

- For Fiscal Year 15/16 the total amount set aside for outside legal counsel was $4,016,963.54. The total amount paid out during this fiscal year was $1,595,417.02.

- For Fiscal Year 16/17 (the fiscal year ends on September 30, 2017, so the report hasn't been submitted) the total amount set aside for outside legal counsel is $5,714,746,69. The total amount paid out during this fiscal year was $1,380,297.59.

The number of firms that may have been retained and services contracted is dependent on the volume of matters that would require outside counsel in any given year. For instance, it is possible that one case would require our office to retain multiple legal firms to defend (as in the case with one of our litigation files where 10 firms had to be retained to represent the defendants due to conflicts).

The Department of Corporation Counsel is always looking for ways to be more efficient without compromising client representation. While the preference is to maintain a majority of cases in-house, there are limited circumstances that require the Department to seek outside counsel to provide legal services. For example, there are some cases that present a conflict due to the named parties; there are some cases where we just don't have adequate resources to handle in-house (class action lawsuits); and there are other cases wherein a specific expertise is necessary and hiring a firm is more cost effective considering the temporary nature of the case. In these instances, the Corporation Counsel closely monitors these matters and takes into consideration the cost of defense in settling matters. For these reasons and more, the 35.4% reduction in outside counsel fees between FY 14-15 and FY15-16 is indicative of these efforts to retain more matters within the Office and closely monitor the work of outside counsel.

A cost-benefit analysis has been provided to the Commission in the past and it is no surprise that it is more efficient to provide services (where appropriate) in-house. Corporation Counsel currently has staff attorneys with designated specialties in employment law, civil rights litigation, municipal/health law, and real estate/tax. Aside from their education and experience, staff attorneys have significant institutional knowledge of the inner-workings of Wayne County and each of its various departments. Consequently, the County's attorneys are able to navigate a case from start to finish with relative ease. Further, the Office takes a multi-faceted approach to lowering the County's reliance on outside counsel. For example, when the Office hires new attorneys, the Corporation Counsel seeks to hire attorneys with specific skill sets that further limit the reliance on outside counsel. In addition, the Office supports its attorneys attending continuing legal education seminars to broaden their knowledge base.

Moreover, the analysis which evaluated Corporation Counsel's (CC) budget for FY 15/16 and 16/17 and uses the contract value of outside counsel against CC's budget is misguided. Less than half of CC's budget is for salaries and wages, the remainder is for operations, maintenance, etc. Additionally, outside legal service costs are charged back to every department that is being represented for any given matter, therefore, if any comparison is made, the total costs of outside counsel (which are paid out) should be valued against the entire Wayne County budget, not CC's.

It should be noted that elected officials and County Departments benefit, not the Office of Corporation Counsel, from this reduction as outside legal services are budgeted by and charged-back to the elected officials and departments. Although the Office of Corporation Counsel believes there is an overall savings to the County from keeping matters within the Office, the elected officials and departments may have seen an uptick in charge-backs from legal services provided by attorneys within Corporation Counsel.

Sale of County Assets

According to the Charter County of Wayne Real Property Review report prepared by O'Keefe, LLC in March of 2015, the report identified 37 properties and categorized them into four (4) groups. The four (4) groups included sell as soon as possible (ASAP), review further for sale, consolidate or terminate the lease. In addition, the report also identified 215 properties as no action properties. O'Keefe, LLC did not recommend that the county do anything with these properties. The county recently sold the following properties for approximately $11.5 million:

- 640 Temple - $11 million
- 3501 Henry Ruff Rd. - $365,000
- 30555 Michigan Ave. - $150,000

In addition, the county is currently exploring the disposition of the Guardian Building, 511 Woodward, the First Street Parking Deck, a relocation of its headquarters and Warren Valley Golf Course.

The Recovery Plan also addressed the potential annual operating savings by terminating leases. Current county lease costs exceed $8 million a year. This number can be reduced by consolidating offices and terminating leases.

- The prior administration had a tentative deal to sell the 511 Woodward building for $1.8 million. The current administration was not comfortable moving forward with this deal and decided, in August 2015, to evaluate what the best option would be for the building going forward.

➢ **Impact/Action**

- Commission leadership should ensure that revenues generated from the proposed sale of county assets are appropriated in a manner that will address improving the county's financial position;
- Ensure the selling of the remaining properties identified, consolidate properties identified and terminate all leases as noted in the O'Keefe property review report;
- Request an update on the strategy for the disposition of the 511 Woodward building; and,
- Request a cost-benefit analysis of terminating leases for non-essential locations and relocating the affected departments into the Guardian Building.

Views from Responsible Officials:

The following is an update on proposed real estate transactions and their status:

- In conjunction with the O'Keefe report from 2015, the Administration will perform a space utilization study to confirm asset efficiency. The deliverable work product will be used to make disposition decisions on various county sites including, but not limited to, the Guardian Building, 511 Woodward and First Street Parking Garage as previously mentioned.

- A tentative agreement has been reached with the City of Dearborn Heights for the Warren Valley Golf Course. A small parcel on the course will remain under the control of the Wayne County Parks Division. Commission approval is required to consummate the agreement.

- A tentative agreement has been reached for the sale and subsequent redevelopment of the Eloise Complex located at 30712 Michigan Ave. Commission approval will be required to consummate the agreement.

FUTURE BUDGETARY ISSUES

Other Post Employment Benefits (OPEB) Liability

The county's OPEB Actuarial Accrued Liability (AAL) for fiscal 2016 is $346 million. The AAL is the portion of the amount to fully fund the county's retiree health care subsidies for existing and future retirees that is considered to be accrued or earned. The OPEB liability amount is derived from an actuarial valuation performed by Nyhart Actuary & Employee Benefits.

Currently, OPEB is funded on a pay-as-you-go basis and periodic pre-funding payments as determined by the county. There is no required contribution for plan members.

The county paid an estimated total of $16.6 million for health care and retiree life insurance benefits for the 2016 fiscal year. The county's Net OPEB obligation for FYE 2016 is $260 million. This represents the cumulative difference between the annual OPEB cost and the employer contributions. The net OPEB obligation is recorded as a liability on the county's balance sheet. According to the county's 2016 CAFR, the net position restricted for OPEB, as of September 30, 2016, is $17.9 million.

➢ **Impact/Action**

- The commission will need to monitor management's plans to fund the Annual Required Contribution (ARC) and OPEB trust.

Views from Responsible Officials:

The county's Other Post Employment Benefits (OPEB) is paid as healthcare costs are incurred (pay-as-you-go). Annual OPEB cost has decreased by $61.4 million from Fiscal Year 2014 to Fiscal Year 2016 with the changes in retiree health benefits. The county has accumulated over $21 million in plan assets. The OPEB plan is not directly funded through regular contributions but rather from forfeitures and termination liability payments.

Guardian Building

- The Guardian Building had a *net loss* of $62,841 for FY 2015/2016. This is compared to net income of $203,477 for FY 2014/2015.
- In FY 2015 tenant lease space was 39.84%, County leased space 37.81%, and vacant 22.35%.
- In FY 2016 tenant lease space was 43.26%, County lease space 44.05%, and vacant 12.69%. (Note: for both FY 2015 and 2016, 511 Woodward (30,000 square feet) was vacant.

Guardian Building Leased Space Analysis As of September 30, 2016							
		Tenant Leased		County Leased		Vacant Space	
Floor	Total Sq. Ft.	Sq. Ft.	% of total	Sq. Ft.	% of total	Sq. Ft.	% of total
Mezzanine	465,517	214,374	46.05%	218,275	46.89%	32,868	7.06%
511 Woodward	30,000	0	0.00%	0	0.00%	30,000	100.00%
Totals	495,517	214,374	43.26%	218,275	44.05%	62,868	12.69%

According to the Aged Receivables report at September 30, 2016, the status of most tenant accounts was "Current." There were two (2) tenants with nominal amounts owed.

It has also been reported that changes are anticipated to be made for retail establishments located in the Guardian Building promenade. Included is the generation of an expected $50,000 to $100,000 annually in event revenue.

- **Impact/Action**

The OAG acknowledges the Administration's positive actions regarding potential consolidation of county departments into the Guardian Building.

- The commission should request periodic status updates on relocating county offices into the Guardian Building.
- Request frequent updates from Executive Management on the status of the consolidation plans and the cost savings generated.

Views from Responsible Officials:
No large scale plans are currently being considered for relocation of county staff into the Guardian Building. A space study is currently planned to ensure that the Guardian Building, as well as certain other county-owned properties are being utilized in the most cost effective manner.

Contingent Liabilities Noted in FY 2016 CAFR -Wayne County Retiree Health Litigation

On February 4, 2016, a lawsuit was filed against the county which is based on a dispute concerning changes to retiree health care coverage plans, which resulted in increased cost sharing for the retirees. The plaintiffs' claim that the county's action deprived them of property interest without due process in violation of the 14^{th} Amendment of the United States Constitution. The county has reserved $1.7 million for this lawsuit.

- **Impact/Action**

- The Commission should ask Corporation Counsel of the likelihood the county will not prevail in this lawsuit.

- Could the county be liable for more than the $1.7 million reserved for this case?

Views from Responsible Officials:

Likelihood that county will not prevail: The county prevailed in this matter on June 28th, in the U.S. District Court, and an appeal to the 6th Circuit Court has not yet been filed. The District Court decision is well reasoned and should be upheld on appeal.

Could the county be liable for more than the $1.7 million reserve: This is highly unlikely. The county would have to lose on appeal, and lose again after remand in a jury trial, and lose again after appealing that decision. For this reason, the reserve will be dropped down to the amount anticipated to be spent on the appeal. The case decision can be provided upon request.

Economic Development Plans

On May 21, 2015 the County Executive announced that the Economic Development Growth Engine (EDGE) would be abolished and all functions would be transferred over to the Economic Development Corporation. The intent was to better enable the county to coordinate its economic development activity and support business and local community development needs, while reducing the cost to the General Fund.

In the reorganization plan it was also noted that "...the economic development functions will be performed by the Wayne County Economic Development Corporation through a professional services agreement, which is subject to approval by the Wayne County Commission."
The Wayne County Commission received a request from the Economic Development Corporation (EDC) on June 27, 2016 to approve a professional services contract with the EDC. On April 19, 2017 the County Executive's Office requested that this item be returned so the EDC team could make changes to the agreement. In addition, a director to head the EDC has not been named.

➢ **Impact/Action**

- The commission should request the expected date when the professional services agreement will be presented to the commission for approval;
- An update on the naming of the EDC director;
- A quantification of the General Fund dollars savings from the elimination of EDGE; and
- A detailed list of the economic development activity and support of business and local community development needs.

In addition, the commission will need to monitor the dollars flowing to this component unit.

Views from Responsible Officials:

The EDC currently has three staff members. As county employees, they are a part of the CEO's budget but 100% funded by the EDC. Khalil Rahal is the acting director of the EDC. There is no General Fund subsidy to the EDC in the current year, nor are subsidies anticipated in budget years 2018 & 2019. In FY 2015, the subsidy to Economic Development Fund (Fund 250) EDGE was $1,318,000.

Implementation of Major County IT Systems

The county contracted with Michigan Association of Counties Corporation (MACSC) to provide for delivery, services, software support and staff augmentation for a new procurement tool and strategic sourcing for Wayne County. This is a new web-based "procure to pay" system which encompasses several modules.

There is a savings guarantee included within the contract that implementation of the SciQuest tool and strategic sourcing will yield actual savings equal to or greater than $7,243,492.20 over the five-year contract term. Actual savings will be measured annually on a calendar year basis. If at the end of the five-year term the actual savings have not been achieved, the contractor shall be fully liable for the amount of the shortfall.

The county has issued a Request For Proposal (RFP) for a new Enterprise Resource Planning (ERP) system. As of our report date, qualified proposers who submitted proposals are being evaluated.

➢ Impact/Action

- The commission should request annual updates on the actual savings generated with the implementation of the SciQuest tool.
- Updates on the status of the ERP system and plans if the JD Edwards system crashes.

Views from Responsible Officials:

The replacement of the county's current Enterprise Resource Planning systems (JD Edwards and PeopleSoft) is underway. The county's selection committee has selected Cherry Road as the implementation vendor for Oracle Cloud. The next phases of the replacement include sourcing a project support vendor, data cleansing vendor(s), and other consultant vendors. The project is expected to take up to 36 months to complete.

The Michigan Association of Counties Corporation (MACSC) contract responsible for the SciQuest (Procure2Pay) tools and strategic sourcing support has yielded $2,736,466 in savings for the 2016 Fiscal Year.

Succession Planning & Recruiting

Personnel/Human Resources (P/HR) had developed a succession planning model in the previous administration but did not have the staff to implement it due to staffing reductions in P/HR and countywide. Therefore, true succession was never put into place. However, various recruitment strategies and initiatives have been implemented and/or utilized to address staffing challenges.

Personnel/Human Resources has been working on formalizing a succession plan.

- The plan needs to be reviewed and potentially modified by the recently added Engagement Division.
- The estimated completion date of the succession plan is approximately 2019.

The P/HR organizational structure was recently approved by the commission and a new Division of Engagement was formed. The focus of this Division is:

- Communication/Surveys and Needs Assessments.
- Performance.
- Employee Development & Succession Planning.

As of April 11, 2017, the county's budgeted FTEs were 584 positions under budget. Two (2) areas had prominent under budget positions: 1) DPS at 140; and, 2) WCSO at 178. P/HR has implemented strategies to address filling these vacant positions.

The concern is losing "institutional knowledge" through the attrition of employees. That could pose a serious concern regarding adequately providing county services, as well as fulfilling departmental responsibilities. Upcoming Reo

- On April 4, 2017, the county's CFO announced his intention to leave the county.
- There have been two (2) Directors of Personnel/Human Resources in the past 16 months.
    - One (1) left county employment in February 2016.
    - A new director was hired in May 2016 and left the county in April 2017.
    - The appointment of a new Director of Personnel/Human Resources has been sent to the Committee on Government Operations for approval.
- In June 2016, the county's Chief Information Officer left the county. It took approximately four (4) months to name a replacement. In addition, the following individuals have left the Department of Information Technology:
    - Deputy Chief Information Officer.
    - Director, Technology Business Services Division.
    - Director, Technology Integration and Project management.
- In the county's Single Audit (A-133) for FY 2016, the external auditors wrote a finding citing the county with not completing the annual CAFR in accordance with County Charter requirements. Management agreed with the finding, citing staff reductions and turnover within Management & Budget as a contributing factor in not meeting this requirement.

Thus, succession planning is paramount.

➢ <u>Impact/Action</u>

- Without a formalized succession plan in place, key management positions may not be filled timely. This could immediately jeopardize a department/division from achieving its business objectives and delivering mandated services timely.
- Commission leadership should request periodic updates from Personnel/Human Resources on the progress of implementing a succession plan.

Views from Responsible Officials:

I. Employee Engagement Core Functions - Strategic Plan

Over the last several months, the Personnel/Human Resources Department (P/HR) has been restructured in accordance with the Commission-approved First Amendment to the 2015 Executive Branch Reorganization Plan. Under the restructured organization plan, a new "Employee Engagement" Division has been established to address four key core HR functions, which P/HR has not had sufficient resources to effectively perform in the past:

- Training
- Career Planning
- Performance Management
- Succession Planning

This Division will also play a key role in driving positive culture change. As a start, the Employee Engagement Division has two new staff, a Department Administrator and a Department Manager.

While succession planning is recognized as a core function that the County's HR Department must perform to effectively meet the organization's needs, some of the Employee Engagement Division's other functions must be first addressed to establish a sound foundation upon which to build an effective succession planning program. The Engagement Team is currently developing a strategic plan that will include near-term, mid-term and long-term goals to successfully accomplish all of the Division's objectives, including those pertaining to succession planning. In the meantime, the Team has initially focused its attention on training, a critical function that was virtually extinguished the years of budget cuts.

Additionally, the County has historically utilized some rudimentary measures to retain key institutional knowledge; including appointing within executive departments and offices of elected officials a Deputy to work with the Department Director or Elected Official.

II. County-Wide, DPS, Sheriff's Office Vacancies

County-Wide:

As of July 21, 2017, P/HR has 293 approved pending requisitions for full time regular positions countywide.

DPS:

As of July 21, 2017, P/HR has 52 approved requisitions pending for full time new hires and promotional positions, 4 of which have recommended candidates; 48 of which do not yet have a recommended candidate.

The classifications with vacancies are:

- PSMWs – Roads 29 open (25 yet to fill)
- Equipment Repair Specialists – 11

- Bridge Operator – 1
- Store Keeper – 2
- Foreman - 1
- Tree Trimmers -5
- Department Manager - 1
- Electricians - 2

Sheriff's Office:

As of June 21, 2017, P/HR has 138 approved requisitions pending for full-time new hires and promotional positions, two (2) of which have recommended candidates, 136 of which do not yet have a recommended candidate.

The classifications with vacancies are:

- Police Officers - 132 open (130 yet to fill)
- Service Worker - 1
- Clerical Specialist - 2
- Administrative Secretary - 1
- Store Keeper - 2

III. Recruitment for Department of Public Services and Sheriff's Office

While the Employee Engagement Team builds a foundation to perform all of its core functions, some new strategies have been put into place to address recruitment and retention in two (2) of the areas where the county has experienced great difficulty in maintaining fully-staffed rosters - the Department Public Services and Sheriff's Office. Our efforts in these areas are detailed below:

DPS Strategies:

1. Memorandum of Understanding (MOU) between the County and AFSCME implemented to adjust wages for entry level Public Service Maintenance Workers (PSMW).
2. The county is currently negotiating a MOU with AFSCME for wage adjustments for Equipment Repair Specialists.
3. Trainee classification for Equipment Repair Specialists introduced by the county for consideration.
4. Utilized retiree pool for PSMW supplemental staff.
5. Implemented various sourcing activities:
    a. Local colleges
    b. Local high schools
    c. Local trade schools
    d. Increased job fair participation
    e. Increased recruiting communications
    f. Partnered with MIWorks!
6. Adjusted PSMW-Roads qualifications from requiring two (2) licenses at time of hire to requiring one (1) license at time of hire and requirement to obtain second license within a certain amount of time after hire.

7. Proposed adjustment to Tree Trimmer qualification by removing manual climbing requirement.

Note: A national shortage of drivers exists

Sheriff's Office Strategies:
1. Implemented step wage index.
2. Made various changes to the recruiting cycle to reduce the time-to-fill.
3. Added part-time positions that can be filled by county and other retirees.
4. Increased recruiting communications.
5. Implemented various sourcing activities:
    a. Local colleges
    b. Local high schools
    c. Increased job fair participation
    d. Increased recruiting communications
    e. Partnered with MIWorks!
    f. Partnered with the Vet community
    g. One-day end-to-end hiring events

Note: A national shortage of Police Officers and Correctional Officers exists throughout the U.S.

Upcoming Reporting Changes

There was an upcoming reporting change that was noted in the 2016 CAFR footnotes. GASB No. 84, *Fiduciary Activities,* may have future reporting impacts for the county. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement describes four (4) Fiduciary Funds that should be reported, if applicable: 1) Pension (and other employee benefit) Trust Funds; 2) Investment Trust Funds; 3)Private-Purpose Trust Funds; and, 4) Custodial Funds. The requirements of this statement are effective for reporting periods beginning after December 15, 2018.

➢ **Impact/Action**

- The Commission should request periodic reports from Management and Budget regarding the applicability, timing, and implementation approach for this standard.

Views from Responsible Officials:

Management and Budget's Financial Reporting Division has begun the process of analyzing every account in the Fiduciary Funds of the county to comply with GASB 84. This process will take about 18 to 24 months to complete, which will give us plenty of lead time prior to the required implementation date to plan for compliance with the new standard. During the process it is likely that a few activities will be identified which no longer fit within the new definition of fiduciary activities. This standard will definitely affect the county's reporting of some of its activities.

CONCLUSION

Over the period covered by this report, the Wayne County Office of Legislative Auditor General (OAG) reviewed matters of budgetary concerns, audits, consulting, and other engagement reports that contain issues which could have a budgetary impact on county operations and its financial position.

We believe these items coupled with the following fiscal challenges faced by Wayne County could have an impact on the county's fiscal year 2017-2018 budget. This is particularly true given the current depressed state of the economy in the southeast Michigan region and the financial challenges the county faces in this and coming years. As such, we believe these issues may be useful to the commission as part of the budget deliberation process for fiscal year 2017-2018.

This report is intended solely to provide information to the Wayne County Commission and should not be used for any other purposes. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

Marcella Cora

Marcella Cora, CPA, CIA, CICA, CGMA
Auditor General

APPENDIX A

Summary of Budgetary Impact Issues for Consideration for FY 2017-2018 and Beyond

Description	FY 2017-2018 Budgetary Impact	Page Number
Unreserved/Undesignated Fund Deficits	$ 9,058,854	4
Delinquent Tax Revolving Fund	32,442,300	7
SAS 114 Comments/Recommendations		
Dated, Unsupported and/or Unadjusted Account Balances	10,300,000	7
Single Audit Questioned Costs	1,153,208	8-10
Budget Stabilization Fund	23,000,000	14
Sheriff Overtime	14,600,000	15
Overtime	9,800,000	15
Senior Citizen Nutrition program	239,245	16
Funding of Retirement System	12,975,000	16
Retiree Health Care Stipends	4,097,049	18
Accounting for County Owned Vehicles	2,224,199	18
Outside Legal Fees	4,872,135	20
Implementation of Major County IT Systems	7,243,492	25
Total Budgetary Impact	$ 132,005,482	