

Office of Legislative
Auditor General



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FINAL REPORT TRANSMITTAL LETTER

August 6, 2021

Honorable Wayne County Commission:

Enclosed is our final copy of the Office of Legislative Auditor General's Consulting Report on Budget Sensitive Issues and Review of Wayne County's September 30, 2020 Annual Comprehensive Financial Report (ACFR). Our report is dated July 2, 2020; DAP No. 2021-57-802. The report was accepted by the Committee on Audit on July 28, 2021 and formally received by the Wayne County Commission on August 5, 2021.

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: <https://www.waynecounty.com/elected/commission/oag/legislative-auditor.aspx>.

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

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Wayne County Executive

**Consulting Report on
Budget Sensitive Issues and
Review of Wayne County's September 30, 2020 Annual
Comprehensive Financial Report**

July 2, 2021

Table of Contents

LETTER FROM WAYNE COUNTY LEGISLATIVE AUDITOR GENERAL..... I

PURPOSE AND OBJECTIVE..... 1

SCOPE..... 1

METHODOLOGY..... 1

REVIEW OF FY 2020 ACFR AND OTHER AUDIT RESULTS
POTENTIALLY IMPACTING FY 2022 BUDGET DECISIONS.....3

CONCLUSION.....20

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July 12, 2021

DAP No. 2021-57-802

Honorable Alisha Bell, Chairwoman, Wayne County Commission
Honorable Raymond Basham, Chairman, Wayne County Audit Committee
Honorable Iona Varga, Chairwoman, Ways and Means Committee
Members of the Wayne County Commission
Honorable Warren C. Evans, Wayne County Executive

Honorable Elected Officials:

The Office of Legislative Auditor General (OAG) is pleased to provide its annual report on our review of the County's FY 2020 Annual Comprehensive Financial Report (ACFR) and Budget Sensitive Issues to the Wayne County Commission as it begins its fiscal year 2021-2022 budget deliberations. The report contains issues which could have a budgetary impact on the County's operations and financial position that came to our attention through not only our review of the ACFR but other audits, consulting, and engagement reports.

In summary, this report identifies issues that may have a potential budgetary impact on FY 2021-2022. This 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, 2020 – April 30, 2021, as well as issues contained in the County's September 30, 2020 ACFR.

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 savings and revenue enhancements, as well as assist the Wayne County Commission in its oversight responsibility of county operations.

Respectfully submitted,

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

PURPOSE AND OBJECTIVE

The purpose of this engagement is to comply with (1) Home Rule Charter section 3.119(e), which requires the Office of Legislative Auditor General (OAG) to report on the financial position of the County; and (2) Enrolled Appropriations Ordinance 2020-561, which requires the OAG to summarize issues which may be deemed to have a budgetary impact on the budget hearings and deliberations for the fiscal year 2021-2022 and beyond, and to provide the report to the Ways and Means Committee and the Wayne County Commission (the Commission).

The objective of this engagement is to specifically identify matters and financial issues that could impact County operations and budget, 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, 2020 – June 30, 2021. Also included is a review of the County's Annual Comprehensive Financial Report (ACFR) for the fiscal year ended September 30, 2020.

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 service activities, the nature and scope of which are agreed with and/or requested by management. The consulting service are 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 substantially complete on July 2, 2021.

METHODOLOGY

The procedures performed were limited to reviewing the County's FY 2020 ACFR, other external auditor reports, and OAG internal audit reports. We performed limited interviews with appropriate management officials and obtained and reviewed additional documentation provided for our analysis. We also reviewed and evaluated financial issues and matters that came to our attention as of June 30, 2021 that could potentially have a budgetary impact on County operations for FY 2021-2022.

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.

Review of FY 2020 ACFR and Other Audit Results Potentially Impacting FY 2022 Budget Decisions

The General Fund

The General Fund is the primary operating fund of the County and accounts for all financial resources and expenditures except those accounted for and reported in other funds. The table below presents a comparative analysis of the County's General Fund revenues, expenditures and fund balances for fiscal years ended September 30, 2020 and 2019.

General Fund Year-Over-Year Comparison

	FY 2020	FY 2019	Incr (Decr) Over PY	
Revenues				
Taxes:				
Property	\$ 303,132,499	\$ 309,447,794	\$ (6,315,295)	-2%
State sales	44,081,860	55,628,749	(11,546,889)	-21%
Licenses and permits	747,565	777,899	(30,334)	-4%
Federal grants	23,707,859	25,903,508	(2,195,649)	-8%
State grants and contracts	22,468,944	24,224,884	(1,755,940)	-7%
Local grants and contracts	230,463	694,163	(463,700)	-67%
State sources	8,061,267	13,336,971	(5,275,704)	-40%
Charges for services	86,393,416	104,869,195	(18,475,779)	-18%
Interest revenue (loss) and rents	5,157,699	6,031,008	(873,309)	-14%
Other	18,914,038	20,381,508	(1,467,470)	-7%
Total revenues	512,895,610	561,295,679	(48,400,069)	-9%
Expenditures				
Current operations:				
Legislative	7,541,749	7,613,541	(71,792)	-1%
Judicial	84,013,941	96,473,126	(12,459,185)	-13%
General government	130,240,562	134,499,398	(4,258,836)	-3%
Public safety	81,750,541	134,295,192	(52,544,651)	-39%
Public works	469,194	351,810	117,384	33%
Health and welfare	22,931,430	24,252,044	(1,320,614)	-5%
Capital outlay	774,996	173,914	601,082	346%
Debt service interest	-	100	(100)	-100%
Total expenditures	327,722,413	397,659,125	(69,936,712)	-18%
Revenues over (under) expenditures	185,173,197	163,636,554	21,536,643	13%
Other financing sources (uses)				
Transfers in	19,069,301	27,332,172	(8,262,871)	-30%
Transfers out	(201,986,307)	(182,162,796)	19,823,511	11%
Proceeds from sale of capital assets	7,116,351	17,780	7,098,571	39924%
Total other financing sources (uses)	(175,800,655)	(154,812,844)	(20,987,811)	14%
Net change in fund balances	9,372,542	8,823,710	548,832	6%
Fund balances (deficits), beginning of year	182,605,007	173,781,297	8,823,710	5%
Fund balances, end of year	\$ 191,977,549	\$ 182,605,007	\$ 9,372,542	5%

Overall, General Fund revenues and expenses decreased over prior year by \$48.4 million and \$69.9 million respectively. Fund Balance increased by \$9.4 million over prior year. Explanations for major fluctuations are discussed below.

Decrease in Property Tax Revenues

Property tax revenues decreased by \$6.3 million over the prior year (from \$309.4 million in FY 2019 to \$303.1 million in FY 2020) and continue to be hindered by State constitutional property tax caps (Headlee and Proposition A). According to the FY 2020 ACFR, the reduction in property taxes is due to various tax abatement programs and brownfield redevelopment agreements entered into by other taxing jurisdictions within the County. The abatements and brownfield redevelopment agreements collectively amounted to reduced tax revenues totaling \$17.9 million in FY 2020.

The County's 2020 Equalization Report indicates a \$3.6 billion (or 6.63%) increase in the total State Equalized Valuation for the County, from \$54.4 billion in 2019 to \$58.0 billion in 2020. Additionally, the total taxable valuation of the County, which serves as the basis for current and future tax levies, increased \$1.7 billion, from \$42.5 billion in 2019 to \$44.2 billion in 2020; an increase of 4.02%. Despite the increase in valuations, the County anticipates a slight decline in property taxes over the next few years.

Decrease in State Sales Tax Revenues

State sales tax revenues decreased \$11.5 million from the prior year level. The global pandemic and reduced user activity directly caused the decline in sales tax revenues.

Decrease in Charges for Services Revenues

In FY 2020, General Fund charges for services revenues approximated \$86.4 million, or 17% of total General Fund revenue, as compared to \$104.9 million, or 19% in FY 2019, respectively. This represents an \$18.5 million (18%) decrease year over year due primarily to the pandemic shutdown and public activity restrictions. In prior years, the Budget Task Force recommended an annual fee adjustment to reflect market rates of comparable services in peer counties; however, an analysis of the fee ordinance has not been performed.

Decrease in Expenditures

Year over year, expenditures decreased \$69.9 million or 18% primarily due to the pandemic shutdown. Some of the more significant expenditure declines are noted below.

- 1) Judicial expenditures (circuit court and friend of the court) decreased by \$12.5 million as the courts were closed during the second half of the fiscal year due to the pandemic.
- 2) General government expenditures decreased \$4.3 million due to the pandemic and activity restrictions.
- 3) Public safety expenditures decreased \$52.5 million due to the pandemic and activity restrictions along with eligible costs being absorbed by COVID-19 grant funds.
- 4) Transfers out increased by \$19.8 million over prior year. Transfers out include \$50.6 million the County transferred to the new COVID-19 fund.

➤ **Impact/Action**

Commission leadership should request the Administration submit an annual report analyzing the costs of delivering mandated services and proposing service fee increases as deemed necessary.

Views from Responsible Officials

Management & Budget (M&B) agrees with the need for a cost study and fee assessment. The COVID-19 pandemic has had a tremendous impact on the County's Charge for Services revenues. A cost analysis of required services and proposed corresponding service fee increases would help to ensure the County can maintain a stable outlook. The Administration is currently holding discussions on the need for a cost study at the County. These discussions include options of maintaining user fees given increased costs.

General Fund – Fund Balance

As of the fiscal year ended September 30, 2020 the County's General Fund had a total fund balance of \$192.0 million, of which \$157.4 million was unassigned as shown in the table below. Unassigned fund balance consists of residual amounts remaining in the General Fund in excess of nonspendable, restricted, committed and assigned fund balance. Unassigned fund balance may serve as a useful measure of the County's net resources available for spending at the end of the fiscal year. The General Fund's unassigned fund balance includes \$23 million for budget stabilization.

General Fund - Fund Balance Summary				
	FY 2020	FY 2019	Incr (Decr) Over PY	
Nonspendable	\$1,877,108	\$7,779,480	(\$5,902,372)	-76%
Restricted for				
Inpatient hospitalization	-	4,048,519	(4,048,519)	-100%
Debt service	6,794,950	6,794,950	-	0%
Total restricted	6,794,950	10,843,469	(4,048,519)	-37%
Committed for Judicial	13,976,471	16,256,684	(2,280,213)	-14%
Assigned for				
General government	9,630,795	9,630,795	-	0%
Public safety	2,345,809	2,345,809	-	0%
Total assigned	11,976,604	11,976,604	-	0%
Unassigned	157,352,416	135,748,770	21,603,646	16%
Total fund balance	\$191,977,549	\$182,605,007	\$9,372,542	5%

In addition to the \$157.4 million unassigned fund balance, total fund balance is also comprised of the following:

- Nonspendable fund balance includes amounts that are not in spendable form or are legally or contractually required to be maintained intact. The General Fund's nonspendable fund balance at 9/30/2020 primarily includes prepayments, deposits on hand and interfund receivables.
- Restricted fund balance includes amounts that have externally imposed constraints and are legally

restricted by outside parties, constitutional provisions or enabling legislation for use of a specific purpose. The General Fund’s restricted fund balance at 9/30/2020 includes \$6.8 million designated for debt service for the new Criminal Justice Center.

- Committed fund balance includes amounts committed for a specific purpose by formal action of the Wayne County Commission (“Commission”) and can only be rescinded via resolution by the Commission. The General Fund’s committed fund balance of \$14.0 million is committed for the Third Circuit Court.
- Assigned fund balance includes amounts that are intended to be used for a specific purpose but are not restricted or committed. By resolution, the Commission designated authority to the Chief Financial Officer subject to approval of the Commission for assignment of funds. The assigned General Fund balance includes \$9.6 million assigned for general government costs associated with retention stipends, additional pension funding, therapeutic park, and meals on wheels. Another \$2.3 million is assigned for public safety costs for Jail medical and for the Prosecutor to test rape kits.

➤ **Impact/Action**

The Commission should continue to monitor the General Fund’s fund balances and amounts allocated for budget stabilization.

Views from Responsible Officials

M&B agrees that the Commission should continue to monitor the General Fund’s fund balances and amounts allocated for budget stabilization. M&B will continue to balance future budgets using no unassigned General Fund balance, unless absolutely necessary.

Unassigned/ Unrestricted Fund Deficits and Deficit Elimination Plans

The County is required by its Home Rule Charter and State statutes to operate under a plan to eliminate any fund deficits. A three-year summary of unassigned/ unrestricted fund deficits is shown in the table below, with discussion surrounding causes and plans to eliminate deficits following.

	Unassigned / Unrestricted Fund Deficit			Increase (Decrease) in Deficit					
	9/30/2018	9/30/2019	9/30/2020	2018 - 2019		2019 - 2020		2018 - 2020	
Governmental funds									
Juvenile Justice/Abuse and Neglect	-	2,760,465	-	2,760,465	100%	(2,760,465)	-100%	-	0%
Economic Development Corporation	2,263,033	1,495,588	957,655	(767,445)	-34%	(537,933)	-36%	(1,305,378)	-58%
Community Corrections	104,704	101,157	333,776	(3,547)	-3%	232,619	230%	229,072	219%
Chapter 8 Drains	-	-	196,765	-	0%	196,765	100%	196,765	100%
Chaper 21 Drains	-	2,141,893	2,192,405	2,141,893	100%	50,512	2%	2,192,405	100%
Internal service funds									
Central Services	1,216,762	11,046,994	6,189,205	9,830,232	808%	(4,857,789)	-44%	4,972,443	409%
Environment	2,707,219	3,392,405	3,075,411	685,186	25%	(316,994)	-9%	368,192	14%
Long Term Disability	169,790	-	-	(169,790)	-100%	-	0%	(169,790)	-100%
Buildings & Grounds Maintenance	16,448,141	18,391,841	14,355,842	1,943,700	12%	(4,035,999)	-22%	(2,092,299)	-13%
Enterprise funds									
CSO Basins	-	1,996,302	350,719	1,996,302	100%	(1,645,583)	-82%	350,719	100%
Total	\$ 22,909,649	\$ 41,326,645	\$ 27,651,778	\$ 18,416,996	80%	\$(13,674,867)	-33%	\$ 4,742,129	21%

Unassigned/ unrestricted fund deficits increased from \$22.9 million in FY 2018 to \$27.7 million in FY 2020. This represents an increase of \$4.7 million, or 21%, over the three-year fiscal period. According to State statute, two of the eight funds noted in the above table require a deficit elimination plan: Economic Development Corporation (EDC) and Community Corrections. We reviewed the Administration's 2020 Deficit Elimination Plan (DEP), noting the following:

- The EDC's unassigned fund deficit of \$957,655 is carried forward from FY 2017 and is on pace to be eliminated by FY 2022 as approved by the State in the 2019 Corrective Action Plan (2019 CAP). According to the 2020 DEP, this deficit will be eliminated using General Fund dollars.
- The Community Corrections 2019 fund deficit of \$101,157 resulted from indirect charges incurred due to MDOC line item reductions. This portion of the deficit was eliminated in FY 2020 via a one-time transfer from the General Fund. The 2020 fund deficit of \$333,776 is the result of certain disallowed County-allocated costs that were charged to the fund. The FY 2020 deficit will be eliminated via a one-time transfer from the General Fund in FY 2021. To prevent future deficits in the Community Corrections fund, the Administration plans to reconcile MDOC line item reductions and handle necessary transfers in advance of the closing of the books for FY 2021.

For the remaining funds not included in the 2020 DEP, the following was noted:

- The 2019 deficit of \$2.76 million in the Juvenile Justice/ Abuse and Neglect fund resulted from delayed payments from the State. This was a timing issue and was resolved in FY 2020.
- Chapter 8 and Chapter 21 Drains incurred FY 2020 deficits of \$196,765 and \$2,192,405, respectively. The deficits are due to insufficient user fees charged to cover expenses incurred. Chapter 8 and Chapter 21 Drains are part of the larger discretely presented Drains Component Unit. As a whole, the Drains Component Unit does not present a deficit position, unrestricted or in total; therefore, a DEP is not required, in accordance with State statute.
- The deficits noted in the three Internal Service Funds (Central Services, Environment, and Building & Grounds Maintenance) are directly attributable to the recording of net pension liability and net OPEB liability to the internal service funds. In cases like this, the State does not require submission of a DEP.
- The Combined Sewer Overflow (CSO) Basins fund presented an unrestricted deficit position of \$350,719 for FY 2020; however, in total, the fund was not in a deficit position. According to the State, a DEP was not required.

➤ **Impact/Action**

The Commission should consider requesting periodic updates on the progress of eliminating existing fund deficits and notification of projected or potential deficits and causing factors.

Views from Responsible Officials

M&B will continue to monitor funds in a deficit position, as well as funds at risk of moving into a deficit position. M&B agrees that the Commission should consider requesting periodic updates on the progress of eliminating fund deficits and notification of projected or potential deficits and causing factors.

County Debt and Bond Ratings

On August 6, 2020 the Commission passed Resolution No. 2020-443 which authorized the refunding of \$248,840,000 of outstanding general obligation bonds (2008 capital improvement bonds, 2009 building improvement bonds, and 2010 building authority-jail bonds). The estimated savings on refunding the entire outstanding amount approximates \$27.5 million.

The County's bond ratings have remained consistent, despite the challenges posed by COVID-19. The table below provides a historical trend of the County's bond ratings from the three major rating agencies, in addition to the current outlook, as reported in the FY 2020 ACFR.

Historical Ratings

Rating Agency	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2020 Outlook
Moody's	Ba3	Ba1	Ba1	Baa2	Baa1	Baa1	Stable
S&P	BB+	BB+	BB+	BBB+	BBB+	BBB+	Positive
Fitch	B	BB+	BBB-	BBB-	BBB+	BBB+	Stable

Source: Wayne County Annual Comprehensive Financial Reports

It should be noted that in a press release dated July 8, 2021, Moody's raised the County's rating to A3 citing sound fiscal management and successful operational restructuring. According to Moody's, the A grade rating indicates the County's stable ability to meet its long-term debt obligations. This is a noteworthy accomplishment despite the impacts stemming from the Statewide economic shutdown.

➤ Impact/Action

Although there has been continued improvement in the County's ratings and outlooks, the Commission should consider requesting periodic bond rating reports and updated credit analyses published by the rating agencies. Furthermore, newly published rating reports should be posted on the Wayne County Michigan's Investors website www.waynecountyinvestors.com.

Views from Responsible Officials

On July 6, 2021, the County received a bond rating upgrade from Moody's Investors Service to A3 (with a positive outlook) from Baa1. The upgrade moves the County from medium-grade and moderate credit risk to upper-medium grade and is considered to have low credit risk. The updated rating is posted on the Wayne County's Michigan's Investors website at www.waynecountyinvestors.com, on the Bondlink website www.bondlink.com and on the Electronic Municipal Market Access website <https://emma.msrb.org/Home/Index>. Also, the upgrade has enabled the County to refinance some of its existing debt at lower rates. Updated debt agreements are slated to be executed in August 2021. M&B will continue to monitor periodic bond rating reports and updated credit analyses published by each of the ratings agencies.

Staffing Shortages, Overtime Expenditures and Succession Planning Efforts

Personnel Staffing Shortages

Staffing shortages remain a challenge for the County, even more so with the recent hiring freeze and furloughs due to the pandemic. The inability to hire and retain employees poses a serious risk to the County's ability to provide county services, as well as departmental responsibilities. The table below presents a summary of budgeted versus actual positions in the last four fiscal years.

	# of Positions		Vacant Positions	
	Budget	Actual	#	% of Budget
FY 2017	4,008	3,385	623	16%
FY 2018	3,981	3,358	623	16%
FY 2019	4,003	3,284	719	18%
FY 2020	4,026	2,962	1,064	26%

In FY 2020, the County budgeted for 4,026 positions, of which 1,064 (or 26%) were vacant at September 30, 2020. Over the past several years, there has been a continued increase in the percentage of vacant positions, from 16% in FY 2017 and 2018 to 26% in FY 2020. The table below shows a breakdown of budgeted, actual, and vacant positions, and vacant positions as a percentage of departmental budgets.

Department	# of Positions		Vacancies	
	Budgeted	Actual	# of Positions	% of Dept Budget
Circuit Court	693	489	204	29%
Commission	54	48	6	11%
County Clerk	286	223	63	22%
Probate Court	72	64	8	11%
Prosecutor	306	264	42	14%
Register of Deeds	67	47	20	30%
Retirement	27	16	11	41%
Sheriff's Office	1094	783	311	28%
Treasurer	95	59	36	38%
County Executive	31	25	6	19%
Corporation Counsel	48	38	10	21%
HHVS	318	236	82	26%
Dept of Technology	60	46	14	23%
Dept of Public Service	636	432	204	32%
Economic Development	76	68	8	11%
Homeland Security	5	5	0	0%
Human Resources	29	25	4	14%
Management & Budget	120	86	34	28%
Seniors	9	8	1	11%
Total	4026	2962	1064	

Overtime Expenditures

In FY 2020, county-wide overtime costs amounted to \$23.9 million as compared to \$28.5 million in FY 2019; a \$4.6 million (16%) decrease directly related to the pandemic. The County's FY 2020 overtime

budget of \$22.0 million represents an increase of \$1.5M over prior year. Actual overtime expenditures exceeded the budgeted amount by \$1.9 million.

	FY 2018		FY 2019		FY 2020	
	Budget	Actual	Budget	Actual	Budget	Actual
Sheriff	7,152,739	19,066,611	8,537,310	17,441,704	9,642,085	14,631,056
Other departments	10,771,151	11,177,148	11,962,244	11,039,067	12,405,911	9,292,435
Total overtime costs county-wide	17,923,890	30,243,759	20,499,554	28,480,771	22,047,996	23,923,491
Sheriff OT as a % of total OT costs		63%		61%		61%

Consistent with prior year, overtime incurred by the Wayne County Sheriff’s Office (WCSO) accounted for 61% of total overtime expenditures. WCSO overtime costs exceeded budget by \$5.0 million, \$8.9 million, and \$11.9 million in FY 2020, 2019 and 2018, respectively.

The WCSO continues to experience challenges with hiring and retaining new recruits, largely due to starting wages lower than the median salary for corrections officers nationwide plus imposed mandatory overtime. In May 2021, the WCSO reported a hiring shortage of 200 personnel due to an increased usage of leave time under the Family Medical Leave Act (FMLA). The WCSO reported 27 new hires and 98 employee departures in 2020 as compared to 16 new hires and 46 departures in 2021. In response to the staffing shortages, the WCSO made the decision to shut down the Jail Division III facility and reassign its deputies to the other two locations (Divisions I and II).

Although overtime remains a budget concern, in FY 2020, approximately 36%, or \$8.5 million of overtime charges were eligible for funding with CARES Act dollars thus reducing pressure on the General Fund.

Succession Planning Efforts

In a letter to the Wayne County Commission, dated December 10, 2020, the Director of Personnel/Human Resources (PHR) provided a status update on implementation progress of the County’s succession plan for senior appointee positions within the County. COVID-19 and the impact on budgets has hindered progress of the plan implementation. Several PHR contracts were terminated as a result, including the Bullseye contract, which was originally slated to secure technology to provide a hub and anchor for PHR’s various initiatives. In addition, some PHR staff members assigned to work on the project were furloughed leaving the remaining staff members to assume additional duties.

So far, as part of the succession plan, PHR has identified 56 key/critical senior appointee positions at the director level and higher. This group does not include “elected official” positions. Next steps are to identify capabilities and knowledge required of the key/critical positions; create success profiles for those positions; identify success risks for the position incumbent (i.e., near-retirement, lack of successor candidate, specific skills or knowledge in short supply in the labor market); and finally identify, assess and develop high-potential successors against the success profiles. The new and forthcoming ERP system will enable efficiencies for succession plan implementation.

➤ **Impact/Action**

As hiring and recruiting challenges endure across all County departments, Commission leadership should consider requesting the following from the Administration:

- continued updates on the progress of hiring initiatives and hiring freezes, and their related impact on key initiatives and mandated services;
- future budgets accurately reflect anticipated overtime costs; and
- periodic updates from PHR on implementation progress of succession planning and continued delays resulting from the COVID-19 pandemic.

Views from Responsible Officials

In fiscal year 2020, the County set up a contra-expenditure account to offset certain administrative costs for each department, related to the COVID-19 pandemic. The Sheriff's office is reporting less overtime, because the amounts of salaries and wages/overtime are reported net of the contra-expenditure account. Overall, county-wide overtime expenditures are down due to a reduction of services with the courts and other services being closed or reduced in 2020.

In addition, the County is currently undergoing a compensation study that will assess the competitiveness, or lack thereof, with regards to salaries. The results of the study will assist the Administration in determining the level of compensation needed to attract and retain quality staff, ultimately reducing the need for overtime.

Funding of the Retirement System

The funding objective for the Wayne County Employees' Retirement System (WCERS or the Retirement System) is to establish and receive contributions, invest those contributions, and accumulate assets sufficient to pay expected retirement benefits.

Contributions

The Retirement System is supported by member contributions, employer contributions and investment income on Retirement System assets. Members contribute percentages of their pay and the County contributes the actuarially determined remainder needed to meet the funding objective. Employer contribution requirements are determined by the Annual Actuarial Valuation Report, the most recent of which is dated September 30, 2020. Employer required minimum and actual contributions for the last seven years are shown in the table below.

Fiscal Year Ending	Valuation Date September 30	Employer Dollar Contributions		
		[1] Minimum Required	[2] Actual Contributed	[2] / [1] Ratio
2016	2014	\$63,688,602	\$96,655,167	151.76%
2017	2015	47,467,616	61,830,334	130.26%
2018	2016	55,082,405	144,639,837	262.59%
2019	2017	56,869,257	68,633,312	120.69%
2020	2018	52,280,754	57,638,508	110.25%
2021	2019	51,703,879	n/a	n/a
2022	2020	52,411,871	n/a	n/a

Investment Rate of Return

The market value rate of return on investments during fiscal year 2020 was 2.8%; and the total Retirement System fund gained \$27.3 million in investment income, as compared to 3.5% and \$34.4 million, respectively, in fiscal year 2019.

Funding Progress

Michigan Public Act 202 of 2017 established reporting requirements that are applicable to all local Michigan governments that offer or provide defined benefit pensions and/or defined benefit OPEB plans. Government units that are in an “underfunded status” of less than 60%, must either submit a waiver or a corrective action plan to bring funding levels up to 60%. The following table summarizes the Retirement System’s funding progress and status for the last five valuation years ended September 30.

Valuation Date September 30	Actuarial Accrued Liabilities (AAL)				[5] Funding Value of Assets	Portion of Accrued Liabilities Covered by Assets				[4] - [5] Unfunded Actuarial Accrued Liability (UAAL)
	[1] Member Contributions	[2] Retirees and Beneficiaries	[3] Employer Financed	[4] Total AAL		([5] - [1]) / [2]			[5] / [4]	
2016	\$92,970	\$1,207,108	\$136,482	\$1,436,560	\$782,839	100%	57%	0%	54%	\$653,721
2017	93,312	1,187,208	136,234	1,416,754	780,642	100%	58%	0%	55%	636,112
2018	92,374	1,164,651	133,330	1,390,355	863,172	100%	66%	0%	62%	527,183
2019	92,806	1,150,369	124,809	1,367,984	879,462	100%	68%	0%	64%	488,522
2020	87,856	1,138,840	117,286	1,343,982	873,375	100%	69%	0%	65%	470,607

Note: \$ in thousands

Note: Values in table are determined based on present value of future expectations and other actuarial assumptions. Refer to the September 30, 2020 Actuarial Valuation Report for additional information.

As of the September 30, 2020 valuation date, the defined benefit plan is funded at a level of 65%. The funded ratio, calculated by taking the funding value of assets divided by the actuarial accrued liability (AAL), is expected to hold steady or gradually move toward 100% in the absence of benefit changes, assumption changes or valuation method changes. As expected, the funded ratio has gradually increased over the years, from 44% in 2013 to 65% in 2020. Much of this increase is due to the accelerated funding policy adopted by the Retirement System’s Board and the additional contributions made by the County in prior years.

Also presented in the above table, is the portion of accrued liabilities covered by assets on hand (at funding value) and the unfunded portion of the actuarial accrued liability (UAAL). The funding value of assets

on hand as of the September 30, 2020 valuation date were sufficient to cover 100% of member contributions on deposit and 69% of future benefits to present retirees and beneficiaries, leaving none available to fund employer financed obligations. According to the Actuarial Valuation Report, it is very important that rapid progress be made in funding the total liability to 100%.

According to the 2020 Actuarial Valuation Report, there has been improvement in funding levels since last year; however, potential cash flow problems remain a concern for the Retirement System. Assets in the plan are not sufficient to cover 100% of current retiree liabilities. The ratio of assets at market value to retiree benefit payroll is 6.8, which means that approximately seven years of retiree benefit payments can be paid from current assets (at market value). The ability to make such payments beyond seven years is heavily dependent upon future contributions and future investment return. The Retirement System's Funding Policy promotes funding by defining the amount of time in which certain types of unfunded liabilities should be paid off. In the absence of significant market losses or benefit increases, and if the Funding Policy is adhered to, the ratio of assets to retiree benefit payroll should improve in the future. A copy of the Retirement System's Funding Policy can be found in the Actuarial Valuation Report.

COVID-19 Impact

According to the 2020 Actuarial Valuation Report, defined benefit plan number counts decreased from 2,048 to 1,789 during the year, with significantly higher terminations than expected. Retirement System staff from the County indicated that in the long-term, the County intends to increase County employee number counts to pre-COVID-19 levels; however, it is not clear how many of those will be defined benefit plan members versus defined contribution plan members or which, if any, of the individuals terminated will return. The results in the valuation do not include an adjustment to account for future defined benefit number counts. If the same members are re-hired in the future, the plan may experience losses in the valuation after their re-hire, since they will likely have past service when they are re-hired.

➤ Impact/Action

Commission leadership should consider requesting management's plan to increase the funding level while still providing essential county services.

Views from Responsible Officials

The County has historically been able to maintain operations, although at reduced levels in some areas. The use of the ARPA (American Rescue Plan Act) and the CARES act funding where possible has reduced the negative impact of anticipated revenue losses but the County will need to continue a path of financial discipline as the impact to revenues will continue to affect the County. In addition, the County has continued to overfund contributions towards the net pension liability in relation to amounts required by the actuarially determined contributions.

The Delinquent Tax Revolving Fund

The Wayne County Treasurer's Office (WCTO) is required by the General Property Tax Act 206 of 1983, to collect delinquent real property taxes levied by all local units of government within the County. Taxes become delinquent, if unpaid, on March 1 of the year subsequent to the year levied. For example, taxes levied in July and December of 2019 become delinquent March 1, 2020. On this date, the local municipalities close their current tax rolls, create delinquent property tax rolls and formally transfer the delinquent tax rolls to the WCTO. The delinquent tax cycle is two and a half years from delinquency to

foreclosure and property sale. Property sales generally take place in September and October. The Delinquent Tax Revolving Fund (DTRF) was established to advance the amount of delinquent property taxes and special assessments owed to the County’s General Fund, other internal County funds, municipalities, school districts, and other taxing authorities through the issuance of tax revenue notes. Amounts advanced to all entities creates a delinquent tax receivable for the specific tax year within the DTRF. Subsequent collections of delinquent property taxes, along with statutory interest and fees, are pledged as collateral for repayment of the tax revenue notes.

In FY 2020, the DTRF pledged 100% of assets totaling \$328 million as collateral for repayment of tax revenue notes.

The table below presents a historical summary of net position for the DTRF, along with transfers to the General Fund. Net position increased by approximately \$11.6 million over prior year due primarily to the program increasing the amount retained for future years. During 2020, \$17.4 million was transferred to the General Fund. The County anticipates a decline in surplus transfers from the DTRF, which will continue to put pressure on maintaining a balanced budget.

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Net position							
Net investment in capital assets	\$250,000	\$224,833	\$179,460	\$139,555	\$102,135	\$259,493	\$185,079
Restricted for:							
Delinquent taxes and property foreclosures	129,962,000	74,837,588	59,456,900	63,658,018	81,981,699	127,504,863	139,196,640
Unrestricted (deficit)	85,458,000	16,486,822	18,988,308	20,509,498	27,479,255	48,515	-
Total net position	\$215,670,000	\$91,549,243	\$78,624,668	\$84,307,071	\$109,563,089	\$127,812,871	\$139,381,719
DTRF Transfers to General Fund	\$91,600,000	\$161,200,000	\$62,000,000	\$35,200,000	\$26,100,000	\$20,300,000	\$17,400,000

According to the Detroit Free Press and other local media outlets, in March 2020, the Wayne County Circuit Court exempted more than 6,200 occupied properties from the annual tax foreclosure auction due to the challenges imposed by the pandemic. The redemption deadline on foreclosures of occupied properties has been extended to March 31, 2022. Auctions will proceed in the fall for any unoccupied properties.

➤ **Impact/Action**

The Commission should request the WCTO provide an analysis of the impact foreclosure exemptions will have on the DTRF, including the effect on amounts that could be transferred to the General Fund.

Views from Responsible Officials

Currently, WCTO is required by the Commission to provide an annual Delinquent Tax Reserve Status report that summarizes DTRF activity and Forfeiture and Foreclosure activity. Any impact of the extended redemption period is shown in that report. WCTO will continue to provide the report as required.

The New Criminal Justice Center and the Central Utility Plant

Throughout FY 2020, the County and Rock Economic Development Group (Rock) continued building the Criminal Justice Center (CJC) at I-75 and East Warren. Total project costs remain unchanged at \$533 million as compared to prior year; and the project remains slated for completion in spring or summer of 2022. The County is responsible for contributing \$401.3 million in cash and four division properties (Division I, Division II, Juvenile Detention Facility, and Frank Murphy Hall of Justice). Rock is responsible for any cost overruns unless change is mandated by the County. Rock will receive up to \$30 million in parking revenue from parking lots surrounding the site; while the County will get revenues beyond the first \$30 million. The County is currently negotiating with Rock to terminate the parking agreement and to fund the construction of the parking itself and has set aside \$28 million for this purpose.

The \$401.3 million cost to the County will be funded as follows:

- remaining 2010 bond proceeds of \$57.5 million,
- proceeds from the sale of the Gratiot Avenue Unfinished Jail totaling \$21.4 million,
- new bond issuance of \$291.7 million, and
- general fund revenues of \$30.6 million.

The County, DTE, and Rock negotiated for the construction of a Central Utility Plant (CUP). Included in the agreement are commitments for DTE to construct components of the CUP and to provide utilities to the County for the CJC. Rock will construct the exterior of the CUP and has agreed to pay \$2.5 million of the construction costs. Payments from the County to DTE for the CUP totaled \$12,957,380 through September 30, 2020.

In connection with this transaction, the County has recorded an \$86.0 million accounts receivable for the net present value of the net contribution from Rock; and a \$32.6 million liability for the net present value of its share of the operating and maintenance costs of the four division properties during the construction period as the County will not vacate those properties until the new CJC is completed.

For the fiscal year ended September 30, 2020, the CJC Fund had a total fund balance of \$283.1 million of which \$235.3 million is restricted for construction and \$47.8 million is assigned for other related capital improvements.

According to the October 2020 *Criminal Justice Center Committee Report*. CJC related expenditures (including those incurred by both Rock and the County) totaled \$202.8 million through October 31, 2020.

➤ **Impact/Action**

Commission leadership should continue to request periodic updates from the Administration regarding the status of the Criminal Justice Center build out, including progress and timing of completion and additional unanticipated costs.

Views from Responsible Officials

The work on the CJC has been progressing effectively. In addition to construction activities on the site, the County departments and offices which will be moving into the CJC have been working closely with the County's owner representative to program plan, design and develop processes to conduct their work within the new facility. The County and its representatives meet regularly with the Commission's Special Committee on the CJC to ensure that the legislative branch is kept apprised of the project's progress.

Additionally, the Wayne County Human Relations Department continuously works with Rock, Barton Malow, and other stakeholders to ensure that employee and business inclusion goals are met on the project.

Guardian Building and First Street Parking Deck

Despite the pandemic, the Guardian Buildings net operating income increased from \$88K in FY 2019 to \$868K in FY 2020. The increase is primarily due to additional net rent revenue coupled with a decrease in nearly all expense lines. At September 30, 2020, rentable space in the Guardian Building was 96.5% occupied as compared to 95.5% at September 30, 2019.

The First Street Parking Deck (FSPD) holds a total of 1,572 spaces, of which 1,286 were in use at the fiscal year end. This is a decrease in usage of 158 spaces over prior year, as expected, due to the pandemic. Accordingly, FSPD experienced a decrease in net operating revenues over prior year.

Below is a table summarizing spaces in use at various rates. Of the 1,286 spaces in use, 51 are being offered at no cost, 479 are held for Wayne County employees at a monthly rate of \$60 per space, 679 are offered at monthly costs ranging from \$61 to \$200, and the remaining 77 spaces are being offered at or above monthly market rates.

	Rate	Number of Spaces In Use		
		2020	2019	Incr/ (Decr)
Comp Spaces	\$0	51	51	0
County Employees	\$60	479	513	(34)
Below Market Rate	\$61 - \$200	679	752	(73)
Market Rate	\$201-\$255	26	97	(71)
Above Market Rate	>\$255	51	31	20
Total		1,286	1,444	(158)

➤ **Impact/Action**

Commission leadership should request monthly operating reports for the Guardian Building and the First Street Parking Deck to monitor significant decreases in revenues, occupancy rates and spaces leased, especially with the ongoing pandemic and remote working trends.

Views from Responsible Officials

Monthly financial reports are sent from the Management Company to the County's Administration. Management will forward the current operating reports for the Guardian Building and parking at First Street Parking Deck for June 2021. Management utilizes the reports for periodic review of activity and the implications imposed by the COVID-19 pandemic.

Implementation of Enterprise Resource Planning (ERP) System

Implementation of the new ERP system continued throughout 2020 and will continue into 2021. Timelines for completion and deployment remain unchanged with go-live anticipated to be in 2022. The total implementation is projected to cost around \$31 million; \$17 million of this is under contract with CherryRoad Technologies to assist with the implementation. The remaining \$14 million is projected to

be spent on supporting contracts and other subcontractor work. Project costs expended through May 2021 approximate \$14.5 million.

Per discussion with Management & Budget personnel, the County continues to face a shrinking experienced workforce, which translates to knowledge gaps between current County process and future process. The County is working to address remote work and continues to work with its implementation vendors to adapt to the changes COVID-19 and resource constraints are bringing to the project. Further, implementation vendors are challenged with maximizing efficiency given the limited subject matter expertise available from County employees. The loss of JDE or PeopleSoft prior to the new systems go-live would likely cause a significant service interruption. The County has prioritized the changeover of PeopleSoft so that payroll and human resource services face the least risk of interruption. The phaseout of JDE is being replanned based on current resource restraints.

➤ **Impact/Action**

The commission should request updates on the status of the ERP system implementation and what plans are in effect should the JD Edwards system crash.

Views from Responsible Officials

The impact of the COVID-19 Pandemic has altered certain processes and procedures required to complete routine work. As a result, an ERP consulting firm has been contracted to document the County's ERP Future State Processes. This work will supplement the work conducted by the main consulting firm. JD Edwards (existing system) will continue to be utilized as the ERP system for the County until the ORACLE implementation is complete. Although JD Edwards is a legacy ERP system, the County does not anticipate an immediate system disruption.

Department of Information Technology (DoIT) Tech Refresh

DoIT's original tech refresh budget of \$805,000 has been reduced to \$100,000. This change comes mainly as a result of the purchase of laptops using CARES Act funding. To date, no additional funds, outside of CARES Act funding, have been spent on the tech refresh project. Most County departments received laptops to promote remote working and social distancing. DoIT is in the process of placing orders for docking stations, solid state drives, and memory for those departments that need it. After this initial refresh, the County must continue replacing machines on a yearly refresh schedule.

➤ **Impact/Action**

Commission leadership should consider requesting updates on the tech refresh should the project exceed the now budgeted \$100,000.

Views from Responsible Officials

The Technology Refreshment initiative outlines the replacement of standard desktop computers every five years and standard laptop computers every three years. Management & Budget will continue to monitor expenditures for the Technology Refreshment project closely and notify Commission leadership if expenditures are anticipated to exceed budgeted amounts.

The COVID-19 Fund, COVID-19 Impacts, and CARES Act Funding

On March 10, 2020, the Governor of the State of Michigan issued a stay-at-home order due to the COVID-19 pandemic. The pandemic created major economic impacts on the County, many of which are addressed throughout this report and are summarized below:

- **State Aid (State Revenue Sharing):** The State of Michigan amended and rebalanced the State budget to compensate for the estimated loss of revenue. Because of this, the County did not receive its final catch up payment of \$11 million at the end of August 2020. As a replacement of the State aid reduction, the County received \$18.8 million in federal pass-through Coronavirus Aid, Relief and Economic Security (CARES) Act grant funds. While the amount received under from the State was more, the grant funding was restricted for coronavirus response only, unlike the general fund general purpose money that comes from normal State revenue sharing.
- **Airport Parking Taxes:** Airport parking tax revenue was significantly lower with fewer travelers flying out of Detroit Metro Airport. The County received \$11 million in parking revenue, as compared to the budgeted amount of \$22 million.
- **Tourist Excise Taxes:** This excise tax is collected from hotel reservations and car rental bookings. Due to a travel ban and fewer tourist and visitors during the pandemic, the County received \$3 million less in tourist excise tax collections than the budgeted amount.
- **Salaries and Other Expenses:** In response to the pandemic, the County quickly took action to temporarily furlough certain parts of its workforce from May 1, 2020 through the start of the new fiscal year. The County recorded \$65 million in eligible expenses for COVID-19 response that were charged to the federal CARES Act grant. This included payroll costs for first responders such as public health, public safety, health and welfare and similar employees eligible under the CARES Act guidelines whose services were substantially dedicated to combating and responding to the COVID-19 pandemic.
- **COVID-19 Response Assistance:** In FY 2020, the County received approximately \$209 million from federal and pass-through funding from the State under the CARES Act. In addition, the County received assistance from the Michigan Department of Health and Human Services to combat the coronavirus. In March 2021, the U.S. Congress passed the American Rescue Plan Act (ARPA) of 2021 under which the County anticipates receiving \$339 million for continued COVID-19 pandemic response and fiscal recovery.

➤ **Impact/Action**

The Commission should request frequent updates on how the CARES Act and ARPA grant funds are being spent, and estimates of future Airport Parking Tax revenues, SET collections, and future revenue sharing payments from the State.

Views from Responsible Officials

Management & Budget (M&B) agrees with the need to monitor grant activity, Airport Parking Tax revenues, Excise Tax collections, and future revenue sharing from the State of Michigan. Management has implemented a new COVID-19 Special Revenue Fund to account for federal, state and local grants to

provide personal protective equipment and stimulus activities/funding to combat and recover from the coronavirus pandemic. To date, the County has received \$169 million under the ARPA grant.

Upcoming Reporting Changes

The footnotes to the County's 2020 ACFR list upcoming reporting changes. Included were the following six GASB Statements that may have future reporting impacts for the County. Financial related impacts have not yet been assessed.

GASB Statement No. 84, Fiduciary Activities (effective 9/30/21, as amended by GASB Statement No. 95)

This standard establishes new criteria for determining how to report fiduciary activities in governmental financial statements. The focus is on whether the government is controlling the assets, and who the beneficiaries are. Under this revised standard, certain activities previously reported in agency funds may be reclassified in future periods.

GASB Statement No. 87, Lease Accounting (effective 9/30/22, as amended by GASB Statement No. 95)

This standard improves the accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financing of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

GASB Statement No. 90, Majority Equity Interest (effective 9/30/21, as amended by GASB Statement No. 95)

This statement establishes criteria to improve consistency in the measurement and comparability of the financial presentation of majority equity interest in legally separate organizations. This statement also provides guidance for reporting of a component unit if a government acquires a 100 percent equity interest in that component unit.

GASB Statement No. 94, Public-Private and Public-Public Partnerships (effective 9/30/23)

This statement brings a uniform guidance on how to report public-private and public-public partnership arrangements. This statement also provides guidance for accounting and financial reporting for availability payment arrangements, in which a government compensates an operator for services such as designing, constructing, financing, maintaining, or operating an underlying asset for a period of time in an exchange for exchange-like transaction.

GASB Statement No. 96, Subscription-Based Information Technology (effective 9/30/23)

This statement defines subscription-based information technology arrangements (SBITDAs) and provides accounting and financial reporting model for SBITDAs by governments. This statement requires a government to recognize a subscription liability and an intangible right-to-use subscription asset for SBITDAs. The County is currently evaluating the impact this statement will have on the financial statements when adopted.

GASB Statement No. 97, Certain Component Unit Criteria and Accounting and Financial Reporting for IRC Section 457 Plans (effective 9/30/22)

While this standard had certain aspects impacting defined contribution pension and OPEB plans and other employee benefit plans that were effective immediately, it also clarifies when a 457 plan should be considered a pension plan or another employee benefit plan to assist in the application of GASB Statement No. 84 to these types of plans. The County is currently evaluating the impact this standard will have on the financial statements when adopted.

➤ **Impact/Action**

The Commission should consider requesting periodic reports from the Administration to determine the potential impact on budgeted funds, if any, the new GASB Statements may have.

Views from Responsible Officials

GASB 84 is the only GASB statement that will have an impact on the County's FY 2021 ACFR. Updates to the ACFR will provide consistency and comparability across all governmental units by establishing specific criteria to identify and report fiduciary activities. Under GASB 84, activities that were previously identified as fiduciary activities may no longer fit that definition and need to be reported elsewhere in the ACFR. To comply with the Statement, modifications may also need to be made to the general ledger system and tracking mechanisms to accommodate the updated reporting requirements.

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 the County's financial condition is continuing to move in the right direction with an unassigned general fund balance of \$157.4 million and improved bond ratings. However, the recent COVID-19 pandemic has resulted in many challenges to the County that will have a significant impact on not only the current FY 2021 budget but also on the County's FY 2022 budget and possibly beyond. As such, we believe these issues may be useful to the Commission as part of the budget deliberation process for fiscal year 2021-2022.

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.



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Auditor General