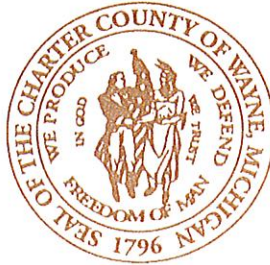


Office of Legislative
Auditor General

MARCELLA CORA CPA, CIA, CICA, CGMA
AUDITOR GENERAL



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August 12, 2019

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 2018. Our report is dated July 15, 2019; DAP No. 2019-57-802. The report was accepted by the Committee on Audit on July 31, 2019 and formally received by the Wayne County Commission on August 8, 2019.

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/elected/commission/oag/legislative-auditor.aspx>.

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

REPORT DISTRIBUTION

Wayne County Department of Management & Budget

Mathieu Dube, Interim Chief Financial Officer

Kevin Haney, Deputy Chief Financial Officer, Budgeting and Planning

Shauntika Bullard, Director, Grants Compliance and Contract Management

Wayne County Commission Fiscal Agency

Mark J. Abbo, Chief Fiscal Advisor / Budget Director

Wayne County Executive

**BUDGET SENSITIVE ISSUES
REVIEW OF COUNTY'S 2018 CAFR**

Consulting Report

For the period: May 1, 2018 – April 30, 2019

July 15, 2019

Presented to:

*Ways and Means and Audit Committees
County of Wayne, MI*

Prepared by:

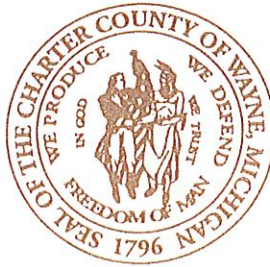
*Office of Legislative Auditor General
County of Wayne, MI*

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Office of Legislative
Auditor General

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July 15, 2019

DAP No. 2019-57-802

Honorable Alisha Bell, Chairwoman, Wayne County Commission
Honorable Raymond Basham, Chairman, Wayne County Audit Committee
Honorable Ilona Varga, Chairwoman, 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 2018 Comprehensive Annual Financial Report (CAFR) to the Wayne County Commission as it begins its fiscal year 2019-2020 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 \$134 million that have a potential budgetary impact on FY 2019 – 2020 (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, 2018 – April 30, 2019, as well as issues contained in the county's Comprehensive Annual Financial Report for the Fiscal Year ending September 30, 2018.

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, CPA, CIA, CICA, CGMA
Auditor General

PURPOSE AND OBJECTIVE

The purpose of this engagement is to comply with both (1) Enrolled Appropriations Ordinance 2018-683 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 2019-2020 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, 2018 – April 30, 2019. Also included was a review of the county's Comprehensive Annual Financial Report for Fiscal Year 2018.

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 15, 2019.

METHODOLOGY

The procedures performed were limited to reviewing ordinances, laws, regulations, policies and procedures, the county's 2018 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, 2019 that could potentially have a budgetary impact on county operations for FY 2019-2020.

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 2019-2020 - BUDGETARY ISSUES

Fund Deficits

Fund deficits have decreased approximately 15.5% from FY 2016.

See schedule of unassigned fund balance deficits, below:

County of Wayne Comprehensive Annual Financial Report Unassigned Fund Balance Deficits Fiscal Years Ending September 30, 2016, 2017 and 2018						
Description by Fund	Unassigned Fund Balance 9/30/2016	Unassigned Fund Balance 9/30/2017	2016/2017 Increase (Decrease)	Unassigned Fund Balance 9/30/2018	2017/2018 Increase (Decrease)	2016-2018 Total Increase (Decrease)
Health	\$ -	\$1,569,899	\$ 1,569,899	-	\$ (1,569,899)	\$ -
Victim Witness	113,768	26,809	(86,959)	-	(26,809)	(113,768)
Nutrition	4,160,587	2,596,876	(1,563,711)	-	(2,596,876)	(4,160,587)
Community & Economic Development	3,351,849	2,681,496	(670,353)	-	(2,681,496)	(3,351,849)
Health & Family Services	1,171,033	1,678,990	507,957	-	(1,678,990)	(1,171,033)
Economic Development Corporation	261,617	2,648,712	2,387,095	2,263,033	(385,679)	2,001,416
Community Corrections	-	-	-	104,704	104,704	104,704
Central Services	-	776,369	776,369	1,216,762	440,393	1,216,762
Environment	2,381,493	1,659,211	(722,282)	2,707,219	1,048,008	325,726
Long Term Disability	-	-	-	169,790	169,790	169,790
Buildings & Grounds Maintenance	15,673,036	13,325,818	(2,347,218)	16,448,141	3,122,323	775,105
Totals	\$ 27,113,383	\$ 26,964,180	\$ (149,203)	\$ 22,909,649	\$ (4,054,531)	\$ (4,203,734)

Unassigned fund deficits have decreased from \$27.1 million in FY 2016 to \$22.9 million in FY 2018. This represents a decrease of approximately \$4.2 million or 15.5%, over the three (3) fiscal year periods.

➤ **Impact/Action**

- The commission should request the administration provide frequent updates on eliminating remaining fund deficits including Economic Development Corporation Fund, Environment, and Buildings & Grounds Maintenance.

Views from Responsible Officials:

The deficit in the Economic Development Corporation fund is in year two of a five year plan to eliminate the deficit. The deficits in the Community Corrections and Long Term Disability funds will be eliminated during FY 2019 as approved by the County Commission and State of Michigan Treasurer in May, 2019. The deficits noted above in the Central Service, Environment and Building & Grounds Maintenance Funds are the result of the accounting treatment for Pension and Other Post-Employment Benefits (OPEB) and do not require deficit elimination corrective action plans. Management provides periodic updates to the Committee on Ways and Means regarding the progress of the Plan.

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 for the other rating agencies, Moody’s and Fitch, the rating remains at “stable”. See attached table for historical trend of county’s bond ratings.

**Wayne County Bond Rating
FY 2014 – FY 2018**

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	Outlook
S&P	BB+	BB+	BB+	BB+	BBB+	Positive
Moody's	Ba3	Ba3	Ba1	Ba1	Baa2	Stable
Fitch	B	B	BB+	BBB-	BBB-	Stable

Source: County’s CAFR

Fitch’s bond rating reflects the county’s moderate long term liability burden and recently restored adequate financial resilience and gap closing capacity.

Moody’s rating reflects the county’s improved credit profile which has materially strengthened over the past several years following significant restructuring of long term liabilities and general operations. The ratings upgrade was based on the county’s continued financial improvement and slowly recovering economy and tax base.

S&P Rating has been raised to a BBB+ with a Positive outlook due to the county's continued maintenance of structurally balanced operations and that it is well positioned to be able to maintain a structural balance even as operating and fixed costs are set to grow in the near term.

The county has a website, www.waynecountyinvestors.com, to help investors monitor bonds.

➤ **Impact/Action**

- There has been a slight improvement in the "outlook" of the various rating agencies. The commission should continue to request copies of the bond rating reports and status of increased ratings.
- The commission should request periodic updates from M&B regarding contemplated financial initiatives and what impact they may have on the county's bond ratings.
- The commission should request updates from M&B on the possibility of refinancing outstanding debt as a result of the county's improved bond rating which could result in a lower bond interest rate.

Views from Responsible Officials:

Management provides periodic updates regarding the updates to the County bond ratings and possible refinancing possibilities to the Committee on Ways and Means.

SAS 114 and Single Audit Comments and Recommendations

The SAS 114 Letter (AU260) did not contain findings with questionable costs. All of the findings were included within the Single Audit Report. The county's Single Audit (A-133) for year ending September 30, 2018 contained 18 findings. Of the 18 findings, 17 are considered material weaknesses, and one (1) is considered a significant deficiency.

**Single Audit Findings
for Year Ending September 30, 2018**

Ref. #	Finding	Type of Weakness	Repeat	Disallowed Costs
2018-001	County's general ledger underlying financial records of component units not reconciled or closed timely resulting in adjustments of \$23.9 million in corrected and uncorrected misstatements in revenue and expenses.	Material	Yes	None
2018-002	There is not a system in place to verify that the bank makes the changes related to terminated employees and closed accounts.	Material	Yes	None
2018-003	County and Wayne County Land Bank lacked appropriate monitoring of account balances during the year to compile complete and accurate financial reports.	Material	Yes	None
2018-004	County and three component units were not in compliance with laws and regulations: County – Construction and performance bonds not escheated to State. County – Expenditures in excess of the amount appropriated by Commission. Building Authority – No prepared budgets.	Material	Yes	None

Ref. #	Finding	Type of Weakness	Repeat	Disallowed Costs
	Treasurer's Office – Quarterly investment reports to the commission were not prepared.			
2018-005	Land Bank does not have sufficient process and controls in place to complete its accounting and financial reporting functions. Also lack of supporting documentation for balances.	Material	Yes	None
2018-006	No review process over reconciliation and review of fix asset module requiring adjustments of \$24 million.	Material	Yes	No
2018-007	There are no controls or formal policies in place for the Treasurer's Office, to approve voided transactions.	Material	No	None
2018-008	County lacked procedures to ensure all bank accounts were fully reconciled to the general ledger. Treasurer's Office – Reconciliation of bank balances to the investment system (RESIQ) were not completed for numerous months. County – Reconciliation of investment system to general ledger was not fully completed or done on a timely basis.	Material	No	None
2018-009	The receipt and expenditure of program income shall be recorded as part of the financial transactions of the grant program. Income generated from the use of funds is subject to all program rules. The County is responsible for monitoring the use of program income by its subrecipients.	Material	No	Unknown
2018-010	County did not have adequate supporting documentation showing the performance of monitoring CDBG funds.	Material	No	Unknown
2018-011	Controls not in place to minimize time elapsing between the drawdown of US Treasury funds and reimbursement to subrecipients.	Material	No	None
2018-012	Procedures and controls in place were not adequate to ensure HUD 6002; Section 3 Summary Report was completed and submitted annually, as required by HUD.	Material	No	None
2018-013	County lacked controls to ensure required housing quality inspections were performed and documented during FY2018 for HOME-assisted housing.	Material	No	None
2018-014	Controls not in place to ensure to pay subrecipients within 30-days of receipt of billing and to expend HOME funds within 15 days of drawdown.	Material	No	None
2018-015	County controls did not ensure that neither risk assessments nor monitoring were performed for subrecipients.	Material	No	Unknown
2018-016	Controls in place did not ensure that time and effort support was maintained, for the portion of the year. Also, the lack of documentation did not conform to requirements.	Significant Deficiency	Yes	\$28,264
2018-017	Controls not in place to ensure that only those costs included in budget as federal are reimbursed by grant.	Material	Yes	\$128,532
2018-018	County lacked adequate documentation to support compliance with allowable cost requirements.	Material	No	\$215,021

➤ **Impact/Action**

- Noncompliance with Federal reporting requirements.
- Monitoring of component units' procedures over financial reporting.
- Noncompliance with laws and regulations.
- Noncompliance with Uniform Guidance.

Commission should request periodic reports from M&B regarding corrective actions to address the noted Findings and Questionable Costs, especially those repeat findings involving 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 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.

Revenue Enhancements – User Fees

In FY 2018, Charges for Services was approximately \$137 million, or 23.7% of the total county General Fund revenue.

- This represents an approximate \$4.9 million increase from FY 2017.
- In FY 2018, 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 submit a report annually reviewing the costs of delivering mandated services and proposing fee increases as deemed necessary.

Views from Responsible Officials:

The Department of Management and Budget provides the Commission through the Committee on Ways and Means, detailed reports and information during the budget process and budget hearings regarding the costs of services provided internal service departments such as Management & Budget, Technology, Corporation Counsel and HR/Personnel. Additionally, the Financial Reporting division of M&B provides quarterly updates of the County Chargeback allocations to the Commission through the through the Committee on Ways and Means.

Overtime

In FY 2018, overtime costs countywide were \$30.2 million, of which \$19.1 million, or 63%, was related to the Sheriff's Office.

Overtime Expenditures -Budget to Actual (In Millions)

	FY 2016		FY 2017		FY 2018	
	Budget	Actual	Budget	Actual	Budget	Actual
Sheriff	\$7.1	\$14.6	\$6.8	\$16.9	\$7.2	\$19.1
Other Departments	\$8.6	\$10.3	\$9.3	\$10.7	\$10.7	\$11.1
Total Overtime	\$15.7	\$24.9.2	\$16.1	\$27.6	\$17.9	\$30.2
Sheriff/Total	45%	59%	42%	61%	40%	63%

There are currently approximately 165 vacancies in the Sheriff's Office (See **Succession Planning, Recruiting, Staffing/Open FTEs** 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 2018, actual expenditures for overtime were \$19.1 million or \$11.9 million more than budgeted as shown in the chart above.

➤ Impact/Action

- With the 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:

Overtime is most prevalent in three areas of the County: the Sheriff's Jail operations, the Department of Public Services – Roads Division and Management and Budget.

The most significant issue facing the Sheriff's office in regards to overtime is recruitment and retention of officers. The Sheriff's office has approximately 220 to 230 open uniform positions at any given time as well as a number of civilian positions open. As a result, overtime has increased from prior years in order to maintain required staffing levels in the jails. Additionally, the Sheriff's Office is confronted with the Family Leave challenge where over 30.5% of the officers working in the jails are on or have requested FMLA.

The Administration is working closely with the Office of the Sheriff in assisting in the filling of vacant positions and the retention of current deputies. Recruitment fairs and radio advertising is currently being used as part of the recruitment efforts. However, the competition for filling these positions is high as the City of Detroit, Oakland and Macomb Counties and the State of

Michigan are also heavily recruiting as well.

In regards to the comment above related to budget actual variance in the overtime account for the Sheriff, Management agrees that there has been significant actual to budget variances. However, the County is required by the Consent Order governing the staffing of the jails to fund a certain number of positions in the jails and cannot unfund those positions to fund other areas of the Sheriff's budget but as a result of the open positions in the Sheriff's budget, there is a offsetting variance in the regular wage account.

Overtime related to DPS is primarily weather related or is the result of emergency road repairs.

Overtime related to M&B is seasonal in nature and is the result of hard deadline requirements for publishing the CAFR and the preparation of the County Budget.

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, 2015, 2016, 2017, and 2018 were 54%, 54%, 55%, and 62%, respectively. The market value rate of return during Fiscal Year 2018 was 6.8% and the fund gained \$62.3 million in investment income.

Per the Annual Actuarial Report for September 30, 2017 and 2018, the required minimum employer contributions are shown in the table below:

Required Minimum Employer Contributions

	Minimum Employer Contribution Dollar Amount	
	2017 Actuarial Report	2018 Actuarial Report
Fiscal Year Beginning October 1, 2018	\$55,869,257	
Fiscal Year Beginning October 1, 2019		\$52,280,754

Both actuarial reports 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 actuarial report lists a potential cash flow problem for WCERS. The assets in the plan are not sufficient to cover current retirees' liabilities and the ratio of assets (Market Value) to retiree benefit payroll is 7.0. This means that approximately seven (7) years of retiree benefit payments can be paid from current assets. The ability to make sure payments are made is heavily dependent on future contributions and future investment returns. The recommendation from the actuary is that due to the low funded status of the WCERS retiree liability, every action possible is taken to increase the funding of the plan.

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” either must submit for a waiver or are required to submit a corrective action plan. One of the triggers of an “underfunded status” is if the pension system is less than 60% funded. Based on the recent actuarial report the WCERS funding ratio is 62%. While the current funding ratio is above 60%, it is imperative that the funding ratio continues to increase.

It was also noted in the report that the net decrease in annual pensions was 146 or just over \$2.5 million.

➤ **Impact/Action**

- Commission leadership should ensure that the system is funded above 60% in order to be in compliance with the public act and request management’s plan to increase the funding level while still providing essential county services, including addressing the shortfall in staffing.

Views from Responsible Officials:

In FY 2018, the County funded the WCERS DC plan 100% of its required funding and funded the DB Plan’s actuarially determined requirement of \$55.08 million and made additional contributions of over \$89.56 million from the General Fund and the sale of the two waste water treatment facilities for a total of \$144.64 million. As a result the DB plan is now funded at 62%, an increase of 7% from the 2017 funding ration. It is the goal of the CEO to continue the progress until the DB plan is fully funded.

In FY 2019, the County has funded the ARC at the required funding level of \$56.87 million in the current budget and will transfer that full amount to WCERS by year end. Also, the Road Fund is making accelerated payments, which will total \$5.0 million by year end in addition to their normal ARC payment.

In FY 2020, in addition to fully funding the DC plan, the County has budgeted for the full funding of the ARC payment of \$52.28 million along with continuing accelerated payments from Road of \$5.0 million.

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 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 were \$2,875,853 in FY 2017 and in FY 2018 were \$1,814,266 and were \$912,086 through May 31, 2019.

If the annual stipend payment becomes probable on an annual basis, the county's actuary will include it in the Other Post-Employment Benefits (OPEB) liability.

➤ **Impact/Action**

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

- The status, and potential financial impact, of stipends should the Affordable Care Act be repealed;
- An explanation of the decrease in stipend payments during FY 2018; and,
- The financial impact if the stipend payments are required to be included in the actuarial valuation of the county's OPEB liability.

Views from Responsible Officials:

Retiree health care was eliminated for all non-mirror group retirees in December, 2016. Those affected retirees are provided one of two possible monthly stipends depending on their eligibility. The total stipend cost to the County was \$10.33 million in FY 2017. In FY 2018, the cost was \$8.77 million. Included in the FY 2017 expense was \$887,000 that should have been charged to FY 2018. Adjusting for this accounting error, the cost for FY 2017 and 2018 should have been \$9.44 million and 9.66 million, respectively.

The Stipend program has a finite number of members. Each year as the population gets older, some members of the Pre 65 group reach Medicare age and the cost on a per member basis is less than the pre 65 subsidy.

Sale of County Assets

The county recently sold the following properties:

Northeast Sewage Disposal System (NESDS)

- On September 27, 2017, the Southeast Macomb Sanitary District (SEMSD) board unanimously approved the terms of the Transfer Agreement. The NESDS transports wastewater collected from the City of St. Clair Shores, City of Eastpointe, City of Roseville, City of Harper Woods, City of Grosse Pointe Woods, and the Village of Grosse Pointe Shores to the wastewater disposal system now operated by the Great Lakes Water Authority (GLWA) for treatment and disposal. The SEMSD consists of three (3) of the communities that convey wastewater to the NESDS, St. Clair Shores, Roseville, and Eastpointe.
- On September 27, 2018, SEMSD purchased the NESDS for \$6,741,007 ("Transfer Fee"). The payment of \$6,741,007 consists of \$2,741,007 for a transfer fee and \$4,000,000 for pension and other post-employment benefits liabilities that the county retained.

Downriver Sewage Disposal System (DSDS)

- On September 27, 2018, the Downriver Utility Wastewater Authority (DUWA), purchased the Downriver Sewage Disposal System (DSDS) from Wayne County for a total sale price of \$57.5 million. \$54 million was received in cash and \$3.5 million will

be paid through a subordinated bond delivered at closing, payable within five (5) years after closing.

Wayne County Building Authority – Consolidated Jail Project

- In May, 2018, the Wayne County Building Authority (WCBA) entered into an agreement with Rock Economic Development Group (Rock), to sell the Gratiot Avenue Unfinished Jail property for \$21.4 million. The sale transaction resulted in sales proceeds revenue of \$21.4 million in the Building Authority Construction Capital Projects Fund and a \$1.4 million gain on disposal in the Government Activities.

511 Woodward

- The 511 Woodward Building is adjacent to the Guardian Building. The site is no longer utilized by the county. Considering the maintenance costs and the county's plans for the consolidation of assets in order to reduce General Fund expenditures, it was deemed prudent for the county to sell this building. Consequently, the county sold the 511 Woodward Building to ICONIC-511, LLC. For \$4,650,000.

Department of Public Services (DPS) Staging Yard

- On April 4, 2019, the Full Board approved a purchase and development agreement between Wayne County and Metro Welding Supply Corporation (of Detroit) in the amount of \$425,000 for the sale of 12640 Southfield, Detroit, MI 48223; this site is the former staging yard for the Department of Public Services and is no longer utilized by the county.

Phoenix Mill

- The county sold the Phoenix Mill in Plymouth Township to Critical Mass, LLC for \$615,000.

Kay Beard Building

- On June 21, 2018, the Full Board approved a purchase and development agreement between Wayne County and 30712 Michigan Avenue, LLC (of Southfield) in the amount of \$1 for the purchase and development of approximately 16.467 acres – including the Kay Beard Building, the Commissary Building and several dilapidated structures bearing the address of 30712 Michigan Avenue in Westland, Michigan – and the purchase and maintenance of approximately 7.68 acres commonly known as the Potter's Field cemetery located at approximately 3412 Henry Ruff Road in Westland, Michigan.

Proposed Sale of Hines Park Mills

- The county has put up for sale the Wilcox Mill in Plymouth and the Newburgh Mill in Livonia. The purpose of the sale is so developers could make improvements to these historic mills and make them more accessible to the public.

Wayne County – Criminal Justice Center

- As part of the deal negotiated between the county and Rock Ventures to build a new consolidated Criminal Justice Center (CJC) the county contributed four (4) properties (Division I Jail, Division II Jail, the Juvenile Detention Facility, and the Frank Murphy Hall of Justice).

- In accordance with GASB 62, *Sales of Real Estate other than Retail Land Sales*, the county recorded the disposal of the above four (4) properties and related facilities and the resulting gain on disposal of \$2.5 million. **(See Wayne County Criminal Justice Center topic elsewhere in this report.)**

Current county lease costs are approximately \$12.33 million a year. This number can be reduced by consolidating offices and terminating leases.

➤ **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;
- 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:

All revenue from the sale of each property goes directly into Wayne County's General Fund, unless it is property originally purchased by the Department of Public Service ("DPS") through funds dedicated for road maintenance/construction (Michigan Public Act 51 of 1951). Under these circumstances, all funds go back into DPS's budget to fund projects deemed eligible under Michigan Public Act 51 of 1951, which governs state appropriations for most Michigan transportation programs that pass through to local governments.

The Department of Capital Planning and Buildings Administration only seeks the sale of property if it is surplus, or the cost for maintaining/renovation exceeds the cost to move/consolidate Wayne County activities, or build a new replacement. Accordingly, a robust cost/benefit analysis is done that considers construction costs, utilities, operating cost, health/safety and working condition. Unless the analysis proved to be advantageous to the County, then no further action is taken.

Information Technology Telecommunications Services

The OAG conducted a performance audit of the Wayne County Department of Information Technology (DoIT), Telecommunication Services Unit. The report contained, among other items, the following issues that have a budgetary impact on county operations:

Non-Existent Controls Over Cellular Devices

- The OAG identified approximately 200 cellular devices that were ordered by a DoIT employee but not in the possession of county employees. The estimated value of the devices was approximately \$100,000.

Lack of Monitoring of Cellular Phone Usage

- DoIT management does not appear to review the detailed telephone billings to determine if airtime overages are reasonable. Also, there were approximately 145 cell phones assigned to county employees that exceeded their allotted plan minutes in the amount of \$41,073.

Possible Under Utilized Cellular Phone Usage

- County employees are assigned cellular phone plans that are pooled, based on various plan minutes. The OAG conducted a utilization analysis of the number of actual plan minutes used by each employee according to their respective plan in order to determine whether the plan was being properly utilized. 446 employees had county cell phones. Based on our test of these 446 employees, the OAG determined that 118 employees, or 27 percent, either used no minutes or less than 10 percent of their allotted plan minutes. By not performing a periodic review of county cell phone usage, including an analysis of plan minute overages to determine whether it is cost effective to not provide cell phones to employees who are underutilizing their plans, could result in the county paying for plans that are not being used. In total, the OAG estimated that the cost savings on an annual basis could be as much as \$43,920.

Possible Savings Through Increased Use of Bring Your Own Device

- Based on the OAG's analysis, the county could save as much as \$36,000 annually by having employees use their own device rather than supplying them with a county cell phone.

Total Financial Impact

- Based on the above areas, the OAG identified a financial impact, or possible cost savings, to the county of approximately \$220,933.

➤ Impact/Action

- Commission leadership should request from DoIT management its plan to implement cost savings measures for employee issued cell phones.

Views from Responsible Officials:

DoIT telecom staff reviews monthly billing summaries. Telecom staff also works with our AT&T mobility account manager to regularly generate pooled minute reports to ensure there are no overage charges on our account.

DoIT would welcome the opportunity to look into potential cost savings with County employees bringing their own devices.

DPS – Permits

The OAG conducted a performance audit of the Department of Public Services Engineering Division Permits Office. The report contained, among other items, the following issue that has a

budgetary impact on county operations.

Failure to Reconcile Outstanding Permit Bond Deposits

The Permit Office utilizes an account entitled “Deposit – Bid Performance & Other”, which is used to record bond deposits made by permit holders as well as refunds of bond funds after a permit is completed and closed. This account had a balance of \$11,487,486 as of September 30, 2017. (The general ledger account balance as of April, 2018 was in excess of \$13 million, which represents the county’s liability for bond deposits received from permit holders.)

The September 30, 2017 balance of over \$11.4 million represents deposits that either: (1) should have been refunded to the contractors; (2) a portion recorded as revenue to the county for services performed; or, (3) as a final resort, if the funds could not be returned to the contractors, should be escheated to the State of Michigan.

In addition, the county’s external auditors noted a Financial Statement Audit Finding in their audit of the county’s FY 2017 CAFR that was considered a material noncompliance with laws and regulations. Specifically, the auditors noted the county currently has checks outstanding that are greater than a year old related to both road construction and performance bonds on deposit with the county that have not been escheated to the State. The county has not quantified what amount of the \$11.5 million total should be escheated to the State of Michigan, nor is it recorded at September 30, 2017.

The county has not had a process in place for many years to ensure that when a permit has expired, a follow up is completed with the permit holder to determine if a final inspection should be performed or the permit extended. In addition, the county has not made an effort to determine who the \$11.4 million in deposits are owed to or how much is owed to the county. Finally, after all efforts to return the deposits are exhausted, the county does not have a process in place to escheat unclaimed funds to the State of Michigan.

The county has an \$11.4 million liability recorded in their financial statements that should be returned to the permit holders less any fees due the county. This could result in the county losing revenue it would otherwise be entitled to. In addition, work completed on a permit that does not receive a final inspection from DPS exposes the county to liability if the work does not meet DPS standards.

Finally, failing to report unclaimed property could cause the county to be non-compliant with the escheat law and subject to statutory fines and penalties.

➤ Impact/Action

Commission leadership should request what collaborative efforts have been taken by DPS Finance and M&B to determine the ultimate amount of inspection fees and bonds that should:

- Be retained by the county through the bond forfeiture process;
- Be returned to permit holders; or,
- Be escheated to the State of Michigan.

Views from Responsible Officials:

Below is the response by the Department of Public Services regarding the findings in the OAG's performance audit:

- a. The amount escheated to the State of Michigan is only when the permit holder's refund was sent back to the permit holder and the check is returned because the permit holder no longer exists or changes an address. It is the responsibility of the permit holder to reach out to Wayne County when a change in their company happens, i.e. address change. We do not escheat funds to the State of Michigan when a permit holder fails reached out to the County to finalize an inspection. Management and Budget however, will review section 2.12.8 of the permit manual to determine what, if any, of the outstanding deposits can be forfeited to the County.
- b. As referenced in the audit finding, section 2.17.2 of the permit manual states that the permit holder is required to request a final inspection and the release of the permit. Once the request is made, the permit office will do a final inspection and close out the permit. The process is already in place.

Wayne County Criminal Justice Center

During FY 2018 the County and Rock Ventures negotiated a deal in which Rock agreed to build a new consolidated Criminal Justice Center (CJC) at I-75 and East Warren for \$533 million by the spring or summer of 2022. The new CJC will be built on the land parcels obtained from the City of Detroit in a Land swap agreement. The County's responsibility is for contributing \$401.3 million cash and four (4) properties (Division I Jail, Division II Jail, Juvenile Detention Facility, and Frank Murphy Hall of Justice); Rock will be responsible for any cost overruns, unless change is mandated by the county. Rock also gets 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 \$401.3 million County cost is covered with the remaining 2010 bond proceeds (\$57.5 million), proceeds from the sale of the Gratiot Avenue Unfinished Jail (\$21.4.million), new bond issuance (\$291.7 million) and general fund revenue (\$30.6 million). The Criminal Justice Center is expected to have a 2,280-bed jail, 25 courtrooms and five (5) hearing rooms, Sheriff's and prosecutor department offices, and a 160-bed juvenile detention facility.

The estimated total project cost to design and construct the Criminal Justice Center will be approximately \$533,633,739, of which the county's costs will be a base contribution of \$401,300,000, and the Developer will pay approximately \$132,363,739. The Development Agreement provides for shared cost savings if the project costs are less than \$520,000,000.

The county's investment will be comprised of:

- \$315 million in new bond proceeds.
- \$55 million in remaining bond proceeds from the unfinished jail project at Gratiot.
- Approximately \$41 million in General Fund dollars.

The annual debt service on the new bond issuance is estimated at \$14 - \$19 million.

On June 7, 2018, the Wayne County Commission, via Resolution No. 2018-417, authorized a development and Purchase and Sale Agreement between Wayne County, the Wayne County Building Authority and Rock Development Company, LLC (the “Developer”) for the development of the Criminal Justice Center and the purchase and sale of the Gratiot Avenue Facilities.

Highlights of the Development Agreement

Exhibit F of the Development Agreement was the ***Long Term Lease and Concession Agreement for Wayne County Criminal Justice Center Parking Facilities*** between Wayne County and Rock Parking Company, LLC. The agreement is for parking on and off the Criminal Justice Center campus, with the term beginning upon approval of the Development Agreement and expiring 30 days after the date that Rock Parking Company, LLC has received Net parking revenue of \$30,000,000.

Exhibit G of the Development Agreement is a ***Lease Agreement between the County as tenant and Rock Economic Development Group as landlord for the Gratiot Avenue Facilities for an annual fee of One Dollar (\$1).***

Exhibit H of the Development Agreement sets forth the development requirements for the Gratiot Avenue Facilities to be executed by Rock Development Company, LLC requiring an investment of \$250,000,000 in a first-class, mixed-use development.

Exhibit I of the Development Agreement is a ***Guaranty of Completion*** between the county, the Building Authority and Rock Completion Guarantor, LLC, which irrevocably guarantees to the county the completion of construction of the Criminal Justice Center and payment of the Developer’s costs.

Exhibit J of the Development Agreement is a ***Keepwell Agreement*** between the county; the Building Authority; Dan Gilbert, individually and on behalf of his revocable trust; and Rock Completion Guarantor, LLC, which guarantees that if the Guaranty of Completion is exercised and that Rock Completion Guarantor, LLC cannot meet its financial obligations under the Guaranty of Completion, and a judgment as defined in the Keepwell Agreement is rendered, Dan Gilbert will ensure that Rock Completion Guarantor, LLC has the financial ability to meet its financial obligations.

Central Utility Plant

On July 3, 2019, the county announced it has reached a tentative agreement with DTE Energy Services, a non-regulated subsidiary of DTE Energy, to construct and operate the central utility plant (CUP) for the new criminal justice center on East Warren Ave. The deal estimates the cost of the plant to be between \$32 million and \$37.7 million.

The central utility plant’s purpose is to distribute hot and cold water for heating and cooling and

also to distribute electricity and gas throughout the criminal justice center. Building the central utility plant was included in the Development Purchase and Sale Agreement approved by the Wayne County Commission on June 7, 2018, which left open the cost of building the central utility plant because of the time it would take to determine the price and negotiate a deal with a utility provider.

Under the tentative deal with DTE Energy, the county will pay up to \$35.2 million to construct the central utility plant while Rock Development will contribute \$2.5 million based on the gross maximum price of approximately \$37.7 million. The cost of building the central utility plant is not included in the \$533 million criminal justice center agreement under which the county pays \$380 million and Rock Development covers the remainder, including construction overruns.

As a result of operational savings and higher than anticipated property tax collections, the county will be able to pay for the central utility plant without significantly impacting the current fund balance which is over \$140 million.

At the time the commission approved the Agreement on the criminal justice center, the parties anticipated the county would reach a deal with Detroit Renewable Energy to provide all the utilities to the criminal justice center. Within a short time after the commission approved the Agreement, Detroit Renewable Energy was sold and executive leadership changed. The new owners of Detroit Renewable Energy made a proposal to build the central utility plant for as much as \$51 million. At that point, the county began discussions with DTE Energy Services and negotiated with both entities and eventually reached an agreement with DTE Energy Services to build and operate the CUP.

➤ **Impact/Action**

- The commission should request frequent updates from the Administration regarding the status of the Criminal Justice Center, including:
- Estimated costs, and timeframe, to complete the criminal justice center.

Views from Responsible Officials:

The Administration continues to make every effort to be transparent regarding the status of the CJC and response to any and all requests from the Legislative branch. The Commission has established the Special Committee on the Criminal Justice Center and the Administration provides updates on the status of construction of the CJC to that Committee. The Special Committee is Chaired by Commissioner Glen Anderson, and included Commissioners Ware (Vice Chair), Clark-Coleman, Marecki and Varga.

A Committee of the Whole will be schedule in the near future to discuss the proposed agreement with DTE and Rock regarding the Central Utility Plant.

FUTURE BUDGETARY ISSUES

Sources and Amounts of Increased Revenues/Reduced Expenditures

Increased Property Tax Revenues

- For FY 2018, the Property Tax revenue budget increased by \$8.4 million due to higher than anticipated tax collections.
- Property tax revenue exceeded the final amended budget by \$11.2 million.
- The county's 2017 Equalization Report indicates that the total State Equalized Value for Wayne County increased by \$1.8 billion, from \$44.9 billion to \$46.7 billion, an increase of 4.0%. The total taxable value of the county serves as the basis for current and future tax levies. The total Taxable value increased \$0.3 billion, from \$39.5 billion to \$40.8 billion, an increase of 3.3%.

➤ Impact/Action

- The commission should request frequent updates from Management & Budget regarding estimates of anticipated increases in the receipt of property tax revenues.

Views from Responsible Officials:

The Department of Management and Budget provides quarterly updates/projections on the County's tax collections to the Committee on Ways & Means. Unfortunately, as a result of the change moving the December General Ad valorem tax levy to July which occurred starting in FY 2005, the majority of the tax collections occurs in September, October and November. Therefore predicting the collections on the tax is extremely difficult.

Debt Refinancing

- The county issued \$315 million in bonds for the Criminal Justice Center. The bonds carry an interest rate of 3.91%
- Given the very favorable interest rates that the county can now obtain on issuance of debt, a study should be conducted on the feasibility of refinancing outstanding bond issues.
 - For example, the 2010 Building Authority (Jail) bonds have an outstanding balance at September 30, 2018 of \$184,520,000.
 - The interest rates on these bonds range from 6.22 % to 10.0%.

➤ Impact/Action

- The commission should request an analysis from Management & Budget regarding the financial impact of refinancing outstanding bonds that carry interest rates in excess of the recently obtained 3.91%.

Views from Responsible Officials:

The County recently hired a new financial advisor, Acacia Financial Group, and with their help, M&B will be doing a thorough analysis of all possible debt refinancing. Once this is complete, the Administration will be requesting the Commission for authority to refinance those debt issuances that warrant refinancing.

Unfunded Activities

Deferred Maintenance

- In June, 2013, construction of the Gratiot Avenue Jail was suspended. Likewise, maintenance on the existing jail facilities was suspended. Until the Criminal Justice Center is anticipated to be completed in 2022, maintenance on the current jail facilities must occur.

➤ Impact/Action

- The commission should request an analysis from Management & Budget regarding the anticipated maintenance costs for the current jail facilities until the Criminal Justice Center is completed in 2022.

Views from Responsible Officials:

Maintenance continues on all facilities that will be replaced by the new criminal justice complex. Capital expenses are being carefully monitored to take in account the shortened life space on these facilities. Therefore, major purchases, such as new mechanical systems or roofs, are opting for repairs rather than replacements.

Wayne County contracted with DLZ in 2016 to conduct a structural/mechanical analysis on all facilities that will be replaced by the new criminal justice complex to help County leadership make a decision on repair versus replacement of each facility. The final decision was to contract with Bedrock LLC to replace five facilities. In 2019 Wayne County contracted with DLZ to conduct similar assessments for buildings that would remain, such as the Health Administration Building and Medical Examiner's Office. These reports will help the County map a strategy for repair/replacement, which will be used to populate future year budgets.

Compensation

- The Department of Human Resources ensures positions in county government are filled by the most qualified, capable and committed employees available. Part of this strategy is to provide compensation development.

Impact/Action - The commission should request an analysis from Human Resources regarding compensation plans for county employees that allow the county to retain and attract new employees to fill vacancies.

Views from Responsible Officials:

This response was provided by the County Personnel/Human Resources Department:

The County has worked diligently on addressing Wayne County compensation in a strategic and fiscally responsible manner, post implementation of the County's recovery plan. PHR acquired a partnership with PayFactors to assist us in analyzing internal and external pay equity and competitiveness utilizing reliable current labor market data. This information has been critical in assisting PHR's efforts to properly move wages forward after a ten (10) year limit on wage improvements. That said, we triaged our approach as we begin to improve financially. We have followed this progressive course:

1.

1. Identified hard-to-fill/national shortage positions and adjusted wages as needed, by implementing various MOUs within the County during 2018 & 2019
2. Provided initial relief by granting a 2.5% wage increases for AFSCME and GAA (4/2018) and Appointed staff (6/2018)
3. Ratified Diet & Nutrition and Michigan Buildings & Trades contracts with wage improvements (9/2018)
4. Administered the compensation increases for Elected Officials through Ordinance (1/2019)
5. The 5% Concession was restored to Appointed employees who qualified (2/2019)
6. Implemented a compensation bonus incentive at the WC Prosecutors Office (4/2019)
7. Negotiated a contract extension with POAM with a 3% increase in wages (7/2019)
8. Currently analyzing compensation, both internally and externally, while bargaining with the balance of the County's unions, including its two largest (AFSCME and GAA)
9. Currently analyzing compensation, both internally and externally, as we develop and recruit for new positions and provide analysis and appropriate compensation for current staff on an ad-hoc basis

Guardian Building

- The Guardian Building had a net operating income of \$487,388 for FY 2017/2018. This is compared to net income of \$18,463 for FY 2016/2017.
- In FY 2016 tenant lease space was 43.26%, county leased space 44.05%, and vacant 12.69%.
- In FY 2017 total occupied space increased to 93.60% (6.3% increase) and vacant space decreased to 6.4%.
- In FY 2018 total occupied space increased to 93.78% (1.8% increase) and vacant space decreased to 6.22% (Note: 511 Woodward (30,000 square feet) continued to remain vacant for FY 2018.

Guardian Building						
Leased Space Analysis						
As of September 30, 2018						
			Occupied		Vacant Space	
	Total Sq. Ft.		Sq. Ft.	% of total	Sq Ft.	% of total
Guardian Bldg	469,025		439,849	93.78%	29,176	6.22%
511 Woodward	30,000		-	0%	30,000	100%
Totals	499,025		439,849	88.14%	59,176	11.86%

According to the monthly operating report, total accounts receivable as of September 30, 2018 was \$31,995. There were two (2) tenants who were either delinquent and/or in litigation with the county, totaling \$20,011.

Budget comparison for the period ending September 2018 shows Other Non-rental Revenue with a favorable variance of 80% in 2018 from the booking of special events, primarily weddings, that was not anticipated in the budget. Other Non-rental Revenue totaled \$142,380 for 2018.

➤ **Impact/Action**

The OAG acknowledges the Administration's positive actions regarding potential consolidation of county departments into the Guardian Building. In addition, the increase in the building's occupancy rate with the additional interest in renting building space to outside private/corporate individuals has helped in the increase of revenue for the county.

- The commission should request periodic status updates on relocating county offices into the Guardian Building.
- The commission should request monthly operating reports on the Guardian Building and the First Street Parking Structure.

Views from Responsible Officials:

The EDC provides this information within our Monthly reports and discusses these items and other issues at the monthly EDC Board Meetings. All agendas and materials for board meetings are distributed prior to the meetings to Board members and Commission staff who attend. These meetings are also open to the public.

Economic Development Plans/Land Bank

In FY 2018, the Community and Economic Development Corporation fund eliminated its FY 2017 fund balance deficit of \$2,681,496 and ended FY 2018 with a surplus of \$214,689.

In addition, the Economic Development Corporation fund's Unassigned Fund deficit decreased from \$2,648,712 at FY 2017 year-end to \$2,263,033 at FY 2018 year-end; a reduction of \$385,679, or 14.5%. The reduction is primarily due to revenues exceeding expenditures in two (2) business units used to record Guardian Building operations.

See the table below:

**Financial Activity of Guardian Building Business Units
Fiscal Year 2018**

	17242 Dev. Proj. 21st Century	26560 Guardian Operations	26570 Guardian Building Operations	26580 First Street Parking	Total of Fund
Revenues					
Local Grants	413,500				
Charges, Fees, and Fines	-	424,752	140,799	2,514,126	
Interest Income	16,88	(25,010)	320	410	
Rents & Expense			4,180,971	226,395	
Other Revenue	-	682,288	-	-	
Operating Transfers	-	-	1,395,756	-	
Total Revenue	430,384	1,082,030	5,717,846	2,740,931	9,971,191
Expenditures					
Materials & Supplies			77,482	16,931	
Services & Contracts	791,204	610,761	1,978,602	537,875	
Operating Expenditures		21,379	1,330,802	183,846	
Other Charges	68,314		401,138	440,578	
Rentals		-			
Capital			1,285,394	71,561	
Debt Services				1,746	
Operating Transfers	-	-	-	1,395,756	
Total Expenditures	859,518	632,140	5,073,418	2,648,293	9,213,369
Surplus/(Deficit)	(429,134)	449,890	644,428	92,638	757,822

The county's 2018 Deficit Elimination Plan (Plan) was submitted to the Wayne County Commission and approved at the May 16, 2019 meeting of the Full Board. The Plan was subsequently submitted to the State of Michigan Treasurer.

The corrective action plan for the Economic Development Corporation (EDC) Fund (850) is being carried forward from last year's Corrective Action Plan (CAP) but with adjustments, is on pace to be eliminated over the four (4) years as approved by the State last year.

- Approved by the State in the FY 2017 CAP, the unassigned fund deficit in the Economic Development Corporation (EDC) will be eliminated by FY 2022. The plan requires the EDC to fund required additional funding of \$530,000 each year to eliminate the deficit with year one, FY 2018, capital improvements previously planned for the buildings were to be deferred and the funding will be set aside for deficit elimination. As a result of unforeseen building and capital repairs on the Guardian and First Street Parking facilities, only \$386,000 was set aside for deficit elimination and the plan is being modified to fund the \$143,000 funding shortfall.
- In FY 2019, deficit elimination funding of \$530,000 was included in the adopted operation budgets for the EDC. Guardian Building rent expense was increased from \$13.75 per square foot for Wayne County tenants to \$15.70 per square foot. This increase resulted in an additional \$500,000 in annual rent collections which will be transferred to the EDC at year end for deficit elimination. Additionally, the EDC reduced their planned capital outlay by \$30,000 to fund the balance of the required Deficit Elimination Plan (DEP) funding. As a result of the DEP funding shortfall in FY 2018, the EDC will be required to further reduce the capital outlay for the properties by an additional \$36,000 for the remaining four (4) years of the plan.

➤ **Impact/Action**

- The commission should request the Administration to provide periodic updates on EDC's compliance with the Deficit Elimination Plan approved by both the commission and State Treasurer.

Views from Responsible Officials:

The EDC's corrective action plan is in its second year and is on track to being complete on time and as scheduled. In FY 2019 through FY 2022, deficit elimination funding of \$570,000 will be included in the adopted operation budgets. Additionally, because the proposed deficit elimination plan will reduce the amount available for capital improvements, Guardian Building rent expense will be increased from \$13.75 per square foot for Wayne County Tenants to \$15.70 per square foot. This increase will result in an additional \$500,000 in rent collections which will be used to supplement capital improvements.

Land Bank

In May 2017 an intergovernmental agreement was approved between the Wayne County Treasurer and the Wayne County Land Bank Corporation. According to the agreement, prior to execution of the agreement, 1,921 properties were conveyed from the Treasurer to the Land Bank and maintenance funds were earmarked as consideration for the Land Bank's administrative and maintenance expenses. The Per Property Allocation is based on a disbursement of \$450 times the number of properties and an administrative payment of \$100

times the number of properties with a structure. For those properties without a built structure, the disbursement is \$200 times the number of properties and an administrative payment of \$100 times the number of properties. In addition, the Treasurer is to transfer an additional annual maintenance of \$200 times the number of properties and administrative payment of \$100 times the number of properties owned by the Land Bank. However, based on our analysis of expenditures recorded within this unit, for the period beginning October 1, 2016 through May 31, 2019, the Treasurer has transferred \$1,232,500. Based on our analysis of expenditures recorded within this unit in the amount of \$907,857, the Land Bank has received \$324,643 in excess maintenance funds from the Treasurer through May 31, 2019.

The OAG also noted the Land Bank received no funding appropriation from Wayne County in fiscal years 2016, 2017 and 2018. According to the Land Bank's audited financial statements, the Land Bank has no budget appropriation from Wayne County in the next fiscal year.

➤ **Impact/Action**

- The commission should inquire what will be the disposition of the excess maintenance funds and the need for the Treasurer to continue to transfer funds to the Land Bank for maintenance with an excess in maintenance funds.

Views from Responsible Officials:

The Land Bank will continue to use these limited funds for maintenance work. Over the past two years, the Land Bank's maintenance allocation has decreased from \$599,400 to \$406,150. At the same time, the Land Bank's emergency maintenance response actions have increased 11-fold.

These trends underscore a crucial reality. The land Bank has returned over 1,200 properties to productive use in the past 2.5 years. As a result, however, the remaining properties in the Land Bank's inventory – about 1,100 in total – are significantly distressed and challenged. Many consist of severely dilapidated and collapsing housing; vacant land covered with debris; or wooded parcels with dead trees and other hazards. In light of these challenges, the Land Bank takes its maintenance obligations seriously and will continue to be a diligent steward of its limited maintenance funds.

Implementation of Enterprise Resource Planning (ERP) System

The Department of management & Budget (M&B) – Division of Financial Reporting requested commission approval of a professional services contract with CherryRoad Technologies, Inc., not to exceed \$14 million to configure, build and implement Oracle's Enterprise Resource Planning/Human Capital Management/Enterprise Performance Management Cloud (ERP) solution to meet the county's requirements in replacing obsolete systems. The Wayne County Commission approved the contract on June 6, 2019.

M&B advised that this project will allow the county to migrate from aging hardware and software, namely older versions of Oracle, PeopleSoft and JD Edwards, to new ERP financial,

human resources, budgeting and reporting systems. The county uses PeopleSoft to process human relations and payroll transactions, and JD Edwards to process financial transactions.

- Project implementation is estimated at three (3) to four (4) years.
- Per M&B management, the project was not evaluated for cost savings. Rather, the focus is on replacing the current system (JD Edwards) before it fails.
- The county does not have a backup plan when JD Edwards fails.
- The project is expected to cost approximately \$30 million.

➤ **Impact/Action**

- The commission should request updates on the status of the ERP system implementation and what plans are in effect 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 and implementation has begun. The project is expected to take up to 36 months to complete.

As an update:

- ERP (Enterprise Resource Planning) Overview Sessions have been facilitated for Departments and Offices Countywide to inform stakeholders about the project
- A Wayne County ERP PMO (Program Management Office) has been set up to provide and enforce project standards, best-practice, governance and oversight
- The capture and documentation of current state business processes and data usage is being finalized to provide to the implementation team to build the solution
- The implementation team has been on-boarded and a formal kick-off will commence the 3rd week of August
- The Treasury system "SymPro" will be launched 1st to replace the Office of Treasurer's ResIQ system which will be de-supported December, 2019

Department of Information Technology (DoIT) FY 2019-2020 Tech Refresh

According to DoIT management \$805,000 has been budgeted for the FY 2019-2020 Tech Refresh. DoIT is planning on ordering and deploying new computers within the 2019-2020 fiscal year time frame. The table below details the departments/elected offices affected and how many computers each will receive.

DoIT Tech Refresh

Department	# of New Machines
CEO	16
Clerk	160
Commission	26
Corporation Counsel	16
DoIT	21
DPS	132
EDC	2
HVCW	119
M&B	27
Personnel	7
Prosecutor	113
Retirement	5
Sheriff	323
Treasurer	9
Total	976

➤ **Impact/Action**

- Given the risks identified in the Telecommunications Performance audit, commission should ask DoIT management what controls have been implemented to improve the monitoring of county assets.

Views from Responsible Officials:

DoIT would be happy to share the steps that are taken when purchasing and receiving County technology assets and how we have improved continuous monitoring of the lifecycle of assets.

Contingent Liabilities Noted in FY 2018 CAFR

Wayne County – Department of Public Services

The county is being sued for alleged injuries arising from an alleged incident with a county operated vehicle. The plaintiffs allege that the county vehicle failed to properly stop at an intersection and caused injuries. The county has reserved \$5,000,000 for the litigation of this matter.

➤ **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 \$5 million reserved for this case?

Views from Responsible Officials:

The case mentioned is currently in litigation and the administration would prefer not to discuss the likelihood of any specific outcome of the case in this document.

Succession Planning, Recruiting, Staffing/Open FTEs

According to Personnel/Human Resources they are developing succession planning as a part of overall Employee Engagement transformation. Various elements of the engagement strategy must be in place before succession planning can be implemented. The estimated completion date is the third quarter of 2019.

The county's hiring, and retention of employees, is paramount to any plan for succession planning. Key positions may not be filled timely, which could jeopardize a department/division from achieving its business objectives and delivering mandated services timely.

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.

While steps are underway for succession planning, the county has difficulty hiring and retaining employees. P/HR is implementing strategies to address filling these vacant positions. Below is a table of budgeted versus actual FTEs for the last three (3) Fiscal Years. The FY 2018 FTE's are as of July 17, 2018.

**Budget versus Actual FTEs
Fiscal Years 2016, 2017, and 2018**

	FY 2016			FY 2017			FY 2018		
	Budget	Actual	Diff.	Budget	Actual	Diff.	Budget	Actual	Diff.
FTEs	3,989	3,437	-552	4,008	3,385	-623	3,981	3,358	-623

In FY 2018, the following departments/elected officials accounted for approximately 86% of the 623 net total vacancies.

• Circuit Court	158
• Sheriff	165
• Health, Veterans, Community Wellness	61
• DPS	127
• M&B	<u>28</u>
• Total	<u>539</u>

➤ **Impact/Action**

- Commission leadership should request periodic updates from Personnel/Human Resources on the progress of its hiring initiatives and retention policies.

Views from Responsible Officials:

This response was provided by the County Personnel/Human Resources Department:

Our PHR Employee Engagement Division continues to make progress with its strategic priorities. As discussed previously, training & development, career planning, performance management and succession planning are a part of the overall Employee Engagement transformation. We have previously communicated that succession planning is a bit linear, as various elements of the engagement strategy need to be in place before succession planning can be fully implemented. We are pleased to advise that we are well underway with these priority deliverables. As a reminder, we previously communicated the target for implementation was most likely Q3 2019; however, due to staff compression and contract delays, January of 2020 is more realistic.

The following represents the sequence and status of the Employee Engagement focus and initiatives:

1. Assessment and Alignment of County resources and needs: PHR regularly interfaces (phone calls, emails, and meetings) with Departments and Elected Offices to understand their respective organizational business and staffing needs and how PHR can best address them utilizing resources from employee engagement or from talent management, , labor relations, compensation or other HR-related services.
2. Development and Employee Training: Both instructor-led and on-demand trainings have been implemented, County-wide, and continue. These trainings have focused on professional standards; compliance such as sexual harassment; diversity; supervision and leadership; and general skills-building.
 - A partnership with Wayne State University was implemented 9/2018, to aid the County in developing customized management and leadership training courses that will provide the development of skills through the organization, and which is aligned to succession planning.
 - A partnership with SkillSoft, a cloud-based, eLearning provider of on-demand 24-7 learning content was implemented in 7/ 2018 and continues to be utilized and proliferated through the County. SkillSoft's library consists of over 150,000+ multi-modal computer-based courses, videos, books and micro-learning modules.
3. Performance, Career Pathing and Succession Planning: A partnership with Bullseye Engagement LLC, a cloud-based application that streamlines performance management; coaching; goal setting; career planning; and succession planning has just been procured 7/2019. This application will be utilized to efficiently facilitate, manage and track employee coaching efforts; performance progress and employee-manager discussions; accountability measures; individual training & development efforts; individualized career pathing and will anchor and drive our succession planning program.

4. Enterprise Resource Planning: The Oracle ERP project is underway and will become the successor application for managing an employee's life-cycle within the organization. The Human Capital Module portion of the project is scheduled for implementation in 2022.

Recruiting, Staffing and Open FTEs: PHR recently submitted a Receipt & File document that listed all classified civil service positions which are budgeted, currently filled and currently vacant (through 4-28-19). This same report identified our hard-to-recruit-for positions, and summarized recruiting challenges and the PHR countermeasures.

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 moving in the right direction but there will be continued fiscal challenges faced by Wayne County that could have an impact on the county's fiscal year 2019-2020 budget. As such, we believe these issues may be useful to the commission as part of the budget deliberation process for fiscal year 2019-2020.

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, CPA, CIA, CICA, CGMA
Auditor General

APPENDIX A

Summary of Budgetary Impact Issues for Consideration for FY 2019-2020 and Beyond

Description	FY 2019-2020 Budgetary Impact	Page Number
Unassigned Fund Deficits	\$ 22,909,649	2
Single Audit Questioned Costs	371,817	4
Sheriff Overtime	19,100,000	6
Overtime	11,100,000	6
Retiree Health Care Stipends	2,726,352	8
Information Technology Telecommunication Services	220,933	10
DPS - Permits	11,487,486	11
Criminal Justice Center		
Central Utility Plant	35,200,000	14
Implementation of Enterprise Resource Planning (ERP) System	30,000,000	20
DoIT Tech Refresh	805,000	21
Total Budgetary Impact	\$ 133,921,237	