

Office of Legislative  
**Auditor General**

**MARCELLA CORA CPA, CIA, CICA, CGMA**  
AUDITOR GENERAL



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

TELEPHONE: (313) 224-8354

October 2, 2020

**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 2019. Our report is dated July 31, 2020; DAP No. 2019-57-803. The report was accepted by the Committee on Audit on September 23, 2020 and formally received by the Wayne County Commission on October 1, 2020.

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**

Hughey Newsome, Chief Financial Officer

Mathieu Dube, Deputy Chief Financial Officer

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 2019 CAFR**

**Consulting Report**

**For the period: May 1, 2019 – April 30, 2020**

**July 31, 2020**

***Presented to:***

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

***Prepared by:***

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

## **TABLE OF CONTENTS**

<b>LETTER FROM WAYNE COUNTY AUDITOR GENERAL.....</b>	<b>i</b>
<b>PURPOSE AND OBJECTIVE .....</b>	<b>1</b>
<b>SCOPE .....</b>	<b>1</b>
<b>METHODOLOGY .....</b>	<b>2</b>
<b>FISCAL YEAR 2019 CAFR AND OTHER AUDIT RESULTS THAT COULD IMPACT FISCAL YEAR 2020 – 2021 BUDGET .....</b>	<b>2</b>
<b>OTHER FUTURE BUDGETARY ISSUES.....</b>	<b>16</b>
<b>CONCLUSION .....</b>	<b>28</b>
<b>APPENDIX A</b>	
<b>Summary of Budgetary Impact for Consideration for FY 2020 – 2021 .....</b>	<b>30</b>

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July 31, 2020

DAP No. 2020-57-803

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

Honorable Elected Officials:

The Office of Legislative Auditor General (OAG) is pleased to provide its annual report on the County's financial position based on our review of the County's FY 2019 Comprehensive Annual Financial Report (CAFR) and Budget Sensitive Issues to the Wayne County Commission as it begins its fiscal year 2020-2021 budget deliberations. The report contains issues which could have a budgetary impact on county operations and financial position that came to our attention through not only our review of the CAFR but other audits, consulting, and engagement reports.

In summary, this report identifies issues totaling \$219 million that have a potential budgetary impact on FY 2020 – 2021 (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, 2019 – April 30, 2020, as well as issues contained in the county's Comprehensive Annual Financial Report for the Fiscal Year ending September 30, 2019.

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) Home Rule Charter section 3.119(e) which requires the OAG report on the financial position of the county; and, (2) Enrolled Appropriations Ordinance 2019-617 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 2020-2021 and beyond and to provide the report to the Ways and Means Committee and Wayne County Commission

The objective of this engagement is to specifically identify matters and financial issues that could 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, 2019 – June 30, 2020. Also included was a review of the county's Comprehensive Annual Financial Report for Fiscal Year 2019.

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 31, 2020.

## METHODOLOGY

The procedures performed were limited to reviewing the county's 2019 CAFR, 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, 2020 that could potentially have a budgetary impact on county operations for FY 2020-2021.

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 2019 CAFR AND OTHER AUDIT RESULTS THAT COULD IMPACT FISCAL YEAR 2020-2021 - BUDGET DECISIONS

#### General Fund Balance

As of Fiscal Year Ending September 30, 2019 the County had a total general fund balance of \$182.6 million of which \$135.7 million was unassigned as shown below.

Fund Balance Category	Amount
<b>Nonspendable</b>	<b>\$7,779,480</b>
<b>Restricted for:</b>	
Inpatient Hospitalization	4,048,519
Debt Service	6,794,950
<b>Total Restricted</b>	<b>\$10,843,469</b>
<b>Committed for Judicial</b>	<b>16,256,684</b>
<b>Assigned for:</b>	
General Government	9,630,795
Public Safety	2,345,809
<b>Total Assigned</b>	<b>11,976,604</b>
<b>Unassigned</b>	<b>135,748,770</b>
<b>TOTAL GENERAL FUND BALANCE</b>	<b>182,605,007</b>

In addition to the \$135.7 million fund balance that is unassigned, there are:

- Nonspendable funds – Amounts that are not in spendable form or are legally or contractually required to be maintained intact.
- Restricted funds – Amounts that have externally imposed constraints and are legally restricted by outside parties, constitutional provisions or enabling legislation for use of a specific purpose.

- Committed funds – Amounts committed for a specific purpose by formal action of the Commission and can only be rescinded via resolution by the Commission.
- Assigned funds – 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.

According to the notes to the CAFR, the restricted fund balance includes inpatient hospitalization of \$4 million designated for health care of indigent persons and approximately \$6.8 million designated for debt service for the new Criminal Justice Center. The committed judicial fund balance of \$16.2 million is for the Third Circuit Court. The assigned general fund balance includes \$9.6 million for general government cost associated with retention stipends; additional pension funding; therapeutic park; and meals on wheels. In addition, \$2.3 million are designated for public safety costs for jail medical and for the Prosecutor to test rape kits.

➤ **Impact/Action**

- The Commission should request of Management & Budget how much of the unassigned fund balance should be maintained and what amount can be allocated toward the FY 2020-2021 budget shortfall.

**Views from Responsible Officials:**

Management & Budget believes that as much of the General Fund's fund balance as possible should be maintained at this time. The Budget Division of Management & Budget is working to balance the fiscal year 2020 and 2021 budgets while using as little, or no, unassigned General Fund balance.

**Fund Deficits**

Fund deficits have increased approximately \$14.4 million, or 53.2% from FY 2017. See schedule of unassigned fund balance deficits, below:

<b>County of Wayne</b> <b>Comprehensive Annual Financial Report</b> <b>Unassigned/Unrestricted Fund Balance Deficits</b> <b>Fiscal Years Ending September 30, 2017, 2018 and 2019</b>						
<b>Description by Fund</b>	<b>Unassigned Fund Balance Deficit 9/30/2017</b>	<b>Unassigned Fund Balance Deficit 9/30/2018</b>	<b>2017/2018 Increase (Decrease)</b>	<b>Unassigned Fund Balance Deficit 9/30/2019</b>	<b>2018/2019 Increase (Decrease)</b>	<b>2017-2019 Total Increase (Decrease)</b>
Health	\$ 1,569,899	\$ -	\$ (1,569,899)	\$ -	-	\$ (1,569,899)
Victim Witness	26,809	-	(26,809)	-	-	\$ (26,809)
Nutrition	2,596,876	-	(2,596,876)	-	-	\$ (2,596,876)
Community & Economic Development	2,681,496	-	(2,681,496)	-	-	\$ (2,681,496)
Health & Family Services	1,678,990	-	(1,678,990)	-	-	\$ (1,678,990)
Juvenile Justice/Abuse and Neglect	-	-	-	2,760,465	2,760,465	\$ 2,760,465
Economic Development Corporation	2,648,712	2,263,033	(385,679)	1,495,588	(767,445)	\$ (1,153,124)
Community Corrections	-	104,704	104,704	101,157	(3,547)	\$ 101,157
Central Services	776,369	1,216,762	440,393	11,046,994	9,830,232	\$ 10,270,625
Environment	1,659,211	2,707,219	1,048,008	3,392,405	685,186	\$ 1,733,194
Long Term Disability	-	169,790	169,790	-	(169,790)	\$ -
Buildings & Grounds Maintenance	13,325,818	16,448,141	3,122,323	18,391,841	1,943,700	\$ 5,066,023
CSO Basins	-	-	-	1,996,302	1,996,302	\$ 1,996,302
Chaper 21	-	-	-	2,141,893	2,141,893	\$ 2,141,893
<b>Totals</b>	<b>\$ 26,964,180</b>	<b>\$ 22,909,649</b>	<b>\$ (4,054,531)</b>	<b>\$ 41,326,645</b>	<b>\$ 18,416,996</b>	<b>\$ 14,362,465</b>

Unassigned fund deficits have increased from \$26.9 million in FY 2017 to \$41.3 million in FY 2019. This represents an increase of \$14.3 million, or 53.3%, over the three (3) years fiscal period. According to notes in the financial statements, the deficits can be attributed to:

- Juvenile Justice/Abuse and Neglect Fund which, due to the State of Michigan's newly implemented software, delayed the payment of invoices worth over \$15 million owed to the county.
- Community Corrections and Economic Development Funds are part of a corrective action plan to eliminate the deficits.
- The deficits in the three (3) Internal Service Funds (Central Services, Environment, and Building & Grounds) are primarily the result of recording net pension liability and OPEB liability in the Internal Service Funds.

➤ **Impact/Action**

- The commission should request the administration provide frequent updates on eliminating the fund deficits in the Juvenile Justice/Abuse and Neglect, Economic Development, and Community Corrections Funds.

**Views from Responsible Officials:**

Juvenile Justice / Abuse and Neglect deficit – the cause of the deficit was slow payment by the State of Michigan. The County's billings, if not timely collected, cannot be counted as revenues. The State of Michigan was many months behind in making payments.

Economic Development Corporation (EDC) – the cause of the deficit was overspending in fiscal year 2016 and the EDC is ahead of schedule on its deficit elimination plan.

Community Corrections – the operations of the fund are not self-sustaining due to limits on



allowable costs. As part of the corrective action plan the County will make the fund whole and increase its allocation if needed to cover the operating shortfall or reduce operating expenditures.

### **Improvement in County Bond Rating**

Several years ago, the three (3) major ratings agencies – Moody’s Investor Services, Standard & Poor’s, and Fitch Ratings – had downgraded the county’s bond rating below investment grade; i.e., junk status. However, the county has experienced improvements in its bond ratings over the last few years; Moody’s and Fitch outlook was stable while S&P’s is listed as positive. See table below for historical trend of county’s bond ratings.

**Wayne County Bond Rating  
FY 2015 – FY 2019**

	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>Outlook</b>
<b>S&amp;P</b>	BB+	BB+	BB+	BBB+	BBB+	Positive
<b>Moody's</b>	Ba3	Ba1	Ba1	Baa2	Baa1	Stable
<b>Fitch</b>	B	BB+	BBB-	BBB-	BBB+	Stable

Source: County’s CAFR

**Fitch’s** bond rating reflects the county’s moderate long term liability burden, strong financial resilience, and solid expenditure flexibility.

**Moody’s** upgraded rating reflects the county’s progress toward strengthening its operational and financial performance, and its recovering tax base and economy.

**S&P** Rating has been maintained at a BBB+ with a Positive outlook due to the county’s continued maintenance of structurally balanced operations.

The county has a website, [www.waynecountyinvestors.com](http://www.waynecountyinvestors.com), to help investors monitor bonds.

#### **➤ Impact/Action**

- There has been an 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 their impact may have on the county's bond ratings.
- Commission should inquire of Management & Budget what impacts the Covid-19 pandemic will have on county finances and the potential impact on both the county’s bond rating and ability to borrow funds.

### **Views from Responsible Officials:**

Current Financial Initiatives – in order to improve or maintain its bond rating the County is balancing its annual budget and budget projections based on available revenue sources and not relying on accumulated fund balance where possible. Continued financial discipline is the most likely key indicator that the ratings agencies will be reviewing with the County. In addition the

County is currently working on refinancing callable and soon to be callable bonds with the anticipation of reducing the County's interest expenditures.

COVID 19 Impact – the full impact on the County's finances won't be fully understood for years to come. The effect of the State's shutdown on sales tax revenues (distributable state aid) and property taxes will not fully manifest themselves for months or years. In the current fiscal year the impact was nearly fully mitigated by CARES act funding which will also alleviate some of the impact in fiscal year 2021.

### **Single Audit Findings and Recommendations**

The county's Single Audit (A-133) for year ending September 30, 2019 contained 11 findings. Of the 11 findings, 10 are considered material weaknesses, and one (1) is considered a significant deficiency.

#### **Single Audit Findings Fiscal Year Ending September 30, 2019**

<b>Ref. #</b>	<b>Finding</b>	<b>Type of Weakness</b>	<b>Repeat</b>
2019-001	County's general ledger underlying financial records of component units not reconciled or closed timely resulting in adjustments of \$75 million in corrected and uncorrected misstatements in revenue and expenses.	Material	Yes
2019-002	There is not a system in place to verify that the bank makes the changes related to terminated employees and closed accounts which could lead to misappropriation of funds.	Material	Yes
2019-003	County lacked appropriate monitoring of account balances during the year to compile complete and accurate financial reports which resulted in auditor proposed journal entries..	Material	Yes
2019-004	County – There's no process in place to fully monitor compliance with laws and regulations: Some noncompliance areas included construction and performance bonds not escheated to State; expenditures in excess of the budgeted amounts, and two non-major special revenue funds ended the fiscal year in deficit and two non-major special revenue funds were budgeted to end the year in a deficit.	Material	Yes
2019-005	The County does not have A review process in place to identify and capitalize all assets acquired during the year resulting in \$23.6 million in adjustments.	Material	Yes
2019-006	There are no controls or formal policies in place for the County to approve voided transactions which could result in misappropriation of funds.	Material	Yes
2019-007	The County did not have procedures in place to ensure all bank accounts were fully reconciled to the general ledger, reconciled items are supported and reconciliations are performed timely. Lack of procedures could result in the County failing to identify errors or misappropriation of assets on a timely basis.	Material	Yes
2019-008	County did not have adequate procedures in place for the reconciling of inmate property bank accounts to the jail management system nor adequate controls over cash functions which could increase the risk of misappropriation of assets.	Material	No
2019-009	The County did not report program income from subrecipients to HUD nor report the program income and expenditures in the County's general ledger. Or the Schedule of Expenditures for Federal Awards. This	Material	Yes

	resulted in the Schedule of Federal Awards being understated by \$400,000.		
2019-010	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	Yes
2019-011	The County's controls did not ensure subrecipients were following the terms of the sub recipient agreement when requesting reimbursement from the county and ensuring appropriate receipts were included with reimbursement requests which could result in noncompliance and even questioned costs.	Significant	No

➤ **Impact/Action**

- Commission should request periodic reports from M&B regarding corrective actions to address the noted Findings especially those repeat findings that could have an impact on the financial statement preparation, involve reporting requirements and adherence to Uniform Guidance.

**Views from Responsible Officials:**

The Department of Management and Budget annually completes a 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.

Due to staffing reductions and changes within the department Management & Budget has not made a much progress as initially intended to address findings (2019-001 to 2019-007). We continue to make every effort to correct these ongoing issues but it is likely that these will remain for the foreseeable future.

**Revenue Enhancements – User Fees**

In FY 2019, Charges for Services was approximately \$105 million, or 18.7% of the total county General Fund revenue. This represents an approximate \$31.9 million decrease from FY 2018 primarily due to the elimination of internal, intra-fund revenues, such as the elimination of charges for services provided by the Sheriff to the Courts.

In FY 2019, there was no 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 departments that provide services for a fee submit a report annually reviewing the costs of delivering such 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 2019, overtime costs countywide were \$28.5 million, of which \$17.4 million, or 61%, was related to the Sheriff's Office.

**Overtime Expenditures -Budget to Actual  
(In Millions)**

	FY 2017		FY 2018		FY 2019	
	Budget	Actual	Budget	Actual	Budget	Actual
Sheriff	\$6.8	\$16.9	\$7.2	\$19.1	\$8.5	\$17.4
Other Departments	\$9.3	\$10.7	\$10.7	\$11.1	\$12.0	\$11.1
Total Overtime	\$16.1	\$27.6	\$17.9	\$30.2	\$20.5	\$28.5
Sheriff/ % of Total	42%	61%	40%	63%	42%	61%

There are currently approximately 160 vacancies in the Sheriff's Office (See Succession Planning, Recruiting, Staffing/Open FTEs section of report). The Sheriff's inability to hire and retain new recruits is largely due to starting wages being lower than the median salary for corrections officers' nationwide plus imposed mandatory overtime.

In addition, for the last three (3) years, actual expenditures for overtime in the Sheriff's Office have exceeded the budget significantly. In FY 2019, actual expenditures for overtime were \$17.4 million or \$8.9 million more than budgeted as shown in the chart above.

➤ **Impact/Action**

- The Sheriff's Office will continue to be understaffed resulting in significant overtime. Commission leadership should request that future budgets more accurately reflect what the true overtime costs could be.

### **Views from Responsible Officials:**

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.

### **Funding of Retirement System**

The funding objective for the Wayne County Employees Retirement System (WCERS) is to establish and receive contributions, invest the contributions, and accumulate assets that will pay expected retirement benefits. The funded ratios for FYs, 2016, 2017, 2018, and 2019 were 54%, 55%, 62%, and 64%, respectively. The market value rate of return during Fiscal Year 2019 was 3.5% and the Retirement System gained \$34.4 million in investment income.

Per the Annual Actuarial Report for September 30, 2018 and 2019, the required minimum employer contributions are shown in the table below:

**Minimum Employer Required Contributions**

	Minimum Employer Contribution Dollar Amount	
	2018 Actuarial Report	2019 Actuarial Report
Fiscal Year Beginning October 1, 2019	\$52,280,754	
Fiscal Year Beginning October 1, 2020		\$51,703,879

Both actuarial reports stated that the amount deposited into the Retirement System for Fiscal Year 2019 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 states that there has been an improvement from the prior year but there still is a concern about potential cash flow problems for the 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 Plan has gone from being 44% funded in 2013 to 64% funded in 2019. According to the actuarial report, the accelerated funding policy adopted by the Board and the additional contributions made by the County in prior years were important factors in this increase. The actuary recommends that the County continue to contribute more than the calculated rate, given that WCERS retiree liability is less than 100% funded. Since the actuarially computed rate and

dollar minimum is dropping this year, and the plan is still only 64% funded, the Board could consider the option of maintaining the contributions at the level in effect for Fiscal 2020.

This report does not reflect events occurring after the valuation date. In particular, it does not reflect the potential impact COVID-19 may have on economic conditions, market rate returns, and demographic experience during calendar year 2020 and possibly beyond.

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 64%. While the current funding ratio is above 60%, it is imperative that the funding ratio continues to increase.

➤ **Impact/Action**

- Commission leadership should request the administration take measures to 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 and the potential impact of COVID-19.

**Views from Responsible Officials:**

With budgetary constraints becoming an increasing strain on operations and the need to maintain the County’s financial discipline the plan is to fund only the actuarially required contribution as determined the retirement system’s actuary for the foreseeable future. At this time no additional contributions in excess of the required amount is planned or anticipated. The County will know the impact on the system’s funding status until early next fiscal year when WCERS undergoes its fiscal year-end audit. Note that market value fluctuations are accounted for within the plan but gains and losses are smoothed over a number of years so as to average out some the impact of large market fluctuations.

**DTRF Program**

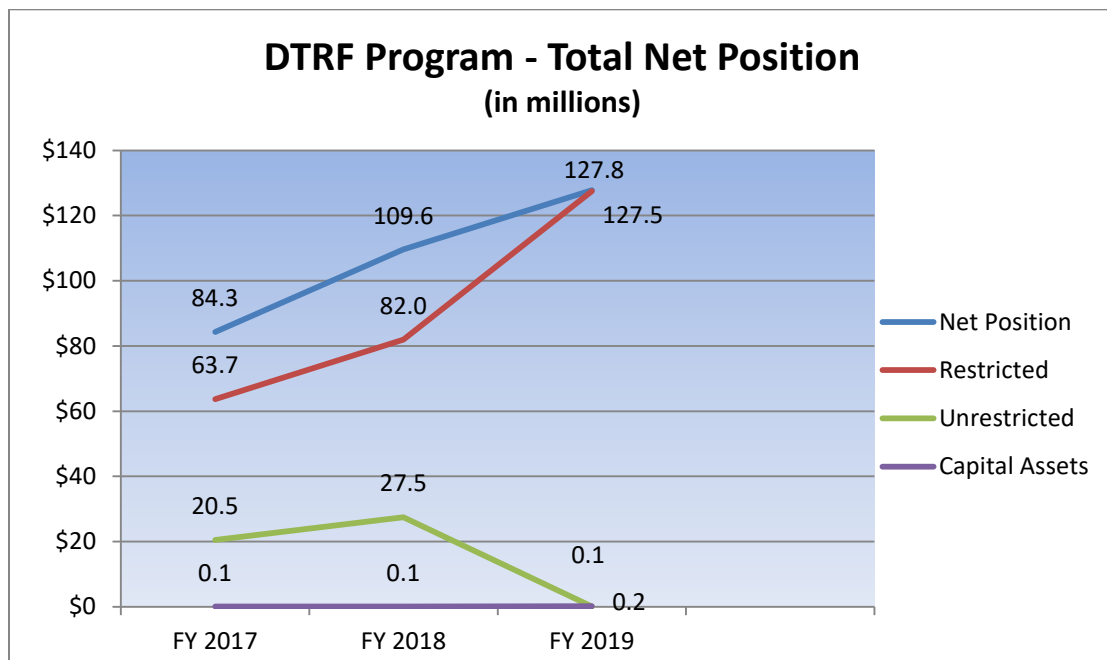
The County established its Delinquent Tax Revolving Fund (DTRF) in accordance with Michigan Public Act No. 206 of the Public Acts 1893, as amended (“Act 206”). The County’s DTRF Program has been in existence since 1977.

A DTRF Program is established to pay its constituent local taxing units (LTU) all delinquent and uncollected property taxes owed to the County and the LTUs. On March 1 of each year, the Wayne County Treasurer’s Office (WCTO) receives delinquent taxes from the LTUs throughout the county. These represent the taxes owed to the LTUs from the preceding year. Annually the WCTO issues notes on the open market to obtain borrowings (funding) to reimburse the LTUs their delinquent tax rolls. Each tax year is recorded in its own fund. For example, Fund 535 is for the 2015 tax year.

Once the notes for a particular tax year are paid in full the associated DTRF Fund is closed and the Treasurer makes a determination whether a surplus exists for that fund. During a prior engagement, our office met with WCTO officials to determine how the surplus was calculated. Historically, the County Treasurer has determined and declared the amount of the surplus available to be transferred to the County's General Fund. We were told only after: (1) outstanding liabilities are paid; and (2) the Treasurer determines an amount of internal dollars/funding estimated to be reserved for the upcoming year's delinquent tax note purchase, would the remaining residual funds from the WCTO's administration of the DTRF Program be considered surplus funds. The surplus funds are declared from Unrestricted Funds of the DTRF Program and proceeds from Foreclosure sales (Funds 500 and 501, respectively.)

In an effort to determine if additional DTRF funds could be transferred to the County's General Fund, we initially reviewed the accompanying Balance Sheets and Statement of Revenues, Expenses and Changes in Fund Assets for the DTRF Program as contained in the county's CAFR for the fiscal years 2017 through 2019.

Based on our review from FY 2017 to FY 2019, we noted the DTRF Program's Unrestricted Fund Balance decreased by \$20.5 million while the Restricted Fund Balance increased by \$63.8 million. Specifically as of September 30, 2019, the total net position of the DTRF Program was \$127.8 million. (See chart below).



In an effort to obtain additional understanding of the trend, we also conducted a limited review of the DTRF Tax Funds and financial activity recorded in the county's general ledger. A given tax year's period of activity for the DTRF Program exists over a 3-year period until all notes are paid off and the fund is closed out. Our review started with Tax Year 2015.



Of the \$127.8 million reported total net position, we found \$88.3 million is recorded in the Unpledged Reserve Fund 500 which is utilized by the WCTO to close out each DTRF Tax Year. These funds are available to pay DTRF program administration expenses and any residual surplus funds are available for transfer to the general fund. The remaining \$39.5 million is recorded in the Forfeiture Fund 501 and the 2015-2018 DTAN Funds.

In addition, from our limited review of the transactions within the DTRF Tax Year Funds for 2015 through 2018, we noted unpledged or unrestricted program funds from the closeout of prior tax years' activities were periodically transferred to upcoming DTRF funds with an explanation to "set up reserve".

As a result of our analysis of the noted transfers between Delinquent Tax funds and the trend in net position of the DTRF fund as of September 30, 2019, it appears additional funding from the DTRF Program that may be available to the General Fund in the near term could range from approximately \$45 million to \$72 million. This estimated dollar value, which included some financial assumptions, could vary given the fact certain DTRF Program expenditures would need to be validated by the WCTO for reasonableness.

However, given a recent Michigan Supreme Court opinion regarding the sale of foreclosed properties at auction over and above the amount of delinquent taxes, interest, penalties and fees owed to the County Treasurer, and any subsequent litigation claims, the amount of the DTRF Program's fund balance available for transfer to the General Fund could be adversely impacted.

➤ **Impact/Action**

- The Commission should request the WCTO to analyze and report the impact from the recent Michigan Supreme Court opinion will have on the DTRF funds and provide periodic updates on this impact including any amounts that can be transferred to the General Fund.

**Views from Responsible Officials:**

The County Treasurer acts in accordance with Michigan law and long established policies in transferring funds to "set up reserve" as well as in determining and declaring surplus funds available to be transferred to the General Fund. There has been no deviation from these practices and the County Treasurer intends to continue to transfer funds "to set up reserve" until such time as the DTRF reserves are at an amount sufficient for payment of all delinquent taxes, due and payable to the taxing units in the County in accordance with the WCTO policy and Section 87b of the General Property Tax Act. Additional reserves have been established for pending litigation as determined in coordination with the Office of Corporation Counsel and as previously reported to the Commission. Surplus available to be transferred to the General Fund will continue be determined and declared by the County Treasurer as required by Michigan law, the Wayne County charter and relevant policies.

The recent Michigan Supreme Court opinion in Rafaeli et al v Oakland County has no direct impact on Wayne County and many issues related to the liabilities thereunder remain unsettled and are proceeding through the lower courts at this time; thus, an immediate analysis of the impact of the decision on the DTRF cannot be provided. The WCTO is, however, in the process



of compiling and reviewing the relevant data necessary to perform an analysis of the potential impact from other proceedings in which the County Treasurer is a named party with similar allegations and claims. Upon completion of an analysis in coordination with the Office of Corporation Counsel, periodic updates and reports on amounts that be declared as surplus and transferred to the General Fund may be provided to the Commission as requested.

### **Wayne County Office of Register of Deeds Controls Over Cash Receipts**

The OAG conducted a performance audit of the Wayne County Office of Register of Deeds, Control over Cash Receipts. The report contained several findings/recommendations to improve the control environment over cash receipts. One of the findings could have a potential budgetary impact. Specifically, we noted during our performance audit that the Register of Deeds was not always remitting transfer tax liability payments in a timely manner to the State to comply with the State Real Estate Transfer Tax Act. While the County has never been assessed penalties and/or interest, the potential exists. Based on our sample selected, identified late payments to the state could have been assessed a 5% penalty, which could have resulted in \$957,178.66 in potential penalties. The Register of Deeds is a General Fund activity.

#### **➤ Impact/Action**

- Commission leadership should request from the Register of Deeds management what corrective actions they plan on taking to ensure state transfer tax is remitted timely to avoid any potential penalties and interest.

### **Views from Responsible Officials:**

The timing of our payments to the state is dictated by the County's A/P department. They do two check runs a month and have deadlines to have information entered to make those runs. We cannot request a special check run every month for this to make the date as that would be against A/P's policy to do so. We believe the state understands our limitations since they have not imposed penalties or fees to date.

We will have the payments made as close to the 15th as possible based on A/P's schedule.

### **Department of Health, Veterans, and Community Wellness Correct Care Solutions Contract to Provide Jail Medical Services**

The OAG conducted a performance audit of the Correct Care Solutions (CCS) contract to provide jail medical services at the Wayne County Jail Facilities. The report contained several findings/recommendations to improve the control environment over the monitoring of contract provisions including payments to the contractor. One finding that could have a budgetary impact if the proposed corrective action is not followed is related to the payment of invoices for services performed. Specifically, we determined for the 21 months of service during the scope of our audit, the actual costs paid for services by the County was over \$29 million. However, the County paid the vendor for services without any supporting documentation to validate the expenditures. Without valid supporting documentation and a thorough review of the documentation could result in the County paying the contractor for services that were not actually performed.

➤ **Impact/Action**

Commission leadership should request from Health, Veterans, and Community Wellness management whether the proposed corrective action is taken to ensure costs paid by the County are verified and valid.

**Views from Responsible Officials:**

The corrective action plan has been implemented and management believes that the issue has been fully corrected.

**Increased Property Tax Revenues**

- As recorded in the FY 2019 CAFR, for FY 2019, the budget for Property Tax revenue increased by \$25.8 million to \$312.6 million due to higher than anticipated tax collections. However, the actual property tax revenue was \$309.4 million or a difference of \$3 million less than budgeted.
- While property taxes revenues were less than budgeted, actual revenue was an increase by \$12.5 million over the prior year. The increase was driven by increasing property values but slowed by State constitutional property tax caps.
- According to the County's 2020 Equalization Report the total Equalized Value for Wayne County increased by \$3.6 billion, from \$54.4 billion to \$58 billion, an increase of 6.63%.
- The total taxable value of the County serves as the basis for current and future tax levies. The total taxable value for the current tax year of 2020 increased \$1.7 billion, from \$42.5 billion to \$44.2 billion, an increase of 4.02%.

**Property Tax Values  
As of the 2020 Equalization Report**

<b>Wayne County</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>% Change 2019 to 2020</b>
Assessed Value	\$48.5 billion	\$54.4 billion	\$58 billion	6.63%
Recommended County Equalized Value	\$45.5 billion	\$54.4 billion	\$58 billion	6.63%
Taxable Value Based on County Equalized Value	\$40.8 billion	\$42.5 billion	\$44.2 billion	4.02%

- **Impact/Action** – As a result of the COVID-19 pandemic there is a possibility that property tax collections could be less than budgeted.
- The commission should request frequent updates from Management & Budget regarding how the COVID-19 pandemic could impact property tax revenues.

### Views from Responsible Officials:

Property tax collections for the summer fiscal year 2020 levy won't be known until December 2020. The County accrues property taxes collected in October and November of each fiscal year. Typically the collection of property taxes for September, October and November account for approximately 1/3 of the total property taxes collected for the year.

### Economic Development Corporation Fund/Community and Economic Development Fund

The Community and Economic Development fund experienced a decrease in its fund balance surplus from \$214,689 in FY 2018 to \$131,513 in FY 2019.

In addition, the Economic Development Corporation decreased its fund deficit from \$1,254,112 at the end of FY 2018 to a fund deficit of \$82,187. The reduction is primarily due to revenues exceeding expenditures for the First Street Parking Garage activity.

See the table below for the financial activity of the business units that make up the Economic Development Corporation Fund.,

**Financial Activity of Business Units Within  
Economic Development Corporation Fund  
(Primarily Guardian Building and First Street Parking Garage)  
Fiscal Year 2019**

	<b>17242 Dev. Proj. 21st Century</b>	<b>26560 Guardian Operation s</b>	<b>26570 Guardian Building Operations</b>	<b>26580 First Street Parking</b>	<b>Total of Fund</b>
<b>Revenues</b>					
Local Grants	\$381,058				
Charges, Fees, and Fines	46,789	\$387,340	\$157,960	\$2,559,632	
Interest Income	17,928	(28,850)	6,027	2,600	
Rents & Expense			3,962,300	240,736	
Other Revenue	-		94,968-	-	
Operating Transfers	-	1,846,586	2,461,985	-	
<b>Total Revenue</b>	<b>445,775</b>	<b>358,490</b>	<b>4,221,256</b>	<b>2,802,968</b>	<b>7,828,489</b>
<b>Expenditures</b>					
Materials & Supplies			80,022	14,449	
Services & Contracts	364,574	720,273	2,140,034	469,579	
Operating Expenditures		19,853	1,519,897	189,163	
Other Charges	99,969		304,524	514,707	
Rentals		-			
Capital			92,728	253,021	
Non Capital Assets			403,769.43		
Debt Services					

Operating Transfers Out	-	-	1,316,586-	2,461,986	
<b>Total Expenditures</b>	<b>464,543</b>	<b>740,126</b>	4,540,974	<b>1,440,919</b>	7,186,562
<b>Revenues Over Expenditures</b>	<b>\$(18,768)</b>	<b>(381,636)</b>	<b>(319,718)</b>	<b>\$1,362,049</b>	<b>641,927</b>
<b>Transfers In</b>		\$1,846,586	\$2,461,985		\$4,308,571
<b>Transfers Out</b>			\$(1,316,586)	\$(2,461,986)	<b>(3,778,572)</b>
<b>Net Change in Fund Balance</b>					<b>1,171,923</b>
<b>Beginning Fund Balance (Deficit)</b>					<b>(1,254,112)</b>
<b>Ending Fund Balance (Deficit)</b>					<b>\$(82,187)</b>

The county's 2019 Deficit Elimination Plan (Plan) was submitted to the Wayne County Commission and approved, via Resolution No. 2020-343, at the June 4, 2020 meeting of the Full Board. The Plan was subsequently submitted for approval to the State of Michigan Treasurer.

The corrective action plan for the Economic Development Corporation (EDC) Fund (850) deficit that is being carried forward from last year's CAP but with adjustments, is on pace to be eliminated over the four years as approved by the State last year. The EDC Fund deficit is projected to be eliminated by FY 2022, as planned. In addition, we noted that a deficit of \$1,495,588 exists in the unrestricted fund balance.

➤ **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 continues to move in the right direction fiscally and work toward the deficit elimination plan. The revenues coming into the EDC have remained steady but we anticipate some disruption in fees and revenues due to the COVID-19 pandemic. The EDC will be working on emergency façade repairs to the Guardian building as well as other capital improvements over the next two years.

**OTHER FUTURE BUDGETARY ISSUES**

**Criminal Justice Center**

The county and Rock Economic Development Group continued the building of the Criminal Justice Center (CJC) at I-75 and East Warren for a total of \$533 million to be completed by the spring or summer 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 will be responsible for any cost overruns, unless a change is requested by

the county. The county and Rock have entered into a Parking Concession Agreement whereby Rock is entitled to operate onsite and offsite parking lots until it receives net revenue having the value of \$30 million as of the substantial completion date of the CJC. On March 24, 2020 Gov. Whitmer issued Executive Order 2020-21 which suspended construction activities on the project. The construction site reopened 44 days later on May 7, 2020.

The \$401.3 million cost to the County will be funded by the following:

- Remaining 2010 bond proceeds - \$57.5 million
- Proceeds from sale of Gratiot Avenue Unfinished Jail - \$21.4 million
- New bond issuance - \$291.7 million
- General Fund revenue - \$30.6 million

### **Central Utility Plant**

In August 2018, the Commission approved an amendment to the purchase and sale agreement for Rock to build the exterior building of the shell of the Central Utility Plant in the amount of \$8,476,617. In addition, the county reached an 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 additional costs are estimated to be \$31.6 million for a total of \$40.1 million for Central Utility Plant. The cost of building the central utility plant is not included in the \$533 million criminal justice center agreement under which the county pays \$401.3 million and Rock Development covers the remainder, including construction overruns.

### **Construction Progress**

As a result of COVID-19 and the Governors Executive Orders in mid-March, the construction site was shut down on March 24th with the work site not reopening until May 7. As a result, Barton Malow and Rock are projecting a day for day delay in the project schedule which could mean a 9-10 week delay. Barton Malow is still performing an analysis to see if there are opportunities to speed up the work to make up for lost time.

Per the May 2020 construction status report provided to the Commission, total expenditures (including those incurred by both Rock and the county) on the Criminal Justice Center from October 1, 2019 through May 31, 2020 are \$135.2 million.

- **Impact/Action** – The commission should continue to request frequent updates from the Administration regarding the status of the Criminal Justice Center, including:
  - Request periodic updates on the progress of the completion of the CJC, including actual vs. budget estimates.
  - Request periodic updates as to the impact on completion date due to the COVID-19 shutdown.
  - Estimated additional costs to complete the criminal justice due to the COVID-19 pandemic.

## **Views from Responsible Officials:**

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 regularly meet 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.

## **COVID-19 Impacts**

On March 10, 2020, the Governor of the State of Michigan issued a stay-at-home order due to the COVID-19 pandemic. This pandemic has created major economic impacts for the county, state and country.

Possible COVID-19 impacts on Wayne County revenue for the 2019-2020 fiscal year include the following:

- **Sales Tax –For the county this is the Stadium Excise Tax. (S.E.T.)**
- **Licenses and Permits.** Residents and businesses are pulling fewer permits, resulting in fewer required inspections , and revenue will be adversely affected.
- **State Revenue Sources.** This would include State Revenue Sharing.
- **Property Tax.** The effects of the COVID-19 pandemic on the housing market, home values, or taxable values, and therefore on the resulting property tax revenue will have to be determined but as more homeowners are unemployed, the amount of property taxes paid could be reduced.
- **User Fees.** Other fee based services could be reduced.
- **Airport Parking Tax Revenue** restricted for indigent health which in prior years has been as much as \$22 million.

According to recent projections from the administration in July, the impact to the FY 2020 budget includes \$163.5 million in revenue shortfalls and additional expenses. The administration is projecting the revenue shortfall and expense will be offset by \$191.7 million in recoverable expenses and implemented savings resulting in \$28.2 million to help offset the FY 2021 shortfall as shown below.

## **Revenue Shortfalls And Additional Expenses FY 2020**

• <b>Additional Revenue Shortfall for FY2020</b>	<b>\$135.2 million</b>
• <b>Productivity Losses</b>	<b>\$ 13.6 million</b>
• <b>Pension Acceleration</b>	<b>\$ 5.0million</b>
• <b>Hazard Pay &amp; Emergency Expenditures</b>	<b><u>\$ 9.7million</u></b>
○ <i>Total Revenue Shortfalls/Additional Expenses</i>	<b><i>\$163.5 million</i></b>

### **Recoverable Expenses and Savings FY 2020**

• Federal Funding Eligible Payroll	<b>\$63.0 million</b>
• DTRF Transfer Improvement (projected)	<b>\$30.5 million</b>
• Surplus (“Rainy Day Fund”)	<b>\$10.0 million</b>
• Delay in Construction Fund Spending	<b>\$28.0 million</b>
• Hiring Freeze	<b>\$22.5 million</b>
• Furlough/Layoff Savings	<b>\$4.4 million</b>
• Reduction in Vendor Contracts	<b>\$18.3 million</b>
• 3 <sup>rd</sup> Circuit Court Fund Balance Transfer	<b>\$5.0 million</b>
• Target Savings from Elected Officials	<b>\$4.7 million</b>
• Target Savings from Departments	<b><u>\$5.3 million</u></b>
○ <i>Total Recoverable Expenses and Savings</i>	<b><i>\$191.7 million</i></b>

### **Difference Between FY 2020 Revenue Shortfall and Recoverable Expenses and Savings Toward FY 2021 Shortfall** ***\$28.2 million***

However, as a result of the recent court decision on foreclosed property, it is anticipated that the \$30.5 million transfer from the Treasurer will not take place which could result in the \$28.2 million not being available to offset any FY 2021 shortfall.

#### **➤ Impact/Action –**

- The commission should request frequent updates regarding the ongoing financial impact of COVID-19 on county operations as well as contingency plans to continue county operations accordingly.

### **Views from Responsible Officials:**

The County has generally been able to maintain operations, although at reduced levels in some areas. The use of CARES act funding where possible has reduced the negative impact of anticipated revenue losses but the County will need to continue on a path of financial discipline as the impact to revenues will continue to affect the County.

### **CARES Act Funding**

Congress passed the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”). The CARES Act provides that payments from the Fund may only be used to cover costs that:

- Are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19);
- Were not accounted for in the budget most recently approved as of March 27, 2020 (the date of enactment of the CARES Act) for the State or government; and,
- Were incurred during the period that begins March 1, 2020 and ends on December 30, 2020.



The county received \$188,331,621 from the U.S. Department of Treasury out of the Coronavirus Aid, Relief, and Economic Security (CARES) fund for expenditures incurred due to the COVID-19 pandemic that were not accounted for in the county's budget. The period of expenditures is March 1, 2020 through December 30, 2020. The county established Fund 298, COVID-19, to record grants/revenues received in support of the county's COVID-19 efforts. . The County also hired a contractor, Guidehouse LLP, through the MiDEAL purchasing cooperative for consulting services related to COVID-19 program management, reimbursement compliance and other support services.

➤ **Impact/Action** –

- The commission should request periodic detailed analyses on how the \$188 million in CARES funds are spent.

**Views from Responsible Officials:**

Management & Budget has worked to setup a new fund to keep detailed track of the spending of CARES act funds. Fund 298 and its related business units can provide the amounts of related expenditures and will provide an audit trail for the County's external auditors and any federal audits related to these funds.

**Debt Refinancing**

- In a previous fiscal year, 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 had an outstanding balance at September 30, 2019 of \$180,220,000.
  - 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. Included in the analysis should be the potential impact on interest rates due to the COVID-19 financial impact on county operations.

**Views from Responsible Officials:**

Management & Budget provided, as part of the presentation for the authorizing resolution, information on the anticipated debt service savings. The actual savings to the County's debt service obligations won't be known until the closing of the sale of the bonds.

**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.

- In the meantime, the conditions at Division II facility as reported by a doctor who inspected the three Wayne County jails in May 2020 as part of a lawsuit over conditions related to the COVID-19 pandemic said the aging Division II facility is in a state of “severe” disrepair. He recommended that the county stop housing inmates there as soon as possible due to the conditions of the jail and the inability to follow CDC guidelines for the protection of workers and inmates.

➤ **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, as well as the COVID-19 financial/health impact on incarcerating inmates in the jails that could lead to potential litigation.

**Views from Responsible Officials:**

Management & Budget accounts for maintenance costs. The Economic Development Department’s Capital Planning & Buildings Administration oversees the County’s facilities. 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 when possible.

**Guardian Building/First Street Parking**

- The Guardian Building had a net operating income of \$88,339 for FY 2019. This is compared to net income of \$487,388 for FY /2018.
- In FY 2019 total occupied space increased to 95.47% (1.69% increase) and vacant space decreased to 4.53% (Note: 511 Woodward [30,000 square feet] was sold during FY 2019).

**Guardian Building  
Leased Space Analysis  
As of September 30, 2019**

Total Square Feet Available	Total Square Feet Occupied		Vacant Space	
	Sq. Ft.	% of Total	Sq. Ft.	% of Total
472,036	450,652	95.47	21,384	4.53%

As reported in the county's general ledger, the total operating income from the First Street Parking Garage was \$1,362,049 for FY 2019 prior to a transfer to the Guardian Building business unit. Based on our review of information provided, there are 1,543 parking spaces. Of those available spaces, 806 appear to be leased below market rates for the downtown area.

### **First Street Parking Structure Parking Spaces and Rate Summary**

<b>Tenant</b>	<b>Number of Spaces</b>	<b>Monthly Rate</b>
County	528	\$60
Comp	51	\$0
Market Rate	126	\$255
Above Market Rate	32	Monthly rate ranges from \$275 to \$400
Below Market Rate	806	Monthly rate ranges from \$105 to \$250

#### **➤ Impact/Action**

- The commission should request monthly revenue /operating reports on the Guardian Building and the First Street Parking Structure, including any special events revenue and/or agreements with valet companies.
- The commission should request a status report on the number of parking spaces which are leased at below market rate and the possibility of leasing those spaces at or above market rates.

#### **Views from Responsible Officials:**

Monthly financial reports are sent from the Management Company to the Wayne County team. Building management does not currently have any agreements with valet companies however all such agreements are made available to EDC either upon signature or upon request. All agreements over \$50,000 require approve by the EDC Board of Directors; in which case a fully executed copy of the agreement is provided directly to EDC.

Attached is the current breakdown of parking at FSPD. All those below market rate are engaged in an agreement whether through their lease at the Guardian Building, a separate agreement such as Comerica Bank or are used after hours and on weekends such as DoubleTree and Foundation Hotel. The current management team has discouraged entering into agreements that are below market rate since January, 2016 and been successful. Additionally, most non contract parkers have received rate increases to be more in line with market rate. The current monthly rate at FSPD is \$255.00 per month. The management team finds this to be in line with market for the location of the property.

## **Land Bank**

In May 2017 an intergovernmental agreement (IGA) was approved between the Wayne County Treasurer and the Wayne County Land Bank Corporation. According to the agreement when properties are 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 11, 2020, the Treasurer has transferred \$2,072,900. Based on our analysis of expenditures recorded within this unit in the amount of \$1,193,869, the Land Bank has received \$879,031 in maintenance funds that have not been spent as of May 11, 2020. However, this does not include any expenditures that may take place through the remainder of the fiscal year.

We noted the intergovernmental agreement expired on May 1, 2020. Per communication with Land Bank officials, the IGA has not been extended, although it is still operational. Beginning May 1, 2020, either party may terminate the agreement, but neither party has done so. We also noted that the Wayne County Treasurer's Office transferred \$434,250 to the WCLB on May 4, 2020 in accordance with the intergovernmental agreement. Therefore, all actions per the IGA have already occurred for fiscal year 2020. The Land Bank anticipates that the IGA will be extended for another three-year term prior to the end of fiscal year 2020.

The OAG also noted the Land Bank received no funding appropriation from Wayne County in fiscal years 2016 through 2019. 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 excess maintenance funds that are transferred and not expended in the fiscal year and the need for the Treasurer to continue to transfer funds to the Land Bank at the current rate.

## **Views from Responsible Officials:**

There was a variation of funds not spent in years 2017-2020, which at the present time, totals just over \$800,000.

A renewed Maintenance IGA was approved by the Wayne County Land Bank Corporation's Board of Directors on July 26, 2020, and contains a three-year term. The terms of the IGA remained largely the same.

It is important to note that the 2020 maintenance season has several months remaining, so we

anticipate the amount in unused funds to decrease significantly before winter hits. Additionally, 2019 maintenance charges were low due to the fact that one of the maintenance contractors was terminated for substandard performance.

### **Implementation of Enterprise Resource Planning (ERP) System'**

In June, 2019, 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.

On April 30, 2020, the Commission approved a modification of the professional services contract with CherryRoad Technologies, Inc.; the modification will allow the Emphasys/SymPro Cash Management Software to interface with three banks instead of one to meet the need of the Treasurer's Office. The contract initially called for an interface with Chase, but Comerica and Bank of America are being added. Modification No. 1 will increase the total not-to-exceed amount of the contract from \$14,000,000 to \$14,014,400 for the period June 6, 2019 through June 5, 2024.

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 personnel 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 total project implementation 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:**

Management & Budget with the Project Director and Project Management Office are working on putting together a summary update report for planned program costs to be provide to Commission. Commission staff is invited to the Steering Committee and is free to share any provided information with the Commission.

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

According to the Department of Information Technology (DoIT) management an original budget of \$805,000 for the FY 2019-2020 Tech Refresh has been reduced to approximately \$400,000

for the current fiscal year FY 2019-2020. In February and March of this year the department was in the process of putting out an Invitation for Bid (IFB) for the procurement of computers when this was halted due to the COVID-19 public health crisis.

As of May, 2020, DoIT management stated the process has now resumed and the department expects the procurement should be put out for bid in the near future. Most county departments and elected offices will still be part of the tech refresh. The table below details what was originally budgeted in the FY 2019 – 2020 for the departments/elected offices affected and how many computers each should receive.

<b>Department</b>	<b># of New Computers</b>
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**

- According to DoIT officials, the decrease in the current year budget will have a direct impact on the amount of equipment that can be purchased during this fiscal year. However, DoIT management is looking to expand the project for multiple fiscal years. Commission leadership should request of DoIT officials when a complete refresh will be completed and the total cost applicable.

#### **Views from Responsible Officials:**

The technology refresh addresses a great need in the county to replace computers once they reach their end of life. The current refresh schedule is that desktop machines are replaced every 6 years, while laptops are replaced every 4 years. Many machines in the county were far older than their manufacturers designed them thus making them incompatible with current technology. This is the 3<sup>rd</sup> year of this 5 year project. As a result of the pandemic, our standard has transitioned from desktop machines to laptops in order to promote telework and social distancing where

applicable. Once this initial refresh is complete, the county must continue replacing machines on a yearly refresh schedule, but fortunately it will only be a hardware upgrade and not a software upgrade as well.

### **Succession Planning, Recruiting, Staffing/Open FTEs**

In a letter to the Wayne County Commission, dated November 27, 2019, the Director of the Department of Personnel/Human Resources (P/HR) provided a status update on the progress with implementing succession planning within Wayne County. The Employee Engagement Division of the P/HR Department continues to make progress with their strategic priorities, including the Executive Leadership Development Program (in conjunction with Wayne State University's Executive Development Office) and succession planning.

Progress has been made in initially identifying key positions, critical positions and potential successor employees. Because the Employee Engagement Division is comprised of only two employees, technology from Bullseye Engagement was recently secured. This technology will provide a hub and anchor for our various related initiatives, including succession planning; career planning; goals and objectives tracking; performance assessment; and, overall talent management.

In October 2019, P/HR began configuring and implanting this new technology which will bridge P/HR for the next three (3) years, until we then migrate these functionalities and all related data to the Oracle Cloud ERP. Training and deployment was to begin in the beginning of 2020 and hoped to be completed by Q2 of fiscal year 2020. It should be noted that the original estimated completion date was determined back in November 2019 prior to COVID-19.

#### **➤ Impact/Action**

- Commission leadership should request periodic updates from Personnel/Human Resources on the progress of the implementation of the Bullseye technology to help with succession planning and the impact due to the delays from the COVID-19.

### **Views from Responsible Officials:**

The Department provides to the Commission, as provided for in the budget instructions, updates on the implementation and succession plan. The last communication was dated 01/21/2020.

### **Personnel Staffing Shortages Further Impacted by COVID-19**

Steps are underway for succession planning. However, the county has difficulty hiring and retaining employees and with the recent hiring freeze and furlough due to the COVID-19 pandemic the shortage of personnel could be significant. 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. Another important 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. Below is a table of budgeted versus actual FTEs for the last three (3) Fiscal Years. The FY 2019 FTE's are as of September 30, 2019.

**Budget versus Actual FTEs  
Fiscal Years 2017, 2018, and 2019**

FY 2017			FY 2018			FY 2019		
Budget	Actual	Diff.	Budget	Actual	Diff.	Budget	Actual	Diff.
4,008	3,385	-623	3,981	3,358	-623	4,003	3,284	-719

In FY 2019, the following departments/elected officials accounted for approximately 81% of the 719 net total vacancies.

▪ Circuit Court	159
▪ Sheriff	193
▪ County Clerk	46
▪ DPS	181
▪ Total	<u>579</u>

➤ **Impact/Action**

- Commission leadership should request periodic updates from Personnel/Human Resources on the progress of its hiring initiatives and retention policies, in light of the COVID-19 pandemic and how the hiring freeze could jeopardize departments from achieving their business objectives and mandated services.

**Views from Responsible Officials:**

The Department recognizes that due to COVID-19, recruiting and succession planning has been impacted due to staffing and budget constraints. The Department is committed to mitigating the impact on achieving business objectives or mandated services.

**Upcoming Reporting Changes**

The footnotes to the county's 2019 CAFR listed upcoming reporting changes. Included were the following three (3) GASB Statements that may have future reporting impacts for the county.

**GASB Statement No. 84, Fiduciary Activities (Effective 9/30/20).**

The objectives of this statement are to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement describes four (4) Fiduciary Funds that should be reported, if applicable: 1) Pension (and other employee benefit) Trust Funds; 2) Investment Trust Funds; 3) Private-Purpose Trust Funds; and, 4) Custodial Funds.

**GASB Statement No. 90, Majority Equity Interest (Effective 9/30/20)**

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. 92, Omnibus (Effective VARIOUS)**

The GASB issued this statement to address eight (8) unrelated practice issues and technical inconsistencies in authoritative literature. The standard addresses leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments. The standard has various effective dates. The county does not believe this pronouncement will have a significant impact on its financial statements but is still making a full evaluation.

➤ **Impact/Action** The Commission should:

- Should request periodic reports from Management and Budget regarding the applicability, timing, and implementation approach for these standards.

### **Views from Responsible Officials:**

GASB has released GASB STATEMENT NO. 95, POSTPONEMENT OF THE EFFECTIVE DATES OF CERTAIN AUTHORITATIVE GUIDANCE. Since the County is allowed to delay the implementation of new pronouncements Management & Budget will not be implementing any new GASB standards in fiscal year 2020.

## **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 as continuing to moving in the right direction with an unassigned general fund balance of \$135.7 million and improved bond ratings. However, with the recent COVID-19 pandemic has resulted in revenue reduction to the county estimated to be \$135 million. This reduction in revenue will have a significant impact on not only the current FY 2020 budget but will impact the county's FY 2021 budget and possibly beyond. This report's purpose is to highlight some of the areas where either additional revenue is possible or areas where the county can reduce expenditure. As such, we believe these issues may be useful to the commission as part of the budget deliberation process for fiscal year 2020-2021.

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 2020-2021 and Beyond

Description	FY 2020-2021 Budgetary Impact	Page Number
Unassigned Fund Deficits	\$ 41,326,645	4
Sheriff Overtime	17,400,000	8
Overtime	11,100,000	8
<b>Delinquent Tax Revolving Fund</b>		
Additional Surplus Available to Transfer to the General Fund	45,000,000	12
<b>Register of Deeds – Control Over Cash Receipts</b>		
Timeliness of State Transfer Tax	957,179	12
<b>Correct Care Solutions</b>		
Invoices Lack Supporting Documentation	29,000,000	13
<b>Criminal Justice Center</b>		
Central Utility Plant	31,600,000	17
<b>COVID-19 Impacts</b>		
Difference between FY 2020 revenue shortfall and recoverable expenses and savings that could be applied to FY 2021 shortfall	28,200,000	19
Implementation of Enterprise Resource Planning (ERP) System	14,014,400	24
DoIT Tech Refresh	400,000	24
<b>Total Budgetary Impact</b>	<b>\$218,998,224</b>	