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March 25, 2010

FINAL REPORT TRANSMITTAL LETTER

Honorable Wayne County Commissioners:

Enclosed is our final copy of the Office of Legislative Auditor General's Follow-up Review of our attestation audit report on the Department of Public Services, Parks Division, Audit of the Lightfest Proposed Contract and Related Controls. Our report is dated January 28, 2010; DAP No. 2009-57-006. There was one significant change to the report. The status of Audit Recommendation #08-02, on page 4 of the report, has been changed from Unresolved to Resolved. The report was accepted by the Audit Committee February 23, 2010, and formally received by the Wayne County Commission on March 4, 2010.

We are pleased to inform you officials and staff in the Department of Public Services, Parks Division, Department of Management & Budget, and the Wayne County Commission offered their full and complete 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 purposes. Copies of all Office of Legislative Auditor General's final reports can be found on our website at: http://www.waynecounty.com/mygovt/comm/AuditorReport.aspx

Willie Mayo, CPA, CIA, CICA
Auditor General

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Wayne County Executive

DAP No. 2009-57-006

County of Wayne, Michigan

DEPARTMENT OF PUBLIC SERVICES, PARKS DIVISION

Audit of the LightFest Proposed Contract and Related Controls

FOLLOW-UP REVIEW

January 28, 2010

Report Summary

A Corrective Action Plan (CAP) for the Department of Public Services, Parks Division regarding our audit of the LightFest Proposed Contract and Related Controls was requested by the Office of Legislative Auditor General (OAG) for review and assessment of the six recommendations contained in the initial report which was dated, February 20, 2008. Our assessment of the CAP determined that sufficient action had not been taken by county management officials for six recommendations. The OAG issued the related corrective action plan report along with the Auditor General's assessment; it was dated February 3, 2009. The report was communicated to the Audit Committee on February 10, 2009.

This is a follow-up review of the six recommendations. A follow-up review is performed to determine what measures management has taken to address the recommendations not resolved in the CAP report.

Based on our follow-up review, we determined four recommendations are resolved, one is in-process, and one is unresolved. The OAG will not request a subsequent corrective action plan to address the recommendations that are in-process or unresolved, because the risk associated with the recommendations has been fully communicated to management and they accept the risk of non-action.

OBJECTIVE

To determine the status of corrective actions taken by officials in the Department of Public Services, Parks Division, Department of Management & Budget, and Wayne County Commission to address the six recommendations that were determined not to be sufficiently addressed in the corrective action plan; titled Audit of the LightFest Proposed Contract and Related Controls, Corrective Action Plan Report, dated February 3, 2009; DAP No. 2008-57-009.

SCOPE

Our initial examination was conducted and performed in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States of America, and International Standards for the Professional Practice of Internal Auditing, issued by the Institute of Internal Auditors (IIA) which state auditors should establish a follow-up process to monitor and ensure that management's corrective action plans have been implemented to address reported recommendations.

The scope of this follow–up was limited to assessing the measures taken by management and commission officials regarding the applicable Corrective Action Plan report's recommendations for the purpose of determining whether they are resolved, unresolved, in-process, partially resolved, or no longer applicable. Our review covered the period after the corrective action plan report through the date of this report. This engagement was completed in January 2010.

METHODOLOGY

We made inquires and interviewed appropriate county officials from the Departments of Public Services (DPS), Parks Division, Management & Budget (M&B), and the Wayne County Commission to determine what adequate measures had been taken to address the unresolved recommendations that remained in the corrective action plan report. We also examined documents and performed other procedures deemed appropriate to assess management's assertions regarding action taken.

BACKGROUND

Description of Annual Wayne County LightFest

The Wayne County LightFest has been in existence since 1993 and its mission is to annually provide the public with a spectacular winter outdoor holiday lights event. The LightFest features over 35 giant animated displays and over one million lights; management stated it is the midwest's largest and longest running light show. The LightFest originates at the Hines Drive entrance off Merriman Road and continues over a four mile route.

This event usually opens for public viewing around mid-November and is open every evening from 7:00 pm until 10:00 pm through January 1, with the exception of Christmas Day. There is a minimum $5 donation per vehicle, and $50 per bus requested.

Why the OAG Performed the Original Audit

The Wayne County Commission requested the Office of Legislative Auditor General to perform an audit of the approval process used for a proposed contract with Winterland, Inc. to design, construct, install, and dismantle displays in the Wayne County Parks Division – Warrendale Park area related to the county's lightfest activity.

The initial examination noted the following:

- A $35,000 deposit was issued for the installation of the lightfest displays. This created a $115,000 liability to the county, which was the balance due for services rendered in the first year of the five-year $750,000 contract. Management viewed the $35,000 deposit as a separate contract, and failed to recognize it as part of the $750,000 contract, which would have required commission approval.
- The contract with Winterland, Inc. was a sole source contract.
- The commission rejected the contract because there was not sufficient sole source documentation.

AUDIT RECOMMENDATION #08-01 — STATUS: UNRESOLVED

We recommended, in order to minimize the execution of contracts that in their totality exceed $50,000, [but may appear to be less than this amount], management should establish policies and procedures to fully and thoroughly review the completeness of transactions prior to their approval.

VIEWS OF RESPONSIBLE OFFICIALS

Management & Budget, DPS – Finance Director stated that the responsibility for preparing and issuing policies and procedures belongs with the Deputy Chief Financial Officer, Department of M&B. The M&B DPS-Finance Director further stated M&B policies are followed to ensure compliance with the procurement ordinance; therefore, separate formalized DPS policies and procedures are not required.

AUDITOR COMMENT

Formal written departmental policies and procedures should be established to fully and thoroughly review the completeness of transactions prior to their approval. These policies and procedures could incorporate by reference, where applicable, the provisions of other county policies/ordinances, such as those issued by M&B. Because management has not formalized written policies and procedures, we deem this recommendation to be unresolved and management has assumed the risk associated

with not formalizing these policies and procedures. We will not request a corrective action plan to further address this item.

AUDIT RECOMMENDATION #08-02 STATUS: RESOLVED

We recommended that management should establish policies over the disbursement of checks related to deposits, pre-payments, and advances on all contracts, and require specific documentation to accompany the request in order to provide assurance that the expenditure does not exceed the limitation of authority granted to the CEO by the procurement ordinance.

VIEWS OF RESPONSIBLE OFFICIALS

Senior management within M&B disagreed with the recommendation stating the procurement ordinance is silent on the handling of deposits and believes that an amendment to the procurement ordinance related to the treatment of prepayments, deposits, and advances on contracts would be more effective in addressing the recommendation since it relates to the procurement of contracts.

AUDITOR COMMENT

While the OAG felt that an internal policy could address the treatment of prepayments, deposits and advances on contracts, the most authoritative pronouncement would be to consider amending the procurement ordinance. Since there is no specific language in the procurement ordinance that addressed the treatment of prepayments, deposits, and advances on contracts, this recommendation was forwarded to the commission asking they consider amending the procurement ordinance as it relates to prepayments, deposits, and advances on contracts.

We discussed amending the procurement ordinance with Assistant Commission Counsel. In the opinion of the Assistant Commission Counsel a deposit on a contract that in its totality is equal to or exceeds $50,000 and has not been approved by the commission is a violation of the ordinance; therefore, the procurement ordinance does not require an amendment.

Also, M&B officials reiterated a policy is not necessary since they follow the procurement ordinaqnce for authoritative guidance related to the procurement of contracts. Therefore, until the procurement ordinance is revised to address the treatment of prepayments and deposits on contracts requiring commission approval, we deem this recommendation resolved.

AUDIT RECOMMENDATION #08-03 STATUS: RESOLVED

We recommended that the commission should consider amending the procurement ordinance to develop a mechanism to resolve contract disputes between the executive and legislative branches of government. Further, we recommend that a special committee be set up by the commission and executive branch to review contracts that appear to violate the spirit and intent of the procurement

ordinance and make a recommendation to the commission chair.

VIEWS OF RESPONSIBLE OFFICIALS

Assistant Commission Counsel disagreed with amending the procurement ordinance to develop a mechanism to resolve contract disputes between the executive and legislative branches of government. Assistant Commission Counsel stated that the intent of the procurement ordinance is to provide governance over the procurement process. The commission should not have to negotiate the ordinance. It is the law. Commission approval/disapproval of contracts falls within their delegated oversight responsibility over county expenditures. Contracts go through a review process (committee process). During this review process, the Executive Branch has ample opportunity for dialog. An additional committee is not necessary to negotiate something that has been written by ordinance into law.

AUDITOR COMMENT

Our discussion with Assistant Commission Counsel determined commission leadership believes there are adequate established parameters for contract approval. And there is no need to amend the procurement ordinance to develop a mechanism to resolve contract disputes between the executive and legislative branches of government. Assistant Commission Counsel and leadership did consider the items suggested in the recommendation. As a result, the OAG has deemed this recommendation to be resolved.

AUDIT RECOMMENDATION #08-04 STATUS: RESOLVED

We recommended that the commission should consider amending the procurement ordinance by making county elected officials and employees personally liable when they knowingly and deliberately violate the procurement ordinance; penalties and sanctions oftentimes can serve as good preventive controls.

VIEWS OF RESPONSIBLE OFFICIALS

Assistant Commission Counsel discussed with the Chair of the Ethics Task Force the recommendation related to amending the procurement ordinance to make county officials and employees personally liable when they knowingly and deliberately violate the procurement ordinance. This matter has been referred to the Ethics Task Force of the County Commission established by the Commission Chairman for consideration. The Ethics Task Force is comprised of five commissioners, chaired by Commissioner Webb.

AUDITOR COMMENT

We are hopeful the establishment of the Ethics Task Force will result in, among other things, an outline or framework of appropriate employee conduct and promote ethical values and behavior among not only commission staff, but all county personnel. Also, we are hopeful the Task Force will consider establishing effective policies regarding ethical behavior and accountability among all employees and elected officials. We are further hopeful any policies regarding ethical conduct will include consequences when employees and county officials are found to have committed unethical actions or have knowingly and deliberately violated county ordinances, including the procurement ordinance.

Given the commission considered the ethical issues noted in this recommendation, we deem this recommendation to be resolved.

AUDIT RECOMMENDATION #08-05 STATUS: IN-PROCESS

We recommended that senior management in the department of management and budget and corporation counsel should expedite their review, approval, and issuance of the draft policies and procedures related to the procurement of goods and services.

VIEWS OF RESPONSIBLE OFFICIALS

The Deputy Chief Financial Officer (DCFO) indicated that the Purchasing Division has completed draft copies for the following procurement policies:

- Small Business Enterprise Purchasing Program;
- Co-op Purchasing Policy;
- Fleeting Business Opportunity Policy; and
- Contracting for Designated Professional Services.

The DCFO further indicated the policies will be issued once they have been approved by the Chief Financial Officer.

AUDITOR COMMENT

The DCFO should expeditiously forward these policies to senior M&B management for review and approval. The policies should then be communicated to elected county officials and department heads for implementation. Though we deem this recommendation to be in-process, we will not request a corrective action plan for this item since the risk has been identified and management appears to be taking measures that will result in this matter being resolved in the near future.

AUDIT RECOMMENDATION #08-06 STATUS: RESOLVED

We recommended Management and Budget complete their assessment and evaluate the internal controls over donated cash collections and the process for counting all vehicles attending the event prior to the 2008 annual lightfest event and explore ways to strengthen controls in these areas.

VIEWS OF RESPONSIBLE OFFICIALS

Department of Public Services and M&B, DPS-Finance officials stated the following internal control measures were implemented in 2008 and 2009, to address the issues identified in the recommendation:

- New vehicle counters were installed in 2008 at the entrance booths. The car counters continued to be used for 2009;
- Lightfest personnel were informed verbally and by e-mail that the "no-pay/less than $5 entry tickets" would continue to be used for Lightfest 2009. The tickets are pre-numbered and turned in with the nightly deposit. However, the cashier still does not record the amount of cash collected for patrons that pay less than the $5 suggested donation. DPS officials stated that it was not practical to do this because of cold weather conditions and it would cause delays in admitting patrons into the Lightfest. The DPS officials stated enactment of a user fee would eliminate this issue, and provided a target date for implementation of the fee for the 2011 Lightfest;
- The camera system was installed in 2008. For 2009, the one camera in each booth has been adjusted and is now focused to also capture the point of collection; and
- The cash receipts are now deposited in the cash drawer, which locks in each booth.

AUDITOR COMMENT

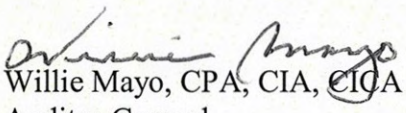
Without recording the amount collected on the pre-numbered tickets from patrons that paid less than the $5 suggested donation, it is impossible to adequately account for the cash collected. Therefore, we recommend management continue to assess other control procedures over cash collections to enhance accountability. However, because management has addressed the intent of the recommendation and implemented additional internal controls measures to address the underlying risk issues associated with the recommendation, we deem this recommendation to be resolved.

CONCLUSION

Our follow-up review determined four recommendations are resolved, one recommendation is in-process, and one is unresolved. The OAG will not request officials within the Departments of Public

Services, Management & Budget or Wayne County Commission to submit an additional corrective action plan to fully address the in-process and unresolved recommendations because the risk associated with the finding has been fully communicated to county senior management and they have assumed the risk of non-action.

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



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