Office of Legislative
Auditor General

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October 5, 2009

FINAL REPORT TRANSMITTAL LETTER

Honorable Wayne County Commissioners:

Enclosed is our final copy of the Office of Legislative Auditor General's Financial Assessment – Attestation Report for the Wayne County Land Bank Corporation for the fiscal year ended September 30, 2008. Our report is dated August 26, 2009; DAP No. 2009-57-910. The draft report was accepted by the Audit Committee at its meeting held on Tuesday, September 22, 2009, and formally accepted by the Wayne County Commission on Thursday, October 1, 2009.

We are pleased to inform you that officials from the Land Bank Corporation 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 at: http://waynecounty.wc/mygovt/comm/AuditorReport.aspx.

Willie Mayo, CPA, CIA, CICA
Auditor General

REPORT DISTRIBUTION

Wayne County Land Bank Corporation
Honorable Raymond J. Wojtowicz, Chairperson
Turkia A. Mullin, Executive Director and County of Wayne Chief Development Officer
Soumaya Habhab, Finance Director

Department of Management & Budget
Carla E. Sledge, Chief Financial Officer
Christa McLellan, Director of Financial Reporting
Terry L. Hasse, Director of Grants and Contract Administration

Wayne County Executive

RESOLUTION

No. 2009-631

By Commissioner Woronchak and Co-sponsored by Commissioner Varga

RESOLVED, by the Wayne County Commission this 1st day of October, 2009 that approval be, and is hereby, granted approving the Office of the Legislative Auditor General's Financial Assessment-Attestation Review Report on the Wayne County Land Bank Corporation's audited financial statements for the fiscal year ended September 30, 2008; the report is dated August 26, 2009.

(2009-57-910)

Wayne County Office of Legislative Auditor General (OAG)
Financial Assessment-Attestation Review Report

Report Entity Name & Type	Wayne County Land Bank Corporation (Land Bank); audited financial statements for the fiscal year ended September 30, 2008.
DAF No.	2009-31-014
Referring Department/Agency	Wayne County Land Bank Corporation and Department of Management & Budget (M&B)
Entity Purpose and Type	The Land Bank was incorporated on October 19, 2006, under the provisions of Section 5 of Article 3, and Section 28 of Article 7 of the Michigan Constitution of 1963, and the Land Bank Fast Track Act (Public Act 258 of 2003; MCL 124.751 to 124.774). The Land Bank acquires, manages, and disposes of public tax reverted property to foster development and promote economic growth. The Land Bank also sells abandoned properties and collaborates with non-profit organizations and developers to promote new economic development within Wayne County. The Land Bank, for financial reporting purposes, is classified as a discretely presented component unit of the county in accordance with the generally accepted accounting principles. A discretely presented component unit is a legally separate entity from the county; however, the county is financially accountable, or the relationship with the county is such that exclusion would cause the county's financial statements to be misleading or incomplete.
Organizational or Governance Structure	The Land Bank Corporation's governing board consists of five members. The Wayne County Treasurer or his designee is the chairperson. Three members are appointed by the Wayne County Executive, and one member is appointed by the Wayne County Commission. The Land Bank is managed by an Executive Director selected by the Board of Directors.
Entity's Funding Sources	**Revenue Comparison** **Wayne County Land Bank Corporation** **September 30, 2008 and 2007**

Revenue/Type	2008		2007		Difference Increase (Decrease)	
Program Revenues						
Federal Grants	-	0%	199,718	10%	(199,718)	(100%)
Local Grants & Contracts	2,800,000	93%	1,800,000	90%	1,000,000	56%
Gain on Sale of Land	47,050	2%	-	0%	47,050	100%
General Revenues						
Interest & Rents	96,406	3%	10,862	0%	85,544	788%
Other	75,835	2%	1,000	0%	74,835	7484%
Total Revenue	**3,019,291**	**100%**	**2,011,580**	**100%**	**1,007,711**	**50%**

Entity's Funding Sources (Cont'd)	The primary sources of revenue for the Land Bank Corporation are local and federal grants and the sale of property. The Land Bank Corporation relies on the funding from the primary sources for the acquisition and demolition of property. The table on page one lists the Land Bank Corporation's major revenue sources, along with a comparison between the 2008 and 2007 amounts.
Summary of Intergovernmental Agreements with the County	An intergovernmental agreement, dated June 23, 2006, exists between the Treasurer of the County of Wayne and the Michigan Land Bank Fast Track Authority, a Michigan public corporation which created the Wayne County Land Bank Corporation. The agreement requires the county to provide employees and other services to the Land Bank Corporation as required. According to Article II Section 2.10: The purpose of the agreement is to create and empower the County Land Bank to exercise the powers, duties, functions and responsibilities as provided under the Land Bank Act for the benefit of the County and State. Additionally, these duties as they are being carried out include, but are not limited, to the power, privilege, and authority to acquire, manage and dispose of interests in property and doing all other things necessary or convenient to implement the purposes, objectives and provisions of the Land Bank Act and the purposes, objectives and powers delegated to a County Land Bank under other laws or executive orders.
Type of Report	Annual audited financial statements. The independent auditors' report is from Plante and Moran (P&M), PLLC, Certified Public Accountants, Southfield, Michigan.
Report Period	October 1, 2007 - September 30, 2008
Report Purpose	To render an opinion on the financial statements of the Land Bank for the fiscal year ended September 30, 2008. The audited financial statements for the Land Bank were prepared in accordance with Article VII, Books, Records and Finances, Section 7.04, Financial Statements and Reports of the Intergovernmental Agreement between the Michigan Land Bank Fast Track Authority and the Treasurer of Wayne County. The agreement states "the County Land Bank shall cause to be prepared, at County Land Bank expense, audited financial statements (balance sheet, statement of revenue and expense, statements of cash flows and changes in fund balance) on an annual basis…." In addition, the audited financial statements are prepared in accordance with the Michigan Committee on Governmental Accounting and Auditing Statement No.4, issued by the State of Michigan's Treasurer.
Type of Audit Report Opinion	Unqualified (clean) Opinion.
Report's Impact on the County's Comprehensive Annual Financial Report	The financial statements of the Land Bank Corporation have been included in the county's fiscal year 2008 Comprehensive Annual Financial Report and classified as a discretely presented component unit in accordance with generally accepted accounting principles.

OAG ASSESSMENT	Our review of the Land Bank's audited financial statements and other supplementary information for the period ended September 30, 2008, was conducted in accordance with attestation standards established by the Comptroller General of the United States (Government Auditing Standards) and the American Institute of Certified Public Accountants for attestation standards. A review is substantially less in scope than an examination or audit, the objective of which is the expression of an opinion on the audited financial statements. Accordingly, we do not express such an opinion. Based on the work performed, nothing came to our attention that caused us to believe the Land Bank Corporation's audited financial statements and other supplementary information are not presented in conformity with generally accepted accounting principles. We concluded that the audited financial statements and reported supplementary information appear complete and thorough. Below we have summarized our assessment for consideration by the commission: • As of September 30, 2008, current assets increased by $3.9 million, or 76 percent, and current liabilities increased by $3.0 million, or 97 percent. The increase in current assets is due to increased cash from grant funding from Wayne County, which had not been expended by year-end. Because the initial $5.4 million in Wayne County grant funds were not utilized during the current fiscal year, a portion of the funds were recouped by the county. Of the $3.1 million in current liabilities, $2.6 million was payable back to the county. We determined that the $2.6 million was repaid to the county in January 2009. • As of September 30, 2008, the Land Bank has a total net asset balance of $2,085,058, an increase of $957,067, or 85 percent, over prior year's balance. All but $8,000 of the year end balance is unrestricted and available for operations. • In 2008, the Land Bank did not receive federal grant dollars which resulted in a decrease of $199,718, or 100 percent, over the previous year. However, the Land Bank's total revenue for fiscal year 2008 was $3,019,291, an increase of $1,007,711, or 50 percent, over the previous year. This increased revenue was due to an increase in grant dollars from the county. • Note number nine (9) to the audited financial statements indicates the Land Bank ultimately transferred property from the county and the county's Economic Development Corporation to a private developer, Post It Stables, for $1 after the fiscal year ended. The property is near the Wayne County – Detroit Metropolitan Airport and is to be used to construct a thoroughbred race track and satisfy other requirements. The note indicates the requirements were satisfied and the property transferred to the developer on October 28, 2008. The note also indicates at year end the Land Bank is owed $397,980 from the county for amounts paid related to the race track transaction. • Personnel expenditures (including fringe benefits and retirement) totaled $655,005, a 100% increase over the previous year. Fiscal year 2007 was the first year of the

OAG ASSESSMENT (cont'd)	Land Bank's operations, and during that year it did not record employee salary expenses in personnel accounts. Instead these expenses were recorded in the contractual services account. All Land Bank personnel are employees of Wayne County. • Contractual services (i.e., Outside legal, Miscellaneous Professional Services, and Chargebacks) were $812,558, an increase of $320,541, or 65 percent, over the previous year. These increases appear to be primarily due to increases in legal fees and chargebacks as a result of increased operations. • Travel expenditures totaled $25,641, or a 100 percent increase over the previous year. Travel was not budgeted in fiscal year 2007; in fiscal year 2008 the budgeted amount was exceeded by $5,641, or 28 percent. According to management officials, the reason for being over budget was they underestimated the number of conferences staff would need to attend. In addition, local travel and mileage expenses were not budgeted. • Operating expenditures increased by $514,708, or over 1400 percent, over the previous year. This increase was primarily due to an increase in overall operations. Operating cost includes demolition of uninhabitable properties, property maintenance, and the acquisition of foreclosed properties. • Our review of the Budgetary Comparison Schedule contained in the financial statements, that details the budgeted to actual financial activity, indicates significant variances. The variances were: revenues $2.7 million, or 53 percent, and expenditures $3.7 million, or 35 percent. An approved budget serves as a financial road map for an organization and the State of Michigan's Uniform Budgeting Act and related administrative rules require it to be amended where necessary. Failure to amend a budget calls into question whether the governing body was fully aware of financial activity during the year. **Recommendation**: We recommend Land Bank Board of Directors amend the budget during the year when appropriate to more accurately reflect the known/anticipated financial activity. • In the accompanying report on Internal Controls to the Wayne County Land Bank Corporation Board of Directors, the auditors identified a significant deficiency. A significant deficiency is a control deficiency that hampers the entity's ability to utilize financial data reliably in accordance with generally accepted accounting principles. In addition, this deficiency could result in the misstatement of the entity's financial statements that could avoid prevention or detection by their internal controls. The significant deficiency noted relates to Inventory Recognition. The Land Bank purchased various parcels of land/homes or properties for $1. Accounting rules dictate that if an asset is essentially donated to a government or bought at a bargain price and is being held for resale, it should be recorded at the fair value at the date of acquisition. While the auditors acknowledge the values of the assets at year end are

OAG ASSESSMENT (cont'd)	materially accurate, further analysis of the fair value of the properties purchased for $1 is understated at year end. The auditors believe, and we concur, as more historical data is gathered regarding the resale value of these properties, that management of the Land Bank will be in a better position to estimate the fair value of the newly acquired properties and use these amounts to record acquired properties in the future. We spoke to Land Bank Officials concerning this matter; they indicated at the time of purchase they have no idea what these properties are going to sell for and have very little history on which to base an estimate. In the future they believe they will be able to better estimate the market value of properties purchased.
STATUS OF PRIOR YEAR'S RECOMMENDATIONS	There were no prior year recommendations.
VIEWS OF RESPONSIBLE OFFICIALS	We provided our report to Land Bank officials for comment. The indicated general agreement with our financial assessment-attestation report on Land Bank's fiscal year 2008 financial statements. They further indicated the Land Bank measures its success by the volume or extent of: properties returned to the county's tax rolls, economic growth and development, and contributions to renewed housing, commercial, industrial and retail development in targeted areas throughout the county.
OAG OVERALL RECOMMENDATION	We recommend the Wayne County Land Bank Corporation audited financial statements for the fiscal year ended September 30, 2008, be approved and forwarded to the Wayne County Commission for acceptance and approval.

This report is intended solely for the information and use of the Wayne County Land Bank and the Wayne County Commission and is not intended to be and should not be used by another other than these specified parties. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

Willie Mayo, CPA, CIA, CICA
Auditor General