

Office of Legislative  
**Auditor General**



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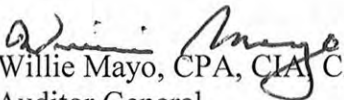
October 18, 2010

**FINAL REPORT TRANSMITTAL LETTER**

Honorable Wayne County Commissioners:

Enclosed is our final copy of the Office of the Legislative Auditor General's Operational Assessment Review Report on the Wayne County Department of Corporation Counsel, Human Relations Division dated, July 21, 2010; DAP No. 2010-57-855. The contents of this final report did not change from the draft report previously issued. The report was accepted by the Audit Committee at its meeting held on September 28, 2010 and formally received by the Wayne County Commission on October 7, 2010.

We are pleased to inform you that officials and staff in the Departments of Corporation Counsel, Human Relations Division and Management and Budget provided their full cooperation. If you have any questions, concerns, or desire to discuss the draft 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 the following address: <http://www.waynecounty.com/agreports.htm>

  
Willie Mayo, CPA, CIA, CICA  
Auditor General

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Michael O'Connell, Finance Director, DCFS/Corporation Counsel

**Wayne County Executive**





County of Wayne, Michigan  
Office of Legislative Auditor General  
Operational Assessment Review

**HUMAN RELATIONS DIVISION  
DEPARTMENT OF CORPORATION COUNSEL**

DAP No. 2010-57-855

July 21, 2010

## ***Objectives, Scope and Methodology***

### **Objectives**

The Office of Legislative Auditor General has performed an Operational Assessment Review of the ***Department of Corporation Counsel, Human Relations Division***. The purpose of our review was to identify key risk(s) for the function or activity to assess whether management has appropriate internal controls and processes in place to sufficiently manage or mitigate identified key risk(s). Our specific objectives for this engagement were to identify and assess key risk in the following areas:

- I. Governance;
- II. Risk Management and Control Activities;
- III. Compliance with Laws, Regulations and Ordinances; and
- IV. Financial Activity.

### **Scope**

We reviewed the operations and financial activity of the Human Relations Division (Human Relations) for the period October 1, 2009 – March 31, 2010. In addition, we compared financial activity of Human Relations for fiscal years 2008 and 2009. The fieldwork for this engagement was primarily performed at their office and completed on July 21, 2010.

### **IIA Consulting Standards**

This engagement was performed in accordance with Consulting Standards defined by the International Standards for the Professional Practice of Internal Auditing, issued by the Institute of Internal Auditors (IIA). The IIA defines consulting engagements as advisory and related service activities, the nature and scope of which is to add value.

### **Methodology**

The procedures performed for this engagement were limited and were not sufficient to constitute an audit in accordance with Government Auditing Standards issued by the Comptroller General of the United States. The procedures performed were primarily limited to inquiry of appropriate personnel and officials of Human Relations and others, review of certain documents to corroborate assertions, review of financial activities, and a walk-through and limited testing of key strategic and business processes.

## ***Purpose and Organizational Structure***

The mission of the Human Relations Division is to help ensure equal access and opportunity to all businesses that seek to provide goods and services to Wayne County – while fostering inclusion, diversity, integrity, and encouraging the entrepreneurial spirit.

The Human Relations Division is a business certification agency; a tool for doing

business with Wayne County. The division also serves as an investigation/enforcement unit in fair employment and discrimination complaints/violations pertaining to county contractors.

Wayne County offers seven different certification programs and allows qualifying businesses to register for two designations. The certifications the county offers are:

- Small Business Enterprise (SBE)
- County Based Enterprise (CBE)
- Expanding Business Enterprise (EBE)
- Targeted Growth Community Enterprise (TGCE)
- Disadvantaged Business Enterprise (DBE)
- Fair Employment Practice (FEP)
- Joint Venture/Mentor Venture (JV/MV)

The designations that qualifying businesses may register for are:

- Minority Owned Business Enterprise (MBE)
- Women Owned Business Enterprise (WBE)

All vendors who submit proposals to do business with Wayne County, with an aggregate contract amount in excess of \$50,000 per year, must be certified as an FEP enterprise.

All the certification programs, except the DBE and FEP, grant certified businesses an equalization credit to be applied to their bid evaluation for work to be performed for Wayne County. The percentage for each certification obtained ranges from one to two percent, and total equalization credits cannot exceed 10 percent.

## ***I. Governance***

The governance process is considered one of the most important elements of internal control. According to auditing/accounting literature, governance (also known as the control environment) is the foundation for all other components of internal controls. The control environment sets the tone for an organization, program, or activity and provides discipline and structure influencing the control consciousness of its employees. Control environment factors include: integrity, ethical values and competency of the organization's employees; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its employees.

The absence of a sound governance structure and lack of adherence to basic governance or management principles increases the risk of loss, fraudulent financial reporting, and misappropriation of the organization's assets and resources. Good governance is one of the key controls to reduce the risk of management overrides.

### **Conclusion**

Based on inquiries, discussions and observations, we have generally concluded that the control environment, organizational structure, philosophy, and ethical values of Human Relations' leadership appear to be adequate to meet the department's goals and objectives.

## ***II. Risk Management and Control Activities***

### **Risk Management**

Risk Management is another critical internal control component. Every organization faces a variety of risks from external and internal sources that must be identified and assessed with the appropriate mechanisms in place to minimize high-risk activity. Risk Management is the identification and analysis of relevant risk, which exists within the organization as a whole, as well as within its individual components (departments, divisions, programs, etc.) regarding the achievement of the organization's objectives. After an assessment is formalized, a basis for determining how the risks should be managed and mitigated to a reasonable level of acceptance should be established.

The identification of risk is a necessary component to installing appropriate and sufficient compensating controls, where required, to enhance the probability of achieving the organizations objectives and protecting the interest of all stakeholders.

### **Control Activities**

Control activities are policies, procedures, practices, techniques, and mechanisms that help ensure that management directives are carried out. They help ensure that necessary actions are taken to address risks to achieve the organization's objectives. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, and reviews of operations and performance, security of assets and segregation of duties. It is action taken to minimize risk. The need for a control activity is established in the risk management process.

Control activities can be preventive or detective. Preventive activities are designed to deter the occurrence of an undesirable event, while detective activities are designed to identify undesirable events that do occur and alert management about what has happened. This enables management to take corrective action promptly.

### **Conclusion**

Human Relations appears to be adequately managing risks and have established necessary controls over key processes to mitigate risks. In addition, Human Relations is working with the Wayne County "Managing for Results" (MFR) program to establish performance measures, budgeting and operational efficiencies, as well as long-term strategic planning.

### ***III. Compliance, with Laws, Regulations, and Ordinances***

In general, compliance means conforming to a law, regulation or ordinance. A compliance system is an organizational wide tool that links legislative and management rules to organizational policies and processes. The objective of such a system is to promote a self sustaining level of operations that minimizes the losses caused to the organization through breaches of laws, regulations and ordinances.

#### **Conclusion**

Based on work performed we have concluded that Human Relations is generally in compliance with the laws, regulations, policies and procedures, and ordinances of Wayne County. However, we did note an area where we believe compliance activity could be strengthened.

| <b>Area of Concern</b>                                                     | <b>Observation(s)</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|----------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Insufficient Evidence of Filing the County's Annual Disclosure Form</b> | <p>The County of Wayne's Procurement Ordinance 2001-233, section 120-223(a) states in part,</p> <p><i>"...Each county employee on the contract managers list shall file an annual public financial disclosure statement. He or she shall file the statement with the Wayne County Clerk by March 15 of each calendar year and shall also provide a copy to his or her immediate supervisor and to the purchasing director..."</i></p> <p>The director of the division indicated the Annual Disclosure of Potential Conflicts of Interest Form(s) (the form) for relevant staff in the division had been properly filed with the Department of Personnel/Human Resources. According to the director, the Division is required to file the form with Personnel per a directive from the County Executive. The director indicated Personnel forwards the forms to the Wayne County Clerk and the Purchasing Director, in accordance with the Procurement Ordinance.</p> |
|                                                                            | <p><b><u>Impact</u></b></p> <p>Providing the audit team copies of the filed forms for all relevant staff would have provided a measure of assurance that this important component of the Procurement Ordinance related to contracting, transparency, and accountability had been complied with.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|                                                                            | <p><b><u>Recommendation:</u></b></p> <p><b><u>2010-01</u></b></p> <p>We recommend senior management within Management and Budget (M&amp;B) establish appropriate policies and procedures to require immediate supervisors to maintain on file the annual Disclosure of Potential Conflicts of Interest Form for subordinates as required by the Procurement Ordinance.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |

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|  | <p><b>Management's Response:</b></p> <p>On July 13, 2010, we initially shared our concerns about the failure of the immediate supervisor to provide a copy of the annual Disclosure of Potential Conflicts of Interest Form; the division director indicated they would comply with this section of the ordinance going forward. However, management indicated they do not believe the ordinance requires the immediate supervisor to maintain a copy of the form once submitted. They believe if the immediate supervisor maintains a copy of the form that it would not be in accordance with recommended practices regarding maintaining a single personnel file.</p> <p>The OAG believes to clarify this section of the Procurement Ordinance, written policies and procedures outlining specific processes and measures on how to comply with this critical section of the ordinance should be created. The OAG has an engagement project underway to determine the status of policies and procedures relevant to the procurement ordinance.</p> |
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#### ***IV. Financial Activity***

The objective of financial statements is to provide information about the financial position, performance and changes in the financial position of an organization or segment that is useful for a wide range of users and in making economic decisions. Financial statements and related information are intended to be understandable, relevant, reliable and comparable to prior periods. Reported assets, liabilities and equity is directly related to an organization's financial position; while, receipts and expenditures are directly related to an organization's financial performance.

##### **Conclusion**

We have concluded based on work performed that a budgeting error of \$14,500 occurred when revenues from the Airport Authority were budgeted for performing DBE certification functions. Also, the Human Relations Division's fiscal year 2009 - 2010 budget was balanced with revenues in the amount of approximately \$106,000 that will not be received by the end of fiscal year 2009 - 2010. Consequently, because the division is part of the county chargeback system, any projected revenues not received will be charged and allocated to other county business units, including General Fund business units.

| Area of Concern                             | Observation(s)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
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| Uncertainty of Receipt of Budgeted Revenues | <p>For fiscal years 2010, Human Relations budgeted \$30,000 of revenue to be received from the Wayne County Airport Authority (Airport Authority) for certifying businesses under the Disadvantaged Business Enterprise program. Our review of the contract for the services stipulates that the Airport Authority will pay Human Relations only \$15,000 annually. Human Relations received a payment from the Airport Authority in the amount of \$15,500. As a result, revenues for services provided to the Airport Authority were over budgeted by \$14,500.</p> <p>In addition, Human Relations has budgeted \$106,083 of revenues for direct charges for services. According to management these revenues were related to fees to be charged for certifying businesses throughout the year. As of March 31, 2010, no revenue had been received. In a meeting held July 13, 2010 with management, a M&amp;B official indicated it was unlikely the fee ordinance would be passed and the revenue will not be generated by the end of fiscal year 2009-2010.</p> <p><b><u>Impact</u></b></p> <p>Any budgeted revenues not received will result in an increase to chargeback revenue equal to this amount and will be charged to the General Fund and other county funds through the chargeback system for the division's operations.</p> |
|                                             | <p><b>Recommendations:</b></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|                                             | <p><b><u>2010-02</u></b></p> <p>We recommend that M&amp;B propose an amendment of appropriated revenues for the Human Relations Division for the 2009 - 2010 budget year for \$120,000 because the receipt from an identified source cannot be validated or is deemed uncollectible.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|                                             | <p><b>Management's Response:</b></p> <p>An M&amp;B official acknowledged the budgeting error for the revenues received from the Airport Authority, but stated that the amount was considered immaterial by the department.</p> <p>M&amp;B officials also indicated that the budgeted revenue for charges for direct services was based on a proposed fiscal year 2009 - 2010 fee study. M&amp;B officials indicated they believed this fee study was going to be completed and a fee ordinance would be enacted during the current fiscal year, allowing the division to charge a fee for certifications other than the DBE. However, M&amp;B officials also stated that there will not be sufficient time for the fee ordinance to be enacted during the current fiscal year.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |

| Area of Concern                                                    | Observation(s)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
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| <b>Fee Structure with Airport Authority for DBE Certifications</b> | <p>The Human Relations Division has an intergovernmental agreement with the Wayne County Airport Authority, stating that the Human Relations division will perform certification functions of the Disadvantaged Business Enterprise program for the Airport Authority. According to Human Relations management, an agreed upon annual flat rate fee of \$15,000 is to be paid to Human Relations for performing the DBE certification function for fiscal year 2010. Management indicated this fee will increase to \$25,000 annually beginning in fiscal year 2011. According to management, the DBE certification is more labor intensive than the other business certifications performed by the division.</p> <p>Best business practices indicate, at a minimum, costs for providing administrative functions should be recovered from the organization that those functions are provided to.</p> <p>Management indicated that a fee study was awaiting approval by senior executive management which includes the cost of performing DBE certifications. Management also stated the intergovernmental agreement is negotiated by senior executive officials and not division management.</p> <p><b><u>Impact</u></b></p> <p>The Human Relations Division is incurring expenditures for providing administrative functions that primarily benefit a third party, the Airport Authority. Without utilizing the fee study analysis, the county does not know if it is receiving sufficient reimbursement for administrative costs incurred for performing the DBE certifications. Due to Human Relations being part of Central Services and a chargeback unit, any incurred revenue shortages from not being fully reimbursed would be charged to other county departments.</p> |
|                                                                    | <b>Recommendation:</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|                                                                    | <p><b><u>2010-03</u></b></p> <p>We recommend senior executive officials use the fee study analysis to negotiate a new intergovernmental agreement with the Airport Authority if the study indicates a higher payment would appropriately reflect the administrative costs being incurred by the Human Relations Division.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |

## ***Noteworthy Accomplishments***

- Leadership is knowledgeable and capable.
- Active participation in the MFR program.
- Implemented several measures to address the recommendations from our prior report.
- Increased certifications from fiscal year 2008 to fiscal year 2009.
- Has a fast track program to rapidly move applicants through the FEP certification program.
- Has met federal guidelines from a United States Department Of Transportation review for the DBE certification program.

## ***Conclusion***

### **Overall conclusion**

The Human Relations Division appears to have a sufficient governance structure. The Human Relations Division also appears to have controls in place to sufficiently manage the risk related to operations.

We found that the Human Relations Division appears to not be in compliance with the Wayne County Procurement Ordinance by not retaining documentation of the filing of the annual conflict of interest disclosure statement.

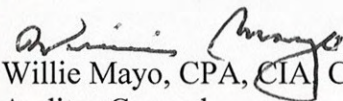
In addition, we found there is identified risk related to the budgeting of revenues. The department has budgeted approximately \$120,000 of revenues that will not be received by fiscal year end, which may result in the General Fund and other county funds having to absorb Human Relations operational expenditures through the chargeback system.

We recommend a new intergovernmental agreement be negotiated with the Airport Authority. For fiscal year 2010 - 2011, the county will begin receiving \$25,000 annually for performing DBE certifications for the Airport Authority. We do not believe the county is being fully compensated for personnel and administrative costs being incurred in performing DBE certification functions.

A **corrective action plan** will be requested approximately 30 days after the Commission formally receives and files the report. If sufficient corrective action is not taken, a follow-up review may be necessary.

This report is intended solely for the information and use of the Department of Corporation Counsel, the Human Relations Division, and the County Commission and should not be used for any other purpose. This restriction is not intended to limit distribution of the report which is a matter of public record.

Sincerely,

  
Willie Mayo, CPA, CIA, CICA  
Auditor General