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November 19, 2010

FINAL REPORT TRANSMITTAL LETTER

Honorable Wayne County Commissioners:

Enclosed is our final copy of the Office of Legislative Auditor General's Financial Assessment – Limited Review report for the Metropolitan Growth and Development Corporation's audited financial statements for the fiscal year ended September 30, 2009. Our report is dated July 30, 2010; DAP No. 2010-57-907. The draft report was accepted by the Audit Committee at its meeting held on Tuesday, November 9, 2010, and formally received by the Wayne County Commission on November 18, 2010.

We are pleased to inform you that officials from the Metropolitan Growth and Development Corporation and Economic Development Growth Engine 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://www.waynecounty.com/agreports.htm

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REPORT DISTRIBUTION

Metropolitan Growth and Development Corporation
Melanie Duquesnel, Chairwoman

Economic Development Growth Engine
Turkia A. Mullin, Chief Development Officer

Department of Management & Budget
Carla E. Sledge, Chief Financial Officer
Terry L. Hasse, Director, Grants and Contract Administration
Melinda Haner, Finance & Compliance Manager, GWEDC
Barbara Cerda, Director, Financial Services

Wayne County Executive

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July 30, 2010

DAP No. 2010-57-907

Honorable Gary Woronchak, Chairman
Audit Committee
Wayne County Commission
County of Wayne, Michigan
500 Griswold Ave., Suite 766
Detroit, MI 48226

Subject: Office of Legislative Auditor General's Financial Assessment – Limited Review Report for the Metropolitan Growth & Development Corporation's Financial Report, including its audited financial statements and related reports for the fiscal year ended September 30, 2009.

Dear Chairman Woronchak:

The Office of Legislative Auditor General (OAG) received the Metropolitan Growth Development Corporation's (MGDC) financial report, including audited financial statements for the fiscal year ended September 30, 2009 (attached) from the MGDC in accordance with Wayne County Ordinance 98-59. This ordinance requires all county departments, agencies, and units to provide a copy of any audit or consulting report to the Legislative Auditor General.

Because we have performed more extensive financial reviews of the Corporation's financial statements in the past few years, in accordance with professional attestation standards, and determined they were complete, thorough, and in accordance with Generally Accepted Accounting Principles, we elected to conduct a limited review of their financial reports for the fiscal year ended September 30, 2009.

Our limited review is substantially less in scope than an examination or audit in accordance with Generally Accepted Government Auditing Standards or Generally Accepted Auditing Standards, the objective of which is the expression of an opinion on the audited financial statements. Accordingly, we do not express such an opinion.

Our limited review of the MGDC's financial report, audited financial statements, and report on internal controls, compliance and other matters for the fiscal year ended September 30, 2009, included, but was not necessarily limited to: a thorough and complete review of the documents, limited inquiries of MGDC and County officials, and analytical review procedures. Below we have summarized some key items from the financial and other reports for consideration by the Committee and Commission members:

Background

- The Metropolitan Growth & Development Corporation was formed in 1981 as a nonprofit organization to further economic development within Michigan through lending to eligible businesses. MGDC currently provides services to the counties of Wayne and Macomb, Michigan.

- The MGDC lends money to businesses through the following two loan programs:

  Small Business Administration (SBA) 504 Program – MGDC is approved as a U.S. Small Business Administration Certified Development Corporation and authorized to lend under the SBA Section 504 loan program. The program provides partial financing to commercial and industrial businesses.

  Urban Loan Fund (ULF) Program – MGDC administrates the federally funded ULF program on behalf of Wayne County to promote economic development for minority businesses and businesses located in distressed communities. Under the terms of the loan agreement, at least 75 percent of funds in this program must be loaned or committed for loans.

- The MGDC is governed by a board of directors comprised of 38 members of which two are Wayne County Officials (the Wayne County Executive and a Wayne County Commissioner) one State Senator, one Macomb County Commissioner, and the remaining 34 are various community and business leaders from the two counties.

- The MGDC receives its primary revenue from two sources: SBA 504 program and ULF program. Revenue from the SBA 504 program is generated through servicing and processing fees earned on loans disbursed, as well as interest earned on investments. Revenue from the ULF program is generated through application fees earned on loans processed, as well as interest earned on investments and on outstanding Notes Receivables.

- The MGDC is a not-for-profit voluntary health and welfare organization exempt from income taxes under section 501(c)(4) of the Internal Revenue Code.
- For financial reporting purposes, The MGDC is a component unit of the County of Wayne, and though the MGDC is a separate legal entity, its financial results are included in the County's CAFR as a component unit. As a component unit, the County is financially accountable.

External Auditors Reports and Letters

- The MGDC received an "unqualified opinion" on the audited financial statements from Alan C. Young & Associates, P.C. An unqualified opinion is issued by an auditor when the financial statements presented are free of material misstatements and are represented fairly in accordance with the Generally Accepted Accounting Principles (GAAP), which in other words means that the entity's financial condition, position, and operations are fairly presented in the financial statements. It is the best type of opinion an entity may receive from an external auditor.

- The Agency's single audit, or formally known as the audit of federal award grants, was performed in accordance with the Federal Office of Management & Budget, OMB Circular A-133. This audit contained two separate reports titled: (1) Report on Internal Controls over Financial Reporting and on Compliance and Other Matters; and, (2) Report on Compliance with Requirements Applicable to Major Programs and on Internal Controls over Compliance in accordance with OMB Circular A-133.

    - The first report did not identify any deficiencies in internal controls over financial reporting.

    - The second report also did not identify any instances of noncompliance or other matters that are required to be reported under the applicable standards.

Financial Results\Operations

Description	FY 2009	FY 2008	Increase (Decrease)	Primary Reasons
Assets	$1,298,257	$1,207,175	$91,082	Increase in Investments
Liabilities	770,017	824,491	(54,474)	Decrease in Due to the county
Net Assets - Unrestricted	528,240	382,684	145,556	Increase in Reserved for Urban Loan Fund Program
Net Operating Gain (Loss)	145,556	(33,393)	$178,949	Increase in Public Support & Revenue and Decrease in Administrative & Professional Fees

Internal Controls\Compliance

- The MGDC's Report on Internal Controls over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements disclosed no instances of material weaknesses in internal controls or noncompliance that are required to be reported under Government Auditing Standards.

- In the auditor's other report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133, they identified no instance of noncompliance with those requirements.

Potential Risk Exposures

- The County received fees in the amount of $83,270 and $137,618 from MGDC during the fiscal years ended September 30, 2009 and 2008, respectively. The fees represent payment for Wayne County's provision of services and facilities to MGDC in accordance with the terms of a contract agreement between MGDC and Wayne County. County management officials were unable to provide documentation to determine whether the County's cost to provide services and facilities are fully covered by the fees MGDC paid.

- The County is exposed to possibly unintended and avoidable loan or credit risk related to the Urban Loan Fund Program. Note 9 of the financial statements describe this risk in part. Simply, the County was the recipient of a federally funded revolving loan from the State of Michigan in 1992. The MGDC administrates the loan program on behalf of the County. The County loaned all or a portion of the loan funds from the State to MGDC. At 2009 fiscal year end, the loan balance MGDC owed the County was $649,043 and the related investments held by MGDC were $417,448 a difference of $231,595. The difference is reduced from prior year by $128,565, which minimizes the county's potential risk exposure. However, in the event of non-repayment of the outstanding loans issued by MGDC, the County would be liable for any portion of the loan from the State not received from MGDC. Further, it appears the County's agreement with MGDC does not obligate MGDC to make "full" re-payment to the County in the event its borrowers default on their loan(s).

- Notes to the financial statements also indicate the MGDC has a high concentration of credit risk because all of its lending activity is processed through a single local bank. If this local bank fails, the County would be exposed to possibly losses.

Subsequent Event

The MGDC is the SBA 504 Certified Development Corporation that had an agreement with the County to act as their staff for the loan program. In June 2009, Wayne County and MGDC mutually agreed to terminate their agreement to administer the SBA 504 loan program. According to documents submitted to the Commission, this decision came about because the County could no longer justify the allocation of two employees to administer the SBA 504 loan program due to the drop in volume of qualified loans.

At the same time, MGDC terminated its agreement with the County to administer the ULF. As a result Wayne County EDGE no longer employs staff that can analyze and disburse ULF loans.

In May 2010, the Wayne County Commission approved a retroactive three year agreement between Wayne County EDGE and Detroit Midtown Micro-Enterprise Fund (DMMEF) to act as the administrative agent for the Wayne County Urban Loan Fund. Detroit Midtown Micro-Enterprise Fund has replaced Metropolitan Growth and Development Corporation for the ULF program. Detroit Midtown Micro-Enterprise Fund is a private, non-profit corporation based at TechTown that supports Detroit area businesses in their initial stage of development.

Status of Prior Year's Recommendation

Recommendation: EDGE Officials should consider the costs benefit and risk avoidance of requiring MGDC or [DMMEF] to obtain an insurance policy to protect against non-repayment of loans it issues and modification of the County's agreement to require MGDC or [DMMEF] to repay its loans in-full to Wayne County.

> **Status –In Process:** EDGE officials stated the Wayne County Urban Loan Fund will now be administered through the DMMEF. EDGE officials further indicated they will be following up with them once the agreement is fully operational. They also indicated they will contact insurance agents once that takes place to assess the cost-benefit on acquiring a insurance policy to protect against non-payment.

Noteworthy Accomplishment

In the performance of our review one noteworthy accomplishment of the MGDC came to our attention. Note 11 of the financial statements indicate since MGDC's inception, it has or is in the process of issuing over $61 million in loans, while retaining over 4,480 jobs.

Conclusion and Recommendation:

Based on our limited review, nothing came to our attention that caused us to believe the financial report, including audited financial statements and the report on internal controls and compliance of the Metropolitan Growth and Development Corporation, are not presented in conformity with generally accepted accounting principles. However, our review did note the continual existence of risk to the County, either related to MGDC or DMMEF for amounts received from the State (as Federal Pass-through) and forwarded to these agencies to administer on the County's behalf. Moreover, the need for MGDC's continued existence is questionable since it appears all of its previous functions are now being performed by DMMEF.

It is our recommendation that the Metropolitan Growth and Development Corporation's financial report, including audited financial statements, and the OAG's Financial Assessment – Limited

Review Report for fiscal year ended September 30, 2009 be forwarded to the Wayne County Commission to be formally received and filed.

Respectfully submitted,

Willie Mayo, CPA, CIA, CICA
Auditor General

Attachment

Pc: Turkia A. Mullin, Chief Development Officer and Director, EDGE
Melanie Duquesnel, Chairwoman, Metropolitan Growth and Development Corporation
Carla E. Sledge, Chief Financial Officer, Management & Budget
Melinda G. Haner, Finance Director, M&B-EDGE
Terry L. Hasse, Director, Grants and Contracts Administration, Management & Budget
Barbara Cerda, Director, Financial Services, Management & Budget