



## Office of the Auditor General

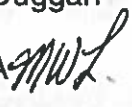
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### AUDIT MEMORANDUM

**DATE:** August 9, 2018

**TO:** Honorable City Council  
Honorable Mayor Mike Duggan

**FROM:** Mark W. Lockridge, CPA   
Auditor General

**RE:** **THE CASINO DEVELOPMENT FUND**  
**Office of Neighborhood Commercial Revitalization Project**

**CC:** Glen Long, COO, DEGC/EDC  
Stephanie Washington, Esq., City Council Liaison  
Daniel Arking, Attorney, Law Department  
David Whitaker, Director, Legislative Policy Division  
Casino Representatives

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Attached for your review is our audit memorandum on the Casino Development Fund Office of Neighborhood Commercial Revitalization project. It contains our audit purpose, scope, objectives, methodology and conclusions; background; our audit summary; and the response from the Economic Development Corporation.

Responsibility for the installation and maintenance of a system of internal control that minimizes errors and provides reasonable safeguards rests entirely with the Economic Development Corporation.

Copies of all of the Office of the Auditor General reports can be found on our website at [www.detroitmi.gov/How-Do-I/View City of Detroit Reports/Auditors General-Audits](http://www.detroitmi.gov/How-Do-I/View-City-of-Detroit-Reports/Auditors-General-Audits).

**The Casino Development Fund**  
**Office of Neighborhood Commercial Revitalization Project**

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## **AUDIT PURPOSE, SCOPE, OBJECTIVES, METHODOLOGY AND CONCLUSIONS**

### **AUDIT PURPOSE**

The audit of the Casino Development Fund – Office of Neighborhoods Commercial Revitalization project was performed in accordance with the Office of the Auditor General's (OAG) charter mandate to conduct audits of the financial transactions, performance and operations of City agencies based on an annual risk-based audit plan prepared by the Auditor General, or as otherwise directed by the City Council, and report findings and recommendations to the City Council and the Mayor.

City Council requested that the Office of the Auditor General (OAG) perform an audit of the Casino Development Fund in relation to a Legislative Policy Division report dated October 11, 2016.

### **AUDIT SCOPE**

The scope of this audit was an independent review and assessment of the Office of Neighborhoods Commercial Revitalization (ONCR) project. Our audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States, except for the completion of an external peer review of the Office of the Auditor General within the last three years.

### **AUDIT OBJECTIVES**

The overall audit objectives were:

- Review financial reports and audited financial statements from each sub-grantee to ensure the casino development funds are properly accounted for and spent in accordance with program objectives and guidelines as stated in the revised casino agreements, EDC/City of Detroit and EDC/sub-grantee funding agreements.
- A performance audit of each sub-grantee to ensure the casino development funds are effectively and efficiently received and spent in accordance with best practices and in support of program objectives and guidelines.

### **AUDIT METHODOLOGY**

To accomplish our audit objectives, our audit work included:

- Reviewing the Casino Development Agreements, project funding agreements, City Charter, the project budget reports, and organization charts.
- Gathering policies and procedures of core operations and similar data.
- Conducting an audit-planning meeting to determine the scope and audit objectives, and to determine the financial transactions and/or areas to audit.
- Developing questions regarding the Casino Development Fund project's transactions, controls, functions, records, and personnel.
- Identifying risks relative to financial transactions and mitigating controls with appropriate personnel.

- Interviewing appropriate personnel, reviewing documentation, and making observations to aid in developing audit programs.

## **CONCLUSIONS**

As a result of our audit of the Office of Neighborhood Commercial Revitalization (ONCR) project, we have concluded that due to the project providing the final grants in 2010 and the record retention policy only requiring that records be maintained for three years after the conclusion of the project, the auditors could not determine if:

- Proper internal controls existed for this program.
- Proper documentation was provided by sub-recipients.
- All funds were spent in accordance with the program guidelines.

The auditors concluded that EDC reprogrammed and used \$970,793.25 of ONCR funds for administrative cost. Under the funding agreement between the Economic Development Corporation of the City of Detroit and the City of Detroit, EDC is allowed to draw funds from programs to cover administrative services if they do not earn enough interest to cover their administrative cost (Attachment C).

### **Project Objectives**

The auditors could not verify that the funds disbursed were used for the project objectives, again due to the project providing the final grants in 2010 and the record retention policy only requiring that records be maintained for three years after the conclusion of the project.

While Casino Development Funds (CDF) were disbursed to community organizations, we could not determine or verify the appropriateness of the expenditures paid for with CDF being used in accordance with the Refresh Detroit Façade Grant Program Guidelines.

## **BACKGROUND**

### **Origination of Casino Development Fund**

The Casino Development Fund is a commitment made by the three Detroit casinos (MGM Grand Detroit, MotorCity, and Greektown) and the City of Detroit, to contribute money for the purpose of assisting minority business development in a specified area within the City. The assistance to business development focuses on: financing façade improvements, GAP financing, loan guaranties, rehabilitation, equipment and working capital for existing and new businesses.

The City received \$2.5 million from MotorCity Casino during the period of the initial Casino Development agreements (1998-1999). The City received \$30 million from the three casinos (\$10 million from each casino) in accordance with the revised Casino Development agreements.

### **Economic Development Corporation (EDC)**

EDC is a public body corporation created by the City Council of the City of Detroit by enactment of Ordinance 120-H effective June 9, 1979. All services to be performed are set forth in the "Scope of Services" section of the EDC/City of Detroit personal service contract and is coordinated and performed by the DEGC. The DEGC is a private non-profit 501c.4 organization and is an agent of the EDC that acts as a liaison between the EDC and the City.

### **Office of Neighborhood Commercial Revitalization (ONCR) Project**

The Funding Agreement for the Office of Neighborhood Commercial Revitalization project is between the Economic Development Corporation of the City of Detroit and the City of Detroit acting by and through its Planning & Development Department (P&DD). The Funding Agreement Exhibit D Scope of Services City Activities reads as follows:

The City shall provide the following services to assist the EDC in its administration of those parts of the Project.

The City, acting through the ONCR (or its successor organization) will provide loan and grant underwriting services, project management services, accounting, loan servicing, collection, and document preparation for the following projects and make recommendations to the EDC Board of Directors in relation to making grants or loans pursuant to the following guidelines:

#### **ONCR Targeted Business Fund**

The Mission of the ONCR Targeted Business Fund Work Plan is to enhance the City's support for small business at the City-wide level and to continue and expand our support for neighborhood commercial revitalization. This will be accomplished by establishing six loan/grant programs to be managed either by ONCR or independent contractors identified and approved by ONCR. The loan/grant programs are detailed below.

1. Small Business Detroit Community Capital Micro-Loan Program  
 Program Description: The Microloan fund will assist small retail, restaurant or service businesses to begin or expand. The Small Business Detroit Community Capital Loan Program will also serve as a coordinating and advocacy body to make small business technical assistance, City services, and other forms of small business technical assistance more accessible to Detroit small businesses.  
**Amount Allocated to Program: \$1,500,000**
  
2. Refresh Detroit Façade Grant Program  
 Program Description: Allow for the expansion of the Refresh Detroit Façade Grant program by providing additional funding. Funding for this program will be awarded on a competitive basis to community based organizations that operate a qualified Refresh Detroit program for their district. Funds to be used as matching grants to property and small business owners and to provide architectural assistance for the improvements.  
**Amount Allocated to Program: \$2,150,000**
  
3. Refresh Detroit Streetscape Improvements Program  
 Program Description: An additional facet of the expanded Refresh Detroit program is to address the need for streetscape improvements in order to create pedestrian friendly shopping districts. The construction matching grants will provide a guaranteed source of funding for organizations to use when applying for Michigan Department of Transportation TEA-21 Streetscape enhancements.  
**Amount Allocated to Program: \$1,205,000**
  
4. Restore Detroit Expansion Program  
 Program Description: Reinforce Restore Detroit program in the five (5) pilot districts and expand the program to three additional districts.  
**Amount Allocated to Program: \$2,900,000**
  
5. Renew Detroit Program  
 Program Description: Expand the knowledge and experience of community based neighborhood commercial revitalization through Renew Detroit, the technical assistance and training program for staff and neighborhood volunteers of potential districts.  
**Amount Allocated to Program: \$250,000**
  
6. ONCR Long-term Sustainability Program  
 Program Description: Create a source of long-term funding for the ONCR in order to lessen demand for future CDBG funds to meet ONCR operating and program expenses. This reserve can also be used to meet currently unforeseen needs of, in limited cases, provide seed capital for program needs not currently anticipated by the ONCR Advisory Board.  
**Amount Allocated to Program: \$495,000**

The auditors noted on the EDC Casino Development Funds allocation reports dated June 30, and September 30, 2017, there was funding allocated for just two of the six ONCR projects. The original budget for all six programs listed above is summarized in the table below:

<b>Original Programs</b>	<b>Original Budget</b>
Small Business Detroit Community Capital Micro-Loan Program	\$1,500,000
Refresh Detroit Façade Grant Program	2,150,000
Refresh Detroit Streetscape Improvements Program	1,205,000
Restore Detroit Expansion Program	2,900,000
Renew Detroit Program	250,000
ONCR Long-term Sustainability Program	495,000
<b>GRAND TOTAL</b>	<b>\$8,500,000</b>
<b>Revised Programs</b>	<b>Revised Budget</b>
Small Business Detroit Community Capital Micro-Loan Program	\$1,500,000
Refresh Detroit Façade Grant Program	2,924,733
<b>REVISED GRAND TOTAL</b>	<b>\$4,424,733</b>

The auditors questioned EDC about the other four programs not funded. A representative from EDC stated the following concerning the Revised Budget for the project:

*“Back when the ONCR program was in existence, the then Mayor’s Office (Kilpatrick Administration) ran the ONCR program. They decided which programs to fund. EDC made sure that the requests were within the budgets, but other than that, EDC was obligated to fund them. The unspent portions (\$8,500,000 - 4,424,733 = \$4,075,267) became part of the money that the City never funded to EDC.”*

EDC provided Funding Agreements for 18 Community Organizations totaling \$2,976,166.67. However, EDC only allocated \$2,924,733 for the project. The variance between the funding agreement for the Community Organizations and the funds allocated is \$(51,433.67).

The quarterly report dated December 31, 2017 for CDF funds shows that EDC disbursed \$2,924,733 (see attachment A) for the ONCR program. According to the list of checks issued for the program, EDC disbursed \$1,953,939.25. The variance between what EDC shows on their report as disbursed versus the actual amount disbursed to the ONCR project is \$970,793.75. Attachment B details the agreement amounts versus the expenditure amount per organization.

The EDC CDF reports indicates that all funds allocated for this program were expended. However, EDC reprogrammed and used \$970,793.25 of ONCR funds for administrative cost. Under the funding agreement between the Economic Development Corporation of the City of Detroit and the City of Detroit, EDC is allowed to draw funds from programs to cover administrative services if they do not earn enough interest to cover their administrative cost (Attachment C).



### **Overview of the ONCR – Refresh Detroit Project**

The mission of the ONCR is to provide services to Detroit's citizens by supporting the growth of small business in clean, safe and thriving shopping districts. The project objective for ONCR was to allow for the expansion of the Refresh Detroit façade grant program by providing additional funding.

The ONCR supports the growth of small businesses by providing grants and services to local community based organizations through programs that assist commercial business in Detroit. *Refresh Detroit* is a business Façade improvement reimbursement program.

Refresh Detroit is ONCR's Façade Renovation and Exterior Structure Habilitation program. It provides matching grant money and architectural assistance to community based organizations (CBOs) to assist small businesses with façade improvements. The ONCR has completed façade renovation projects and is directly responsible for improving the "look" of the commercial districts which complements the growing residential development.



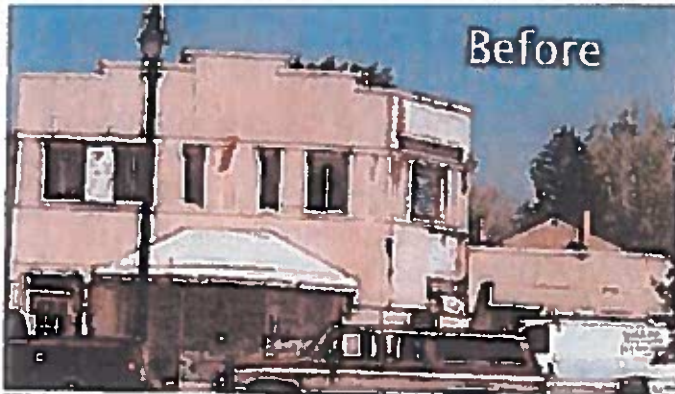
This business received a matching grant for a new sign on Eight Mile Road  
(Photo from ONCR brochure)

The CBOs create their own local program using these resources to incentivize property owners and merchants to invest in their buildings and businesses. CBOs are required to create design guidelines and a design committee so that the community's long-term vision for the district is achieved. The following are Refresh Detroit Districts:

- Corktown's Michigan Ave. Business District
- East Warren Business District
- East Jefferson Business District
- Grand River Avenue
- Southeast Gratiot Avenue
- University Commons



- Southwest Detroit
- W. Davison
- North-Town
- W. Vernor & Springwells
- Woodward Avenue
- Joy-Southfield



This business received grant dollars for façade improvements on Grand River.

(Photo from ONCR brochure)



## AUDIT SUMMARY

According to the Funding Agreement By and Between the EDC of the City of Detroit (COD) and the City of Detroit, the City shall provide the following services to assist the EDC in its administration of those parts of the Project included in this Exhibit D the Project:

The City, acting through the ONCR (or its successor organization) will provide loan and grant underwriting services, project management services, accounting, loan servicing, collection, and document preparation for the following projects and make recommendation to the EDC Board of Directors in relation to making grants or loans pursuant to the guidelines.

Neither the City of Detroit nor EDC has copies of the documents required in the Refresh Detroit Program Guidelines.

The Funding Agreement By and Between the Economic Development Corporation of the City of Detroit and the City of Detroit Article VI – Data Reports requires:

- The EDC shall maintain full and complete books, ledgers, journals, accounts, documents and records in auditable form wherein are kept all entries reflecting all of its operations pursuant to this Agreement, and the EDC shall make available at all reasonable times all books, documents, papers and records for monitoring, audits, inspections and examination by City.
- All records referred to in Section 6.03 shall be maintained by the EDC for three (3) years after the date of completion of the work.

According to a check registry report received from EDC, the last check for this program was issued in January 2013. There is no documentation to substantiate that the funds were expended in accordance with the funding agreement.

According to EDC, they would reimburse the ONCR project based on a letter from a COD representative and a budget page. No invoices were required to substantiate the expenditures because the COD representative would have reviewed the required documents for the program and approved them based on the request for reimbursement from the participant.

According to a Planning & Development Department (P&DD) staff member, they consulted with Housing and Revitalization Department (HRD) staff and they have no information on ONCR activities. The staff member stated that notes maintained by the department show that the program went defunct between FY 09-10 and 10-11 due to budget limitations. The last remaining staff with knowledge of the program was un-appointed when the current administration arrived in 2013.

Since that time, P&DD has moved offices, as well as changed storage facilities and it's doubtful that any useful reports are available on this activity.

A TOWNHOMES  
**ATTACHMENTS**

EDC  
DEPARTMENT OF  
PLANNING

# RE-FRESH DETROIT

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# ATTACHMENT A

## EDC CASINO DEVELOPMENT FUNDS 12/31/17

	Original Budget	Revised Budget	Received	Balance
<b>Receipts</b>				
City of Detroit	42,750,000.00	32,500,000.00	32,500,000.00	0.00
Interest Income	1,175,000.00	1,175,000.00	1,230,524.01	55,524.01
Proj Funds and Loan Repayments	3,025,000.00	3,025,000.00	3,721,141.59	696,141.59
	<u>46,950,000.00</u>	<u>36,700,000.00</u>	<u>37,451,665.60</u>	<u>751,665.60</u>

	Original Budget	Revised Budget	Disbursed	Balance
<b>Expenses</b>				
Tech Town	4,000,000.00	3,040,936.00	3,040,936.00 x	0.00
JEPAB	2,000,000.00	1,520,468.00	1,251,764.00 x	268,704.00
ONCR Small Bus Loan Fund	1,500,000.00	1,500,000.00	1,500,000.00 x	0.00
<b>ONCR</b>	<b>7,000,000.00</b>	<b>2,924,733.00</b>	<b>2,924,733.00 x</b>	<b>0.00</b>
DCLF	4,500,000.00	3,421,053.00	3,421,053.00 x	0.00
Black Chamber	500,000.00	380,117.00	380,117.00 x	0.00
AABD	10,250,000.00	10,000,000.00	10,000,000.00 x	0.00
National Retail	5,000,000.00	3,985,808.00	2,429,632.55 x	1,556,175.45
Non-Affiliated/Resident Retail	2,000,000.00	2,000,000.00	1,725,000.00 x	275,000.00
Resident Real Estate	6,000,000.00	3,726,885.00	1,028,089.34 x	2,698,795.66
Administration	4,200,000.00	4,200,000.00	4,200,000.00 x	0.00
	<u>46,950,000.00</u>	<u>36,700,000.00</u>	<u>31,901,324.89</u>	<u>4,798,675.11</u>
	<u>0.00</u>	<u>0.00</u>	<u>5,550,340.71</u>	<u>5,550,340.71</u>

## ATTACHMENT B

Organization Name	Agreement Totals	ONCR Expenses	Unspent ONCR Funds	2006	2007	2008	2009	2010
Arab American & Chaldean Council	53,000.00	53,000.00	0.00	X		X		
Eastside Land, Inc.	35,000.00	25,000.00	(10,000.00)	X				
Eight Mile Boulevard Association	35,000.00	26,600.00	(8,400.00)		X			
Focus Hope	50,000.00	11,672.94	(38,327.06)	X		X		
Grandmont Rosedale Development Corp.	390,666.67	350,089.40	(81,914.93)	X	X	X	X	
Gratiot McDougall United Comm Development Corporation	516,000.00	388,257.17	(127,742.83)	X	X	X	X	X
Greater Corktown Development Corp.	401,500.00	271,441.61	(130,058.39)	X	X	X	X	
Gwendolyn Lewis		1,310.01	0.00					
Jefferson East Business Joy Southfield Community Development Corp.	148,000.00	63,974.48	(84,025.52)	X		X	X	
Michigan Avenue Business Association	45,000.00	11,666.60	(33,333.40)				X	
Nortown CDC	5,000.00	5,000.00	0.00	X				
Southwest Detroit Business Association	80,000.00	25,800.00	(54,200.00)	X			X	
University Commons Organization	148,000.00	135,229.47	(12,770.53)					
University Cultural Center Association	356,500.00	246,119.31	(110,380.69)	X	X	X	X	
U-Snap Back, Inc.	5,000.00	5,000.00	0.00	X				
Woodward Avenue Action Association	401,500.00	306,724.26	(94,775.74)	X	X	X		X
Mexicantown Community Development Corp.	45,000.00	27,056.00	(17,944.00)				X	
Prevailing Community Development Corporation	221,000.00	0.00	(221,000.00)	X	X			
	40,000.00	0.00	(40,000.00)	X	X			
	<b>2,976,166.67</b>	<b>1,953,941.25</b>	<b>(1,022,225.42)</b>					

**NOTE:** Only \$2,924,733 was funded for this program. See Attachment A.

## ATTACHMENT C

### ARTICLE IV COMPENSATION

4.01 It is understood and agreed by the parties that the EDC will receive compensation in the amount of Three Hundred Fifty Thousand (\$350,000) Dollars annually as compensation for the administrative services rendered hereunder. Said sum shall be initially paid from the interest in City Funds transferred hereunder. If the interest in any given year be insufficient for the EDC to draw down the aforesaid sum, the EDC shall have the power to make the payment out of the principal amount of the City Funds. The compensation will be paid annually at the beginning of each fiscal year of the Project. The EDC shall report annually to the Director of Planning & Development or the successor to that position, the investments made with City Funds, the amount and sources of interest earned, and the disposition of the interest and the source of payment of the EDC's annual compensation.

**Source:** The Funding Agreement By and Between the Economic Development Corporation of the City of Detroit and the City of Detroit, page 4.