



Office of the Auditor General

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AUDIT MEMORANDUM

DATE: October 22, 2019

TO: Honorable City Council
Honorable Mayor Mike Duggan

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

RE: **THE CASINO DEVELOPMENT FUND**
Detroit Community Loan Fund Project

CC: Glen Long, Chief Operating Officer, Detroit Economic Growth Corporation/Economic Development Corporation
Ray Waters, Managing Director, Detroit Community Loan Fund; President, Detroit Development Fund
Stephanie Washington, Esq., City Council Liaison
David Whitaker, Director, Legislative Policy Division
Casino Representatives

Attached for your review is our report on the Casino Development Fund – Detroit Community Loan Fund project. This memorandum contains our audit purpose, scope, objectives, methodology and conclusions; background, and 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.

We would like to thank the employees of Detroit Community Loan Fund and the Economic Development Corporation for their cooperation and assistance extended to us during the audit.

Copies of all of the Office of the Auditor General reports can be found on our website at [www.detroitmi.gov/Government/Office of the Auditor General](http://www.detroitmi.gov/Government/Office_of_the_Auditor_General).

**Audit of the Casino Development Fund
Project: Detroit Community Loan Fund**

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AUDIT PURPOSE, SCOPE, OBJECTIVES, METHODOLOGY AND CONCLUSIONS

AUDIT PURPOSE

The audit of the Casino Development Fund – Detroit Community Loan Fund 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 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 Detroit Community Loan Fund 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 OAG within the last three years.

AUDIT OBJECTIVES

The overall audit objectives were to:

- 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 casino agreements, Economic Development Corporation (EDC)/City of Detroit and EDC/sub-grantee funding agreements.
- Conduct 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 Detroit Community Loan Fund project, we are unable to determine if the Casino Development Funds of \$3,421,043 were spent in accordance with the Funding Agreement between EDC and DCLF due a lack of documentation.

We also could not conclude on whether Detroit Community Loan Fund achieved its goal to assist in building small business infrastructure in the City of Detroit by providing loan funds to expand existing successful small business loan funds due to the lack of documentation.

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 Casino Development Agreements for a total of \$32.5 million.

Economic Development Corporation

The Economic Development Corporation (EDC) is a public body corporation created by the Detroit City Council 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 personal service contract and is coordinated and performed by the Detroit Economic Growth Corporation (DEGC). The DEGC is a private non-profit 501c.4 organization and is an agent of EDC that acts as a liaison between EDC and the City.

Detroit Community Loan Fund

The Detroit Community Loan Fund (DCLF) is a community development financial institution and low-profit limited liability company, managed by the Detroit Development Fund (DDF) and Invest Detroit. They finance small businesses headquartered in the city of Detroit which have traditionally faced obstacles in obtaining financing, but have demonstrated growth potential.

The DDF was and is the managing partner of the DCLF and has and still handles all of the finances and management for the DCLF. Originally, they were Shorebank Enterprise Detroit when the DCLF started and managed all aspects of the DCLF and still do as DDF.

Project Objectives for the Detroit Community Loan Fund

The Funding Agreement By and Between the Economic Development Corporation and the City of Detroit provides funding for the Detroit Community Loan Fund (DCLF). The goal of DCLF as stated in the Funding Agreement is to assist in building the small business infrastructure in the city of Detroit by providing loan funds for expanding the already successful small business loan fund jointly operated by Detroit Renaissance, ShoreBank Enterprise Detroit and the Detroit Investment Fund.

AUDIT SUMMARY

We reviewed a Detroit Community Loan Fund (DCLF) update report received from EDC in a December 17, 2018 email. DCLF reported that:

“Only \$300,000 of the Casino Development funds were used as lending dollars. In short, Casino funds were basically not used for lending. DDF provided the EDC with the types of companies financed by DDF and the DCLF because we were not using Casino funds for the loans, we agreed for privacy and lender liability issues that it wasn't necessary to provide the EDC with names of the companies.”

The update report also stated that:

“We believe we have fulfilled the mission and obligations of the Casino funds by providing loan capital to Detroit companies who were unable to find financing from traditional sources. The Casino funds strengthened our ability to raise additional capital and provide more loans to help grow small businesses in Detroit.”

Funding Information

The DCLF project was originally allocated \$4.5 million to fund their activities. The EDC amended DCLF's original budgeted amount bringing DCLF's program budget down to \$3,421,053. DCLF has received all Casino Development Funds (CDF) allocated to them.

According to reports submitted by DCLF to EDC, DCLF spent their CDF as follows:

Operating Expenses	
Salary	\$1,893,015.41
Occupancy	14,381.61
Telephone	5,449.88
Insurance	4,800.00
Other Operating	19,714.35
Audit Fees	21,552.00
Management Fees	59,029.83
Legal Fees	9,687.32
Payroll Processing	1,508.60
Other Professional Fees	50.00
Total Operating Expenses	\$2,029,189
T/A Expenses	629,500
Loans – Write Offs	104,118
DCLF – DDF Investment in DCLF	358,236
Lending Capital	300,000
GRAND TOTAL	\$3,421,043

Neither EDC nor DCLF provided the auditors with supporting documentation for the expenditures reported by DCLF on the reports given to our office. Therefore, we cannot attest to how those funds were actually spent.

We determined that per the Funding Agreement, DCLF did not provide the following required information:

- Quarterly reports to EDC
- Information concerning the \$300,000 in loans made using CDF

We requested and reviewed all reports EDC had that were submitted by DCLF from 2006 to current. DCLF provided annual reports for the following years:

- 2006
- 2007
- 2008-2009
- 2010-2011
- 2011
- 2015
- 2016

A review of the seven reports submitted (listed above) disclosed that they did not contain information specific to CDF loans. The reports revealed that:

- 6 of 7 (or 86%) reports did not contain the CDF loans in process
- 3 of 7 (or 43%) reports did not contain the number of CDF loans made
- 7 of 7 (or 100%) reports did not contain the business terms of loans made or in progress for CDF
- 7 of 7 (or 100%) reports did not contain the current status of CDF loans

The Funding Agreement By and Between the EDC and the DCLF, Article III, Section 3.01 Recipient Activities requires:

The Recipient shall perform the following functions:

- Prior to making the first loan, the Recipient will prepare and present for approval by the EDC the following documents:
 - A Lending Policy
 - A Credit Policy
 - Standard loan documents
 - A Marketing Plan

Following approval by the EDC of the above items, the Recipient agrees that they cannot be materially changed without the prior approval of the Board of Directors of the EDC, except as otherwise detailed in the Recipient's Lending Policy.

- No loans may be made that are not consistent with the policies and programs approved by the EDC without the prior approval of the EDC Board of Directors, except as detailed in the Recipient's lending policy.

- The Recipient will make quarterly reports to the EDC enumerating the loans in process, the loans made, a synopsis of the general business terms of each loan made or in progress, and the current status of each loan whether they current or in default.

We requested on multiple occasions supporting documents from EDC for the items listed on DCLF reports explaining how Casino Development Fund were spent. EDC was only able to provide us with Excel spreadsheets, reports and annual Financial Statements submitted by DCLF which did not allow us to verify expenditures. These documents were not sufficient to authenticate DCLF's expenditures. Therefore we could not substantiate how the funds were spent on this project.



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October 18, 2019

Mark Lockridge, Auditor General
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We have reviewed the final audit report submitted by the firm that did The Casino Fund Audit. We provided them all of the information we could find (please see the reports we sent with our original response).

Detroit Development Fund and The Detroit Community Fund are basically sister companies. The funds provided to DCLF were used to assist DDF & DCLF in their growth. As a result of the casino fund assistance we were able to raise millions of additional dollars to provide additional loans to Detroit small businesses. The casino funds were instrumental in allowing us the capability to raise additional capital to achieve our goal of providing lending capital to many Detroit small businesses and building the small business infrastructure. We've loaned over \$50,000,000 in capital to Detroit small businesses, which a list of the Detroit companies receiving loans was provided in our previous response. This loan program has helped to retain over 2,000 jobs for Detroit residents and has created 3,200 new jobs for Detroit residents.

Our Entrepreneur of Color Loan fund has closed over \$8,000,000, in loans to Detroit minority small businesses in the last 2 ½ years. The casino funds were important in our growth and our ability to achieve the loan levels and the positive impact DDF had in Detroit since inception.

We would be happy to meet with the city council to discuss the program, and answer any questions they may have.

Sincerely,

Ray Waters
President
Detroit Development Fund

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