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AUDIT MEMORANDUM

DATE: November 1, 2018

TO: Honorable City Council
Honorable Mayor Mike Duggan

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

RE: **THE CASINO DEVELOPMENT FUND**
Michigan Black Chamber of Commerce Project

CC: Glen Long, COO, DEGC/EDC
Dr. Kenneth L. Harris, President/CEO, National Business League, Inc.
Stephanie Washington, Esq., City Council Liaison
Daniel Arking, Attorney, Law Department
David Whitaker, Director, Legislative Policy Division
Casino Representatives

Attached for your review is our audit memorandum on the Casino Development Fund Michigan Black Chamber of Commerce project. This report contains our audit purpose, scope, objectives, methodology and conclusions; background; our audit summary and recommendation.

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.

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Casino Development Fund

Project: Michigan Black Chamber of Commerce

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AUDIT PURPOSE, SCOPE, OBJECTIVES, METHODOLOGY AND CONCLUSIONS

AUDIT PURPOSE

The audit of the Casino Development Fund, Project: Michigan Black Chamber of Commerce 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 Michigan Black Chamber Research 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:

- 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 revised casino agreements, Economic Development Corporation (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.

Project Objectives for Michigan Black Chamber Research

The project objectives and goals for the Michigan Black Chamber Research Project as stated in the City of Detroit and EDC funding agreement were to:

- Grant funds to the Michigan Black Chamber of Commerce to be used in a joint research project with the University of Michigan to discover ways and means of assisting Black Business Development efforts in the City of Detroit.
- Specific program objectives and a budget to be negotiated by among parties.

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 Michigan Black Chamber Research project, we have concluded that:

Overall Audit Objectives

- Appropriate financial records were maintained for the Michigan Black Chamber Research project completed by the Michigan Black Chamber of Commerce.
- The Michigan Black Chamber of Commerce spent funds in accordance with the project objectives.

Project Objectives

- The Michigan Black Chamber of Commerce completed the project objectives, however it was not a joint research project with the University of Michigan; the research project was completed with Michigan State University.

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.

Michigan Black Chamber of Commerce (MBCC)

Headquartered in Detroit, Michigan, the MBCC strives, as its mission, to economically empower and sustain African-American businesses as enterprises by advocating for economic development through entrepreneurship, procurement, community reinvestment, programmatic and professional development, and capitalistic activity within the state of Michigan.

The MBCC is a nonprofit, nonpartisan, and nonsectarian enterprise dedicated to the economic empowerment of African-American communities. The MBCC advocates for, charters, develops, supports and empowers local Black chambers of commerce throughout the state of Michigan in order to carry out its mission statement. The MBCC operates Black chambers of commerce throughout the state's urban areas, including Grand Rapids, Lansing, Pontiac, Southfield, Flint, Detroit, Ann Arbor/Ypsilanti, and the Great Lakes Bay area. The chamber acts as a catalyst for economic change and growth among Black-owned businesses, offering consumer patronage, programs, benefits, and services.

The MBCC is Michigan's first statewide Black chamber of commerce and is the culmination of efforts by a network of business organizations in southeast Michigan called the African-American Business Alliance. In 2010, the alliance refocused its advocacy efforts to establish and transition into the first African-American statewide business organization: the Michigan Black Chamber of Commerce.

On June 19, 2017, the Michigan Black Chamber of Commerce acquired and became the National Business League Inc., founded in 1900 by Booker T. Washington. The national organization relocated from Washington, D.C., to Detroit. This change will provide black businesses with a national platform that has a 117-year history.

Funding Agreements

The original funding agreement, dated September 7, 2006, for the Black Chamber Research project was between the Detroit Black Chamber of Commerce and the Economic Development Corporation of the City of Detroit. In that agreement, Article III, Recipient Activities, 3.01 requires:

The Recipient shall perform the following functions:

- a. Provide project management services for the Project including a Project Coordinator/Manager, and accounting and administration staff as required for the proper completion of the Project.
- b. Retain the University of Michigan to perform a study, the purpose of which is to make recommendations with respect to furthering in the purposes for which the Recipient was formed as set forth in its Bylaws.

The funding agreement between the Michigan Black Chamber of Commerce and the Economic Development Corporation of the City of Detroit dated June 12, 2012 requires:

Whereas, pursuant to that certain Assignment of Funding Agreement dated June 12th, 2012, attached hereto as Exhibit B, the DBCC (Detroit Black Chamber of Commerce) assigned the Funding Agreement to the Recipient;

Through the signing of an assignment of funding agreement, the MBCC assumed the responsibilities for the Black Chamber Research project from the DBCC.

In one (1) funding agreement with the DBCC, and in three (3) funding agreements with the MBCC, the EDC distributed a total of \$380,117. The following disbursements were made by EDC:

| Agreement Date | Funds Disbursed To | Amount |
|----------------|--------------------|-------------------|
| 9/7/2006 | DBCC | \$ 78,200 |
| 6/12/2012 | MBCC | 156,400 |
| 3/22/2016 | MBCC | 78,200 |
| 6/30/2016 | MBCC | 67,317 |
| | TOTAL | \$ 380,117 |

There were no documents obtained that detailed how the DBCC utilized the \$78,200 that they received from the EDC. The MBCC provided a spreadsheet and copies of cancelled checks to detail how the \$301,917 they received from the EDC was utilized.

Overview of the Research Project Proposed by the Black Chamber of Commerce (DBCC)

Sometime before the summer of 2003, the DBCC developed a report detailing the first stage of their project. In that report, they had four (4) deliverables for stage one.

1. A production schedule for the directory of black businesses in southeast Michigan.
 - a. Identify the information sources that count businesses in southeast Michigan and that identify the races of owners and operators.
 - b. Identify common variables across data sets so that we might merge them into a larger dataset with more information on the characteristics of black businesses, including location, industry, size and age.
 - c. Draw up a production schedule, including timelines, design recommendations and resource needs.
2. An annotated list of resources for the resource room.
 - a. A survey of existing resource and services offered by Chambers of Commerce around the country.
 - b. An analysis of the information and services that the Detroit Chamber of Commerce does and does not provide for black businesses and how the Black Chamber of Commerce can fill the void.
 - c. In consultation with the Black Chamber of Commerce, decide on content, design and delivery mechanisms for the resource room.
 - d. Decide on long-term budgets, deliverables and timetables.
3. An annotated list of data resources for the analyses.
 - a. Create an annotated list of the available data sources on the black businesses of southeast Michigan. The annotation will include an informative description of the resources, including how it was collected, who collected it and why, how frequently it is updated, and the precise nature and structure of the information contained therein.
 - b. Decide, in conjunction with the Black Chamber of Commerce, the research priorities in light of the available information resources. The annotated listing of available resources will be coded in a way that will help the Black Chamber decide which of the analyses listed under 3.b would yield the most bang per buck.
 - c. Decide on long-term budget, deliverables and timetables.
4. A proposal for the structure of projects and procedures among CEDit, the University of Michigan and the Detroit Black Chamber of Commerce. This includes letters of intent and support from participating departments and colleges, conflict of interest regulations, and the structure of internships.

No other information regarding the DBCC and their project efforts was received.

Overview of the Research Project Proposed and Implemented by the Michigan Black Chamber of Commerce (MBCC)

The MBCC detailed a three (3) phase process for the completion of the Black Chamber Research project:

1. Phase I – State of the Black Business Economic Project Grant

Dates: January 2005-December 2006

The DBCC completed Phase I of the State of Black Business Economic Project in December 2006. The first phase involved gathering the support of Black business owners in Detroit through a series of panels, events, and programs to lift awareness levels about Black economic development in the city of Detroit. The first phase set the foundation for an empirical research study that was completed during Phase II of the grant allocation.

2. Phase II – State of the Black Business Economic Report Grant

Dates: July 2012-December 2013

The State of Black Business Economic Report for the African American and Consumer Community in Detroit was completed in December 2013. The report completed all aspects of the scope of work submitted. The research includes key economic statistics for African American businesses and consumers, as well as the African American workforce, while also identifying key economic parameters to help develop Black business in Detroit and other urban communities throughout the state of Michigan. A copy of the State of Black Business Study in PDF form can be requested. The study will contribute to the success of Phase III of the project.

3. Phase III – State of the Black Business Mobile Smart Grant

Dates: March 2016-December 2016

The MBCC will build a 21st-century, state-of-the-art Black business directory, featuring several technological advances as part of a city-wide Black business campaign to populate the database. The Black Business Directory (Mobile Smart) will feature industry and sector businesses, as well as complete content necessary to develop, expand and grow Black businesses, including:

- a. Online Black Business Directory (Website) – state of the art online directory
- b. Black Business (App) – mobile application
- c. Black Business (Mobile Smart Business Plan) – mobile smart business plan
- d. Black Business (Social Media Management Platform) – total marketing solution with social directory, mobile and reputation management
- e. Black Business (Mobile Smart Technology) – messaging system
- f. Black Business Campaign (E-Marketing, E-Advertising and E-PR Solutions) – business drive to recruit and retain businesses, and populate the Black Business Directory
- g. Black Business Campaign (Project Management Consultant) – manage the Black business drive

- h. Black Business (Customer Relationship Management (CRM) & MLM Software) – software to help with business management
- i. Black Business (Online Newsletter) – newsletter partnership with the Michigan Chronicle.

Status of Project Phases I, II and III

Research Project Phase I

Based on the above information, Phase I was completed by the DBCC, however, no information was obtained for this phase.

Research Project Phase II

Phase II of the MBCC project focused on the development of a report titled "*The State of the Black-Owned Businesses in Michigan - A report on the state and future prospects of African-American entrepreneurs in the State of Michigan,*" which was completed in November 2014. This report provided a graphic and demographic profile of Black-owned businesses in Michigan. Sponsored by the Michigan Black Chamber of Commerce, this effort was one of an array of projects and initiatives designed to bring together and illuminate the successes, challenges, and opportunities faced by African-American entrepreneurs and current business owners. The report focused on the latest available information in the vast statistical databases on the U.S. Bureau of the Census website with an eye toward making that information accessible and actionable. Demographic portraits of Michigan's metropolitan areas provides a wealth of local market data. However, whether one's aspirations and interests were local or global, Black entrepreneurs can benefit from understanding the multiple paths to business success well worn by those who came before them. Information may be "power" but actionable information provides business opportunity.

The State of the Black-Owned Businesses in Michigan - A report on the state and future prospects of African-American entrepreneurs in the State of Michigan covered the following topics:

1. The state of black-owned businesses in Michigan
2. Comparative trends in the Michigan black business community
3. Characteristics of black business owners and their businesses
4. Local market profiles: black consumer economic power
5. Trends in Michigan's black workforce
6. Growth opportunities for entrepreneurs and black-owned businesses
7. Executive perspectives: results from the in-depth interviews

The key datasets used in the report came from the U.S. Bureau of the Census, especially the Economic Census and the Survey of Business Owners. The current Survey of Business Owners data in the report was from 2007. The report also contained Census 2010 results, including demographic profiles and trends affecting black consumer markets as well as overall population profiles of Michigan's metropolitan

areas. Some data was used to make the analysis applicable to 2013. The Census Bureau's population estimates program provided annual updates to key population indicators. Data from the Bureau of Labor Statistics provided information on estimates of household spending for products and services. This data was presented as updated estimates for spending by black consumer households in key Michigan metro areas.

A copy of the report was provided to the EDC, and to the MBCC membership, other economic organizations and agencies, the Detroit Black Business Community, the Detroit City Council, and the Mayor's Office.

Research Project Phase III

Phase III of the MBCC project has not yet been implemented.

MBCC Project Budget and Expenditures

The table below shows the actual versus budgeted expenditures from the MBCC for their research project. The MBCC stated that they did not receive any monies from the DBCC upon the signing of the funding agreement, therefore the monies received from the EDC and the CDF for the MBCC's project was a total of \$301,917. Based upon the table below, the MBCC expended an additional \$80,125 of their own funds on the black chamber research project.

| ACTUAL TO BUDGET | | | |
|--|------------------|------------------|-----------------|
| | Actual | Budget | Variance |
| Grant Implementation Consultants & Contractors | \$247,087 | \$250,000 | \$(2,913) |
| Marketing, Advertising, & Printing Services | 26,146 | 27,000 | (854) |
| Website, Online Solutions & Technology | 43,248 | 38,000 | 5,248 |
| Membership Drive Program & Events | 65,561 | 66,000 | (439) |
| TOTAL | \$382,042 | \$381,000 | \$1,042 |

The MBCC had various membership drives and a golf outing to assist with the fundraising for the research project. The membership drives and the golf outing allowed the MBCC to engage individuals so that they could create a solid infrastructure to gather information and be successful. The MBCC utilized four (4) contractors to assist in completing the project tasks¹.

¹ Copies of the four (4) contracts were not provided as requested.

MBCC Status of Project Goals

Phase I – No information was received regarding this phase which required completion by the DBCC.

Phase II – Completed. The State of the Black-Owned Businesses in Michigan-A report on the state and future prospects of African-American entrepreneurs in the State of Michigan.

Phase III

- a. Online Black Business Directory (Website) – **Currently under development. Projected completion date of October 31, 2018.**
- b. Black Business (App) – **Currently under development. Projected completion date of October 31, 2018.**
- c. Black Business (Mobile Smart Business Plan) – **Currently under development. Projected completion date of October 31, 2018.**
- d. Black Business (Social Media Management Platform) – **Currently under development. Projected completion date of October 31, 2018.**
- e. Black Business (Mobile Smart Technology) – **Currently under development. Projected completion date of October 31, 2018.**
- f. Black Business Campaign (E-Marketing, E-Advertising and E-PR Solutions) – **Currently under development. Projected completion date of October 31, 2018.**
- g. Black Business Campaign (Project Management Consultant) – **Completed.**
- h. Black Business (Customer Relationship Management (CRM) & MLM Software) – **Currently under development. Projected completion date of October 31, 2018.**
- i. Black Business (Online Newsletter) – newsletter partnership with the Michigan Chronicle that is part of the MBCC's E-Marketing strategy and services. **Continuous. This online newsletter is provided to National Business League members.**

NOTE: According to the President/CEO of the National Business League, Inc. (formerly the Michigan Black Chamber of Commerce, Inc.) stated that they will be unveiling the full website which will include the above information.

AUDIT SUMMARY AND RECOMMENDATION

The funding agreement between the EDC and the MBCC, gives the responsibility of accomplishing the goals of the Black Chamber Research Project to MBCC. The project objective per the funding agreement was to:

"Provide project management services for the Project including a Project Coordinator/Manager, and accounting and administration staff as required for the proper completion of the Project; and retain the University of Michigan to perform a study, the purpose of which is to make recommendations with respect to furthering in the purposes for which the Recipient was formed as set forth in its Bylaws."

The MBCC provided documentation to support their expenditures of funds received from EDC for the purpose of a research project. However, the project was not done in conjunction with the University of Michigan as the initial agreement stated, because the original agreement was initially issued to the Detroit Black Chamber of Commerce, which dissolved before the completion of the project. Therefore, the MBCC reapplied and was approved to complete the project with a different research firm, as noted in the final report. According to the MBCC, they provided project management, accounting and administration staff for the research project that was performed. MBCC did not provide copies of contracts to substantiate the project management, accounting and administration staff that they provided. In addition to the completion of a research project, the MBCC has also taken initiative to create other resources through private/public partnership and raised additional funds outside of the grant that are designed to assist Detroit black businesses and consumers.

The EDC stated that they were satisfied with the completion of the project.

Recommendation

We recommend that EDC keep City Council and the Administration apprised of the progress of Phase III of the project by submitting reports on the status and completion of the project.