



Office of the Auditor General


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AUDIT MEMORANDUM

DATE: June 11, 2019

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 Small
Business Detroit Microloan Project

CC: Glen Long, Chief Operating Officer, Detroit Economic Growth
Corporation/Economic Development Corporation
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 report on the Casino Development Fund Office of Neighborhood Commercial Revitalization project. This memorandum contains: our audit purpose, scope, objectives, methodology and conclusions, background, our audit summary.

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 the above named organizations for their cooperation and assistance extended to us during the audit.

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**Audit of the Casino Development Fund
Office of Neighborhood Commercial Revitalization
Small Business Detroit Microloan Project**

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AUDIT PURPOSE, SCOPE, OBJECTIVES, METHODOLOGY AND CONCLUSIONS

AUDIT PURPOSE

The audit of the Casino Development Fund – Office of Neighborhood Commercial Revitalization (ONCR)-Small Business Detroit Microloan 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 City Council, and report findings and recommendations to 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 ONCR Small Business Detroit Microloan 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 ONCR-Small Business Detroit Microloan Project, we concluded that ONCR's Designated Service Provider (DSP), Center for Empowerment and Economic Development (CEED):

- Properly accounted for and spent the casino development funds in accordance with the project objectives and guidelines.
- Used the funds for administrative expenses and to guaranty loans in accordance with the project objectives.
- Fulfilled their responsibilities as the DSP.

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 (City), 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 \$30.0 million from the three casinos (\$10.0 million from each casino) in accordance with the Casino Development Agreements.

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. The Detroit Economic Growth Corporation is a private non-profit 501c.4 organization and is an agent of EDC that acts as a liaison between EDC and the City.

Office of Neighborhood Commercial Revitalization Project

The Funding Agreement for the Office of Neighborhood Commercial Revitalization (ONCR) project is between the EDC of the City of Detroit and the City acting by and through its Planning & Development Department.

According to the Funding Agreement between EDC and the City of Detroit, the City acting through ONCR shall provide services to assist the EDC in its administration of the Project.

The mission stated in 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."

Overview of the Micro-Loan Project

The Microloan Fund will assist small retail, restaurant or service businesses to begin or expand. The Small Business Detroit Community Capital Loan Project 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.

The Small Business Detroit Microloan Project focused on high risk, low-return loans not offered by conventional lending institutions and the accompanying high level technical assistance provided to applicants and loan recipients. The program was intended to

serve as a compliment to existing conventional and nonprofit offerings by servicing small businesses that were generally a slightly higher risk than other entities may be comfortable extending loans.

Center for Empowerment & Economic Development

In 2006, the Center for Empowerment & Economic Development (CEED) was selected as the Designated Service Provider (DSP) by the ONCR to operate the microloan program. The City wanted to offer a lending program for Detroit-based businesses to support small businesses and encourage small business development. As the DSP, CEED received casino development funds to be used for administrative expenses and the guaranty loans (loss reserve).

Audit Summary

The Funding Agreement between EDC and CEED includes the following duties of ONCR in regards to the project:

ONCR will provide contract compliance regarding the Small Business Detroit Microloan Program and will act as Program Manager to the Designated Service Provider (DSP). ONCR will:

- Establish a mechanism for performance monitoring and contract compliance, which will be conducted on a quarterly basis and reported to ONCR Advisory Board and EDC.
- Act as Program Liaison between EDC and the DSP.

As the DSP, CEED was required to:

- Provide applicant recruitment and per-loan technical assistance.
- Implement and manage loan client counseling and referral services.
- Provide loan processing and serving to all loan clients.
- Provide program oversight/management/evaluation.
- Provide proper program recognition on all published/printed documents.

Funding Information

Per the contract terms outlined in the Funding Agreement between EDC and CEED, Casino Development Funds were designated for administrative expenses and the guaranty loans (loss reserve) in relation to this program.

According to the EDC Casino Development Funds Budget and Expenditure report dated December 31, 2017, CEED had a budget of \$1,500,000. EDC distributed the full amount of funds in three installments. According to the records received from EDC and CEED reviewed by the auditors, the program generated a total of \$34,069.14 in dividend income bringing the total funds available to \$1,534,069.14. CEED spent a total of \$1,487,912 on administrative expenses and the loan loss reserve between 2006 and 2016. As of September 2018, the remaining balance of \$46,188 is allocated to the loan loss reserve to secure CEED's loan portfolio.

Project Outcomes

Between 2006 and 2018, over 200 applications were received for the program. Seventy-five applications were approved and 59 loans were made to a total of 42 businesses. These Detroit-Based Businesses received a total of \$1.2 million in funding which has contributed to the start-up of 27 businesses, creation of 72 jobs and retention of 110 jobs. As of October 2018, 32 of the 42 businesses are still in existence.

CEED has conducted several outreach initiatives including meeting with community partners, organizing business conferences, and hosting loan presentations with various

non-profit, community based organizations throughout the City. Currently, CEED holds loan orientations every Tuesday morning and one Saturday per month at its Detroit office at the Grand River Workplace. The program provides 15 hours of growth training primarily focused on successfully identifying and responding to requests for proposals. CEED plans to continue making loans to Detroit Based Businesses and to employ two or more employees to assist with the program operations.