



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**
TechTown Project

CC: Glen Long, Chief Operating Officer, Detroit Economic Growth
Corporation/Economic Development Corporation
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 – TechTown project. This memorandum contains: our audit purpose, scope, objectives, methodology and conclusions, background and 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 TechTown 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: TechTown**

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AUDIT PURPOSE, SCOPE, OBJECTIVES, METHODOLOGY AND CONCLUSIONS

AUDIT PURPOSE

The audit of the Casino Development Fund – TechTown 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 TechTown 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 TechTown, we have concluded that TechTown:

- Properly accounted for and spent Casino Development Funds in accordance with the project objectives and guidelines.
- Spent the Casino Development Funds in accordance with best practices and in support of their objectives to provide opportunities to Detroit based businesses including women-owned and minority-owned businesses.
- Assisted start-up businesses in accordance with their funding agreement.

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 (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.

TechTown Project

In an effort to further the City's ability to assist small Detroit-based, women-owned, and minority-owned business throughout the City, Detroit City Council allocated money towards the Casino Development Fund project. EDC received funding to administer various programs per their funding agreement including the TechTown project. TechTown was founded in 2000 by Wayne State University (WSU), Henry Ford Health System and General Motors to support tech-based spinoffs from WSU and help strengthen neighborhood small businesses and commercial corridors across Detroit. TechTown offers a full suite of entrepreneurial services for tech and neighborhood businesses, with satellite offices across the City.

Audit Summary

According to the Funding Agreement between the EDC and the City of Detroit, the goal of the project was to provide TechTown with funds for investment in promising high-tech start-ups to create jobs in emerging sectors of the economy. TechTown was tasked with providing funds to businesses and creating an environment where start-ups can take advantage of university research, student internship opportunities, and assistance in contract procurement, grant-writing, and consulting services.

Program Information

Between 2006 and 2018, TechTown operated several programs to support tech start-ups and local businesses. TechTown is continuing their efforts to support tech start-ups and local businesses by providing tech and business assistance programs, co-working, office space, meeting and event space. TechTown also connects entrepreneurs to resources, and learning and networking events in Detroit.

Through Casino Development funding, TechTown has administered the following programs:

- **Frontline Accelerator for Science and Technology (FAST)**
The FAST program was available to promising start-up companies at TechTown. FAST companies received a variety of free or low-cost consulting services, including market research, business plan writing, public relations and marketing, and human resources, as well as access to investment capital, legal help, information technology and other forms of professional support. Participants were also exposed to the Detroit Entrepreneurial Network, a support group of entrepreneurs, and the Great Lakes Angels, an investment group that targets entrepreneurial ventures.
- **SmartStart**
SmartStart was a business boot camp that offered entrepreneurs a series of focused workshops on subjects like product development, marketing and funding. Participants were paired with business mentors to develop a viable business plan and apply for financial assistance through TechTown. TechTown also provided participants with office space at its 440 Burroughs Street facility, technology expertise from Wayne State University faculty, and access to the web-based Angelsoft database to find angel investors.
- **Thrive One Fund**
The Thrive One Fund was established to ensure that the goals for Detroit were met through the investment in minority and women owned businesses in the City. The program provided loans to women and minority businesses that couldn't get standard business funding.

- **SWOT City**

SWOT City is a customized support program for brick-and-mortar small businesses in Detroit neighborhoods. The program provides coaching to businesses to help them:

- Determine priorities, define strategies, and set actionable goals.
- Develop and refine growth plans.
- Identify and navigate processes, including real estate purchase/leasing, permitting and licensing, grants and loans.
- Connect to a broad network of tools and resources, including technical assistance, subject matter experts, sources of capital, and professional services.

SWOT City, in partnership with community based organizations, is currently working in seven Detroit neighborhoods:

- Brightmoor (Brightmoor Alliance).
- East Jefferson (Jefferson East, Incorporated).
- Grandmont Rosedale (Grandmont Rosedale Development Corporation).
- Mack Avenue (Eastside Community Network).
- Osborn (Osborn Neighborhood Alliance).
- Southwest Detroit (Ford Resource and Engagement Center).
- University District.

Funding Information

According to the EDC Casino Development Funds Budget and Expenditure report dated September 30, 2018, TechTown had a budget of \$4,000,000. EDC revised the budget to \$3,040,936 and distributed the entire amount to TechTown. As of November 2018, TechTown has spent all Casino Development Funds received in accordance with the TechTown project's objectives.