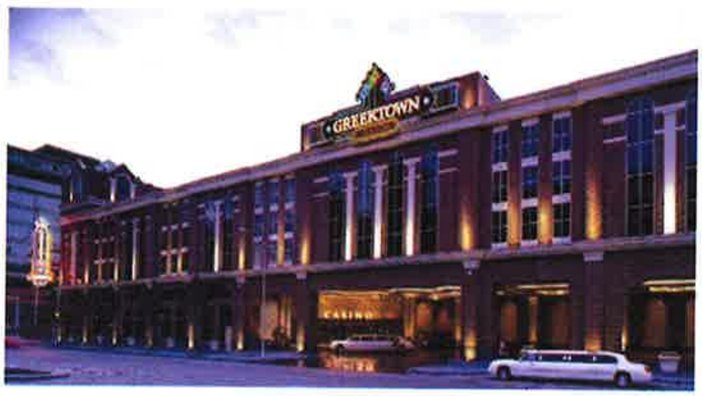
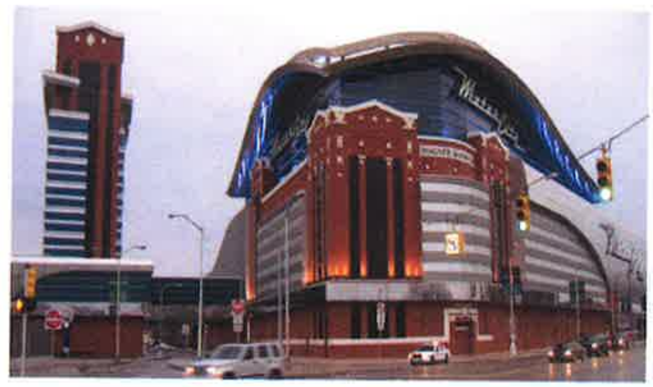
City of Detroit

OFFICE OF THE AUDITOR GENERAL






Audit of the Casino Development Fund

January 2020

CITY OF DETROIT

Office of the Auditor General

Mark W. Lockridge, Auditor General

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DATE: February 3, 2020

TO: Honorable City Council
Honorable Mayor Mike Duggan

FROM: Mark W. Lockridge, CPA
Auditor General

RE: **THE CASINO DEVELOPMENT FUND AUDIT**

CC: Glen Long, COO, EDC
Stephanie Washington, Esq., City Council Liaison
Gail Fulton, Assistance City Council Liaison
David Whitaker, Director, Legislative Policy Division
Casino Representatives

Attached for your review is our report on the Audit of the Casino Development Fund. This memorandum 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.

We would like to thank the employees of the Economic Development Corporation, the Casino Representatives, and the Casino Development Fund sub-recipients 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.

Contents

AUDIT PURPOSE, SCOPE, OBJECTIVES, METHODOLOGY AND CONCLUSIONS

AUDIT PURPOSE
The audit of the Casino Development Fund 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 Casino Development Fund. 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:

- Conduct an internal control and financial audit of the casino development funds, including the EDC's administration of these funds; the interest earnings and loan repayments associated with these funds; the expenditures of these funds, and the distribution of these funds to sub-grantees in accordance with the EDC/City of Detroit and EDC/sub-grantee funding agreements.
- 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 Fund 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

Based on our review of the Economic Development Corporation's (EDC) internal controls and financial transaction information, we concluded that EDC:

- Did not have appropriate internal controls for their loan process.
- Had sufficient supporting documentation for projects administered and managed by them.
- Did not have sufficient supporting documentation for financial expenditures for projects not administered by them.
- Did not have a process to monitor sub-recipients to ensure they were complying with their contracts and meeting the objectives outlined in their agreements.
- Had multiple bank accounts associated with the Casino Development Fund (see concern #1 below) which prohibited us from determining if enough interest had been earned to pay their annual fee.

We reviewed available financial reports and statements from sub-grantees and attempted to conduct a performance audit of each sub-grantee. The results of those audits are detailed in nine individual reports. To see the entire communications, please visit our web page on the City of Detroit website. In Appendix A on page 15, there is a brief description of each project, the outcomes and conclusions.

We further concluded that EDC:

- Submitted financial reports to the City which did not accurately reflect program and administrative expenditures.
- Has not given JEPAB their final payment from CDF per the Agreement.
- Failed to maintain sufficient supporting documents to verify expenditures and project outcomes for CDF projects.
- Did not have an effective marketing strategy for the CDF.

Concerns

1. The Casino Development Funds (CDF) were maintained in multiple bank accounts. This impeded our ability to determine if enough interest was earned to pay the administrative fee of $350,000 per year required in the Agreement. We could not determine if EDC earned enough interest to pay their annual administrative fee based on our review of bank statements and considering how funds were disbursed to EDC.

2. Although CDF has no timeline to expend funds, the Guide to the Project Management Body of Knowledge (PMBOK) defines a project as a temporary endeavor undertaken to create a unique product, service, or result. Temporary means that every project has a definite beginning and a definite end. The end is reached when the project's objectives have been achieved, or it becomes clear that the project objectives will not or cannot be met, or the need for the project no longer exists and the project is terminated.

3. There was a meeting request in June 2017 to discuss reprograming the remaining funds from the three loan projects administered by EDC. At the time of the request, EDC had $3,906,065.95 remaining as detailed in the table.

Project	Balance June 2017	Balance as of September 2019
National Regional Retail/Restaurant Chain Loan Project	$1,441,740.00	$1,356,175.45
Non-Affiliated Retail/Restaurant Chain Loan Project	275,000.00	275,000.00
Real Property Rehab Gap Fund	2,189,325.95	2,238,375.70
TOTAL	**$3,906,065.95**	**$3,869,551.15**

As of September 30, 2019, EDC still has $3.8 million remaining for the three projects. EDC as of September 30, 2019 has used $1.7 million dollars (see finding #3) to pay its annual fee of $350,000. With the existing loans in some projects not expected to be paid in full until 2024, EDC will likely have to use additional project funds towards their annual fee for the next four years. We believe that City Council and the Mayor's Office may want to revisit reprogramming the remaining funds and how to dispose of the CDF project. While allowed by their contract, the continued use of CDF to pay for administrative cost may not be the best use of the funds available.

4. In the annual communication to the City of Detroit (see Appendix B, page 31) dated March 8, 2019, EDC asserts that the City still owns $10.250 million to them for the project. We recommend that City Council ask the Law Department to opine on whether the City owes and must pay the remaining balance in light of the City's bankruptcy.

5. We are concerned that the language as it reads in the EDC and sub-recipients agreements, according to the Law Department, does not allow the OAG to audit as requested by the Legislative Policy Division in the October 2016 communication to City Council.

   All sub-recipients for seven projects not administered by EDC, had the following clause in their Agreements: "**City Council Audit** – Nothing contained herein shall be constructed or permitted to operate as any restriction upon the power granted to the Detroit City Council by the City Charter to audit and allow all accounts chargeable against the City of Detroit."

   During our audit of the CDF, we found that EDC did not have proper documentation to substantiate expenditures of some sub-recipients (see Finding #4, page 12). We decided to contact sub-recipients for documentation to substantiate expenditures citing the audit clause in the contract between EDC and the sub-recipient.

   We did not receive cooperation and documentation from one of six recipients. We asked the Law Department if we had the right to go to the sub-recipients' location and conduct an audit based on the language contained in the EDC/Recipient contract. A representative from the Law Department communicated the following to our office:

   Article 21 of the funding agreement clarifies that nothing in the agreement shall be construed to restrict the City's authority to audit all accounts chargeable against the City of Detroit. The Auditor General's authority to perform audits is set forth in Section 7.5-105 of the Charter. This authority is limited to accounts of City agencies and accounts that are chargeable against the City. The Sub-Recipient is not a City agency, and you have confirmed that the funding is not in an account that is chargeable against the City; rather, under the funding agreement, it is the EDC that has oversight authority over Sub-Recipient's activities and use of the funding.

   However, the EDC does operate under a professional services contract with the City [and] under Article 13 of this contract:

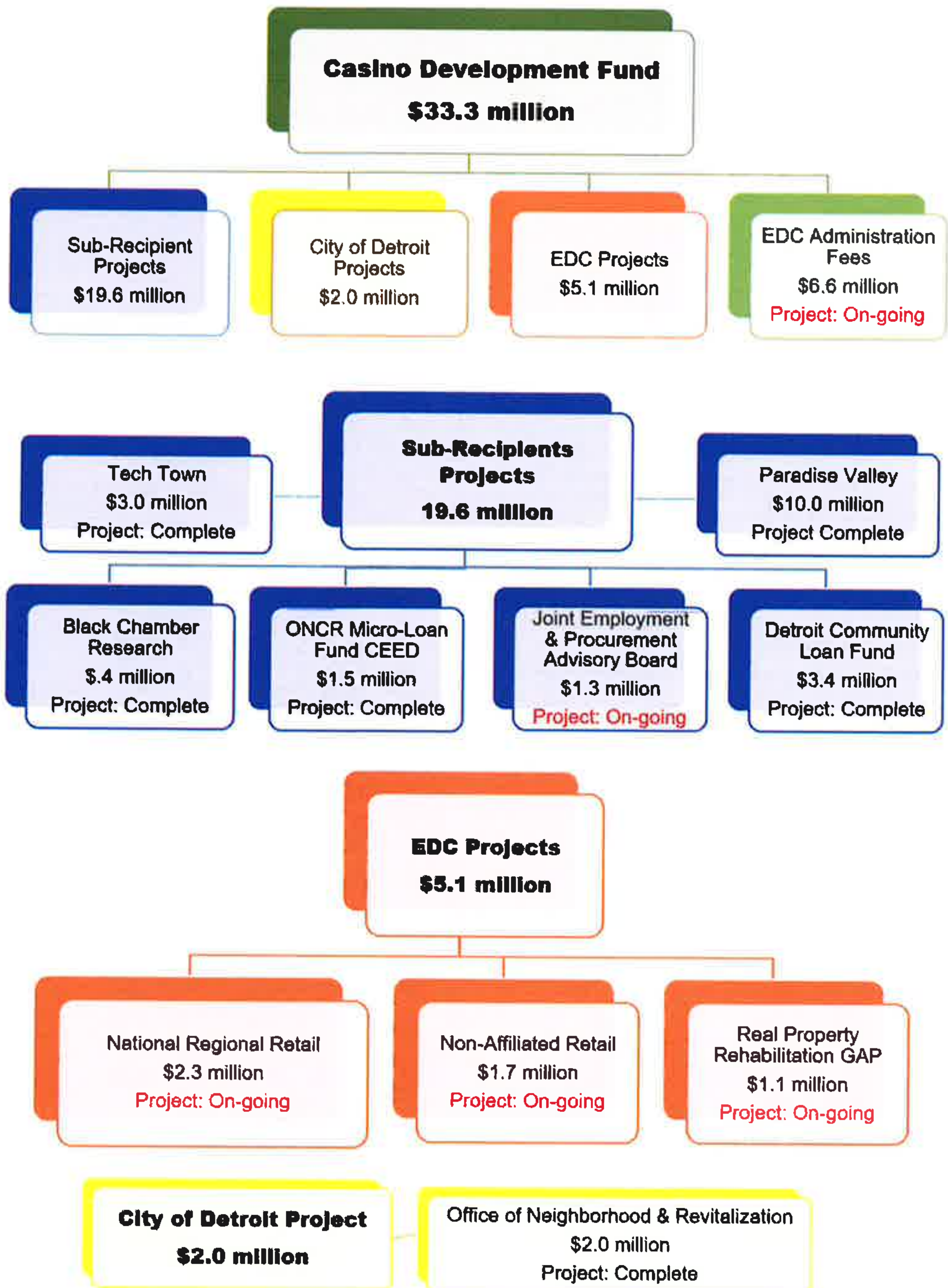
   - *EDC shall make available all books, documents, papers, records, and project sites directly pertinent to the Agreement for monitoring, audits, inspections and examinations by the City.*
   - *EDC shall keep full and complete records documenting all services performed under the Agreement.*
   - *EDC allows City representatives to make periodic inspections for the purpose of ascertaining that the EDC is properly performing the agreed upon services.*

   Through these provisions, the EDC may be obligated to provide complete records to the [Sub-recipient] to the City and, if such records are not in the EDC's *possession, to obtain such records from the [Sub-recipient]. Thus, given the [Sub-recipient's] refusal to directly provide the records that you have requested, you may want to consider engaging EDC to provide its [Sub-recipient] records and to compel [the Sub-recipient] to provide it with any records that have not yet been provided.*

It is important to note that the EDC's ability to obtain records from a sub-recipient is dependent on the terms of its contract with such sub-recipient and would have to be determined on a case by case basis.

Executive Summary

This is the Office of the Auditor General's final report on the Casino Development Fund (CDF). We have issued nine communications on the ten projects funded by CDF. This report has five findings concerning the overall management of the CDF project. We also have included five concerns related to the project and a Project Outcomes Section (Appendix A, page 15) which is a recap of the ten projects we audited funded by CDF.



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. The total Casino Development Fund is $32.5 million.

Economic Development Corporation

The Economic Development Corporation (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. The EDC engages in activities which strengthen and revitalize Detroit's economic base by promoting economic development and increased employment opportunities. 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 Detroit Economic Growth Corporation.

Funding

EDC acknowledges receiving $32.5 million in Casino Development Funds between March 2006 and September 2019. Currently EDC has $4,138,255.15 of CDF remaining for the three existing loan projects and the final payment for JEPAB.

Audit Findings

1. <u>The Economic Development Corporation (EDC) Did Not Have Proper Internal Controls Over the Loan Process</u>

We reviewed the loan process for the three loan projects managed by EDC. The projects were Real Property Rehabilitation GAP Fund, National Regional Retail Restaurant Chain Loan and Non Affiliated Retail/Restaurant Loan projects. Based on our review, we determined that there was a lack of internal controls as follows:

- EDC did not segregate incompatible responsibilities. The Financial Associate performs the following tasks:
  - Reviews all loan documentation from the applicant.
  - Receives loan payment from recipient.
  - Deposits the loan payment in the bank.
  - Updates amortization scheduled to reflect payment.
  - Updates loan access file.
- There were no written policies/procedures on how to record and or process loan payments received from borrowers.
- There was no verification or review of assets or audited financial statements provided by the loan recipient throughout the duration of their loan.

The State of Michigan Department of Treasury Accounting Procedures Manual for Local Units of Government in Michigan requires the following Internal Control activities:

- Duties must be segregated among different people to reduce the risk of errors or misappropriation. An individual is not to have responsibility for more than one of the three transaction components: authorization, custody and recordkeeping.
- Make sure that policies and operating procedures in every department are written down and communicated to employees.
- Ensure that records are reviewed and reconciled routinely by someone other than the preparer to verify that transactions are properly processed.
- Monitoring of systems to assess the quality of performance over time.

Inadequate internal controls may have the following consequences:

- May lead to many undesirable consequences including bad decisions, and perpetual errors in the accounting records.
- Failing to have written policies and procedures allows for processes not to be followed and standardized. Some loan recipients were missing required loan documents.

- Failing to review and verify assets of loan recipients can allow them to falsify information that would necessitate a review by EDC concerning the ability of the recipient to repay their loan.

We determined that changes in staff and staffing levels lead to one person being responsible for multiple function in the loan process.

Recommendations
We recommend that EDC:

- To the extent duties cannot be segregated – a review by an independent party should be performed.
- Create appropriate written procedures for recording and processing loan payments.
- Review and verify financial information required from and sent by loan recipients.

2. EDC Financial Reports to the City Do Not Clearly Reflect Program and Administrative Expenditures

We reviewed funds received for each of the ten projects funded by CDF. We determined that EDC discloses that funds have been reprogrammed in their annual report provided to the Director of Planning & Development. However the quarterly EDC Casino Development Budget report includes funds that had been reprogrammed to administrative cost in the amounts listed as disbursed to the projects. The table below shows the amounts EDC list on their report as disbursed to the projects and the reprogrammed column is the amount of funds that were reprogrammed for administrative fees.

These columns are from the EDC Financial Report Dated 9/30/2019		
Project	Amount Disbursed	Reprogrammed CDF
Office of Neighborhood Commercial Revitalization*	2,924,733.00	970,793.75
Paradise Valley Business and Entertainment District (African American Business District)	10,000,000.00	
Black Chamber Research	380,117.00	
Joint Employment and Procurement Advisory Board	1,251,764.00	
ONCR Micro-Loan Fund; CEED	1,500,000.00	
Tech Town	3,040,936.00	
Detroit Community Loan Fund	3,421,053.00	
Real Property Rehabilitation GAP Fund*	1,488,509.30	407,559.05
National/Regional Retail/Restaurant*	2,629,632.55	339,632.55
Non-Affiliated Retail/Restaurant Chain	1,725,000.00	
Sub-Total	**28,361,744.85**	**1,717,985.35**
EDC Administrative Fees*	4,900,000.00	
Total Amount of Casino Develop Funds Expended as of September 30, 2019.	**$33,261,744.85**	**$1,717,985.35**
* The reprogrammed CDF are included in this amount.		

The primary accounting standard-setting body in the U.S. is the Financial Accounting Standards Board (FASB). It is responsible for developing Generally Accepted Accounting Principles (GAAP), as well as updating the already developed GAAP to reflect changes in the ways companies operate. GAAP requires that accounting information, to be considered reliable, it must be verifiable, factual, and accurate.

Stakeholders reviewing the EDC report will erroneous believe $28,361,744.85 has been given to project recipients. However, $1,717,985.35 of project funds have been used by EDC to administer the projects. These funds are actually included in the $4,900,000 that EDC shows as EDC Administrative Fees.

We determined that EDC considers the administration of the project to be a program cost. Therefore, they occasionally reflect that cost in the project line instead of the Administration line of their report.

Recommendation

We recommend that EDC revise future reports to show the actual amounts provided to project recipients and how much of CDF is being reprogrammed for administrative cost.

3. EDC Has Not Given the Joint Employment and Procurement Advisory Board (JEPAB) Their Next Casino Development Fund (CDF) Payment

We reviewed the ten projects funded by CDF and determined that EDC has not provided JEPAB with their entire amended funding amount of $1,520,468. JEPAB has received a total of $1,251,764 from EDC for the project. As of June 30, 2019, EDC has not given JEPAB their final installment of $268,704.

The Third Amendment to the Funding Agreement By and Between EDC and JEPAB, dated April 12, 2016 reads in part:

> *EDC has heretofore transferred to the Recipient Funds in the amount of Nine Hundred Thirty-Eight Thousand Eight Hundred Twenty-Three and 00/100 Dollars to fund the Recipient Activities, as described in the Agreement.*
>
> *Section 1.01 of the Agreement is amended to increase the approved amount to the Recipient to One Million Two Hundred Fifty-One Thousand Seven Hundred sixty-Four and 00/100 ($1,251,764.00) Dollars with respect to the Funds to the Recipient.*

The Casino Representatives on June 6, 2017, expressed their concerns about JEPAB not being fully funded. JEPAB does not have the necessary funding to carry out their purpose to assist the Casinos Operators in involving local community organizations and business in support of achieving their goals of 51% Detroit resident employment and 30% procurement of goods and services from Targeted Businesses for the duration of the project.

EDC does not feel that JEPAB has provided requested documentation to receive their final payment of $268,704. We determined that based on the funding EDC has received so far, they reduced most recipients' budget to 76.2%.

Recommendations

We recommend that EDC:

- Provide JEPAB with their next payment of $268,704.
- Fund JEPAB at 100% of their budget for $2,000,000 since the Casino Agreements between the City of Detroit and the three casinos requires:

  > *The City will use an aggregate of Two Million Dollars ($2,000,000) from the Minority business Development Fund to fund the activities of the JEPAB which amount shall be in addition to those amounts paid to or received by JEPAB prior to the date of this Agreement.*

4. EDC Failed to Maintain Sufficient Supporting Documentation to Verify Expenditures and Project Outcomes

We requested information and reviewed EDC's documentation for the ten projects funded by the CDF. We determined that there was information for all the projects but it was not always sufficient to verify project expenditures and outcomes. The table below summarizes our review of the documents available to us for review.

PROJECT	Sufficient Documentation to Support Expenditures
Office of Neighborhood Commercial Revitalization (ONCR)	**No**
Paradise Valley Business and Entertainment District (African American Business District)	Yes
Black Chamber Research	**No**
Joint Employment and Procurement Advisory Board	**No**
ONCR Loan Fund; CEED	**No**
Tech Town	**No**
Detroit Community Loan Fund	**No**
Residents/Real Estate/Downtown/Riverfront Gap Fund	Yes
National Regional Retail/DDA	Yes
Resident Restaurant/Retail	Yes

We determined that six out of ten projects did not have appropriate documentation to support the projects outcomes and the expenditures claimed.

The Agreement between the City of Detroit and EDC necessitates under Article VI Data and Reports requires:

> **6.03** The EDC shall maintain full and completed books, ledgers, journals, accounts, documents and records in auditable form wherein are kept all entries reflecting all of its operations pursuant to this Agreements.
>
> **6.04** All records referred to in Section 6.03 shall be maintained by the EDC for three (3) years after the date of completed of the work.

We had to contact the sub-recipients to obtain supporting documents such as receipts, financial statements, bank statements, recipients' names, etc. Although many of the sub-recipients tried to assist us, because some of the projects date back to the early 2000's, they no longer had the requested records or information. Therefore, we could not determine if expenditures were appropriate for the CDF and we could not determine if the CDF program had achieved its stated goal.

We determined that EDC acted as a disbursing agent for the City. EDC believed that sub-recipients would maintain appropriate documentation according to their agreements that could be requested if needed.

Recommendation

We recommend at EDC maintain records that will substantiate the expenditures of recipients and sub-recipients until all CDF have been expended and the project is closed out.

5. EDC Did Not Have an Effective Marketing Strategy for the CDF

We reviewed EDC's website to determine what programs and sources of funds were available to Detroit businesses and individuals. We determined that in order to obtain information concerning programs, individuals must contact EDC directly to obtain this information.

The Small Business Administration (SBA) Business Guide recommends making a Marketing plan to persuade consumers to use your services. The SBA Business Guide suggest that a marketing plan contain the following elements:

- Target market
- Competitive advantage
- Marketing goals
- Marketing action plan
- Budget

Detroit residents are not aware of programs being offered by EDC. Residents who could have and would benefit from the CDF projects had no way to know about the program unless they knew a business or individual associated with EDC. After 15 years, EDC has not expended all available funds. EDC still has $4,183,255.15 available for the Casino Development Fund project.

According to EDC, the loan programs have been marketed by the Business Development staff of the DEGC as well as by Program Partners such as Invest Detroit and Detroit Development fund.

We determined that EDC does not have a marketing plan outside of word of mouth and relying on its contacts with the business community to refer and inform companies and/or individuals about their programs.

Recommendations

We recommend that the EDC develop a marketing plan that includes:

- A target market
- A budget and strategic plan
- Marketing concepts that are visible and prominent to Detroit residents incorporating:
    - Utilizing the Business Liaisons in each Detroit District
    - Public service announcements
    - Social media platforms
    - Attending City meeting such as night time City Council and District meetings to promote CDF projects

APPENDIX A
Projects, Outcomes and Conclusions

1. Office of Neighborhood Commercial Revitalization Project
The mission of the Office of Neighborhood Commercial Revitalization (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.

CONCLUSIONS
As a result of our audit of the 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 Outcomes
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.

PUBLISHED: August 9, 2018

2. Paradise Valley Cultural and Entertainment District[1]

The Detroit City Council wanted to create a business district showcasing the rich culture and significant achievements of African Americans in the City of Detroit (City). In an effort to improve the economic and social environment within the City, they authorized the creation of PVCED in an October 2004 resolution. The vision was to use African-American cultural influences to honor the legacy of Paradise Valley. PVCED is the area around the small triangular public space often called Harmonie Park.

In a resolution dated March 15, 2007, the EDC Board of Directors approved the Downtown Development Authority (DDA) to assume the responsibilities of the EDC in connection with the PVCED. The DDA was to use the CDF for all purposes consistent with the funding agreement including the reimbursement of the DDA for the acquisition of the properties to be devoted to the PVCED.

CONCLUSIONS

As a result of our audit of the Paradise Valley Cultural and Entertainment District (PVCED) project, we have concluded that:

Overall Audit Objective Results

- DDA spent the casino development funds in accordance with the project objectives.

Project Outcomes

- The DDA purchased properties and used casino development funds from EDC to reimburse the purchases of properties previously acquired by DDA and to obtain one final property for the project to establish PVCED.
- The DDA did use the $10 million in initial funding to purchase land.
- The DDA has not provided economic assistance to retail, commercial and entertainment businesses operating in the established district in the form of low interest rate loans. (See the Audit Summary and Recommendations on page 10 for additional information on this objective).

PUBLISHED: August 18, 2018

[1] Within the scope of the casino development fund and the casino development agreements, the Paradise Valley Cultural and Entertainment District (PVCED) is formerly known as the African American Business District.

3. Michigan Black Chamber of Commerce (MBCC)
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.

CONCLUSIONS
As a result of our audit of the Michigan Black Chamber Research project, we concluded that:

Overall Audit Objectives Results

- 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 Outcomes

- 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.

PUBLISHED: November 1, 2018

4. Joint Employment and Procurement Advisory Board (JEPAB)

The project objectives and goals for the JEPAB as stated in the City of Detroit and EDC Funding Agreement were to work closely with the Detroit Casino Developers to evaluate the effectiveness of, and recommend improvements to, Developer's respective programs to achieve their goals of not less than fifty-one percent (51%) Detroit resident employment and not less than thirty percent (30%) procurement of goods and services from Detroit-based businesses, Detroit resident businesses, minority business concerns, women-owned businesses and/or small business concerns; and assist the Developers in involving local community organizations and businesses in support of such efforts.

CONCLUSIONS

As a result of our audit, we have concluded that JEPAB did not:

  - Establish appropriate internal controls over financial processes.
  - Disburse funds in accordance with the Revised Casino Development Agreements, Social Commitments, Section 3.5(K).
  - Comply with the Funding Agreement between EDC and JEPAB – Conflict of Interest, Article XIII, Section 13.01 and 13.03.
  - Maintain records in compliance with the Funding Agreement between EDC and JEPAB – Data and Records, Article VI, Section 6.01-6.05.

- The City of Detroit Mayor's Office did not monitor nor assign a Department to monitor the activities of JEPAB.
- One out of the three Detroit Casino Developers has not achieved their goal of not less than fifty-one percent (51%) Detroit resident employment.
- All Detroit Casino Developers have continuously achieved their goals of not less than thirty percent (30%) procurement of goods and services from Detroit-Based Businesses, Detroit Resident Businesses, Minority Business Concerns, Women-Owned Businesses and/or Small Business Concerns.

PUBLISHED: March 1, 2019

5. Office of Neighborhood Commercial Revitalization (ONCR) Micro-Loan CEED 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."

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.

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.

PUBLISHED: June 11, 2019

6. TechTown Project

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.

TechTown operated several programs to support tech start-ups and local businesses. Through Casino Development funding, TechTown has administered the following programs:

- Frontline Accelerator for Science and Technology (FAST)
- SmartStart
- Thrive One Fund
- SWOT City

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.

PUBLISHED: June 11, 2019

7. The Detroit Community Loan Fund

The goal of the Detroit Community Loan Fund (DCLF) project 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.

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 $3,421,053 were spent in accordance with the Funding Agreement between EDC and DCLF due a lack of documentation.

We also could not conclude on whether the Detroit Community Loan Fund project 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.

PUBLISHED: October 22, 2019

8. Real Property Rehabilitation GAP Fund Project (Administered by EDC)
The project objectives and goals for the Real Property Rehabilitation Gap Fund is to foster greater investment in real property rehabilitation project by City of Detroit residents. The projects selected for this program were to be located along the Woodward Corridor (from Jefferson Ave. to Warren Ave.) and within the Central Business District area. All loans disbursed for the program were to be limited to real property rehabilitation projects owned, operated, and financed by City of Detroit residents with at least 60% ownership of the project.

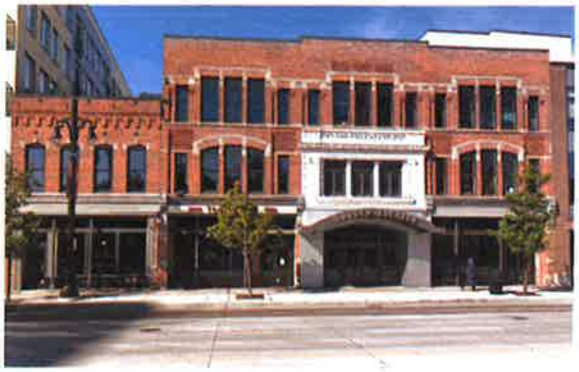
CONCLUSIONS
As a result of our audit we have concluded that:

- The Economic Development Corporation (EDC) did not effectively administer the application and approval process for the Real Property Rehabilitation Gap Fund project.
- The EDC did not properly service its loan portfolio resulting in a total of $89,031.70 in uncharged late fees as of April 30, 2018.
- EDC reprogrammed and used $407,559.05 of the Real Property Rehabilitation Gap Fund project funds for administrative cost. Under the funding agreement between the EDC 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.

Project Outcomes
- EDC has distributed a total of $1,080,950.25 in loans towards the project.
- Three loan projects were funded and completed.
- One project did not meet the project guidelines of Detroit resident ownership.
- One project did not receive approval from the EDC Board to receive funds form the Real Property Rehabilitation Gap Fund project.
- There is a total of $2,189,326.70 available for additional project loans.

PUBLISHED: October 24, 2019

Real Property Rehabilitation GAP Fund Project
Loan Recipient Information



Woodward Theater LLC-Woodward Garden Project

The Woodward Garden Project consist of six properties that were being redeveloped into a mixed use space within the lower Woodward Corridor. Woodward Theater LLC approached the EDC for funding to assist with the completion of Phase III of its Woodward Garden Project which consisted of the redevelopment of the Garden Theater. The Garden Theater was slated to be redeveloped into a mixed-use space with an entertainment venue on the ground floor and residential space on the upper floors.

Project Status: Business is open

Laughter in the Sun LLC-House of Pure Vin

Laughter in the Sun LLC is the parent company and owner of the House of Pure Vin. House of Pure Vin is a specialty retail wine store. Laughter in the Sun LLC approached the EDC for funding to assist with the remodeling and expansion of their retail space.

Project Status: Business is open

Julian C. Madison Building LLC

Julian C. Madison Building (JCMB) is a historic 7-story building. In January 2017, the building suffered water damage that necessitated additional renovations. Julian Madison Building LLC approached the EDC for funding to assist with remodeling, restoration and build-out of JCMB.

Project Status: In Progress

9. National/Regional Retail/Restaurant Chain Loan Project (Administered by EDC)
National/Regional Retail/Restaurant Chain Loan project was established to foster investment in national or regional recognized chain retail/restaurant ventures along the East Riverfront, along the Woodward Corridor (from Jefferson Ave. to Warren Ave.) and within the Central Business District area. Loans will be limited to a maximum amount of $500,000 or 40% of project costs, whichever is less.

CONCLUSIONS
As a result of our audit we have concluded that the Economic Development Corporation (EDC):

- Did not have an application process for the National Regional Retail Restaurant Chain and Non-Affiliated Retail/Restaurant Loan projects resulting in the inability to determine if proper documentation was submitted and reviewed for the loans approved.
- Reprogrammed and used $339,632.55 of the National Regional Retail Restaurant Chain Loan projects funds for administrative cost.

Project Outcomes

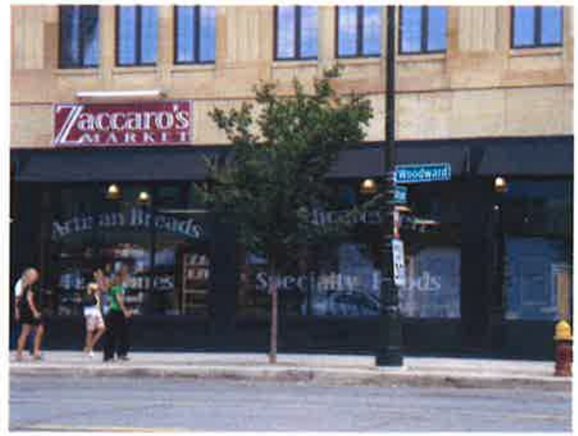
- EDC approved a total of $2,350,000 in loans for the project.
- Seven recipients received loans to fund retail/restaurant projects in various locations in the City.
- One recipient received more funding than the maximum allowed per the Funding Agreement.
- Two projects were outside of the geographical area specified in the Funding Agreement.
- As of June 2019, this project lost a total of $470,848.75 in loan repayments due to business failures.

PUBLISHED: December 17, 2019 (Joint Report with Non-Affiliated Retail Project)

National/Regional Retail/Restaurant Chain Loan Project
Loan Recipient Information

Northpointe Food Ventures, LLC
This loan was made to pay a portion of the costs associated with establishing and operating Zaccaro's Market. ***The market closed 10 months after opening.***

Project Status: Business is CLOSED

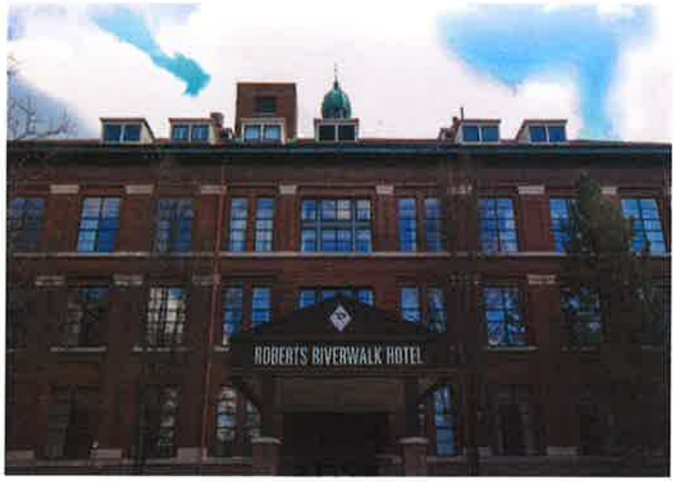


Roast Detroit, LLC
This loan was made to pay a portion of the costs associated with establishing and operating a world class restaurant in the Book Cadillac Hotel.

Project Status: Business is open

Downtown Foodland, LLC
This loan was made to pay a portion of the costs associated with establishing and operating a grocery store. ***The store closed five months after opening.***

Project Status: Business is CLOSED



Roberts Hotel Detroit, LLC
This loan was made to pay a portion of the costs associated with the renovation and reopening of the old Omni Hotel on the East Riverfront.

Project Status: Business is open

Seafood of Detroit, LLC
This loan was made to pay a portion of the costs associated with establishing and operating Joe Muer's Seafood Restaurant in the Renaissance Center.

Project Status: Business is open

Detroit Gateway Park Outlet Mall, LLC

The Detroit Gateway Outlet Mall is a 340,000 square-foot Meijer-anchored service oriented retail center. The project is situated on 36 acres of land located at the southeast corner of Woodward Avenue and E. Eight Mile Road, in Detroit, Michigan.

Project Status: Business is open

10. <u>Non-Affiliated Retail/Restaurant Chain Loan Project</u> (Administered by EDC)
Non-Affiliated Retail/Restaurant Chain Loan project was established to foster investment in in-fill ground floor retail/restaurant ventures along the East Riverfront, along the Woodward Corridor (from Jefferson Ave. to Warren Ave.) and within the Central Business District area. Preference will be given to full service restaurants and retail outlets providing services not otherwise available in the general neighborhood. Loans will be limited to a maximum amount of $200,000 or 40% of project costs, whichever is less.

<u>CONCLUSIONS</u>
As a result of our audit we have concluded that EDC did not:

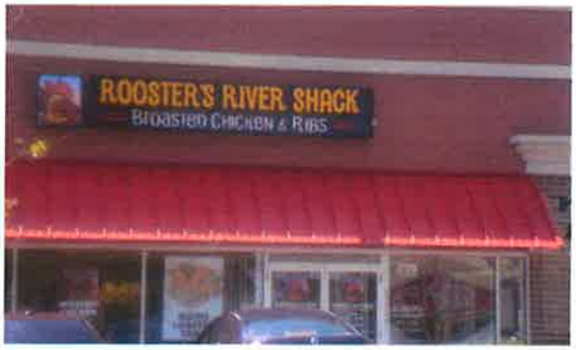
- Have an application process for the National Regional Retail Restaurant Chain and Non-Affiliated Retail/Restaurant Loan projects resulting in the inability to determine if proper documentation was submitted and reviewed for the loans approved.

<u>Project Outcomes</u>

- EDC approved a total of $1,725,000 in loans for the project.
- Nine recipients received loans to fund 10 retail/restaurant projects in the Downtown Detroit area.
- One recipient received more funding than the maximum allowed per the Funding Agreement.
- One project was outside of the geographical area specified in Attachment 1 of the Funding Agreement.
- As of June 2019, this project lost a total of $567,677 in loan repayments due to business failures.

PUBLISHED: December 17, 2019 (Joint Report with National/Regional/Retail Project)

Non-Affiliated Retail/Restaurant Chain Loan Project
LOAN RECIPIENT INFORMATION

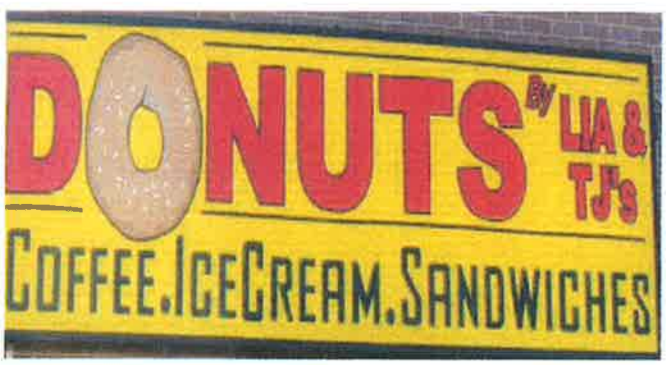


Classic Chicken LLC
This loan was made to pay a portion of the costs associated with establishing and operating Rooster's River Shack.

Project Status: Business is CLOSED

Angelia Bistro Inc.
This loan was made to pay a portion of the costs connected with the establishment of a restaurant.

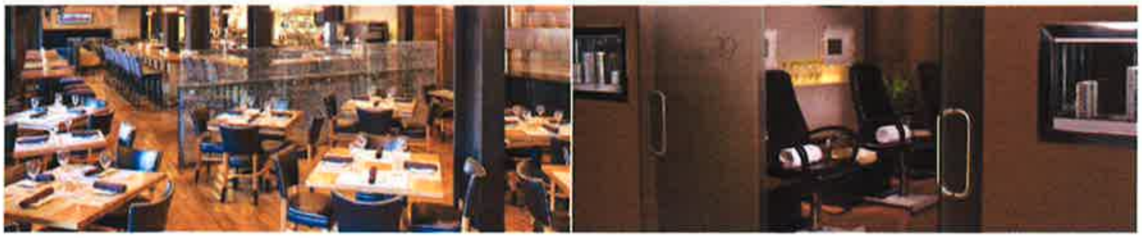
Project Status: Business is CLOSED



Lia & TJ's II
This loan was made to pay a portion of the costs associated with establishing and operating LIA & TJ's Tastie Donuts II, a bakery sales shop.

Project Status: Business is CLOSED

Bistro 24 LLC



This loan was made to pay a portion of the costs associated with establishing and operating Spa 19 and 24 Grille restaurant in the Book Cadillac Hotel. EDC approved the loan on the condition that funds were equally divided between the two projects.

Project Status: Business is open

Ye Olde Butcher Shoppe Inc.
This loan was made to extend assistance in the construction and opening of the shop. The company opened in October 2012 and closed in February 2014.

Project Status: Business is CLOSED

International Market Place Inc.
This loan was made to pay a portion of the costs associated with re-opening the long-closed London Chop House located in the Murphy Telegraph building.

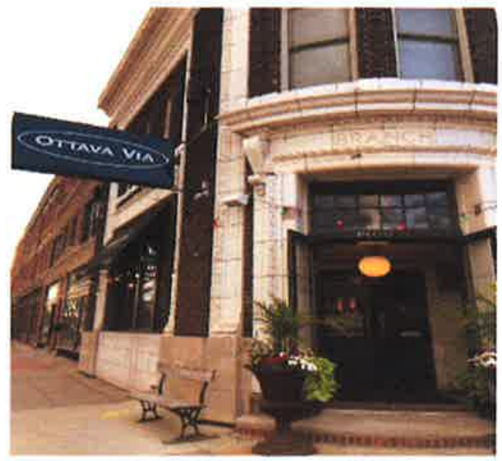
Project Status: Business is open

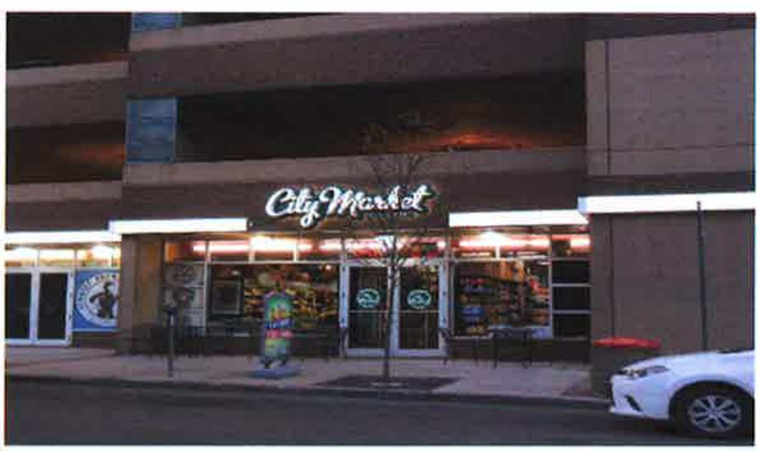
Rodin LLC
This loan was made to pay a portion of the costs associated with establishing and operating a restaurant, bar, nightclub in the Park Shelton.

Project Status: Business is CLOSED

Eight Street Ventures LLC
This loan was made to pay a portion of the costs associated with lease hold improvements at Ottava Via in Corktown.

Project Status: Business is open





Millender Center Food Plaza Inc.
This loan was made to assist in the remodeling and expansion of City Market in the Millender Center. Loan is current.

Project Status: Business is open

APPENDIX B

Economic Development Corporation of the City of Detroit

March 8, 2019

Mr. Maurice Cox
Director of Planning & Development
2 Woodward Ave, Suite 808
Detroit, MI 48226

Re: Casino Development Funds 2017-18

Dear Maurice:

Per the funding agreement between the EDC and the City of Detroit, I am providing you with this annual report on the Casino Development Funds.

As you may be aware, the EDC is to be paid its administration fee of $350,000 from interest proceeds earned on funds advanced by the City of Detroit. Unfortunately, the City decided to fund the program in installments instead of the lump sum that was originally agreed upon. Furthermore, the City was delinquent in each installment that it sent to the EDC for this program, and has never delivered the final $10,250,000 owed under the funding agreement.

Given the delays in payments, as well as the severe downturn in interest rates over the past several years, the program was only able to earn $113,542.78 in interest and fees. The program also received $90,033.47 in loan or other project receipts. Interest receipts were not enough to cover the administration fees for the program. The balance of the administration fees are therefore to be funded out of the principal amount as required under Article IV of the agreement.

As in prior years, per agreed upon investment policies, the money was being held in a mutual fund invested in governmental securities and a money market account. Given the continued downturn in interest rates, they were only earning 1.70% and 0.20% apy respectively as of June 30, 2018.

A listing of activity as of June 30, 2018 is included for your review. Feel free to contact us with any questions.

Sincerely,

Malinda Jensen

Malinda Jensen
Authorized Agent

Cc: Glen W. Long, Jr.

500 Griswold, Suite 2200 • Detroit, Michigan 48226 • (313) 963-2940

EDC
CASINO DEVELOPMENT FUNDS
06/30/18

	Original Budget	Revised Budget	Received	Balance
Receipts				
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	1,297,682.00	122,682.00
Proj Funds and Loan Repayments	3,025,000.00	3,025,000.00	3,835,412.99	810,412.99
	46,950,000.00	36,700,000.00	37,633,094.99	933,094.99

	Original Budget	Revised Budget	Disbursed		Balance
Expenses					
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
ONCR	7,000,000.00	2,924,733.00	2,924,733.00	x	0.00
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	1,376,094.33	x	2,350,790.67
Administration	4,200,000.00	4,200,000.00	4,200,000.00	x	0.00
	46,950,000.00	36,700,000.00	32,249,329.88		4,450,670.12
	0.00	0.00	5,383,765.11		5,383,765.11

ATTACHMENT A

EDC
Economic Development Corporation
City of Detroit
500 Griswold, Suite 2200
Detroit, MI 48226

TO: Mark W. Lockridge, Auditor General

FROM: Glen W. Long, Jr, Authorized Agent

DATE: January 24, 2020

RE: THE CASINO DEVELOPMENT FUND AUDIT

We are in receipt of your Final report concerning the Casino Development Fund (CDF). We recognize all the hard work that your staff has done in their auditing of the fund. We acknowledge some of their findings, while disputing others, and feel that their conclusions require further clarification. Our response is as follows:

FINDINGS AND RECOMMENDATIONS:

I. EDC Did Not Have Proper Internal Controls over the Loan Process

EDC Staff respectfully disagrees with this finding and the related recommendations for the reasons specified below.

1. EDC did not segregate incompatible responsibilities

EDC does segregate incompatible responsibilities. We have a three-person accounting staff comprised of an Accounting Associate, a Finance Associate, and a Controller. The Finance Associate manages cash receipts, the Accounting Associate manages cash disbursements, and the Controller manages journal entries and performs bank reconciliations among many other duties. In addition, we have a Chief Financial Officer (CFO) who reviews and signs off on all transactions. Finally, all agreements and check disbursements require two authorized signatories.

The Finance Associate handles all the loan information and makes deposits. All deposits are reviewed and approved by the CFO. Also, the bank reconciliations are performed by the Controller and reviewed by the CFO. Furthermore, the loan portfolio is reviewed monthly by the CFO and quarterly by the EDC's Finance Committee.

These accounting practices allow for accurate and transparent management of duties. Each role is properly defined and understood. There is no way to better segregate duties within an accounting department of three people.

The EDC undergoes a financial audit by an independent CPA firm every fiscal year. The basic structure of these processes has been in place for over 40 years and the EDC has not received a finding about segregation of duties in at least the last 28 years.

2. There were no written policies/procedures on how to record and or process loan payments

The Accounting Procedures Manual specifically details how to handle all cash receipts. While we acknowledge that it does not solely apply to loan receipts, most of the EDC's receipts are loan receipts so it was designed with those in mind.

Again, we rely on annual independent financial audits which have never determined that mistakes were made with the processing of loan receipts.

3. There was no verification or review of assets or audited financial statements provided by the loan recipient throughout the duration of their loan.

The Financial Associate verifies the assets at the time that a loan is being made. She further selects random loan recipients for site visits during each fiscal year.

We do not require audited financial statements from our borrowers. This finding highlights a fundamental difference between a traditional bank and an economic development agency. These Loan Programs were meant to provide "but for" financing and many of the loans are high risk and made to small businesses that may not be able to afford an annual audit. Staff sees no reason to change this policy and place an undue burden on the Detroit businesses that this program was designed to assist.

4. Recommendations

The auditor's recommendations as outlined, do not advance the fiduciary responsibilities of the EDC nor do these recommendations consider that the program guidelines were created to serve small business participants that find it difficult to qualify for traditional bank financing.

As described above, duties are already properly segregated and are reviewed annually by independent CPA firms that have yet to issue any findings with respect to the EDC accounting practices.

Written procedures already exist for cash receipts. While we do acknowledge that we could broaden the language to specifically include loan payments, we certainly do not agree that it rises to the level of an audit finding. When we next amend the Accounting Procedures Manual, we will expand this section of the manual to specifically reference procedures for loan payments.

Staff is already reviewing and verifying financial information and, for the reasons outlined above, we do not agree that a change in our policy to require Audited Financial Statements from our small business borrowers advances the intent of the program and we decline to make this recommended change.

II. EDC Financial Reports to the City Do Not Clearly Reflect Program and Administrative Expenditures

EDC Staff respectfully disagrees with this finding.

1. Overview

Approximately 15 years ago, the report format was established by City of Detroit personnel. The EDC agreed to submit reports using this format. While we acknowledge that report formats can change, these reports have been filed with various City Directors over the last 15 years with no requests for revisions.

We would also like to point out that in this finding the auditors state that the reports "***Do Not Clearly Reflect Program and Administrative Expenditures*** . . ."; however, in the "Conclusions" section of the report, the auditors state that the reports ". . . ***did not accurately reflect program and administrative expenditures***". While we are open to revising the report to clarify the information presented at the request of the City, we object to the implication that the reports are ***inaccurate***. There is <u>nothing inaccurate</u> about the current reports, which are reconciled to the penny every quarter.

2. Recommendations

As noted above, the reports are designed exactly as former City personnel requested and current personnel have not requested any changes. However, EDC staff is willing to present the reports in an alternative format if requested by the City, as long as that format continues the tradition of accurate and complete reporting that the contract called for and that the EDC has provided throughout the history of the program.

III. EDC has not given JEPAB their next CDF payment

1. Overview

This finding states that the EDC has not provided JEPAB with the final payment. EDC staff does not dispute this finding. As the report states, to date, this payment has been withheld by EDC staff because JEPAB has not provided the documentation EDC has requested.

2. Recommendations

EDC Staff objects to the recommendations relating to this finding.

We are surprised that the auditors would recommend that we provide a payment when we have not received adequate documentation. The recommendation is especially surprising in light of Audit Finding IV regarding sufficiency of supporting documentation. We will not release payment until JEPAB submits the requested documentation.

With respect to the second recommendation, the auditors recommend that we fund JEPAB at the original budget amount of $2,000,000.

Pursuant to the Funding Agreement between the City and the EDC, the City was obligated to transfer an amount equal to $42,750,000, from the following funding sources:

- $30,000,000 from Casinos ($10,000,000 each)
- $12,500,000 City funds from other casino payments
- $250,000 Community Development Block Grant Funds

Of the $32,500,000.00 transferred by the City to the EDC, it is our understanding that the City only funded the program in the amount of \$2,500,000. As a result, in May, 2016, the EDC Board determined that the additional City funding was likely not forthcoming and passed a resolution (see attached) that all subgrantees would only receive 76.02% of their originally budgeted amount (the same percentage that the EDC received from the City). In addition, the overall budget of the loan programs administered by the EDC was set at approximately 74.71% of the original budgeted amount.

If the City were to fund the additional \$10,250,000 that the Funding Agreement contemplated, then the EDC would be able to restore the original budgets for all existing sub-grantees, including JEPAB. Absent this additional disbursement, JEPAB will be capped at its revised budget of \$1,520,468 as set by the EDC Board.

IV. EDC failed to Maintain Sufficient Supporting Documentation to Verify Expenditures and Project Outcomes

1. Overview

This finding provides that EDC did not have sufficient supporting documentation to verify expenditures and project outcomes for six out of the ten projects funded by CDF. Notably, the auditors state that EDC maintained sufficient documentation for all of the projects that it directly supervised, but claims that the EDC did not maintain sufficient records for the non-EDC projects.

We do not dispute the auditors' assertion that our current records from outside sub-recipients may be incomplete; however, we note that this program is 15 years old and nearly all of the disbursements to entities outside of the EDC's control were made more than 10 years ago. Further, as noted in the report, the Funding Agreement itself only requires that records be "maintained by the EDC for three (3) years after the completion of the work".

2. Recommendations

The auditors pointed out that EDC Staff has maintained records that substantiate its expenditures for projects that are within direct control of the EDC. Staff will maintain this practice and is willing to increase its oversight of recordkeeping for the funding that has been disbursed to other sub-recipients.

We do note that this recommendation appears to conflict with the recommendation related to Audit Finding III, described above, which recommends releasing the final disbursement to JEPAB, in light of the fact that EDC has not released the final payment to date because JEPAB has not provided the EDC with the requested appropriate documentation.

V. EDC did not have an Effective Marketing Strategy for the CDF

EDC staff respectfully disagrees with this finding.

1. Overview

The auditors identify that the EDC has marketed this program primarily through word of mouth and through its Business Development team and program partners such as Invest Detroit and Detroit Development Fund. We have used this targeted, word of mouth, strategy because of the purpose and geographical restrictions that exist over the program. It is a revolving loan program and the EDC will always have money on hand for new loans because of that structure.

The EDC staff agrees that the loan programs should be revised in order to better deploy the remaining loan funds on-hand. In fact, in 2017, recognizing the need for gap funding for small businesses and other projects outside of the geographic boundaries, the EDC Board approved a resolution that would have removed the geographic restrictions currently on the funds and allocated $1.2 Million specifically for small business (see attached resolution). This resolution was adopted subject to approval by City Council of the revised program; however, due to the pendency of this audit EDC has not yet submitted a resolution to City Council for consideration.

2. Recommendations

The auditors recommend the development of a robust marketing plan for these funds. Given the current limitations on the use and the geographic limitation of the program funds, we do not agree that the time and expense that such a marketing plan would require would yield more eligible projects. Rather, EDC staff believes that removing certain of the restrictions, as approved by the EDC Board in 2017, will render the funds more accessible to Detroit resident projects and others with qualified projects citywide. Upon approval of the revised program, EDC staff intends to engage in a marketing of the program that uses various marketing strategies including certain of those suggested in the auditors' recommendation.

CONCLUSIONS:

Most of the conclusions described starting on page 2 of the audit report were further detailed in the report's findings and have been addressed by EDC Staff in this response. However, EDC Staff would like to address one additional conclusion and related agreement provision that was not covered by a finding.

As the report notes in several places, the EDC reprogrammed project funds for administrative costs. Section 4.01 of the Funding Agreement provides that the EDC will be compensated in the amount of $350,000 annually, payable from interest earned on the funds transferred under the agreement. Further, Section 4.01 provides that in the event interest income is insufficient to cover this administrative fee, ***the EDC is expressly authorized to reprogram the funds in order to cover this administrative expense***. We note that this reprogramming became necessary because the City's contribution to the program was $10,250,000 less than contemplated when the program was approved and also payments from the City were not made according to the agreed upon schedule, therefore the funds generated less income than anticipated.

With respect to these reprogrammed funds, the report concluded that EDC had multiple bank accounts which *prohibited* the auditor from determining if enough interest had been earned to pay the annual fee.

EDC staff respectfully disagrees with this conclusion.

When the program was created in 2005, the EDC Board requested that the funding be placed in a new account at what was then known as Detroit Commerce Bank (DCB). DCB was a Detroit Headquartered bank.

After the financial crisis of 2008, DCB's bank ratings fell and solvency concerns were raised. At that time, in accordance with good stewardship, the EDC Treasurer and EDC Staff agreed that it was important to diversify the holdings in several accounts across other banks (while still maintaining some funds at DCB). DCB was eventually acquired by Michigan Commerce Bank, which was acquired by Talmer Bank, which was then acquired by Chemical Financial, now known as TCF Bank. EDC still maintains some funds with this bank, but also has accounts at other financial institutions. While we do not dispute that the funds are spread across multiple bank accounts at multiple banking institutions, this was a measure adopted and maintained in order to exercise proper fiduciary responsibility over the funds during the economic downturn of 2008 and to protect the funds from future similar risks.

As far as determining the interest earned each year, we provided the auditors with all of the bank statements and with all of our general ledgers. The general ledgers provide a summation of all interest earned across all of the accounts, which can be verified against the various bank statements. While this may add an extra step in calculating and verifying that the interest earned necessitated the use of program funds to pay the annual fee, we disagree that multiple bank accounts *prohibited* the auditors from verifying this information. Further, we maintain that keeping the funds in separate bank accounts at separate institutions is in the best interest of the program and demonstrates the EDC's commitment to its role as fiduciary of these funds.

CODE EDC 16-05-74-35
(Amended at Table)

CASINO LOANS: ALLOCATION OF CDF FINAL PAYMENTS

WHEREAS, on November 1, 2005, the Economic Development Corporation of the City of Detroit (the "EDC") and the City of Detroit entered into a funding agreement for the Casino Development Fund Project for the intended amount of $42,750,000; and

WHEREAS, the agreement established several sub programs for the EDC to administer, and in addition provided for grants to be made to four sub-grantees: Joint Employment and Procurement Advisory Board (JEPAB) ($2,000,000), Tech Town ($4,000,000), Black Chamber ($500,000), and Detroit Community Loan Fund (DCLF) ($4,500,000) (the "Program");

WHEREAS, because payments from the City to the EDC were not made as scheduled and instead were made periodically, the sub-grantees were only paid a portion of their budget from each payment that the City made to the EDC and the sub-grantee agreements were amended with each subsequent payment that the EDC received from the City to reflect the total amount received to date by each sub-grantee; and

WHEREAS, earlier this year, the City made what staff believes will be the final payment to the EDC, bringing the aggregate amount paid to the EDC since Program inception up to $32,500,000, which amount represents approximately 76.02% of the expected funding; and

WHEREAS, since it is likely that the EDC will not receive any more funding from the City for the Program, staff has recommended that (i) each of the sub-grantees receive an aggregate amount of approximately 76.02% of their budgeted funding, bringing the sub grant amounts to $1,520,468 (JEPAB), $3,040,936 (Tech Town), $380,117 (Black Chamber), and $3,421,053 (DCLF) and (ii) in the event that the EDC receives more of its allocation for the Program from the City in the future, the EDC would contribute the corresponding percentage change to the sub-grantees (the "Proposed Final Allocations").

WHEREAS, the Board of Directors has reviewed staff's proposal for the Proposed Final Allocations and has determined that it is reasonable and in the best interests of the Program.

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors hereby approves the Proposed Final Allocations.

BE IT FURTHER RESOLVED, that any two Officers, or any one of the Officers and any one of the Authorized Agents or any two of the EDC's Authorized Agents, shall hereafter have the authority to negotiate and execute amendments to the sub-grantee agreements upon terms and conditions consistent with the Proposed Final Allocations, together with such other terms and conditions that are determined by such Authorized Agents and/or Officers to be customary or appropriate and not inconsistent with this resolution, and to negotiate and execute all other documents, contracts, or papers, and take all actions, necessary or appropriate to implement the provisions and intent of this resolution on behalf of the EDC.

BE IT FINALLY RESOLVED, that all of the acts and transactions of any officer or authorized agent of the EDC, in the name and on behalf of the EDC, relating to matters contemplated by the foregoing resolutions, which acts would have been approved by the foregoing resolutions except that such acts were taken prior to execution of these resolutions, are hereby in all respects confirmed, approved and ratified.

May 24, 2016

CODE EDC 17-06-74-38

Economic Development Corporation of the City of Detroit

PROPOSED AMENDMENTS TO EDC CASINO LOAN PROGRAM

WHEREAS, The Economic Development Corporation of the City of Detroit (the "EDC") currently administers a loan program using funds provided by the City and the casinos and authorized for specific uses by Detroit City Council in 2005 (the "EDC Casino Loan Program"); and

WHEREAS, funds under the EDC Casino Loan Program are currently allocated in 3 different loan programs, each subject to a geographic restriction of East Riverfront, CBD, and/or Woodward Corridor to Warren:

1. National regional retail/restaurant chain loan program ($1,441,740.80 balance)
2. Non-affiliated retail/restaurant chain loan program ($275,000 balance)
3. Real Property Rehab Gap Fund; "resident retail loan fund" (Qualifications: project must be owned, operated and financed by City of Detroit resident, minimum of 60% ownership entity is comprised of city residents, minimum 2 year residency requirement) ($2,189,325.95 balance)

WHEREAS, staff is seeking approval to amend the EDC Casino Loan Program to maximize fund impact and improve the performance of underutilized loan programs, as follows (the "Program Modifications"):

- Merge all remaining funds into one pot of money for use
- Add a 4th use, with a $ 1.2 Million allocation, primarily for EDC small business programs developed under CDBG sub-recipient agreement (including future programs), with flexibility to request loan for a business not participating in any EDC programs. Subject to future EDC Board approval, loans using these funds may be administered by another community lender for management of these funds.
- Remove geographic restrictions for all loan uses.

WHEREAS, the EDC Board has reviewed the proposed Program Modifications and believes it is in the best interests of the EDC Casino Loan Program and the promotion of economic development in the City of Detroit and is otherwise consistent with its statutorily mandated purposes.

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors hereby approves the Program Modifications, subject to, (i) the negotiation of a mutually acceptable amendment to the existing funding agreement between EDC and the City and (ii) City Council approval of the Program Modifications and related funding agreement amendment.

BE IT FURTHER RESOLVED, that any two Officers, or any one of the Officers and any one of the Authorized Agents or any two of the EDC's Authorized Agents, shall hereafter have the authority to negotiate and execute the amendment of funding agreement, any and all documents, contracts or other papers, and take such other actions

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necessary or appropriate to implement the provisions and intent of this resolution on behalf of the EDC.

BE IT FINALLY RESOLVED that all of the acts and transactions of any officer or authorized agent of the EDC, in the name and on behalf of the EDC, relating to matters contemplated by the foregoing resolutions, which acts would have been approved by the foregoing resolutions except that such acts were taken prior to execution of these resolutions, are hereby in all respects confirmed, approved and ratified.

June 27, 2017