March 27, 2013

The Honorable Gary Woronchak, Chairman
Wayne County Commission
500 Griswold, 7th Floor
Detroit, Michigan 48226

RE: Wayne County Consulting Project Financial Assessment Phase II

Dear Chairman Woronchak,

Pierce, Monroe & Associates, LLC (PM&A) performed procedures at the request of the Michigan Department of Treasury (Treasury) on validating the accounting and budgeting systems utilized by the Charter County of Wayne, Michigan (the County) in support of its Deficit Elimination Plan (DEP).

Attached please find a copy of the final report to receive and file.

If you have any questions regarding the information submitted, please contact me at (313) 224-0420.

Respectfully submitted,

Carla E. Sledge
Chief Financial Officer

Attachment
# DOCUMENT APPROVAL FORM

**Primary Control Number:** 13-31-018  
**Commission Approval Required:** ☑️

**Department Code:** 31  
**Requesting Contact Person and Department:** Carla E. Sledge, CFO

**Address:** 500 Griswold, 31st Floor  
**City:** Detroit  
**State:** MI  
**Zip:** 48226

**Description:** State of Michigan-Department of Treasury, Wayne County Consulting Project Phase II

<table>
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<th>Subsidiary</th>
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**Federal Funding Source:** ☑️  
**State Funding Source:** ☑️  
**Local Funding Source:** ☑️

*Entire compensation package (base salary and additional compensation, if any)*

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**Begin Date:**  
**End Date:**  
**Fiscal Year Amount:**

(Check X only required signatures)

**TOTAL APPROVALS REQUIRED ARE:**

Approved as to form: [2]

**Department Authorization:** ☑️

**Date:** 3-21-13

**Corporation Counsel:**

**Date:**

**Budgeting and Planning:**

**Date:**

**Personnel/Human Resources:**

**Date:**

**Grants Compliance and Contracts Mgt.:**

**Date:**

**Risk Management:**

**Date:**

**Chief Financial Officer:**

**Date:** 3-27-13

**CEO AUTHORIZATION:**

**Date:** 3-3-20

**Res:**

**Date:**

**Robert A. Ficano, Wayne County Executive**

**Date Approved:**

**Wayne County Commission**

M&B Rev. 10/2011
State of Michigan
Department of Treasury
Wayne County Consulting Project

Financial Assessment

Phase 2

January 31, 2013

Pierce, Monroe & Associates, LLC
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EXECUTIVE SUMMARY

Pierce, Monroe & Associates, LLC (PM&A) performed procedures for specific funds at the request of the Michigan Department of Treasury (Treasury).

PM&A performed procedures as documented in Treasury’s Statement of Work (SOW) 271B2200019, which are enumerated in detail within sections of this report. The adequacy of these procedures is the responsibility of Treasury. Consequently, PM&A makes no representation regarding the sufficiency of these procedures. The procedures included analysis of the County’s bank reconciliations, cash receipts, revenue collection allocations, GAAP analysis of receivables, grant cash receipts, receivable collection procedures, write-off of receivables, expenditure process, grant reimbursements drawdown, salary and wages, fringe benefits, operational activity for specific funds, and outstanding payables for the period under review (June 1 – August 31, 2012).

Our analysis included review of the County’s general ledger, current policy/procedure documents related to cash receipts, accounts payables, grant programs, contract authorizations, other related policies per SOW tasks, the 2011 Comprehensive Annual Financial Report, the 2011 Single Audit Report and various other documents, such as retirement actuarial reports and property tax assessment and equalization reports. PM&A also utilized information from supporting schedules, on-line detail transaction activity, and interviews with key personnel. Our scope included activities within the funds for the Office of the Wayne County Sherriff, the Office of the Wayne County Prosecuting Attorney, the Third Judicial Circuit Court and the Department of Children and Family Services.

Procedures Performed for Phase 2:

- Section 2a. Deleted from the SOW scope at the direction of the State of Michigan Department of Treasury.
- Section 2b. An analysis of bank account reconciliations for the most recent three months completed to include the following (not to include the month previously tested as part of Phase 1): (1) reconciled book balance equals general ledger balance by fund, (2) whether the reconciliation was completed within six weeks after month end by fund, and (3) segregation of duties in bank reconciliation process by fund.
- Section 2c. An analysis of cash receipts to include the following: (1) from a sample of 10 cash receipts from the same period as the cash reconciliation testing the timing in days between the receiving of cash and bank deposit, and (2) for the same transactions also report on the timing in days between the receiving of cash and the recording of the transaction.
- Section 2d. An analysis of revenue collection allocation to include the following: (1) from a sample of 10 revenue collections requiring allocation from the same period as the reconciliation testing the timing in days between the receiving of cash and the allocation to funds as required, and (2) for the same transactions also report on the timing in days between the receiving of cash and the recording of the allocation.
- Section 2e. Deleted from the SOW scope at the direction of the State of Michigan Department of Treasury.
- Section 2f. An analysis from a sample of 10 transactions from the same period as the reconciliation testing an analysis of the GAAP recording of a revenue and receivable as applicable, including the number of days between GAAP basis existence of a receivable and the recording of the receivable.
- **Section 2g.** An analysis from a sample of 10 grant cash receipts for the same months covered by the reconciliation testing as to: (1) whether the grant was a reimbursement grant, (2) how many days after grant funds became available that a billing or drawdown request was made, and (3) how many days after request was cash received.

- **Section 2h.** A memo on the methods used for the collection of receivables (other than tax related receivables) and include a calculation of the average days outstanding for each month of the examination period.

- **Section 2i.** A memo on the process, authorization, recording and overall segregation of duties of the write off of receivables. (1) As part of the memo and for the fiscal year to date provide the number of receivables written off and the dollar amount of receivables written off (other than tax related receivables).

- **Section 2j.** A memo on the following: (1) any opportunities for revenue and/or receivable process improvement, and (2) any opportunities for additional revenue sources.

- **Section 2k.** A memo on the process, authorization, recording, and overall segregation of duties of the expenditure process.

- **Section 2l.** An analysis from a sample of 10 transactions from the same period as the reconciliation testing the following: (1) whether the accounts payable were recorded on a GAAP basis, (2) whether the transactions were properly processed, authorized, and recorded, and (3) based on contractor judgment, whether any expenditures seem questionable by nature, amount, or circumstance.

- **Section 2m.** From a sample of 10 (ten) grant drawdowns, reimbursement request, or period cost summary test the following: (1) for direct wages verify the allocation of wages and propriety of wages, (2) for staff allocated to multiple funding sources verify compliance with the time keeping requirements, (3) for other costs verify proper and complete support for expenditures, (4) for grants where case files are to be kept, review at least one case file for completeness, and (5) for any vendors utilized attempt to verify whether there are any potential conflicts of interest with department, vendors, or other related entities.

- **Section 2n.** Prepare an analysis of the areas identified for the application of the procedures herein, specifically the following areas: (A) Office of the Wayne County Sheriff, (B) Office of the Wayne County Prosecuting Attorney, (C) Third Judicial Circuit Court, and (D) Department of Children and Family Services. (1) The analysis must focus on any aspects of the operations which may contribute to the County’s deficit and/or result in major variances from the County’s approved budget. Provide, when applicable, recommendations which may assist in complying with sound management practices and/or reducing the County’s deficit.

- **Section 2o.** A memo on the management of outstanding accounts payable including the process of reviewing aging payables, authorization of payment, processing of checks, and overall segregation of duties.

- **Section 2p.** A memo on the following: (1) any opportunities for expenditure and/or payable process improvement, and (2) any opportunities for reductions in expenditures both short term and long term.

- **Section 3.** The contractor may provide as part of the report any ideas on opportunities for Treasury’s Office of Fiscal Responsibility to improve its processes.

- **Contract #271B2200019, Change Request #6, Section 1.022.** Provide and prepare a report covering the following: (a) a review of the outstanding delinquent tax note covenants regarding reserve requirements, (b) a review of year-end transfers within the delinquent tax fund and sub-funds, (c) a review of current year payments on the delinquent tax notes, (d) a review of current year delinquent tax collections, (e) a re-computation of the delinquent tax reserve requirement indicating: (i) the reason for the restriction (authority restricting), and (ii) the calculation of the restriction amount.
Summary of Key Findings/Observations:

- There were numerous accounts where the budgeted amounts varied substantially from current year activity and/or had no budgets. Also, it was noted that current year budgets were often reduced in comparison to prior year budgeted amounts even in cases where there were significant unfavorable budget-to-actual variances in the prior year. The latter was not accompanied with a rationale/strategy to reduce actual expenditures.

- The County established two budget accounts called the "Mandatory Credit" and the "Cost Recovery-Personnel and Fringe Benefits." These accounts had credit balances that amounted to $16,237,099 in the General Fund and were used to offset budgeted expenditures. The first account was set up to apply a mandatory credit to a department's overall budget to bring that fund's budget in line with the CEO's recommended budget. The second account was to recognize employee concessions such as furlough days, increased medical co-pays, etc. No actual amounts were ever recorded in these accounts. The credits allowed departments to increase their line item expenditure budgets. This practice did not appear to be very effective as a budget tool as departments continued to exceed their budgets.

- During our review of cash transfers within the delinquent tax revolving funds (DTRF) we noted numerous transfers of unrestricted cash balances to restricted accounts. There were no intra-fund receivables and payables recorded when these transfers were made. While we recognize that intra-fund receivable and payable balances are typically eliminated when the DTRF funds are combined and reported, this practice potentially distorts DTRF net asset balances and the accounting for those balances. Care should be taken to properly account for unrestricted funds that by statute revert back to the County.

- We noted a possible segregation of duties (SOD) issue with the Treasurer's Office regarding the handling and/or processing of unrestricted delinquent tax proceeds. The Treasurer is in a very unique role as custodian of all County cash and, also, as “agent or administrator” over the Delinquent Tax Revolving Funds (DTRF). In addition, the County Commission has granted special authority to the County Treasurer over essentially all matters pertaining to DTRF, including unrestricted DTRF assets. As a result of these various roles, the County must ensure that strong compensating controls are established. We did not observe any significant oversight being performed by the Department of Management and Budget. The general premise of SOD is to prevent one person or group from having both access to assets and responsibility for maintaining the accountability of those assets. The principal incompatible duties to be segregated are custody of assets, the authorization/approval of related transactions affecting those assets and the recording/reporting of those related transactions. We believe the processing of DTRF transactions, including fund transfers of unrestricted DTRF assets, should still follow normal County internal control protocol.

- We reviewed supporting documentation for a reimbursement request for the Treasurer's Office administrative expenses and noted that the supporting documentation consisted of a copy of the budgeted line item. There was no actual supporting documentation for this reimbursement request. While the County Treasurer is authorized to receive reimbursement for administrative costs, those reimbursement requests should be based on actual expenses incurred.
• The County does not have a formal policy for retention or distribution of surplus DTRF proceeds. While it should be everyone’s goal to ensure that the DTRF maintain a strong and stable corpus to facilitate payment of future delinquent real property taxes to the local taxing entities and to meet annual debt service requirements, PM&A believes the County and the Treasurer should develop a formal policy that would define the retention and/or distribution of surplus DTRF proceeds. The policy statement should, at a minimum, establish goals and objectives for the following:

1. Provisions to assure that adequate reserves are maintained within the DTRF, to facilitate prompt payment of all current and future outstanding general obligation limited tax notes, as well as to ensure the continuation of the DTRF. The County may want to consider maintaining a long-term general fund advance in the DTRF to permit continued market access and to otherwise assure funds will be available.

2. Establish a process or formula for making planned annual transfers from the DTRF into the General Fund while maintaining a sound financial position in the DTRF. In making that determination, net assets should be the operative measure, in accordance with GASB 34, and not cash on hand.

3. The policy should outline a framework for improved intergovernmental communication and coordination. It is imperative that the County, particularly the Department of Management and Budget and the Treasurer's Office, share common financial goals and objectives that should be geared towards improving the County's overall long-term financial position and bond rating. For instance, decisions regarding debt issuance and the use of surplus DTRF proceeds should be planned and coordinated with the goal of maximizing the County's overall financial position.

• The Sheriff’s department routinely deploys officers assigned and budgeted to the jail to other assignments outside of the jail, such as the Tether Unit or Drug Enforcement Unit. Other officers then cover the jail assignments on overtime. There is no reallocation or reconciliation of these added costs to the units receiving the actual services. The total cost including overtime is borne by the jails.

• The Sheriff's Office is using approximately 20 officers currently budgeted in the jail and in other positions such as the Tether Unit or Drug Enforcement Unit to perform case management and offender monitoring services. The budgeted positions are being back filled via overtime. We recommend that the Sheriff’s Office replace these officers with retired officers. Advantages include lower salaries and flexibility. These officers can be employed part or full time.

• While Court security services provided by the Office of the Sheriff totaled $16.7 million for FY 2011-12, we understand that the current agreement for security services is not evidenced by a written memorandum of understanding (MOU), but, is based on an informal verbal agreement between the Office of the Sheriff and the Courts. Charges for security services are based on budgetary allocations and not on actual costs for services performed. Accounting entries are prepared monthly by the Department of Management and Budget based on budgetary allocations. There is no periodic accounting or other reconciliation of actual Sheriff's personnel being compared to budgeted personnel. The Third Circuit Court, Office of the Sheriff Department, of Management and Budget office should draft an agreement that would specify the number and classification of officers and other personnel assigned, for deployment of personnel and the required monthly administrative and accounting procedures.
During our review of bank reconciliations prepared by the Wayne County Treasurer's Office (WCTO) and Department of Management and Budget (M&B), we noted that the WCTO did not prepare and review/approve bank reconciliations for two Controlled Distribution (imprest) accounts. Nor does the general ledger cash accounts, maintained by M&B, account for the reconciled balances in these two bank accounts. Moreover, we found the County's General Pool general ledger cash account(s), which includes these two bank accounts, did not recognize the outstanding checks written against these accounts at month end. The outstanding checks ranged from $0.5 to $1.5 million, and the average was approximately $1 million. As a result, the general ledger cash accounts were overstated by the amount of outstanding checks at the month end dates tested for June, July and August 2012.

The Wayne County Treasurer's Office (WCTO) did not make timely corrections to its ResIQ2, cash ledger system for identified and necessary adjustments. During our review of the WCTO May 2012 bank reconciliations, we noted that differences existed between the reconciled bank statement balances and the balances in its ResIQ2 system for some Cash Pools; however the necessary corrections were not posted to the ResIQ2 system until months after they were identified. We also found where an error in an inter-fund transfer of funds between the General and Building Cash Pools was identified in March 2012, but the correction did not occur until July, the amount of the error was approximately $40,000. Though the amount is not material, best business practices require that all known and identified errors be corrected when discovered to ensure that cash balances per the WCTO ResIQ2 and related general ledger cash accounts are as accurate as possible.

The County uses the cash pools to account for its cash. Each general ledger cash account is linked to a specific cash pool and the cash within a pool is maintained in one or more bank accounts or investments. By far the largest of the County's 11 pools is the General (GEN) Cash Pool. The GEN Cash Pool's cash balance at August 31, 2012 was approximately $241 million. Our review found that over the three-month period of our review, on average, 25 of 138 funds in the GEN Pool had combined negative cash balances of $(210) million. The General Fund, which is included in the GEN Pool, had a combined average negative cash account balance of $(104) million. We noted that the cash pool system does not have a mechanism in place to segregate restricted cash receipts and related accounts in a pool from being used for purposes other than that for which they were intended.

As of December 14, 2012, the State of Michigan Legislature approved and the Governor signed Public Act No. 376 of 2012 (Act) that essentially removes the Detroit Wayne County Community Mental Health Agency (Agency) as a unit of County government. Specifically, the Act requires the Agency to be formed as a Community Mental Health Authority and be recognized as a “public governmental entity separate from the county.” The Act requires the formation change to occur October 1, 2013. Over the years the Agency has received receipts of as much as $500 million annually, which are included in the County's Cash Pool system. Over the period of our review, it appears a majority of the cash related to the Agency's operations is recorded in two cash pools, the General (GEN) and Mental Health (MHI SF). Our analysis, conducted during both Phase 1 and 2, indicates the cash pool process does not segregate all restricted cash, such as the Agency's cash, from being used by other Funds in the county. Our analysis further indicates that there is a likelihood the Agency's cash in the GEN Cash Pool cash is used by other funds of the County to cover their operating cash needs. The Agency's portion of cash in the GEN Cash Pool represents approximately 40 percent of
its total cash balance over the three month-end dates of June, July, and August 2012. The Agency’s cash balance over that period ranged from $92 million to $111 million, whereas the General Fund portion of the GEN Cash Pool cash balances over the same period ranged from $(68) million to $(111) million. Therefore, the loss of the Agency’s cash inflow for the County’s cash pool system could cause the County to have serious cash flow challenges when it is formally separated and becomes an Authority.

- The Undistributed Tax Receipts fund is a trust fund through which all of the County tax revenues flow. Controls were lacking to ensure that all property tax receipts are properly recognized and allocated on a timely basis. It is critical that property tax accounting reconciles taxes allocated with taxes received by treasury management, to ensure that all taxes are properly allocated on a timely basis. This procedure should be performed on a daily basis. Any exceptions should be timely followed up with the municipality involved.

- The County's current activities related to the management of outstanding payables consists primarily of the distribution of a monthly payment monitoring report “Unpaid Items More than 30 Days Old.” However, this report does not age the payables and there is no central coordinated follow-up or resolution of disputed accounts. Managing accounts payable is a major control activity, and proper cash management requires appropriate aging and reporting of outstanding payables to identify patterns of delinquencies, identify areas where payment efforts should be concentrated, help manage cash flow, reduce and/or eliminate the possibility of duplicate payments, and assist management with achieving its goal related to timely invoice payments. Proper internal controls should ensure that approved payments are made within the agreed upon terms. The development of an aged payables report listing all open items is critical to proper cash flow management, and analysis of cash flow statements to determine funding requirements and availability. An aged monthly outstanding report should be shared with the Accounts Payables manager once developed, and periodic follow-up with department heads established for accountability and timely resolution.
BACKGROUND

Pierce, Monroe & Associates, LLC (PM&A) performed procedures at the request of the Michigan Department of Treasury (Treasury) on validating the accounting and budgeting activities for various funds of the Charter County of Wayne, Michigan (the County) which may have contributed to its accumulated deficit.

THE SCOPE/METHODOLOGY

PM&A performed procedures as documented in Treasury’s Statement of Work (SOW) 271B2200019, which are enumerated in detail within sections of this report. The adequacy of these procedures is the responsibility of Treasury. Consequently, PM&A makes no representation regarding the sufficiency of these procedures. The procedures included analysis of the County’s bank reconciliations, cash receipts, revenue collection allocations, GAAP analysis of receivables, grant cash receipts, receivable collection methods, write off of receivables, expenditure process, grant reimbursements, salaries and wages, fringe benefits, other operational activity of specific funds, and outstanding payables for the period under review (June 1 – August 31, 2012).

Our analysis included review of the County’s general ledger, current policy/procedure documents related to cash receipts, accounts payables, grant programs, contract authorizations, other related policies per SOW tasks, the 2011 Comprehensive Annual Financial Report, the 2011 Single Audit Report and various other documents, such as retirement actuarial reports and property tax assessment and equalization reports. PM&A also utilized information from supporting schedules, on-line detail transaction activity, and interviews with key personnel. Our scope included activities within the funds for the Office of the Wayne County Sheriff, the Office of the Wayne County Prosecuting Attorney, the Third Judicial Circuit Court, and the Department of Children and Family Services. The procedures, as outlined in the SOW were applied to the funds listed below:

- **Office of the Wayne County Sheriff**
  
  Fund 101  
  Fund 265  
  Fund 266  

- **Office of the Wayne County Prosecuting Attorney**
  
  Fund 101  
  Fund 265  
  Fund 282  
  Fund 292
**Third Judicial Circuit Court**
- Fund 101
- Fund 292
- Fund 834
- Fund 835
- Fund 836

**Department of Children and Family Services**
- Fund 101
- Fund 281
- Fund 292
- Fund 297

**SOW PROCEDURES – PHASE 2**

Outlined herein are the results of the Phase 2 SOW procedures by each section. We have documented our findings in Appendix 1:

<table>
<thead>
<tr>
<th>SOW Finding</th>
<th>These findings are SOW section specific. They relate to the procedures outlined within the SOW section. These findings are documented under the heading “SOW Procedure Findings.”</th>
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**SOW Phase 2 Section 2a**

2a. Deleted from the SOW scope at the direction of the State of Michigan Department of Treasury.
2b. An analysis of bank account reconciliations for the most recent three months completed to include the following (not to include the month previously tested as part of Phase 1):

1) Reconciled book balance equals general ledger balance by fund.
2) Whether the reconciliation was completed within six weeks after month end by fund.
3) Segregation of duties in bank reconciliation process by fund.

The physical custody and accounting for the County of Wayne, Michigan’s (County) cash is the responsibility of both the Wayne County Treasurer’s Office (WCTO) and the Department of Management and Budget (M&B). The duties and responsibilities of the WCTO and M&B are prescribed by applicable State statute(s), County Charter, Ordinances and Resolutions. In summary, the WCTO, among other duties, is required to receive, manage, and disburse all receipts or financial resources and serve as a custodian of County cash. The M&B is responsible for properly maintaining the financial books and records of the County, including the recording of cash transactions in its general ledger. As a result of the separate and distinctive duties and responsibilities of each of these areas in the County, the bank reconciliation process requires the coordination of both WCTO and M&B and creates an appropriate segregation of duties in the bank reconciliation process; whereby the WCTO receives all receipts and M&B accounts for all receipts in the County’s general ledger of accounts.

The County, like many other large governmental and private sector entities, utilizes a Cash Pool approach to manage and account for its cash. In essence, this means there is not a one-to-one relationship for each General Ledger cash account to a bank or investment account. Instead, a group of General Ledger cash accounts are combined or pooled together to create a single Cash Pool. A Cash Pool may consist of one or several bank accounts and/or investment instruments. During our scope period of analysis, June, July, and August 2012, the County maintained 11 Cash Pools that consisted, on average over the three-month period, of 665 General Ledger cash accounts across the County’s many Funds.

The bank reconciliation process at the County is segregated between the WCTO and M&B in the following manner.

- The WCTO reconciles the monthly bank /investment statements to its cash ledger system that is maintained by Cash Pools. The system is known and referred to as “ResiQ2.”

- The M&B reconciles each of the WCTO Cash Pool balances to the applicable General Ledger cash account balances that combined make up each specific Cash Pool.
Procedures Performed

In order to perform the applicable SOW procedures for this section, we met with appropriate officials and personnel from the WCTO and M&B to confirm that the processes and procedures that both undertake to ensure the reconciled bank cash balances are properly reflected in the County’s general ledger were unchanged from those conveyed and in place during Phase 1.

Both the WCTO and M&B confirmed that the processes and procedures were unchanged from those conveyed during Phase 1; as a result, we requested and received the June, July, and August 2012 bank and cash reconciliations prepared by the WCTO and the M&B, respectively. Specifically, we received from the:

- **WCTO** - The June, July, and August 2012 bank reconciliations (bank/investment statement balances reconciled to Cash Pool balances in the ResIQ2 system). Included with the reconciliations were applicable bank and brokerage statements, certificate of deposit notifications, bond issuance prospective(s)(in most instances they were originals), and the detail Cash Pool ledger balances from the ResIQ2 system. We also received a summary schedule or lead sheet that compared the reconciled bank/investment statement balances for each Cash Pool to amounts recorded in the ResIQ2 system (or cash ledger).

- **M&B** - The June, July, and August 2012 Cash Pool reconciliations (reconciled WCTO ResIQ2 cash ledger balances by Cash Pool to the applicable General Ledger cash account balances by Cash Pool). We also received a schedule of all General Ledger cash account balances by Cash Pool for each month. Other documents were also provided that support the numerous adjustments contained on the reconciliations.

The specific procedures we performed related to the SOW item were generally consistent with those performed during Phase 1, and included, but was not necessarily limited to, the following:

a. On a test basis, footed the reconciliations for mathematical accuracy.

b. Obtained explanations and assessed the appropriateness and reasonableness of significant adjustment amounts.

c. For WCTO bank reconciliations, we agreed the bank/investment balance amounts at the top of each reconciliation to the actual bank/investment statement “ending balance” amount.

d. For M&B cash reconciliations, we agreed the amount at the top of the Cash Pool reconciliations, noted as WCTO balance, to the actual WCTO ResIQ2 cash ledger balance by Cash Pool.

e. We compared: 1) the reconciled WCTO ResIQ2 cash ledger balance per Cash Pool to; 2) the applicable General Ledger cash account balances by Cash Pool.

f. For each of the reconciliations provided by the WCTO and M&B, we recorded and noted the date it was prepared and reviewed/approved; then compared that date to the six (6) week date subsequent to the month end date.
g. We performed an array of analyses on the schedule of General Ledger Cash Account Balances, by Cash Pool, provided by M&B.

**Results of Procedures Performed**

Based on the procedures performed, the reconciled bank balances, per Cash Pools at June 30, July 31, and August 31, 2012, prepared by the WCTO, in most instances agreed, with the applicable General Ledger cash account balances by Cash Pools at June 30, July 31, and August 31, 2012. Specifically, the balances agreed for 28 of 33 or 85 percent, of the instances tested, over the three-month period. Conversely, 5 of 33 or 15 percent, of instances tested, the balances did not agree over the three-month period. The Cash Pools where the balances did not agree included the General (GEN) Cash Pool (3 instances), by far the largest of the pools, and the Building (BLDG) Cash Pool (2 instances). The tables below list the Cash Pools, the respective balances at June 30, July 31, and August 31, 2012 per the WCTO, the General Ledger balance, and the difference.

**Cash Pool Balances**

**WCTO Compared to General Ledger Account(s)**

**County of Wayne, Michigan**

**June 30, 2012**

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<tr>
<th>Cash Pool Name</th>
<th>WCTO</th>
<th>General Ledger</th>
<th>Difference</th>
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<td>$1,156,708</td>
<td>$1,156,708</td>
<td>-</td>
</tr>
<tr>
<td>Downriver 1999 A&amp;B B&amp;I Reserve (D99R)</td>
<td>$864,000</td>
<td>$864,000</td>
<td>-</td>
</tr>
<tr>
<td>Mental Health Interest Service Fund – Reserve (MHIS)</td>
<td>$35,836,627</td>
<td>$35,836,627</td>
<td>-</td>
</tr>
<tr>
<td>Reserve (RESV)</td>
<td>$90,976,802</td>
<td>$90,976,802</td>
<td>-</td>
</tr>
<tr>
<td>Tan Anticipation Notes – Reserves (TAN)</td>
<td>$4,229,899</td>
<td>$4,229,899</td>
<td>-</td>
</tr>
<tr>
<td>Delinquent Tax Notes Reserve (TAX9)</td>
<td>$124,134,732</td>
<td>$124,134,732</td>
<td>-</td>
</tr>
<tr>
<td>Trust - Retainage (TRET)</td>
<td>$459,453</td>
<td>$459,453</td>
<td>-</td>
</tr>
<tr>
<td>Trust – Stadium Authority Bond and Interest Redemption (TSTA)</td>
<td>$6,665,965</td>
<td>$6,665,965</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>$625,428,048</td>
<td>$689,630,803</td>
<td>$(64,203,676)</td>
</tr>
</tbody>
</table>
# Cash Pool Balances

**WCTO Compared to General Ledger Account(s)**  
**County of Wayne, Michigan**  
**July 31, 2012**

<table>
<thead>
<tr>
<th>Cash Pool Name</th>
<th>WCTO</th>
<th>General Ledger</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>General (GEN)</td>
<td>$175,469,135</td>
<td>$239,853,910</td>
<td>$(64,384,775)</td>
</tr>
<tr>
<td>Building (BLDG)</td>
<td>$139,149,259</td>
<td>$139,146,919</td>
<td>$2,340</td>
</tr>
<tr>
<td>Downriver 1999A Bond Interest (D99A)</td>
<td>$958,645</td>
<td>$958,645</td>
<td>-</td>
</tr>
<tr>
<td>Downriver 1999B Bond Interest (D99B)</td>
<td>$1,762,337</td>
<td>$1,762,337</td>
<td>-</td>
</tr>
<tr>
<td>Downriver 1999 A&amp;B B&amp;I Reserve (D99R)</td>
<td>$864,000</td>
<td>$864,000</td>
<td>-</td>
</tr>
<tr>
<td>Mental Health Interest Service Fund – Reserve (MHIS)</td>
<td>$35,839,702</td>
<td>$35,839,702</td>
<td>-</td>
</tr>
<tr>
<td>Reserve (RESV)</td>
<td>$90,999,084</td>
<td>$90,999,084</td>
<td>-</td>
</tr>
<tr>
<td>Tan Anticipation Notes – Reserves (TAN)</td>
<td>$7,602,751</td>
<td>$7,602,751</td>
<td>-</td>
</tr>
<tr>
<td>Delinquent Tax Notes Reserve (TAX9)</td>
<td>$114,176,223</td>
<td>$114,176,223</td>
<td>-</td>
</tr>
<tr>
<td>Trust - Retainage (TRET)</td>
<td>$484,188</td>
<td>$484,188</td>
<td>-</td>
</tr>
<tr>
<td>Trust – Stadium Authority Bond and Interest Redemption (TSTA)</td>
<td>$7,364,152</td>
<td>$7,364,152</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$574,609,476</strong></td>
<td><strong>$639,051,911</strong></td>
<td><strong>$(64,382,435)</strong></td>
</tr>
</tbody>
</table>
# Cash Pool Balances

**WCTO Compared to General Ledger Account(s)**  
**County of Wayne, Michigan**  
**August 31, 2012**

<table>
<thead>
<tr>
<th>Cash Pool Name</th>
<th>WCTO</th>
<th>General Ledger</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>General (GEN)</td>
<td>$240,130,157</td>
<td>$240,707,845</td>
<td>$(577,688)</td>
</tr>
<tr>
<td>Building (BLDG)</td>
<td>$134,715,766</td>
<td>$134,598,628</td>
<td>$117,138</td>
</tr>
<tr>
<td>Downriver 1999A Bond Interest (D99A)</td>
<td>$958,645</td>
<td>$958,645</td>
<td>-</td>
</tr>
<tr>
<td>Downriver 1999B Bond Interest (D99B)</td>
<td>$1,762,337</td>
<td>$1,762,337</td>
<td>-</td>
</tr>
<tr>
<td>Downriver 1999 A&amp;B B&amp;I Reserve (D99R)</td>
<td>$864,000</td>
<td>$864,000</td>
<td>-</td>
</tr>
<tr>
<td>Mental Health Interest Service Fund – Reserve (MHIS)</td>
<td>$35,855,382</td>
<td>$35,855,382</td>
<td>-</td>
</tr>
<tr>
<td>Reserve (RESV)</td>
<td>$91,025,251</td>
<td>$91,025,251</td>
<td>-</td>
</tr>
<tr>
<td>Tan Anticipation Notes – Reserves (TAN)</td>
<td>$32,176,112</td>
<td>$32,176,111</td>
<td>-</td>
</tr>
<tr>
<td>Delinquent Tax Notes Reserve (TAX9)</td>
<td>$132,613,493</td>
<td>$132,613,493</td>
<td>-</td>
</tr>
<tr>
<td>Trust - Retainage (TRET)</td>
<td>$744,667</td>
<td>$744,667</td>
<td>-</td>
</tr>
<tr>
<td>Trust – Stadium Authority Bond and Interest Redemption (TSTA)</td>
<td>$6,360,793</td>
<td>$6,360,793</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$677,206,603</strong></td>
<td><strong>$677,667,153</strong></td>
<td><strong>$460,550</strong></td>
</tr>
</tbody>
</table>

We also assessed whether the reconciliations prepared by the WCTO and M&B were completed within six weeks of the month end dates of June 30, July 31, and August 31, 2012. The results of our procedures found:

- **WCTO** - Of the 210 bank/investment statement reconciliations prepared and reviewed/approved over the three-month period of June, July, and August 2012, 207 were fully prepared and reviewed/approved within the six week date subsequent to the month end, for a rate of 99 percent; whereas 2 were not, for a rate of 1 percent. The three reconciliations prepared by WCTO relate to the Retainage (TRET) Cash Pool. We could not determine whether they were completed within the six-week period because the reconciliations did not include the date they were prepared and reviewed/approved.

- **M&B** - Of the 33 Cash Pool reconciliations prepared and reviewed/approved over the three month-period of June, July, and August 2012, 32 were fully prepared and reviewed/approved...
within the six-week date subsequent to month end, for a rate of 97 percent; whereas 1 was not, for a rate of 3 percent.

We noted five exceptions (see Appendix 1 Findings - Bank Reconciliation – 2d-1, 2, 3, 4, and 5).

**Other Observations**

As of December 14, 2012, the State of Michigan Legislature approved and the Governor signed Public Act No. 376 of 2012 (Act), which essentially removes the Detroit Wayne County Community Mental Health Agency (Agency) as a unit of County government. Specifically, the Act requires the Agency to be formed as a Community Mental Health Authority and be recognized as a “public governmental entity separate from the county.” The Act requires the formation change to occur October 1, 2013. Over the years the Agency has received receipts of as much as $500 million annually, which are included in the County’s Cash Pool system. Over the period of our review, it appears a majority of the cash related to the Agency’s operations is recorded in two cash pools, the General (GEN) and Mental Health (MHISF). Our analysis, conducted during both Phase 1 and 2 indicates the cash pool process does not segregate all restricted cash, such as the Agency’s cash, from being used by other funds in the County. Our analysis further indicates that there is likelihood the Agency’s cash in the GEN pool cash is used by other Funds of the County to cover their operating cash needs. The Agency’s portion of cash in the GEN cash pool represents approximately 40 percent of its total cash balance over the three month-end dates of June, July, and August 2012. The Agency’s cash balance over that period ranged from $92 million to $111 million, whereas the General Fund portion of the GEN pool cash balances over the same period ranged from $(68) million to $(111) million. Therefore, the loss of the Agency’s cash in-flow for the County’s cash pool system could cause the County to have serious cash flow challenges when it is formally separated and becomes an Authority.
2c. An analysis of cash receipts to include the following:

1) From a sample of 10 cash receipts from the same period as the cash reconciliation testing the timing in days between the receiving of cash and bank deposit.
2) For the same transactions also report on the timing in days between the receiving of cash and the recording of the transaction.

Procedures Performed

We requested and received a system generated report, from the County’s General Ledger, for all entries debiting the general ledger cash accounts for the period June thru August 2012.

Sample Selection and Materiality Considerations for Review

Our sample scope included amounts posted to the fund’s general ledger cash accounts during the months of June, July, and August, 2012. In most instances, the selected sample amounts were made up of several individual receipts (checks/money orders, etc.). For the sample of 10 cash receipts, 28 individual receipt transactions were tested. A schedule of the sample cash transactions selected and the results of the procedures performed can be found in Appendix 2.

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>Fund No.</th>
<th>(A) Samples</th>
<th>Items Tested</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 General Fund</td>
<td>101</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>2 Drug Enforcement</td>
<td>265</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>3 Law Enforcement</td>
<td>266</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>4 Juvenile Justice Abuse/Neglect</td>
<td>292</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>5 Third Circuit Court</td>
<td>835</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>6 Friend of the Court</td>
<td>836</td>
<td>3</td>
<td>9</td>
</tr>
</tbody>
</table>
The County’s cash receipt transactions originate from various sources and locations. We requested vouchers and other supporting documents to determine the following:

   a. Date the receipt was physically received by the County.
   b. Date the receipt was deposited with a financial institution.
   c. Date the receipt was posted to the General Ledger

Based on the date and document item number in the system generated report, we were able to determine the date the receipt was actually recorded and could to trace the item to the appropriate fund and business unit in the general ledger.

The detail schedule for items tested can be found in Appendix 2, Cash Receipts.

Results of Procedures Performed

Based on the procedures performed in this section, we noted no exceptions

Observations

As a result of the procedures performed in this section, we made three observations. Our observations are outlined below:

   a. The days lapsed between the date cash was received by the WCTO and the bank deposit date ranged from 1 to 82 days. The days lapsed for 22 of the 28 transactions exceed the County’s Policy and Procedures Statement (PPS) guideline of 2 days.

   b. The days lapsed between the date cash was received by the WCTO and the recording in the County’s GL system ranged from 2 to 84 days.

   c. The County’s PPS does not provide guidelines for the allowable time in days between the date cash is received and the date that cash is recorded.
SOW Phase 2 Section 2d

2d. An analysis of revenue collection allocation to include the following:
   1) From a sample of 10 revenue collections requiring allocation from the same period as the reconciliation testing the timing in days between the receiving of cash and the allocation to funds as required,
   2) For the same transactions also report on the timing in days between the receiving of cash and the recording of the allocation.

Procedures Performed

Property tax collections were the only type of revenue requiring allocation from the funds covered in the SOW scope. We selected 10 sample items for review from the test period. Property tax revenues are typically received and recorded in the Undistributed Tax Receipts Fund (703) in the General Ledger. From this fund, all tax collections are recorded and reallocated to various funds within the County or remitted to other local taxing authorities. For the samples selected, we reviewed bank deposit reports, remittance advices from communities, receipts to various other tax authorities generated by the Wayne County Treasurer’s Office (WCTO), and journal entries entered by the WCTO into the General Ledger. We have documented our results in Appendix 3.

Results of Procedures Performed

One exception was found in our sample of 10. A payment for $3,827,143.59 from the City of Dearborn was received on February 24, 2012, but was not allocated to the general ledger until August 1, 2012, 159 days later. We noted that the actual posting of the allocation to the General Ledger was not done until August 6, 2012. (see Appendix 1 Findings-Revenue Allocation 2d)

The timing in days between the date cash receipts were received by the WCTO and the allocation to the respective fund or business units ranged from 1 to 5 days, other than the one exception noted above. The timing in days between the date cash receipts were received by the WCTO and the actual posting of the journal entry to the General Ledger ranged from 2 to 10 days, except for the one exception noted.

The WCTO practice is to remit tax collections related to other taxing authorities, e.g., Huron-Clinton Metro Authority, Wayne County, Transit Authority, Wayne County Zoological Authority, etc., via wire transfer on the 15\textsuperscript{th} and the end of the month. In the case of the February 24, 2012 receipt referenced above, the remittances to the appropriate authorities should have taken place on March 15, 2012, but were not remitted until August 31, 2012, due to the original allocation oversight.

SOW Phase 2 Section 2e

2e. Deleted from the SOW scope at the direction of the State of Michigan Department of Treasury
SOW Phase 2 Section 2f

2f. An analysis from a sample of 10 (ten) transactions from the same period as the reconciliation testing of the GAAP recording of a revenue and receivable as applicable including the number of days between GAAP basis existence of a receivable and the recording of the receivable.

Procedures Performed

Randomly selected 10 samples items of revenue from the funds and business units specified for our project scope as listed in Appendix 4. Documentation was obtained from the appropriate department responsible for invoicing customers or requesting grant drawdowns and/or reimbursement requests. This documentation included copies of the invoices, schedules from the department providing the service, supporting the invoiced amount, and periods covered by the service and bank polling reports supporting the appropriate deposits. Journal entries recording the transactions were obtained directly from the County’s J D Edwards accounting system. Detail Excel schedules were also obtained from the Central Accounts Receivable Division. This Division compiles all invoicing activity and prepares invoices and records the accounts receivable and revenue.

Results of Procedures Performed

The receivables generated by the Central Accounts Receivable Division are routinely credited to deferred revenue through the JD Edwards accounts receivable module directly to the general ledger. All invoices have a stated due date of 30 days. Upon receipt of payment, cash is recorded and the receivable then removed from the books. It is not until this point in time that the revenue is recognized and recorded by journal entry; i.e., reducing the deferred revenue and recording the revenue as earned in the general ledger. The exception to this process is at fiscal year-end when revenue is recorded if earned by September 30 and collected by November 30. Eight of the 10 sample items tested showed the delay in revenue recognition to be at least 92 days and as great as 153. These eight revenue samples were recorded in Fund 101, the General Fund, in the Sheriff’s business units, including Prisoner Housing, Road Patrol and Accident Prevention services, and in Fund 266, Law Enforcement Fund, for Security and Outreach services at Wayne County Community College campuses.

We observed a significant delay between the time revenue was earned and the billing date for prisoner housing, as much as 118 days in our sample. Central Accounts Receivable indicated that the Sheriff’s office has been slow in processing billings due to a reduction in staff (see Appendix 1 Findings - Revenue Recognition – 2f-1).

During our review of cash receipts, an error was noted in a Central Accounts Receivable spreadsheet for cash collections in August 2012. This spreadsheet compiles costs for services and is the basis for the journal entry recording revenues for the month. An incorrect column total from this spreadsheet was picked up.
and posted to the general ledger. The error totaled $379,138 (see Appendix 1 Findings - Revenue Recognition 2f-2).

The revenue sample selected for Fund 292, Juvenile Justice and Abuse and Neglect, Business Unit 35612, Juvenile Care Management Organizations, indicated that the department records revenue by journal entry in the general ledger in the same period as earned even though the billing is not completed until the following period. This is not considered to be an exception in that the general ledger must be closed for any given period to obtain the monthly costs necessary to prepare a billing. The invoice is created each month for the previous month by the department manager accumulating all expenditures as recorded in the general ledger for the previous month. From this total amount all third-party revenues received are deducted and the State is invoiced for 50 percent of the balance. The invoice is reviewed and approved by the finance director of the department and forwarded to the Third Circuit Court for the Chief Judge’s approval. Third Circuit Court then forwards the reimbursement request (invoice) to the Michigan Department of Human Services (DHS). The department manager also prepares reimbursement requests for costs paid on behalf of the State for cases handled by State case workers. The State DHS approves invoices for juvenile care and these invoices are paid by the County. The billing is prepared as above and submitted to the local office of DHS for forwarding to Lansing for payment. The revenue is accrued in the month earned by journal entry as above.

The revenue sample selected for Fund 835, Third Circuit Court, also indicated that the department properly records revenue by journal entry in the general ledger in the same period as earned.

All grant expenditure reports and financial status reports which serve as billings, or reimbursement requests, are prepared by the Court’s financial analysts assigned to the grant. These documents are approved by the Courts Chief Financial Officer or Deputy Chief Financial Officer.

All journal entries recording revenue accruals in the general ledger system are sent to Management and Budget’s Financial Reporting e-mail box. Court staff members do not make entries into the JD Edwards system directly.

State reimbursement for judges’ salaries is not accrued except at year end.
SOW Phase 2 Section 2g

2g. An analysis from a sample of 10 grant cash receipts for the same months covered by the reconciliation testing whether the grant was a reimbursement grant, how many days after grant funds became available that a billing was made, and/or drawdown request, how many days after request was cash received.

Procedures Performed

We requested and received a system generated report from the County’s General Ledger for the months of June, July, and August 2012.

Utilizing the report identified above, we removed all activity that did not relate to our targeted Funds and Departments and Agencies of the County. These targeted Funds are listed below:

<table>
<thead>
<tr>
<th>Fund #</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>101</td>
<td>General</td>
</tr>
<tr>
<td>266</td>
<td>Law Enforcement</td>
</tr>
<tr>
<td>265</td>
<td>Drug Enforcement</td>
</tr>
<tr>
<td>282</td>
<td>Victim Witness Program</td>
</tr>
<tr>
<td>292</td>
<td>Juvenile Justice Abuse/Neglect</td>
</tr>
<tr>
<td>835</td>
<td>Third Circuit Court</td>
</tr>
<tr>
<td>836</td>
<td>Third Circuit Court – Friend of the Court</td>
</tr>
<tr>
<td>281</td>
<td>Community Corrections</td>
</tr>
<tr>
<td>297</td>
<td>Youth Services</td>
</tr>
</tbody>
</table>

We filtered the report to capture receipts that generally represent actual receipts of cash (i.e., cash, checks and electronic receipts). The report was then sorted by fund. For materiality purposes, we removed any receipts of $5,000 or less and interest income allocation receipts. We then filtered the report further to identify receipts from the following departments, agencies and units of the County: Office of the Sheriff’s Office, Office of the Prosecuting Attorney, Department of Children and Family Services, and Third Circuit Court. We then identified receipt amounts
that were from a grant. From these receipts we judgmentally selected 10 items to make up our sample for detail testing for the applicable statement of work criteria.

For the test sample items identified, we contacted the applicable department or area in the County that was responsible for generating the grant receipt and requested they provide the following information:

1. The grant agreement related to the receipt amount;
2. The document used to bill, draw down or request reimbursement, including the dates it was submitted, and earliest grant receipt amount was available; and
3. Documents supporting the dates the receipt amounts were actually received by the County.

**Results of Procedures Performed**

A detail schedule that includes the: fund number and name; department/area; general ledger date; grant receipt amount; the dates the receipt was available, requested/drawn down, and received; type of grant; the number of days (business) lapsed from the date the receipt was available to date requested/drawn down; and the number of days (business) lapsed from the date the receipt was requested/drawn down to actual cash receipt, can be found in Appendix 5, Grant Receipts Procedures.

The schedule indicates all of the grant receipt items in our sample were for reimbursement type grants, as opposed to performance or other types of grants. No exceptions or findings resulted from the procedures performed, however, we noted the following observations:

**Observations**

The business days lapsed from both: a) date the grant receipt amount was available to bill/request reimbursement, and; b) from bill/request date to cash receipt date appears reasonable. We quantified the average and range in length of time, in business days (excluding holidays), from the first date grant fund receipts were available to the billed/drawdown request date; and date the grant receipts were billed/drawn down to the date the grants cash was received. The following table shown summarizes our observations:

<table>
<thead>
<tr>
<th>Test of Grant Receipts</th>
<th>Summary of Lapse Days</th>
<th>Months of June, July, and August 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Days Lapsed—</td>
<td>Business Days Lapsed—</td>
<td></td>
</tr>
<tr>
<td>Grant Receipt Available</td>
<td>Grant Receipt</td>
<td></td>
</tr>
<tr>
<td>To</td>
<td>Billed/Drawdown Request Date To Cash Receipt Date Received</td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>Average</td>
<td></td>
</tr>
<tr>
<td>Range</td>
<td>Range</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>28</td>
<td>9–65</td>
</tr>
</tbody>
</table>
During our discussions with County personnel responsible for preparing the billing/drawdown requests, we were informed that preparation generally occurs approximately two weeks after the bill/drawdown period ends, and provides sufficient time for all costs related for the period to be captured in the County’s general ledger system.

The 19 business day average from the date grant funds are available to the County and are billed/drawn down is the only attribute of two tested, that is fully controlled by the County, whereas the average business days from bill/request date to receipt date are not fully controlled by the County, because they are subject to grantor payment practices.

The average of 19 business days lapsed in this area would have been measurably less if the average had not been skewed by the inclusion of 65 days for a grant receipt from the Third Circuit Court-Friend of the Court. Court officials indicated this particular billing/drawdown request was delayed due to the State of Michigan’s implementation of a new payment system. Further analysis of the data revealed that 7 of the 10 samples items occurred in 16 days or less. Therefore, we believe that the 19 average days lapsed in this area are reasonable.
2h. A memo on the methods used for the collection of receivables (other than tax related receivables) and includes a calculation of the average days outstanding for each month of the examination period.

Procedures Performed

Policy/Procedure Statement (PPS) #10025 regarding Accounts Receivable Delinquency and Collection Procedures, issued September 12, 2011, was obtained and reviewed.

The funds and activities, listed below, were included in the scope of this SOW and utilize the services of the County’s central accounts receivable department to perform billing, posting to the general ledger, and receivable aging and monitoring functions:

- Fund 101 – Sheriff's Department – Prisoner housing, transportation, etc. costs are charged to local municipalities, the State, the US Marshal, the Federal Bureau of Prisons and other federal agencies.
- Fund 101 – Sheriff’s Department – Secondary county road patrols are charged to the Office of Highway Safety Planning.
- Fund 101 – Prosecutor’s Department – Filing fees for forfeiture cases are charged to local police agencies.
- Fund 101 - Children & Family Services (CFS) – Alternative work force services charges to local municipalities (formerly in Fund 281 but moved to Fund 101 effective 10/01/2011).
- Fund 265 – Prosecutors Department – Attorney fees for forfeiture cases are charged to local police agencies.
- Fund 266 – Sheriff’s Department – On-campus security an outreach costs at Wayne County Community College campuses are charged to Wayne County Community College District.

A sample of 20 invoices was selected from a review of charges to accounts receivable and/or credits to revenue in the Funds and Business Units noted. The sample included invoices issued by central accounts receivable, as well as, from Fund 281, Juvenile Justice; Fund 835, Circuit Court; and Fund 836, Friend of the Court. The latter three funds perform their own off-ledger invoice processing, separate from central accounts receivable and the JD Edwards Accounts Receivable software application. The accounts receivable postings for these three funds are recorded via journal entry to the general ledger. We obtained Invoice copies, or grant reimbursement requests, and receipt of payment documentation for review.

Results of Procedures Performed

We reviewed invoice dates and receipt remittance dates noting number of days lapsed, as indicated. The average time lapse in days from invoice date to receipt remittance date was determined to be 33, 32 and 31 for June, July and August, respectively, with a range from 3 days to 69 days in the three-month period. These average days’ collection periods are deemed to be reasonable and additional analysis was not considered necessary. We believe the selected sample is representative of the billing and collection
activity of a cross-section of the subject funds and business units in our scope. A full and complete schedule of the samples and results of the procedures performed can be found in Appendix 6.

As for the collection methods utilized, the Central Accounts Receivable division issued a Policy and Procedures Statement (PPS) on September 12, 2011. This PPS requires the following:

- Mailing an invoice copy, stamped “PAST DUE” between 31 and 60 days after the initial invoice date, and a telephone call to the debtor between 61 and 90 days after the invoice date. These steps have yet to be implemented.
- Telephone calls are not being made to the debtor between 61 and 90 days after the initial invoice date.
- At 90 days, a registered demand letter is to be mailed. In June 2012, although not sent by registered mail, letters were mailed to all customers whose accounts aged over 90 days at May 31, 2012. The policy calls for mailing a second registered letter between 30 and 60 days after the first. The County did mail a second letter, in October, but only to those who did not respond in some manner to the first letter.
- Second registered demand letters are not being sent between 30 and 60 days after the first demand letter.
- Accounts are not being referred to an outside collection agency or to Corporation Counsel. Departments being serviced are not fulfilling their role in the collection process, i.e., making collection calls and documenting, and corresponding with customers.

The Sheriff’s Office has made an attempt to keep records of collection efforts. However, we noted that these records are not fully maintained. Additionally, reconciliation of disputes with municipalities are not up to date and can result in write-offs after two years.

We noted that the Sheriff’s Office and the Office of the Prosecutor are not currently adhering to the PPS and merely forwards the customer responses back to central accounts receivable. (See Appendix 1 Findings – Receivable Collections – 2h).
SOW Phase 2 Section 2i

2i. A memo on the process, authorization, recording and overall segregation of duties of the write-off of receivables.
   1) As part of the memo and for the fiscal year to date provide the number of receivables written off and the dollar amount of receivables written off (other than tax related receivables)

Procedures Performed

According to the County’s Accounts Receivables Policy, an allowance will be provided for all invoices over one year old. Amounts that exceed a certain dollar threshold, as determined by M&B, will require the CFO’s approval. The journal entry, to record the allowance for doubtful accounts for governmental funds, is noted below. Enterprise funds are required to debit an expense account instead of deferred revenue.

   DR Fund. Deferred revenue
   CR Fund. 055000 (Allowance for doubtful accounts)

User departments are to continue pursuing collection of invoices even though an allowance has been recorded.

All accounts receivable for which an allowance has been provided that remain uncollected after one year will be removed from the general ledger (written off). The Chief Financial Officer must approve all write-offs over $2,000. The journal entry to write off an accounts receivable is:

   DR Fund. 055000 (Allowance for doubtful accounts)
   CR Fund. Accounts receivable

A copy of the Policy and Procedures Statement (PPS) #14001, Accounts Receivable Billings and Accounting Procedures, revised as of September 12, 2011, was obtained and reviewed. The policy is applicable to accounts maintained by Central Accounts Receivable, including:

- Fund 101 – Sheriff’s Department – Prisoner housing, transportation, etc. costs are charged to local municipalities, the State, the US Marshal, the Federal Bureau of Prisons and other federal agencies.
- Fund 101 – Sheriff’s Department – Secondary county road patrols are charged to the Office of Highway Safety Planning.
- Fund 101 – Prosecutor’s Department – Filing fees for forfeiture cases are charged to local police agencies.
- Fund 101 - Children & Family Services (CFS) – Alternative work force services are charged to local municipalities (formerly in Fund 281 but moved to Fund 101 effective 10/01/2011).
• Fund 265 – Prosecutor’s Department – Attorney fees for forfeiture cases are charged to local police agencies.

• Fund 266 – Sheriff’s Department – On-campus security and outreach costs at Wayne County Community College campuses are charged to Wayne County Community College District.

Although an account receivable has been written off, user departments units are supposed to continue pursuing collection. However, the user department must consult with the Chief Financial Officer and Corporation Counsel to discuss other remedies if the customer is in bankruptcy or is non-responsive to requests for payment.

Compliance with this policy was discussed with the management of Central Accounts Receivable division (CAR) and the methods used and supporting documentation for the allowance and write-offs for the previous year-end were obtained and reviewed. Generally allowances for doubtful accounts and write-offs of receivables are only done at fiscal year-end. This process has not yet been performed for the fiscal year ended September 30, 2012.

The policy of establishing an allowance for doubtful accounts for those uncollected billings over one year old is being followed. Likewise, the policy is being followed for amounts that are written-off, as described above, if the accounts remain uncollected for another year. However, we noted two exceptions to the PPS that are not in compliance with the policy:

• Management and Budget has not established a dollar threshold for the allowance for doubtful accounts above which the Chief Financial Officer is required to sign off. (see Appendix 1 Findings – Receivable Allowances and Write Offs – 2i).

• There is no evidence of continued collection efforts by the user departments after a receivable is written off. Documentation of continued user department collection efforts is to be forwarded to CAR and to date no such documentation has been received (see Appendix 1 Findings – Receivable Collections – 2h).

For the number of receivables written-off and the amount of receivables written-off refer to Appendix 7 Schedule 2i – Accounts Receivable Allowances and Write-offs.
SOW Phase 2 Section 2j

2j. A memo on the following:

1) Any opportunities for revenue and/or receivable process improvement.
2) Any opportunities for additional revenue sources.

SOW Phase 2 Section 2j-1

1.) Policy and Procedures Statement (PPS) #14001, “Accounts Receivable Billings and Accounting Procedures,” states that user departments are to provide accurate and appropriate billing information to Central Accounts Receivable (CAR) within ten days of provision of service. Our review indicated that this policy is not being adhered to by the Sheriff’s department. We observed billings as late as 119 days beyond the end of the month the revenue was earned during our test period. Adding to this delay, a minimum of 30 days for normal processing before collection, the revenue may not be recognized for at least 149 days after being earned. Under the modified accrual method of revenue recognition, at fiscal yearend, revenue is recognized within the fiscal year if collected within 60 days of year end. This delay may cause revenue earned in the current year to be deferred until the subsequent year.

2.) Collection problems are also being experienced due to disputes with municipalities. Disputes are primarily related to disagreements with municipalities over the number of days a prisoner is housed, or whether the crime charged is a municipal or state crime, or even a disagreement as to which municipality is responsible for the prisoner costs. The Sheriff’s department claims the delay in resolving these matters is caused by staffing shortages.

We suggest that the Sheriff’s Office conduct a thorough review of its current process and institute changes where practicable to ensure that the CAR can prepare timely and accurate billings. Changing the current practice would improve both timeliness of revenue recognition and the County’s cash flow.

SOW Phase 2 Section 2j-2

Utilization of Technology to Increase Property Tax Revenue

The County should aggressively pursue various shared services arrangements which could result in increased revenues and/or reduction in expenditures. An example of a shared services arrangement could include the County utilizing high-resolution aerial imagery, digital sketching, and GIS technology to maximize property tax revenue, reduce expenditures, and to improve operating efficiency. This technology is used by other counties and municipalities across the country.

Digital building sketches are compared to updated high-resolution aerial images. Through analysis, changes to parcels such as property improvements or property demolitions can be identified from a desktop computer. Properties can then be reappraised and re-evaluated by a certified assessor. Building and demolition permits can be verified to ensure proper code enforcement.
This technology solution is a potential candidate for shared services between the County and local units of government within the County. The State of Michigan has made grants available for communities to encourage shared services, which could be utilized to offset the costs of technology solutions.

**Potential Benefits to the County can include:**

- Revenue increase
  - Property taxes (potential increase of 5%+ annually)
  - Recovery of Building Permit fees
  - Revenue from providing services to local units of government
- Reduction in reappraisal costs and annual assessments
- Decreased operating costs
- Improved assessments
- Improved operating efficiency
  - Staff time savings
  - Reduced transportation costs
  - Process improvement
2k. A memo on the process, authorization, recording, and overall segregation of duties of the expenditure process.

The County expenditure process is initiated at the department level usually via creation of a purchase requisition (requisition). When petty cash funds are used (Cash on Hand or Imprest Checking Account) to cover costs associated with the incidental purchase of goods or services, general criteria must be met, and prior approval from the Office of the CFO (CFO) is required for purchases that are paid by cash. ACH and EFT electronic payments use the same purchase requisition process, however, the file for ACH payments is sent directly to the bank's server and it automatically processes payments, and an electronic payment file is uploaded to the bank by the Wayne County Treasurer Office (WCTO) to instruct the bank to process EFT vendor payments. There are employees assigned various levels of authority regarding these processes within the WCTO. Steps related to the expenditure process are indicated below:

**Step 1** – A department or division requests purchase of goods or services that are not on hand by creating a requisition identifying the goods or services required, dollar amount, quantity of goods and/or duration of service and assigns a requisition number. The requisition is approved by the department head.

**Step 2** – The requisition is then submitted electronically to the Purchasing Department.

**Step 3** – The requisition is reviewed in Purchasing to ensure that expenditures comply with the County procurement ordinance, proper authorization by division head, availability of funds, and valid vendor status (appropriately established in the JD Edwards system address book).

**Step 4** – A purchase order number is assigned, and electronically approved in the JD Edwards financial system Purchasing Module. The approved purchase order is then submitted to the selected vendor.

**Step 5** – When the goods or services have been received by the requisitioning department/division, the original invoice is mailed directly to Central Accounts Payable (A/P). A/P scans the invoice, forwarding it to the requisitioning department/division to verify receipt of goods or services, quantity, and amount.

**Step 6** – The department/division completes an electronic match of the invoice to the purchase order, receives (approves) the dollar amount of invoice and releases it for payment to A/P.

**Step 7** – Once A/P receives electronic release (payment authorization) from the requisitioning department/division, the invoice is reviewed for proper amount, and approval. A/P next vouchers it for payment (the third part of their three-way match). The voucher is included in a check payment batch for processing.
**SOW Phase 2 Section 2k**

2k. A memo on the process, authorization, recording, and overall segregation of duties of the expenditure process.

**Step 8** – A/P creates payment batches of all invoices which they process on a weekly basis. A spread sheet is used as a control, listing each payment voucher. The total of approved payments on the spread sheet must match the total in the JD Edwards A/P module and G/L.

**Step 9** – An electronic check print file is created in JD Edwards and sent to the WCTO server. The check print file is reviewed and used to print vendor payment checks. Once checks have been printed, they are sent to A/P, where a copy is made and attached to the original invoice and kept on file.

It should be noted that some checks are mailed by the WCTO (i.e., Jury Payments, payments for Third Circuit Court and the Treasurer). In addition, some departments may have an authorized person pick up checks from A/P (i.e., Judgments, Friend of the Court, Pension), for special handling.

To confirm that the existing expenditure process complies with Management & Budget (M&B) financial policies and procedures, we requested and received copies of the County’s current policy/procedure documents related to cash disbursements. These documents represent financial policies established to provide clear definition of the processes related to the acquisition, and payment of goods or services purchased by County departments. They were selected based upon their relevance to the expenditure process, and are identified below:

1. Accounts Payable Policy (No. 13004)
2. Address Book Access and Maintenance (No. 13003)
3. Authorized Signers Policy (No. 10023)
4. Authorized Uses of Payment Vouchers Policy (No. 13002)
5. ACH and Wire Transfers Policy (No. 10026)
6. Petty Cash Funds Policy (No. 13001)
7. Comprehensive Procurement Ordinance (No. 2006-1101)
8. Emergency Procurements Policy (No. 15004)

The Accounts Payable policy/procedure issued August 20, 2008 and revised April 2, 2012 states that the primary responsibility of Accounts Payable (A/P) is to process payments related to County expenditures and employee reimbursements which includes the following:

- All invoices are reviewed to ensure appropriate source documentation
- Invoices represent valid County expenses with valid account numbers
- Actual receipt of goods and/or services and proper amounts
- Proper payment authorization from the requesting department
2k. A memo on the process, authorization, recording, and overall segregation of duties of the expenditure process. (continued)

The Address Book Access and Maintenance policy/procedures statement issued April 11, 2008 identifies the JD Edwards “Address Book” as the table used to maintain the names and addresses, 1099 form, tax ID number, and other pertinent information related to vendors. This information is limited to County employees granted input or inquiry access (end-users), for the purpose of creating procurement or payment transactions (e.g. purchase orders, department orders, service vouchers, etc.). Additions or changes are submitted to the administrator(s) using the Address Book Request Form. Each County vendor or contractor is responsible for keeping information current in the system address book.

An Authorized Signers policy/procedure statement was issued October 1, 2009 to ensure that all County obligating and payment documents are properly approved and signed only by authorized officials/employees, and that signatures are verified prior to document processing via confirmation of an active Authorized Signers form on file in the Office of Management & Budget (M&B).

Each department head’s form is approved solely by the CFO. The department head and CFO approve department/division forms, and while we conducted a physical inspection of the authorized signature binder which is described later in the report, during review of the policy we also noted the following:

- The authorized signers form is completed at the beginning of each fiscal year (October 1) to ensure that it is current.
- Forms must be revised immediately each time an authorized signer is transferred to another department/division, terminates employment with the County, or the dollar threshold changes.
- All revisions to department authorized signers forms must be brought to the immediate attention of the CFO, or privileges may be temporarily or permanently revoked by that office.
- A “Delegation and Signature Authority” form is used to temporarily assign authorized signature privileges. The form establishes authority limits, scope of terms, and any other limitations for the duration granted. It is signed by the official/employee, department head, and CFO. These are often used for satellite office locations.

The Authorized Uses of Payment Vouchers policy/procedure was issued July 2002, revised April 9, 2012 and describes payment voucher approval requirements, and goods or services that may be paid by voucher, another method of payment (typically not subject to Wayne County Commission approval, or solicitation requirements). The document stipulates the following:

- Payments made by voucher must include supporting documentation and reference appropriate department authorization.

An ACH and Wire Transfers policy/procedure issued August 23, 2010 establishes guidelines and procedures related to permissible electronic transactions, Automated Clearing House (ACH), and Electronic Fund
SOW Phase 2 Section 2k

2k. A memo on the process, authorization, recording, and overall segregation of duties of the expenditure process. (continued)

Transfers (EFT) that are used by the County. All requests for ACH and wire transfers are processed through the WCTO. However, all WCTO requests are processed as follows:

- The WCTO completes an “Offline Wire Disbursement Form”, and must submit the form(s) to the CFO for review and prior approval before processing.

The Petty Cash Funds policy/procedure was issued August 18, 2000, revised October 28, 2005, to provide regulations and procedures related to the establishment, use, designation of custodian and/or custodian changes, replenishments, reconciliations related to petty cash funds (Cash on Hand or Imprest Checking Account) used to cover costs associated with incidental purchase of goods or services that meet established criteria. Also covered is the annual review of petty cash advances, disallowable expenses and exceptions, loss of petty cash advances, and fund audits.

- All petty cash fund requests are reviewed and authorized by the Office of Management and Budget (M&B) for County departments.
- Petty cash is not used when other forms of payment are considered more appropriate.
- Coffee and food item purchases are allowed if related to training and/or public consumption and require prior approval from the CFO.
- Training-related expenses are reimbursed only with proper supporting documentation and department head approval.
- A “Request for Petty Cash Fund” form must be completed, and forwarded to the CFO for review and approval prior to being forwarded to the WCTO for review.
- The WCTO facilitates opening the bank account on behalf of the department.

The County Comprehensive Procurement Ordinance issued December 7, 2006, and amended April 1, 2011 covers the general provisions related to the procurement of goods or services by County departments and offices. The Purchasing Director has oversight of the procurement process, and establishes self-policing procedures to promote and safeguard the quality and integrity of the procurement system, applicable to all contracts for the procurement of supplies, materials, and professional services regardless of the funding source. However, it does not prevent department compliance with terms or conditions applicable to grants, gifts, or bequests made to the county, and addresses procurement issues that include the following:

- Contract approval hierarchy of the County Commission
- Small purchases of $5,000 or less
- Small purchases over $5,000 but less than $50,000
- Prompt payment (within 45 days of receipt of invoice)
2k. A memo on the process, authorization, recording, and overall segregation of duties of the expenditure process. (continued)

- Sole source procurement
- Bid process
- Unsolicited proposals
- Competitive sealed proposals
- Professional services
- Brand name and equivalent specifications
- Living wage ordinance
- Non-compliance
- General financial disclosure
- Cooperative procurement
- Emergency procurements

An Emergency Procurement policy was established July 3, 2008 and pursuant to Section 120-122 of the Wayne County Comprehensive Procurement Ordinance indicated above, defines an “emergency situation” and establishes authority in emergency situations.

In addition, the emergency procurement policy establishes procedures used to facilitate procurement during emergency situations which include the following:

- Identification of documentation necessary to facilitate emergency procurement.
- Criteria justifying procurement of supplies, materials, services, property, and/or construction where there exists a threat to public safety, health, or welfare due to unforeseeable circumstances that require an immediate response by the County.

Physical inspection of the Authorized Signature Binder revealed the following:

- The binder is kept in alphabetical order by department and division
- Contains a separate authorized signature form for each department head which is dated, signed, includes dollar limitations, and identifies the documents they are authorized to sign. The form is approved by the CFO
- A department form also identifies each approved authorized signer, the name, title, date approved, dollar limitations and the documents each individual is authorized to approve in a structured format from highest to lowest. Up to 7 employees per department.
- Each form is signed by the employee(s), department head and CFO. The binder also contains “Delegation and Signature Authority” forms which are used to temporarily designate authority limits, scope of terms, and any other limitations for the duration of the authority granted. It is signed by the employee, commissioner etc. and CFO. The form also includes employee name, employee ID number, title, signature and date.
SOW Phase 2 Section 2k

2k. A memo on the process, authorization, recording, and overall segregation of duties of the expenditure process. (continued)

The custodian of the authorized signature binder is the Office of Management and Budget. Based upon our inspection, the binder appeared current and included a form for the most recent employee hired as of that date.

Results of Procedures Performed

Based upon our review, we noted no major exceptions related to the County’s expenditure process. Overall compliance with established criteria to govern the expenditure process generally met management financial policies, procedures, and proper recording which was determined by a test of sample expenditure transactions in SOW 2l. In addition, the County’s financial system responsibility levels also provide internal control related to the proper segregation of duties of staff between departments, purchasing, accounting, and accounts payable areas involved in the expenditure process. However, tests performed in the section resulted in the following observations:

- The accounts payable policy states that A/P is responsible for processing payments related to County expenditures and employee reimbursements, yet some department supervisors/managers may enter invoices for payment and A/P vouchers them for payment.

- All County contracts indicate that original invoices must be mailed directly to the Central Accounts Payable Division, 500 Griswold, 20th Floor, Detroit, MI 48226. However, they are also mailed directly to County departments and offices, at times creating delays in the invoice payment process.
**SOW Phase 2 Section 2l**

2l. An analysis from a sample of 10 transactions from the same period as the reconciliation testing the following:

1) Whether the accounts payable were recorded on a GAAP basis.
2) Whether the transactions were properly processed, authorized, and recorded.
3) Based on contractor judgment, whether any expenditures seem questionable by nature, amount or circumstance. (continued)

**Procedures Performed**

We requested and received a copy of the JD Edwards financial system generated “Open A/P by Fund All Funds” report for the three-month period under review (June 1 – August 31, 2012).

The report indicated above was filtered to identify expenditure transactions for the period under review (June 1 – August 31, 2012). The report was sorted by fund and business unit to select those identified in the SOW review scope. We selected 10 expenditure transaction samples. There was no expenditure transaction activity during the period under review for two funds (281 – Community Corrections and 282 – Victim Witness Program).

The expenditure transaction samples selected included individual or single expenditures, and also multiple transactions related to one purchase order. Where this occurred, we selected one or two samples from the purchase order. A complete schedule of tested expenditure transactions, and results of the procedures performed can be found in Appendix 8.

The 10 transactions were tested using the County’s JD Edwards General Ledger (G/L) module, Financial Inquiry Menu, to drill down to the Voucher Entry and Supplier Ledger Inquiry screens testing for proper recording of each expenditure transaction noting the following:

- Fund, Business Unit
- Document Number
- Supplier Name (Vendor), Supplier Number
- Payment Terms
- Invoice Date/G/L Date/Release Date/Voucher Date/Net Due Date
- Batch Number, Batch Date
- Check or EFT Number, Payment Date
- Amount
SOW Phase 2 Section 21

21. An analysis from a sample of 10 transactions from the same period as the reconciliation testing the following:

1) Whether the accounts payable were recorded on a GAAP basis.
2) Whether the transactions were properly processed, authorized, and recorded.
3) Based on contractor judgment, whether any expenditures seem questionable by nature, amount or circumstance. (continued)

In addition, we requested and received copies of related source documentation for each transaction from the responsible areas to further test the expenditure process. In most cases, the department provided:

- Copy of the actual invoice or contract, including authorized signatures and dates
- Copy of detail information related to the service provided, billing calculations or quantity of goods received

To confirm compliance with management policy/procedure documents, proper expenditure processing and authorization, our review of the information provided tested the following:

- Proper Invoice and invoice number
- Invoice date, G/L date, Batch date, Payment date
- Supplier Name
- Type of service provided
- Requisitioner, name
- Receipt Date, receiver name, signature
- Payment Authorization (release) and signature
- Document Number
- Amount

We confirmed dates, supplier information and amounts in the County’s G/L module, and electronic authorizations, with information provided in the source documentation, and inquiry screens utilized for test purposes.

Results of Procedures Performed

Based upon our review of G/L, supplier ledger inquiry, voucher entry screen detail, and source documentation for each expenditure test sample, we noted no major exceptions nor did expenditures seem questionable by nature, amount or circumstance. However, 2 of the 10 transactions were processed for payment beyond the payment terms established with the vendor (net 30 days), and reflects non-compliance with Accounts Payable policy No. 13004 related to the “timely payment of business expenses.” Reference to this finding is found in Appendix 1 Findings – Accounts Payable - 2o-1.
**SOW Phase 2 Section 2m**

2m. From a sample of 10 grant draw downs, reimbursement requests, or period cost summary, test the following:
   1) For direct wages verify the allocation of wages and propriety of wages.
   2) For staff allocated to multiple funding sources verify compliance with time keeping requirements.
   3) For other costs verify proper and complete support for expenditures.
   4) For grants where case files are to be kept, review at least one case file for completeness.
   5) For any vendors utilized, attempt to verify whether there are any potential conflicts of interest with department, vendors, or other related entities.

**Procedures Performed**

To facilitate our test of the wage and fringe benefit expenditures associated with grant drawdowns, utilizing the County’s financial system, 10 grant revenue drawdowns were selected by fund, business unit and period under review (June 1 – August 31, 2012) in accordance with the SOW scope. The grant selections represented fiscal year 2012 federal and state programs. A complete schedule of grant drawdown test samples, and results can be found in Appendix 9.

In addition, we requested and received copies of related source documentation from the identified departments, and in most cases the following information was provided:

- A copy of the authorized grant agreement
- Document approval form (DAF)
- Quarterly financial report and expenditure summary
- Journal voucher and related journal entries
- Employee wage and fringe benefit detail

To verify the allocation and propriety of direct wage and fringe benefit expenditures we reviewed each quarterly financial report – grant budget categories to identify the following:

- Grant type
- Grant title and number
- Program start and end dates
- FY 2012 budget summary
- Grant budget categories (personnel/fringe benefits)
- Personnel expense summary

Utilizing the available information, the 10 drawdown sample amounts were compared to actual wage and fringe benefit expenditures by employee for the reported period as follows:

- Employee name, title
- Annual program salary
2m. From a sample of 10 grant drawdowns, reimbursement requests, or period cost summary, test the following:

1) For direct wages verify the allocation of wages and propriety of wages.
2) For staff allocated to multiple funding sources verify compliance with time keeping requirements.
3) For other costs verify proper and complete support for expenditures.
4) For grants where case files are to be kept, review at least one case file for completeness.
5) For any vendors utilized, attempt to verify whether there are any potential conflicts of interest with department, vendors, or other related entities.

- Hourly rate
- Fringe amounts (health insurance, social security, disability, worker’s compensation, unemployment, retirement, insurance/bonds)
- Total hours worked each period
- Total wage and fringe benefit amounts reported each period

In cases where staff were allocated to multiple funding sources, we reviewed the grant agreements provided for time keeping and guidelines for allowable expenses to verify compliance with the following:

- Guidelines for allowable expenses listed in OMB Circular A-87
- Office of Justice Programs (OJP) financial guidelines
- County Grant Application, Acceptance and Approval Process (No. 16000)
- County Time Reporting policy/procedure statement (No. 12003)
- County Required Review/Approvals/Routing for contracts statement (No. 10011)
- Related grant program time keeping requirements

Review of the quarterly financial report for each respective grant program, identified line-item budget grant categories. These amounts were further confirmed in the FY 2012 budget summary detail, review of additional source documentation and discussions with department representatives.

To facilitate viewing a case file for completeness, we contacted the Circuit Court and scheduled an appointment to view a case file related to Friend of the Court. These files are maintained in the Michigan Child Support Enforcement System (MICSES), a statewide automated case management system. The system is the repository of state case files related to child support services throughout the State of Michigan. Court employees with a 4-D category authorization are permitted access to the system. After log-in procedures were completed, a family support case was selected and reviewed. The case met the following criteria associated with grant case files:

- The case was an open (active) grant case and had a valid case number
- It was categorized as 4-D (family support had been requested for a minor(s))
- Medicaid (medical insurance assistance had been requested
SOW Phase 2 Section 2m

2m. From a sample of 10 grant drawdowns, reimbursement requests, or period cost summary, test the following:

1) For direct wages verify the allocation of wages and propriety of wages.
2) For staff allocated to multiple funding sources verify compliance with time keeping requirements.
3) For other costs verify proper and complete support for expenditures.
4) For grants where case files are to be kept, review at least one case file for completeness.
5) For any vendors utilized, attempt to verify whether there are any potential conflicts of interest with department, vendors, or other related entities.

In addition, the case file included the case type, case summary, docket ID (court number), custodial parent and non-custodial parent information, dependant details, judgment date and court jurisdiction.

To facilitate the determination of any potential conflicts of interest with department, vendors, or other entities we contacted the Director of the County’s Purchasing Department. We were provided a copy of the current Enrolled Ordinance No. 2012-209 (also referred to as the Ethics Ordinance). The ordinance establishes meaningful guidance to County employees, elected officials, appointed officials, and members of appointed boards and commissions to assist all public servants in making sound ethical decisions related to the delivery of pertinent governmental services, and maintain the highest level of ethical standards (integrity, truthfulness, honesty, fairness, and personal responsibility in the performance of public functions. The ordinance requires County public servants to be independent, impartial, and responsible to Wayne County citizens.

Section 3 (d) defines “Conflict of Interest”, as *either a personal interest or a duty or loyalty to a third party that competes with or is adverse to a public servant’s duty to the public interest in the exercise of official duties or actions*. Section 4: Standards of Conduct, addresses Conflict of interest in detail. Section 9: Ethics Statement indicates that each County public servant is provided a copy of the Ethics Ordinance and an ethics statement (each new hire, and each employee after any revisions) from the Human Resources Department. The public servant must read, understand, agree to abide by the prescribed standards set forth in the ordinance, and sign the ethics statement where it is filed with the Department of Personnel/Human Resources where applicable; otherwise, with the Wayne County Clerk.

We were also provided a copy of a document approval form (DAF), related to Executive Order 2011-03 which expands disclosure requirements related to potential conflicts of interest for at-will employees of the Executive Branch of Wayne County and vendors, approved November 2, 2011 by the Chief Executive Officer.

Due to grant drawdown test selections being pass-through funds, a grant program was selected to verify a fully executed “Ethics in Contracting Vendor Form” for the vendor providing program services (Detroit-Wayne County Community Mental Health Agency and Hegira Programs, Inc.)
SOW Phase 2 Section 2m

2m. From a sample of 10 grant drawdowns, reimbursement requests, or period cost summary, test the following:
1) For direct wages verify the allocation of wages and propriety of wages.
2) For staff allocated to multiple funding sources verify compliance with time keeping requirements.
3) For other costs verify proper and complete support for expenditures.
4) For grants where case files are to be kept, review at least one case file for completeness.
5) For any vendors utilized, attempt to verify whether there are any potential conflicts of interest with department, vendors, or other related entities.

Results of Procedures Performed

Based upon our review of the 10 grant drawdowns, wage and fringe benefit expenditure allocations, time keeping requirements, verification of other costs, review of a case file and our attempt to verify the potential for conflicts of interests related to grant programs, we noted one exception (see Appendix 1 Findings – Grant Drawdown – Verification of Proper and Complete Support of Expenditures – 2m-1) related to the following observation:

- The Central Grants Division does not keep a copy of all County grant agreements on file; however, we were informed that the satellite locations maintain their grant agreements on-site.
2n. Prepare an analysis of the 1) Office of the Wayne County Sheriff, 2) Office of the Wayne County Prosecuting Attorney, 3) Third Judicial Circuit Court, and 4) Wayne County Department of Children and Family Services, that must focus on any aspects of the operations which may contribute to the County's deficit and/or result in major variances from the County's approved budget. Provide, when applicable, recommendations which may assist in complying with sound management practices and/or reducing the County's deficit.

The County funds its General Fund operations primarily from its General Fund general purpose (GFGP) revenues. For the year ended September 30, 2012, the County's GFGP revenues totaled $377.4 million. Taxes were the largest source of GFGP revenues and made-up over three-fourths (78.4 percent) of those revenues. The next largest source of GFGP revenues was state revenue sharing which made up 10.0 percent of that total. The remaining 11.6 percent included delinquent taxes, 4.5 percent; State Court Equity, 3.9 percent; indirect cost recoveries, 1.7 percent and other revenues, 1.4 percent. GFGP revenues have declined by over $100 million during the last four years as shown in the chart below. The sharp decline has been due primarily to a collapse in the housing market and related property values which has caused a corresponding decline in County property tax revenues, as discussed in Phase 1 of this review. As
a result of this sharp decline, the County has been unable to fund General Fund operations at historical levels.

The County has cut budgeted expenditures overall to compensate for the loss in revenues in an attempt to maintain a balanced General Fund budget, in accordance with State law. However, two-thirds of GFGP revenues are consumed by the primary law enforcement and criminal justice functions in the County, including the Third Circuit Court, the Office of the Sheriff, the Office of the Prosecuting Attorney and the Department of Children and Family Services.

The Offices of the Prosecuting Attorney, the Sheriff, and the Third Circuit Court are controlled by independently elected officials that have been slow to conform to the reduced budget appropriations or have outright resisted those cuts. The Third Circuit Court and the Office of the Sheriff have successfully sued the County in the past for underfunding. The Office of the Prosecuting Attorney sued the County on October 1, 2012 seeking to block cuts approved by the County Commission for the fiscal year (FY) 2012-13 budget. A temporary restraining order was initially granted and later rescinded, however, according to County officials, this matter is ongoing. The Department of Children and Family Services has had a unreserved fund balance deficits since at least 2003.
As a result of the concerns discussed, our scope included the four functional areas noted above.

We prepared an analysis of the amended budget-to-actual financial results for the years ended September 30, 2011 and 2012 (unaudited). We then computed the favorable and unfavorable variances for each account comprising all the funds and business units within our scope, as noted above. Our focus was on the General Fund which directly funds the primary functions of the Sheriff’s and Prosecutor’s Offices in the General Fund and indirectly provides support to Third Circuit Court and the Department of Children and Family Services through inter-fund transfers. We judgmentally selected and focused on unfavorable budget variances that made up at least 50 percent of the total unfavorable variances for each of the relevant business units that exceeded 20 percent of actual expenditures and was greater than $500,000 in the funds within our scope, as noted above. Our analysis targeted business units that have contributed to the County’s deficit and that have resulted in major variances from the 2011-12 Amended Budget.

**Office of the Sheriff**

The Office of the Sheriff is an elected constitutional official. The Sheriff’s Office primarily operates three jail facilities for the detention of persons charged with offenses awaiting examination or pre-trial, as well as persons sentenced to jail after conviction. These facilities provide special areas for violent inmates. In addition, the Sheriff Office provides courtroom security for the Third Circuit Court judges and referees, and is responsible for the custody and transportation of prisoners attending Court hearings. The Third Circuit Court operations are housed in four separate buildings. The Sheriff’s Office also operates a Friend of the Court (FOC) enforcement unit.
Operational Statistics:

<table>
<thead>
<tr>
<th>County Population Estimates¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
</tr>
<tr>
<td>------</td>
</tr>
<tr>
<td>2,009,204</td>
</tr>
</tbody>
</table>

The County’s 2011 population has decreased by 10.6 percent in relation to 2006.

<table>
<thead>
<tr>
<th>Number of County Arrests²</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
</tr>
<tr>
<td>------</td>
</tr>
<tr>
<td>75,195</td>
</tr>
</tbody>
</table>

The number of County arrests in 2011 has decreased by 26.6 percent in relation to 2006.

Wayne County Sheriff Expenditure Summary (Unaudited)
For the Year Ended September 30, 2012

<table>
<thead>
<tr>
<th>General Fund - Sheriff - Fund 101</th>
<th>Drug Enforcement Program Fund - Fund 265</th>
<th>Law Enforcement - Fund 266</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel $66,836,236</td>
<td>$1,485,714</td>
<td>$1,556,356</td>
</tr>
<tr>
<td>Health Benefits $20,759,208</td>
<td>$454,365</td>
<td>$571,077</td>
</tr>
<tr>
<td>Pension $18,933,121</td>
<td>$494,993</td>
<td>$388,507</td>
</tr>
<tr>
<td>Other Fringe Benefits $5,848,697</td>
<td>$125,477</td>
<td>$130,479</td>
</tr>
<tr>
<td>Materials and Supplies $7,632,084</td>
<td>$134,650</td>
<td>$54,627</td>
</tr>
<tr>
<td>Contractual Services $15,575,133</td>
<td>$428,621</td>
<td>$473,543</td>
</tr>
<tr>
<td>Travel $15,302</td>
<td>$49,383</td>
<td>$74,903</td>
</tr>
<tr>
<td>Operating Expenses $4,379,577</td>
<td>$100,408</td>
<td>$9,134</td>
</tr>
<tr>
<td>Rentals $241,271</td>
<td>$79,889</td>
<td>$1,316</td>
</tr>
<tr>
<td>Other Charges $1,798,981</td>
<td>$14,255</td>
<td>$4,755,940</td>
</tr>
<tr>
<td>Capital $94,588</td>
<td></td>
<td>$16,704</td>
</tr>
</tbody>
</table>

$142,114,198 $3,367,754 $8,032,586

¹ Wayne County’s 2011 CAFR, 2006-2011
² Michigan State Police; Michigan Incident Crime Reporting, 2006-2011
Procedures Performed

We noted a historical trend of budget overruns dating back to 2007-08 and prior years. In 2007-08, the net budget overrun\(^3\) totaled $13.2 million; in 2008-09, $8.6 million; in 2009-10, $24.3 million; and in 2010-11, $8.8 million. This unfavorable budgetary trend has contributed significantly to the General Fund’s deteriorating financial position. The County’s Unreserved General Fund balance totaled $21.1 million at September 30, 2007 and has since shrunk to a deficit of $(128.0) million at September 30, 2011, a negative change of $(149.1) million in four years.

We requested a current year listing of the budget-to-actual data for the funds and business units included in our scope. The listing included the annual amended budget, and actual data for the years ended September 30, 2011 and 2012. We calculated the variance between the amended budget and the actual expenditures at the account level. Using subtotals, we rolled up the accounts at the major revenue and expenditure category levels. The report titled “Office of the Sheriff -- Budget to Actual Analysis – For the Years Ended September 30, 2011 and 2012” is shown on page 64. Our scope was determined by reviewing the rolled up accounts at the major revenue and expenditure category levels and selecting major accounts that had an unfavorable variance exceeding $500,000 and 20 percent of actual expenditures. In addition, we reviewed other unusual variances that came to our attention.

We analyzed the major unfavorable budget-to-actual variances for the Sheriff’s financial activity in the General Fund for the years ended September 30, 2011 and 2012.

\(^3\) Net budget overrun equals the sum of the amended budget to actual variances for both revenues and expenditures.
Results of Procedures Performed

For the year ended September 30, 2011, the Sheriff’s General Fund operations experienced a net budget overrun of $(8.9) million.

Revenues had a favorable budget variance of $3.7 million. There were no revenue accounts with unfavorable variances.

Expenditures had an unfavorable budget variance, $(12.6) million. We noted the following expenditure accounts had unfavorable budget variances:

Personnel Variance, $(5.2) million -- the unfavorable variance was due to overtime costs in the jails $(7.4) million.

Health Benefits Variance, $(1.3) million -- increased by $1.0 million from the prior year. The unfavorable variance, $(1.3) million resulted from the County prematurely factoring expected labor concessions into the adopted budget that did not materialize. As a result, actual health costs exceeded the adopted budget. The County allocates actual health costs as a percentage of salaries.
**Pensions Variance, $(1.2) million** -- pension costs increased by $13.3 million from the prior year. Pension costs were partially offset by the use of $8.4 million in reserves from the Employees Retirement System. Without the benefit of these contributions, actual pension costs for the Sheriff would have totaled $14.1 million. Pension costs are based on salary levels. The unfavorable variance, $(1.2) million resulted from the County anticipating various labor contract concessions from certain of its unions that would have lowered overall pension costs. These assumptions were incorporated into the adopted budget, but never materialized.

**Other Fringe Benefits Variance, $(2.8) million** – The major account rollup for Other Fringe Benefits includes unemployment taxes, FICA County’s share, disability insurance, worker’s compensation and an offsetting budgetary account for various employee salary and benefit concessions that were anticipated from certain of the County’s labor unions, as discussed above. According to the Department of Management and Budget – Budget Division, those concessions never materialized. The offsetting account for salary and benefit concessions accounts for $(2.6) million of the unfavorable variance.

**Materials and Supplies Variance, $(5.5) million** -- This unfavorable variance was due primarily to jail food service costs, $4.9 million, being charged to an unbudgeted account. Based on follow-up with the budget division, jail food costs were actually budgeted in Contractual Services (see Appendix 1 Findings – Budget to Actual Analysis - 2n-3).

Contractual Services had a favorable budget variances of $2.5 million. The favorable variance was primarily due to a favorable budget variance in jail food services, $4.8 million, which was improperly classified, as discussed above. Adjusting for the $4.8 million, Contractual Services would have been over budget by $(2.3) million. This budget overrun was primarily due to unfavorable budget variances for building related costs, $(0.9) million; other internal administrative costs, $(1.0) million; and legal and professional services, $(0.3) million (see Appendix 1 Findings – Budget to Actual Analysis - 2n-3).
For the year ended September 30, 2012, the Sheriff’s General Fund operations experienced a net budget overrun of $(26.7) million.

Revenues overall had a favorable budget variance of $0.6 million. There were no revenues accounts that had unfavorable budget variances that were within our scope.

Expenditures had an unfavorable budget variance of $27.3 million. We noted that the following expenditure accounts had unfavorable budget variances:

**Personnel Variance, $(13.3) million** -- Overtime costs accounted for the major portion of unfavorable variance, $12.0 million.

**Health Benefits, $(4.5) million** -- Increased by $1.6 million from the prior year. The County’s current budget development process for forecasting employee health insurance typically takes into
consideration all relevant cost factors, including the prior budget and actual results, changes in the group of covered employees and other significant factors. The County is self-insured for employee health insurance coverage and contracts with Blue Cross Blue Shield to administer the County’s program for both active employees and retirees. Actual health insurance costs have risen at an average rate of 7 percent to 11 percent annually. The variance is primarily due to the County’s understating the budget for health insurance costs, $(4.5) million. The understatement occurred because the County relied on anticipated health care cost concessions from certain unions and incorporated those assumptions into the budget.

**Pensions Variance, $(4.2) million** -- Pension costs increased by $13.3 million from the prior year and accounted for $4.2 million of the unfavorable variance. Pension expenditures were partially offset by use of reserves from the Employees Retirement System of, $1.7 million. Without the benefit of those contributions, actual pension costs would have totaled $20.6 million, a 46.1 percent increase from the prior year. The unfavorable variance of $(4.2) million resulted from the understated budget as a result of the labor assumptions discussed above.

**Other Fringe Benefits Variance, $(4.3) million** -- Other Fringe Benefits includes unemployment taxes, FICA County’s share, disability insurance, worker’s compensation and an offsetting account, 719100, for salary concessions. This account was established by the County in 2010 to account for the employee salary and fringe benefit concessions that were required from employees towards making up their 10 percent salary and fringe benefit concessions. From a budget perspective, it is difficult to incorporate the choices of the employees at the regular salary and fringe benefit account levels. Therefore, for budget purposes, the County uses account, 719100, to reflect the fund’s total anticipated employee concessions as a negative amount. This account is used within the “Other Fringe Benefits” category as an offset to the expenditure accounts. Typically, on the actual side, the 719100 account does not have any actual amounts recorded. The actual savings are reflected in the “Regular Salaries and Wages” account, 702000. This treatment resulted in an unfavorable variance in the 719100 account. $(4.7) million. Other fringe benefits had a net favorable budget of $0.4 million. The unfavorable variance results from netting the balance in account 719100, of $(4.7) million with the other fringe benefits, of $0.4 million (see Appendix 1 Findings – Budget to Actual Analysis - 2n-4).

Based on our analysis and discussions with County representatives, the following operational issues have contributed to the Sheriff’s budget overruns, as follows:

The Sheriff’s department routinely deploys officers assigned and budgeted to the jail to other assignments outside of the jail, such as the Courts or the drug enforcement unit. Other officers then cover the jail assignments via overtime. There is no re-allocation or reconciliation of these added costs to the units receiving the actual services. The total cost including overtime is borne by the jails (see Appendix 1 Findings – Budget to Actual Analysis - 2n-1).

The overall jail inmate population has gradually increased due to longer average jail stays for inmates, even though the average daily intake rate for inmates has remained fairly constant. The jails currently are housing approximately 2,200 inmates daily with budgeted appropriations for approximately 1,700, according to a representative from the Sheriff’s Office. In addition, they indicate that there has been an
increase in special requests to the Courts for competency/responsibility examinations (second opinions) for inmates charged with severe felony offenses and that there have been delays in receiving these reports. Also, there has been an increase in inmates who are ineligible for alternatives to jail, such as electronic monitoring, due to homelessness, or the lack of appropriate community mental health and substance abuse treatment programs. These delays have significantly contributed to the increasing length of stay for the aforementioned inmates and have slowed case disposition.

The Court requested increased court security services, which have added costs to the Court’s budget and the jail budget, as discussed above. We understand that the Sheriff is required by law to provide the security services to the Circuit Court when requested.

The Office of the Sheriff has 31 appointees employed in the General Fund and approximately 14 contractors that are paid through another agency and sub-contracted back to the Sheriff’s Office. The approximate cost to the General Fund for these consultants and appointees is approximately $6.7 million annually for salaries and fringe benefits.

The County and the Office of the Sheriff may want to consider the following cost saving measures that could, if fully implemented, result in significant savings for the General Fund.

**Opportunities to Reduce Expenditures**

In connection with court security, replace the current workforce requirement of two deputies in the Court a court room with part-time or full-time retired officers who will work for lesser wages and who have no requirement for a benefit package. They are trained and can be recertified without additional training or administrative costs. Another approach would be contracting out the work to third-party entities. This service has been used for years in the 36th District Court. The work had been previously performed prior to them by the Detroit Police Department.

Electronic Monitoring (Tether) Unit-Replace: the approximately 20 officers currently assigned with retired officers to perform case management and offender monitoring services. This unit is made up of non-budgeted positions, using officers from budgeted jail positions that are being back filled on overtime (see Appendix 1 Findings – Budget to Actual Analysis - 2n-1).

Contract with private sector companies for the service of Civil Process. These duties are performed from the Court/Civil Division. Actual costs incurred in 2011-12 totaled $2.3 million. Revenues totaled $1.7 million.

Contract with private sector vendors for inmate transportation services. The County budgeted General Fund appropriation of $705,839 in 2011-12 and incurred actual costs of $954,544.

Create a separate jail/correctional officer position that will be compensated at a lower rate than the current class of police officer. Currently all personnel whether assigned to the jail or police functions are all classified and paid at the police officer rate.
Increase usage of offender day reporting centers and residential centers to reduce jail bed usage costs. The jail incarceration costs typically exceed the real needs of a portion of the jail population that can be safely supervised in a far less costly environment.

Eliminate all non-mandated functions that do not have an outside revenue stream or that do not produce sufficient revenue to cover the full FTE operating costs.

**Office of the Prosecuting Attorney**

The Prosecuting Attorney is an elected constitutional official who is the Chief Law Enforcement Officer for Wayne County. The Prosecuting Attorney establishes the policies and leads the activities of the Office. The Directors of Communications, Childhood Lead Poisoning Prevention, Information Technology, Training and Continuing Legal Education (CLE) report directly to the Prosecuting Attorney, as well as the Special Assistant Prosecutors, the Chief Assistant Prosecutor, the Chief of Staff, and the Division Chiefs.

Operational Statistics:

<table>
<thead>
<tr>
<th>County Population Estimates&lt;sup&gt;5&lt;/sup&gt;</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>2,009,204</td>
<td>1,981,654</td>
<td>1,949,929</td>
<td>1,938,141</td>
<td>1,897,499</td>
<td>1,797,901</td>
</tr>
</tbody>
</table>

The County’s 2011 population has decreased by 10.6 percent in relation to 2006.

<table>
<thead>
<tr>
<th>Number of County Arrests&lt;sup&gt;6&lt;/sup&gt;</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>75,195</td>
<td>71,970</td>
<td>65,113</td>
<td>63,021</td>
<td>61,288</td>
<td>55,240</td>
<td></td>
</tr>
</tbody>
</table>

The number of County arrests in 2011 has decreased by 26.6 percent in relation to 2006.

<table>
<thead>
<tr>
<th>Third Circuit Court Criminal Caseloads&lt;sup&gt;7&lt;/sup&gt;</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Cases</td>
<td>18,067</td>
<td>17,002</td>
<td>15,441</td>
<td>14,268</td>
<td>13,592</td>
</tr>
<tr>
<td>Case Dispositions</td>
<td>19,311</td>
<td>18,535</td>
<td>16,839</td>
<td>15,917</td>
<td>14,733</td>
</tr>
</tbody>
</table>

---

<sup>4</sup> Day Reporting Centers are intermediate sanction programs that serve as a step between the security and punishment of prisons and jails and the supervision without the security offered in probation and parole. Such programs as intensive supervision, house arrest, and electronic monitoring are becoming accepted alternatives to incarceration. Day Reporting Centers are another intermediate sanction that is gaining popularity. Day Reporting Centers have been used extensively in Massachusetts and Florida to alleviate jail overcrowding.

<sup>5</sup> Wayne County’s 2011 CAFR

<sup>6</sup> Michigan State Police; Michigan Incident Crime Reporting, 2006-2011

<sup>7</sup> Michigan Supreme Court Administrator’s Office; Third Circuit Court Caseloads
Third Circuit Court caseloads for new cases have decreased by 24.8 percent from 2007 levels and case dispositions have decreased by 23.7 percent over the same period.

The Prosecutor’s General Fund appropriation for 2012-13 was budgeted at $25.6 million, a 19.5 percent decrease in relation to the prior year.

The Prosecutor sought a restraining order in Wayne County Circuit Court after County Commissioners approved the $25.6-million budget for the office. The Third Circuit Court granted the request in October 2012. The Prosecutor’s Office is currently operating at last year’s budget level, approximately $31 million and will likely end the current year with budget overruns of approximately $6 million, if no intervening steps are taken to remediate the budget gap.

### Office of the Prosecuting Attorney

**Expenditure Summary (in 000's) Unaudited**

**For the Year Ended September 30, 2012**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel</td>
<td>$17,467,903</td>
<td>9,732</td>
<td>1,140,044</td>
</tr>
<tr>
<td>Health Benefits</td>
<td>6,467,595</td>
<td>-</td>
<td>469,597</td>
</tr>
<tr>
<td>Pension</td>
<td>4,797,479</td>
<td>-</td>
<td>203,055</td>
</tr>
<tr>
<td>Other Fringe Benefits</td>
<td>1,399,079</td>
<td>-</td>
<td>90,194</td>
</tr>
<tr>
<td>Materials and Supplies</td>
<td>328,529</td>
<td>2,910</td>
<td>1,087</td>
</tr>
<tr>
<td>Contractual Services</td>
<td>5,719,714</td>
<td>13,702</td>
<td>261,420</td>
</tr>
<tr>
<td>Travel</td>
<td>187,376</td>
<td>602</td>
<td>25,625</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>245,603</td>
<td>-</td>
<td>20,365</td>
</tr>
<tr>
<td>Rentals</td>
<td>52,588</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Charges</td>
<td>3,284,457</td>
<td>888</td>
<td></td>
</tr>
<tr>
<td>Capital</td>
<td>285,421</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Transfers Out</td>
<td>468,882</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**$ 40,704,627  27,834  2,211,386  6,342,112**

### Procedures Performed

We reviewed the Office of the Prosecuting Attorney’s financial results dating back to FY 2007-08. Net expenditures were $32.0 million in FY 2007-08 and $34.2 million in FY 2008-09. Net expenditures declined to $29.3 million in FY 2009-10 and to $28.2 million in 2010-11. Net expenditures increased to $33.7 million,
in FY 2011-12, a $5.5 million or 19.5 percent jump. A closer look at the FY 2011-12 financial results indicate that $30.1 million of the total expenditures relate to salary and fringe benefit costs, or 74.0 percent of total costs.

We requested a current year listing of the budget-to-actual data for the funds and business units included in our scope. The listing included the annual amended budget, and actual data through September 30, 2011 and 2012. We calculated the variance between the amended budget and the actual expenditures at the account level. Using subtotals, we rolled up the accounts at the major revenue and expenditure category levels. The table titled “Office of the Prosecuting Attorney -- Budget to Actual Analysis – For the Years Ended September 30, 2011 and 2012” is shown on page 57.

Our scope was determined by reviewing the rolled up accounts at the major revenue and expenditure category levels and selecting major accounts that had an unfavorable variance exceeding $500,000 and 20% of actual expenditures. In addition, we reviewed other unusual variances that came to our attention.

We analyzed the major unfavorable budget to actual variances for the Office of the Prosecuting Attorney’s financial activity in the General Fund for the years ended September 30, 2011 and 2012.
**Results of Procedures Performed**

For the year ended September 30, 2011, the Office of the Prosecuting Attorney had a net favorable budget surplus, $3.2 million.

Revenues had an unfavorable budget variance of $(2.0) million. We noted that the following revenue accounts had unfavorable budget variances:

*Federal Grant, Variance, $(1.1) million* -- The unfavorable variance for Federal Grants was primarily due to the grant program starting later than anticipated. Therefore, most of the anticipated revenues for services performed, related to the Sexual Assault Kit Grant Program, were realized in the following year.

*State Grants Variance, $(0.6) million* -- The unfavorable variance in State Grants was due to anticipated revenues being budgeted as State Grants and actual revenues being reclassified as Federal Grants by the County’s Grant’s Management Division, because this funding was a federal pass-through grant (see Appendix 1 Findings – Budget to Actual Analysis - 2n).

*Charges, Fees and Fines Variance, $(1.5) million* -- The unfavorable variance of, $(1.5) million relates to revenues anticipated from the City of Detroit for Forensic Evidence Review services. Execution of this contract was delayed due to the City Council delaying approval, resulting in lower than anticipated revenue during FY 2010-11.

Expenditures had a favorable budget variance of $5.3 million. There were no unfavorable expenditure accounts with unfavorable variances that fell within our scope of review.

For the year ended September 30, 2012, the Office of the Prosecuting Attorney had a net unfavorable budget overrun of $(1.9) million.

Revenues had a favorable budget variance of $0.8 million. There were no revenue accounts with unfavorable variances that fell within our scope of review.

Expenditures had unfavorable budget variances of $(2.7) million. We noted that the following expenditure accounts had unfavorable budget variances:

*Health Benefits Variance, $(1.4) million* -- The unfavorable variance of, $(1.4) million for Health Benefits resulted from the County’s anticipating various labor contract concessions from certain of its unions that would have lowered overall health care costs and the related budget. Those concessions never materialized and actual health costs exceed budget.

*Other Fringe Benefits Variance, $(1.7) million* -- Other Fringe Benefits includes unemployment taxes, FICA County’s share, disability insurance, worker’s compensation and an offsetting account, 719100, for salary concessions. This account was established by the County in 2010 to account for the multiple employee salary and fringe benefit concessions making up the 10 percent cuts. From a budget perspective, it is
difficult to incorporate the choices of the employees at the regular salary and fringe benefit account levels. Therefore, for budget purposes, the County uses account, 719100, to reflect the fund's total employee concessions as a negative amount. This account is used within the “Other Fringe Benefits” category as an offset to the expenditure accounts. Typically, on the actual side the 719100 account does not have any actual amounts recorded. The actual savings are reflected in the “Regular Salaries and Wages” account 702000. This treatment resulted in an unfavorable variance in the 719100 account, $(1.7) million. Other fringe benefits had a net unfavorable budget variance of $0.02 million. The unfavorable variance results from netting the balance in account 719100, $(1.7) million with the other fringe benefits of, $(0.02) million (see Appendix 1 Findings – Budget to Actual Analysis - 2n-4).

Office of the Prosecuting Attorney
Budget to Actual Analysis (in 000's)
For the Years Ended September 30, 2011 and 2012

<table>
<thead>
<tr>
<th>Account Description</th>
<th>Amended 10-11</th>
<th>Actual 10-11</th>
<th>Amended 11-12</th>
<th>Actual 11-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Grants</td>
<td>$ 4,439</td>
<td>3,358</td>
<td>(1,081)</td>
<td>2,209</td>
</tr>
<tr>
<td>State Grants</td>
<td>935</td>
<td>356</td>
<td>(578)</td>
<td>926</td>
</tr>
<tr>
<td>Local Grants</td>
<td>431</td>
<td>1,316</td>
<td>885</td>
<td>1,559</td>
</tr>
<tr>
<td>Charges, Fees, and Fines</td>
<td>2,623</td>
<td>1,086</td>
<td>(1,537)</td>
<td>1,505</td>
</tr>
<tr>
<td>Interest Income</td>
<td>-</td>
<td>(4)</td>
<td>(4)</td>
<td>-</td>
</tr>
<tr>
<td>Other Financing</td>
<td>(286)</td>
<td>-</td>
<td>286</td>
<td>-</td>
</tr>
<tr>
<td>General Fund Support</td>
<td>31,424</td>
<td>31,424</td>
<td>-</td>
<td>31,782</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>39,565</td>
<td>37,537</td>
<td>(2,029)</td>
<td>37,982</td>
</tr>
<tr>
<td>Personnel</td>
<td>19,998</td>
<td>17,159</td>
<td>2,839</td>
<td>17,747</td>
</tr>
<tr>
<td>Health Benefits</td>
<td>5,694</td>
<td>5,579</td>
<td>115</td>
<td>5,008</td>
</tr>
<tr>
<td>Pension</td>
<td>1,327</td>
<td>931</td>
<td>396</td>
<td>4,442</td>
</tr>
<tr>
<td>Other Fringe Benefits</td>
<td>1,254</td>
<td>1,450</td>
<td>(197)</td>
<td>(342)</td>
</tr>
<tr>
<td>Materials and Supplies</td>
<td>431</td>
<td>287</td>
<td>144</td>
<td>382</td>
</tr>
<tr>
<td>Contractual Services</td>
<td>6,188</td>
<td>5,179</td>
<td>1,008</td>
<td>5,628</td>
</tr>
<tr>
<td>Travel</td>
<td>304</td>
<td>176</td>
<td>128</td>
<td>303</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>269</td>
<td>215</td>
<td>54</td>
<td>235</td>
</tr>
<tr>
<td>Rentals</td>
<td>49</td>
<td>24</td>
<td>25</td>
<td>65</td>
</tr>
<tr>
<td>Other Charges</td>
<td>3,097</td>
<td>2,691</td>
<td>406</td>
<td>3,769</td>
</tr>
<tr>
<td>Capital</td>
<td>100</td>
<td>19</td>
<td>81</td>
<td>275</td>
</tr>
<tr>
<td>Operating Transfers Out</td>
<td>855</td>
<td>605</td>
<td>250</td>
<td>469</td>
</tr>
<tr>
<td>Total Expenditures</td>
<td>39,565</td>
<td>34,315</td>
<td>5,250</td>
<td>37,982</td>
</tr>
<tr>
<td>Net Revenues (Expenditures)</td>
<td>- $ 3,222</td>
<td>3,222</td>
<td>-</td>
<td>(1,931)</td>
</tr>
</tbody>
</table>
Third Judicial Circuit Court

The Third Circuit Court is the largest county circuit court in Michigan, with 63 judges and three main operating divisions functioning out of four locations. The overall mission of the Court is to carry out justice, resolve disputes, protect individuals, deter and punish crime, ensure fair access, provide for restitution, and generally uphold the law.

Operational Statistics:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2,009,204</td>
<td>1,981,654</td>
<td>1,949,929</td>
<td>1,938,141</td>
<td>1,897,499</td>
<td>1,797,901</td>
<td></td>
</tr>
</tbody>
</table>

The County’s 2011 population has decreased by 10.6 percent in relation to 2006.

<table>
<thead>
<tr>
<th>Number of County Arrests⁹</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>75,195</td>
<td>71,970</td>
<td>65,113</td>
<td>63,021</td>
<td>61,288</td>
<td>55,240</td>
<td></td>
</tr>
</tbody>
</table>

The number of County arrests in 2011 has decreased by 26.6 percent in relation to 2006.

<table>
<thead>
<tr>
<th>Third Circuit Court Criminal Caseloads¹⁰</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Cases</td>
<td>18,067</td>
<td>17,002</td>
<td>15,441</td>
<td>14,268</td>
<td>13,592</td>
</tr>
<tr>
<td>Case Dispositions</td>
<td>19,311</td>
<td>18,535</td>
<td>16,839</td>
<td>15,917</td>
<td>14,733</td>
</tr>
</tbody>
</table>

The Courts and the County signed an agreement that was approved by the County Commission on December 1, 2011. Under this agreement, the court order, discussed in Phase 1, was vacated and the County substantially agreed to all the stipulations in the Court order. As noted in the Phase 1 review, the County was ordered to fund additional employees for the Courts, and additional positions for the Sheriff, for Court security services, and additional positions for the Wayne County Clerk’s Office, for clerical support that is provided to the Courts. The judgment required the County to build or renovate a new facility suitable for consolidating court operations and was to improve the level of repair and maintenance services for all court facilities. As part of the agreement, the County assumed the Courts cumulative fund deficits which totaled $62.9 million as of September 30, 2010. The Courts have agreed to maintain a balanced budget.

---

³ Wayne County’s 2011 CAFR
⁹ Michigan State Police; Michigan Incident Crime Reporting, 2006-2011
¹⁰ Michigan Supreme Court Administrator’s Office; Third Circuit Court Caseloads
Procedures Performed

We requested a current year listing of the budget-to-actual data for the funds and business units included in our scope. The listing included the annual amended budget, and actual data for the years ended September 30, 2011 and 2012. We calculated the variances between the amended budget and the actual expenditures at the account level. Using subtotals we rolled up the accounts at the major revenue and expenditure category levels. The report titled “Third Circuit Court Budget to Actual Analysis – For the Years Ended September 30, 2011 and 2012” is included on page 64.

Our scope was determined by reviewing the rolled up accounts at the major revenue and expenditure category levels and selecting major accounts that had an unfavorable variance exceeding $500,000 and 20 percent of actual expenditures. In addition, we reviewed other unusual variances that came to our attention.

We analyzed the major unfavorable budget-to-actual variances for the Third Circuit Court and the Friend of the Court financial activity in Funds 835 and 836 for the years ended September 30, 2011 and 2012.

We reviewed the primary Court operations in Funds 835 and 836, the Third Circuit Court and the Friend of the Court. Both the Third Circuit and the Friend of the Court ended FY 2010-11 with excess revenues due to the transfer of settlement funding totaling $27.6 million to the Third Circuit and $29.5 million to the Friend of the Court from the General Fund. These transfers were made to eliminate the Court’s net asset deficits as of September 30, 2011. Aside from the settlement transfer, the Third Circuit Court would have ended 2010-11 with a deficit of $2.6 million,11 while the Friend of the Court (FOC) would have broken even.

---

11 The budget-to-actual schedule for the Third Circuit Court was prepared on the modified accrual basis and agrees to the County’s general ledger. The balances presented will not agree to the Court’s financial statement in the 2011 CAFR, because that schedule has been prepared using the full accrual basis of accounting.
Third Circuit Court
Expenditure Summary (in 000's) Unaudited
For the Year Ended September 30, 2012

<table>
<thead>
<tr>
<th>Circuit Court</th>
<th>Friend of the Court</th>
<th>Juv. Justice and Abuse/Neglect</th>
<th>Third Circuit Ct Capital Projs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel</td>
<td>$21,255</td>
<td>9,885</td>
<td>624</td>
</tr>
<tr>
<td>Health Benefits</td>
<td>7,380</td>
<td>3,430</td>
<td>189</td>
</tr>
<tr>
<td>Pension</td>
<td>5,311</td>
<td>3,206</td>
<td>130</td>
</tr>
<tr>
<td>Other Fringe Benefits</td>
<td>1,535</td>
<td>827</td>
<td>52</td>
</tr>
<tr>
<td>Materials and Supplies</td>
<td>872</td>
<td>181</td>
<td>0</td>
</tr>
<tr>
<td>Contractual Services</td>
<td>45,639</td>
<td>5,439</td>
<td>78</td>
</tr>
<tr>
<td>Travel</td>
<td>296</td>
<td>10</td>
<td>13</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>1,391</td>
<td>488</td>
<td>5</td>
</tr>
<tr>
<td>Rentals</td>
<td>2,214</td>
<td>1,158</td>
<td>2</td>
</tr>
<tr>
<td>Other Charges</td>
<td>682</td>
<td>44</td>
<td>3</td>
</tr>
<tr>
<td>Capital</td>
<td>-</td>
<td>-</td>
<td>1,249</td>
</tr>
<tr>
<td>Operating Transfers Out</td>
<td>852</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$87,428</strong></td>
<td><strong>24,666</strong></td>
<td><strong>1,095</strong></td>
</tr>
</tbody>
</table>

Results of Procedures Performed

For the year ended September 30, 2011, the Third Circuit Court’s operations in Fund 835 had a net budget surplus of $25.0 million.

Revenues had a favorable budget variance of $33.1 million. We noted that the following revenue accounts had unfavorable budget variances:

**Federal Grants Variance, $(0.8) million** -- The unfavorable variance of, $(0.8) million for Federal Grants was due to two factors, as follows: (1) a grant for the Substance Abuse and Mental Health Services Administration had an unfavorable variance of $(0.4) million and (2) a grant for Cooperative Reimbursement Program – Administrative costs, had an unfavorable variance of $(0.5) million. As a result of administrative expenditure reductions by the Court, these grants had lower actual expenditures than originally budgeted.

**State Grants Variance, $(0.6) million** -- The unfavorable variance of, $(0.6) million was due primarily to lower than anticipated revenues for Judges Salary Reimbursements and State Juror and Welfare Fraud, totaling $0.3 million. These were cost reimbursable grants that had lower than anticipated expenditures for reimbursement. However, the County was reimbursed 100 percent for costs incurred.
**Charges, Fees and Fines Variance, $(0.9) million** -- This unfavorable variance was primarily due to two factors: (1) lower than anticipated collection of court and probation costs from defendants, a $(0.4) million unfavorable variance. This revenue source is dependent on caseload and the defendant’s ability to pay; and (2) lower than anticipated reimbursement of expenditures incurred for providing services to Gateway Community Health Center, a $(0.2) million unfavorable variance. The Court was reimbursed 100 percent of all costs.

Expenditures had an unfavorable variance of $(8.1) million. We noted that the following expenditure accounts have unfavorable variance:

**Personnel Variance, $(3.3) million** -- The unfavorable variances in Personnel, $(3.3) resulted from the County having to comply with the Court judgment discussed above and hiring additional Court staff.

**Health Benefits Variance, $(2.1) million** -- The unfavorable variance of $(2.1) million for Health Benefits resulted from two factors: (1) the County anticipating various labor contract concessions from certain of its unions that would have lowered overall health care costs and the related budget. Those concessions never materialized and actual health costs were higher than anticipated. (2) the County was required to fund additional positions for the Court as a result of the Court litigation that increased both salaries fringe benefits.

**Pension Variance, $(1.1) million** -- Pension costs were partially offset by the use of $1.6 million in reserves from the Employees Retirement System. Without the benefit of those contributions, actual pension costs for the Sheriff would have totaled $5.1 million. Pension costs are based on salary levels. The unfavorable variance, $(1.1) million resulted from: (1) the County anticipating various labor contract concessions from certain of its unions that would have lowered overall pension costs. These assumptions were incorporated into the adopted budget. (2) the County was required to fund additional positions for the Court as a result of the Court litigation that increased both salaries and fringe benefits.

**Contractual Services, $(2.5) million** -- the unfavorable variance for Contractual Services of, $(2.5) million relates primarily to security services provided by the Sheriff, $(2.0) million. These services were increased as a result of the Court judgment against the County.
For the year ended September 30, 2012, the Third Circuit Court operations in Fund 835 experienced a net budget overrun of $(0.6) million.

Revenues had an unfavorable budget variance of $(1.4) million. We noted that the following revenue accounts had unfavorable budget variances:

**Federal Grants Variance, $(0.8) million** -- The unfavorable budget variance related to the Cooperative Reimbursement Program – Administrative costs grant, which had an unfavorable variance of $(0.5) million. This grant reimburses the Third Circuit Court for administrative expenditures allocated to the Friend of the Court. As a result of administrative expenditure reductions by the Court, this grant had lower actual expenditures than was budgeted.

**Charges, Fees and Fines Variance, $(0.6) million** -- This revenue source is based on a fee for service. The unfavorable budget variance, $(0.2) million resulted from lower than anticipated fees for services performed providing services to Gateway Community Health Center, $(0.2) million. The Court was reimbursed 100 percent for all of expenditures incurred.

Expenditures had a favorable budget variance of $0.8 million. We noted that the following expenditure accounts had unfavorable budget variances:

**Health Benefits Variance, $(2.5) million** -- The County’s current budget development process for forecasting employee health insurance typically takes into consideration all relevant cost factors,
including the prior budget and actual results, changes in the group of covered employees and other significant factors. The County is self-insured for employee health insurance coverage and contracts with Blue Cross Blue Shield to administer the County’s program for both active employees and retirees. Actual health insurance costs have risen at an average rate of 7 percent to 11 percent annually. The unfavorable variance of, $(2.5) million is due to the County’s understating the budget for health costs, by $(2.5) million. The understatement occurred because the County relied on anticipated health care cost concessions (settlements) from certain unions prior to the start of the new fiscal year (see Appendix 1 Findings – Budget to Actual Analysis - 2n-3).

**Contractual Services Variance, $(1.3) million** -- The unfavorable variance related to increased court security costs that were required as a result of the court judgment discussed above.
### Third Circuit Court - Fund 835

**Budget to Actual Analysis (in 000's)**

*For the Years Ended September 30, 2011 and 2012*

<table>
<thead>
<tr>
<th></th>
<th>2010-11 Amended Budget</th>
<th>Budget Variance</th>
<th>2011-12 Amended Budget</th>
<th>Budget Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual</td>
<td>Favorable (Unfavorable)</td>
<td>Actual</td>
<td>Favorable (Unfavorable)</td>
</tr>
<tr>
<td><strong>Federal Grants</strong></td>
<td>$ 2,972</td>
<td>(759) $ 2,471</td>
<td>1,672 (798)</td>
<td></td>
</tr>
<tr>
<td><strong>State Grants</strong></td>
<td>4,385</td>
<td>(551) 4,046</td>
<td>3,960 (86)</td>
<td></td>
</tr>
<tr>
<td><strong>Local Grants</strong></td>
<td>40</td>
<td>5,970 6,835</td>
<td>6,840 5</td>
<td></td>
</tr>
<tr>
<td><strong>Charges, Fees, and Fines</strong></td>
<td>4,347</td>
<td>(851) 4,248</td>
<td>3,666 (582)</td>
<td></td>
</tr>
<tr>
<td><strong>Interest Income</strong></td>
<td>(200) (77)</td>
<td>123 (100) (14)</td>
<td>86</td>
<td></td>
</tr>
<tr>
<td><strong>Other Revenue</strong></td>
<td>-</td>
<td>- 14</td>
<td>31 17</td>
<td></td>
</tr>
<tr>
<td><strong>Other Financing</strong></td>
<td>(1,625) -</td>
<td>1,625 12</td>
<td>- (12)</td>
<td></td>
</tr>
<tr>
<td><strong>Operating Transfers In</strong></td>
<td>-</td>
<td>- -</td>
<td>- -</td>
<td></td>
</tr>
<tr>
<td><strong>General Fund Support</strong></td>
<td>62,025</td>
<td>27,561 70,706</td>
<td>70,706</td>
<td></td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>71,945</td>
<td>33,119 88,232</td>
<td>86,862 (1,370)</td>
<td></td>
</tr>
<tr>
<td><strong>Personnel</strong></td>
<td>18,339</td>
<td>(3,310) 24,245</td>
<td>21,255 2,990</td>
<td></td>
</tr>
<tr>
<td><strong>Health Benefits</strong></td>
<td>5,691</td>
<td>(2,072) 4,910</td>
<td>7,380 (2,470)</td>
<td></td>
</tr>
<tr>
<td><strong>Pension</strong></td>
<td>2,404</td>
<td>(1,073) 6,004</td>
<td>5,311 693</td>
<td></td>
</tr>
<tr>
<td><strong>Other Fringe Benefits</strong></td>
<td>1,421</td>
<td>(252) 1,262</td>
<td>1,535 (273)</td>
<td></td>
</tr>
<tr>
<td><strong>Materials and Supplies</strong></td>
<td>1,081</td>
<td>274 1,084</td>
<td>872 212</td>
<td></td>
</tr>
<tr>
<td><strong>Contractual Services</strong></td>
<td>37,718</td>
<td>(2,535) 44,339</td>
<td>45,639 (1,300)</td>
<td></td>
</tr>
<tr>
<td><strong>Travel</strong></td>
<td>210</td>
<td>(86) 356</td>
<td>296  60</td>
<td></td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
<td>1,077</td>
<td>(22) 1,433</td>
<td>1,391 41</td>
<td></td>
</tr>
<tr>
<td><strong>Rentals</strong></td>
<td>3,021</td>
<td>925 2,321</td>
<td>2,214 107</td>
<td></td>
</tr>
<tr>
<td><strong>Other Charges</strong></td>
<td>744</td>
<td>2 1,427</td>
<td>682 746</td>
<td></td>
</tr>
<tr>
<td><strong>Capital</strong></td>
<td>1</td>
<td>- 1</td>
<td>- -</td>
<td></td>
</tr>
<tr>
<td><strong>Operating Transfers Out</strong></td>
<td>239</td>
<td>852 852</td>
<td>- -</td>
<td></td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td>71,945</td>
<td>(8,147) 88,232</td>
<td>87,428 804</td>
<td></td>
</tr>
<tr>
<td><strong>Net Revenues (Expendit $</strong></td>
<td>-</td>
<td>24,971 24,971</td>
<td>- (566) (566)</td>
<td></td>
</tr>
</tbody>
</table>

For the year ended September 30, 2011, the Friend of the Court operations in Fund 835 had a net budget surplus of $29.5 million.

Revenues for the Friend of the Court (FOC) had a favorable budget variance of $27.2 million. We noted that the following revenue accounts had unfavorable budget variances:
**Friend of the Court - Fund 836**  
**Budget to Actual Analysis (in 000's)**  
**For the Years Ended September 30, 2011 and 2012**

<table>
<thead>
<tr>
<th></th>
<th>2010-11 Amended Budget</th>
<th>2010-11 Actual</th>
<th>Budget Variance Favorable/Unfavorable</th>
<th>2011-12 Amended Budget</th>
<th>2011-12 Unaudited Actual</th>
<th>Budget Variance Favorable/Unfavorable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Grants</td>
<td>$19,243</td>
<td>15,721</td>
<td>(3,522)</td>
<td>16,409</td>
<td>15,189</td>
<td>(1,220)</td>
</tr>
<tr>
<td>State Grants</td>
<td>-</td>
<td>1,874</td>
<td>-</td>
<td>1,823</td>
<td>1,823</td>
<td>-</td>
</tr>
<tr>
<td>Local Grants</td>
<td>5,351</td>
<td>3,755</td>
<td>(1,595)</td>
<td>4,903</td>
<td>4,903</td>
<td>-</td>
</tr>
<tr>
<td>Charges, Fees, and Fines</td>
<td>2,445</td>
<td>2,578</td>
<td>133</td>
<td>2,446</td>
<td>2,707</td>
<td>261</td>
</tr>
<tr>
<td>Interest Income</td>
<td>(200)</td>
<td>140</td>
<td>(133)</td>
<td>(1)</td>
<td>132</td>
<td>-</td>
</tr>
<tr>
<td>Other Financing</td>
<td>(708)</td>
<td>708</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Operating Transfers In</td>
<td>-</td>
<td>29,468</td>
<td>29,468</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>26,131</td>
<td>53,336</td>
<td>27,205</td>
<td>23,624</td>
<td>24,620</td>
<td>996</td>
</tr>
<tr>
<td>Personnel</td>
<td>11,265</td>
<td>10,188</td>
<td>1,076</td>
<td>11,403</td>
<td>9,885</td>
<td>1,519</td>
</tr>
<tr>
<td>Health Benefits</td>
<td>3,322</td>
<td>3,493</td>
<td>(172)</td>
<td>2,933</td>
<td>3,430</td>
<td>(496)</td>
</tr>
<tr>
<td>Pension</td>
<td>2,279</td>
<td>2,452</td>
<td>(173)</td>
<td>3,772</td>
<td>3,206</td>
<td>566</td>
</tr>
<tr>
<td>Other Fringe Benefits</td>
<td>1,014</td>
<td>886</td>
<td>128</td>
<td>(190)</td>
<td>827</td>
<td>(1,017)</td>
</tr>
<tr>
<td>Materials and Supplies</td>
<td>294</td>
<td>247</td>
<td>47</td>
<td>238</td>
<td>181</td>
<td>57</td>
</tr>
<tr>
<td>Contractual Services</td>
<td>5,943</td>
<td>5,111</td>
<td>833</td>
<td>5,625</td>
<td>5,439</td>
<td>186</td>
</tr>
<tr>
<td>Travel</td>
<td>41</td>
<td>7</td>
<td>34</td>
<td>15</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>445</td>
<td>412</td>
<td>32</td>
<td>493</td>
<td>488</td>
<td>6</td>
</tr>
<tr>
<td>Rentals</td>
<td>1,436</td>
<td>960</td>
<td>476</td>
<td>955</td>
<td>1,158</td>
<td>(203)</td>
</tr>
<tr>
<td>Other Charges</td>
<td>93</td>
<td>111</td>
<td>(19)</td>
<td>(1,621)</td>
<td>44</td>
<td>(1,665)</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td>26,131</td>
<td>23,868</td>
<td>2,263</td>
<td>23,624</td>
<td>24,666</td>
<td>(1,042)</td>
</tr>
<tr>
<td><strong>Net Revenues (Expendit $</strong></td>
<td>-</td>
<td>29,468</td>
<td>29,468</td>
<td>-</td>
<td>(46)</td>
<td>(46)</td>
</tr>
</tbody>
</table>

**Federal Grant Variance ($3.5 million** – The Cooperative Reimbursement Program (CRP) is cost reimbursable. The grant pays 65 percent of net expenditures and the County is responsible for the remaining 35 percent. The unfavorable revenue variance for the Federal grants resulted because total expenditures, less other eligible State grants, were less than budgeted expenditures.

**Local Grants Variance $(1.6 million** – local grants represents the Wayne County contribution. The unfavorable budget variance of, $(1.6) million resulted because the FOC secured other State grant funding.
after the budget was adopted that qualified as eligible local match for the CRP grant. This additional funding reduced the County’s required 35 percent match requirement.

Expenditures had a favorable budget variance of $2.3 million. There were no expenditure accounts that had unfavorable budget variances that were within our scope.

For the year ended September 30, 2012, the Friend of the Court operations in Fund 836 experienced a net budget overrun of $(0.04) million.

Revenues had a favorable budget variance of $1.0 million. We noted that the following revenue account had an unfavorable budget variance:

**Federal Grant Variance, $(1.2) million** -- the Cooperative Reimbursement Program (CRP) is cost reimbursable. The grant pays 65 percent of net expenditures and the County is responsible for the remaining 35 percent. The unfavorable revenue variance of, $(1.2) million resulting from the FOC not receiving the final reimbursement for September 2012 expenditures in FY 2011-12.

Expenditures had an unfavorable variance of $(1.0) million. We noted that the following expenditure accounts had unfavorable budget variances:

**Other Fringe Benefits Variance, $(1.0) million** -- Other Fringe Benefits includes unemployment insurance, FICA county’s share, disability insurance and worker’s compensation. In 2011-12, Other Fringe Benefits was budgeted for $0.9 million; however, these expenditures were offset by a contra account for anticipated employee salary and fringe benefit concessions of, $1.1 million. Other fringe benefit accounts had a net favorable budget variance of $0.1 million. These balances net to the unfavorable variance of $(1.0) million.

**Other Charges Variance, $(1.7) million** -- In years past, the Department of Management and Budget (DMB) has had difficulty getting certain elected offices to comply with the County Executive’s Budget Instructions. Prior to the FY 2011-12 CEO Recommended Budget being submitted to the Commission, DMB instituted the “Mandatory Credit.” This credit was a good faith effort by DMB to force elected offices to comply with CEO budget instructions. This is a budgetary account with a credit balance. No actual amounts are posted to this account. Therefore, the budget-to-actual analysis produces an unfavorable budget variance of $(1.7) million.

---

12 This account was setup to recognize anticipated employee concessions for salaries and various fringe benefits that did not materialize.
13 Instead of DMB making arbitrary reductions to an elected official’s line item budget, the department chose to make a single credit entry that would reduce the elected officials’ budget to the budget level mandated by the CEO’s budget instructions. While PM&A understands the intent of this procedure, we noted during our review that in practice these offices are not complying with the mandatory credit and are exceeding their budgets. In some respects, the problem is worse because the non-complying office now has an inflated line item budget. The mandatory credit functions much like a revenue in that it facilitates a higher balanced budget. The current practice also hinders the budget analysts in providing the necessary oversight.
In reviewing the Courts 2011-12 actual expenditures for Fund 835, $87.4 million, we noted that $45.6 million, or 52.2 percent was expended for contractual services. $31.9 million, or 70 percent of that total, was expended for security services provided by the Sheriff, $16.7 million, and clerical support provided by the County Clerk, $15.2 million.

<table>
<thead>
<tr>
<th>Third Circuit Court</th>
<th>Contractual Services</th>
<th>For the Years Ended September 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual 09-10</td>
<td>Percent</td>
</tr>
<tr>
<td>Security Services</td>
<td>14,321,562</td>
<td>33.5%</td>
</tr>
<tr>
<td>Court Clerk Services</td>
<td>15,014,836</td>
<td>35.1%</td>
</tr>
<tr>
<td></td>
<td>29,336,398</td>
<td>68.6%</td>
</tr>
<tr>
<td>Building Costs</td>
<td>5,533,629</td>
<td>12.9%</td>
</tr>
<tr>
<td>Program Services</td>
<td>2,015,691</td>
<td>4.7%</td>
</tr>
<tr>
<td>Juror &amp; Witness Fees</td>
<td>2,134,575</td>
<td>5.0%</td>
</tr>
<tr>
<td>Misc Professional Services</td>
<td>877,598</td>
<td>2.1%</td>
</tr>
<tr>
<td>Transcripts</td>
<td>710,210</td>
<td>1.7%</td>
</tr>
<tr>
<td>Tele-communication Charges</td>
<td>812,729</td>
<td>1.9%</td>
</tr>
<tr>
<td>Other Services</td>
<td>74,050</td>
<td>0.2%</td>
</tr>
<tr>
<td>Internal Admin Support</td>
<td>1,296,974</td>
<td>3.0%</td>
</tr>
<tr>
<td>Total contractual services</td>
<td>42,791,854</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

While security services totaled $16.7 million for FY 2011-12, we understand that the current agreement for security services is not evidenced by a written memorandum of understanding (MOU), but is based on an informal verbal agreement between the Office of the Sheriff and the Courts. Charges for security services are based on budgetary allocations and not on actual services performed. Accounting entries are prepared monthly by the Department of Management and Budget based on budgetary allocations. There is no periodic accounting or other reconciliation of actual Sheriff’s personnel being compared to budgeted personnel. The Third Circuit Court, Sheriff’s department, and Management and Budget office should draft an agreement that would specify the number and classification of officers and other personnel, and deployment of all personnel (see Appendix 1 Findings – Budget to Actual Analysis - 2n-2).

Wayne County is not alone; rising costs, overcrowding, and court-ordered expenditures have prompted various state and local governments to move to private alternatives for court security, detention and incarceration. Governments have resorted to using private security firms, detention facilities, electronic monitoring, and private transport of prisoners. The average cost of a Wayne County officer performing security services at the Courts is approximately $100,000 annually.
As a cost saving measure, the Court may want to consider alternatives to the current workforce requirement of one to two deputies in each court room with part-time or full-time retired officers who will work for lesser wages and who have no requirement for a benefit package because of their retirement benefits. They are trained and can be recertified without additional training or administrative costs. Another approach would be contracting out the work to third-party entities. This service has been used for years in the 36th District Court. This work had been performed prior by the Detroit Police Department.

In addition, the Courts and the County may want to consider the following alternatives to the current services provided by the Office of the Sheriff:

1. Electronic Monitoring (Tether) Unit—Replace the approximately 20 officers currently assigned with retired officers to perform case management and offender monitoring services. This unit is made up of non-budgeted positions, using officers from budgeted jail positions that are being back filled on overtime (see Appendix 1 Findings – Budget to Actual Analysis - 2n-1).

2. Contract with private sector companies for the service of Civil Process. These duties are performed from the Court’s Civil Division. Actual costs incurred in 2011-12 totaled $2.3 million. Revenues totaled $1.7 million.

3. Contract with the private sector vendors for inmate transportation services. The County budgeted General Fund appropriation of $705,839 in 2011-12 and incurred actual costs of $954,544. There is no third-party reimbursement for this service. Another approach would be to replace the staff with part-time or full-time retired officers as discussed above.

Opportunities for Expenditures Reductions

As indicated in the chart above, the services provided by the County Clerk (Clerk) totaled $15.2 million in 2011-12. The Clerk, by Charter, provides courtroom clerks for the Courts. Under this arrangement, the clerks are hired, trained, and supervised by and are accountable to the County Clerk’s Office; however, these clerks work daily and directly with the judges in court rooms and with other Court personnel. In May 2009, the County contracted for a review and assessment of the services provided by the County Clerk’s Office to the Courts. These services were reviewed to determine cost effectiveness and potential cost saving opportunities for the County and the Court. The analysis focused on services performed in the Criminal, Civil/Domestic, and Juvenile divisions. The independent consultants hired identified 15 recommendations for the Clerk, Court and County to consider for reducing costs associated with the services provided.

The study recommended offering early retirement incentives to 15 staff, eliminating 10 positions and down-grading 20 other full-time positions to part-time. The study noted the cyclical/seasonal nature of many of the duties performed and recommended the use of part-time/students for many of those tasks. The study advised that the reductions cited above would have minimal impact to current service delivery and also recommended that the County consider hiring an individual to perform the role of Business Manager for the Clerk of the Court operations to implement new technology, further streamline processes and coordinate productivity increases. The cost savings estimates ranged up to $6.1 million depending on
what suggestions were implemented. It is our understanding that only a limited number of these recommendations have been implemented, based on discussions with key County staff. We recommend that the County, the County Clerk and the Court reconsider this very important opportunity to streamline services and reduce General Fund expenditures.

Department of Children and Family Services

Wayne County’s Department of Children and Family Services (CFS) has full responsibility for juvenile justice services within the County. Specifically, the mission is to strengthen community safety by providing a range of intervention and treatment services to juveniles and their families. Once a juvenile is enrolled, the County funded Care Management Organizations (CMO) have full responsibility and risk for planning, care, supervision, and payment until the supervising Court terminates enrollment.

Approximately 10 years ago, the County started the current juvenile justice services program. The County, Court and Michigan Department of Human Services (DHS) executed an interagency Memorandum of Understanding (MOU) that realigned responsibility for administration of juvenile justice services under the Wayne County Executive. A contract-based, privatized structure was created to deliver a core governmental mandate - public safety and juvenile rehabilitation. Community-based mental health and substance abuse providers joined with experienced juvenile justice agencies to form new organizations responsible for services and the day-to-day management and supervision of delinquent and at-risk youth.

Operational Statistics:

<table>
<thead>
<tr>
<th>County Population Estimates(^{14})</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>2,009,204</td>
<td>1,981,654</td>
<td>1,949,929</td>
<td>1,938,141</td>
<td>1,897,499</td>
<td>1,797,901</td>
</tr>
</tbody>
</table>

The County’s 2011 population has decreased by 10.6 percent in relation to 2006.

<table>
<thead>
<tr>
<th>Third Circuit Court – Family Court Case Filings</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Case Filings</td>
<td>62,543</td>
<td>61,135</td>
<td>56,515</td>
<td>48,504</td>
<td>45,816</td>
<td>39,958</td>
</tr>
</tbody>
</table>

According to operational statistics provided by the Department of Children and Family services, the County’s care management system has improved many of the conditions that were the impetus for reform. For instance, recidivism in 1999 ranged from 38 percent to 56 percent. In 2011, that statistic has been cut to 17.2 percent. Costs for residential care have been cut from $113.5 million in 1999 to $51.3 million in 2011. The number of placements in other states was 200 in 1999, and placements have been eliminated in 2011. The state ward caseload was 3,400 in 1999 and has been reduced to 1,050 in 2011.

\(^{14}\) Wayne County’s 2011 CAFR
### Department of Children & Family Services

**Expenditure Summary (in 000's) Unaudited**

**For the Year Ended September 30, 2012**

<table>
<thead>
<tr>
<th></th>
<th>Juv. Justice and Abuse/Neglect</th>
<th>Community Corrections</th>
<th>General Fund</th>
<th>Youth Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel</td>
<td>$16,693</td>
<td>177</td>
<td>596</td>
<td>-</td>
</tr>
<tr>
<td>Health Benefits</td>
<td>5,670</td>
<td>68</td>
<td>213</td>
<td>-</td>
</tr>
<tr>
<td>Pension</td>
<td>4,000</td>
<td>33</td>
<td>116</td>
<td>-</td>
</tr>
<tr>
<td>Other Fringe Benefits</td>
<td>1,431</td>
<td>16</td>
<td>53</td>
<td>-</td>
</tr>
<tr>
<td>Materials and Supplies</td>
<td>330</td>
<td>3</td>
<td>208</td>
<td>-</td>
</tr>
<tr>
<td>Contractual Services</td>
<td>152,590</td>
<td>2,239</td>
<td>652</td>
<td>1,443</td>
</tr>
<tr>
<td>Travel</td>
<td>33</td>
<td>1</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>237</td>
<td>4</td>
<td>139</td>
<td>-</td>
</tr>
<tr>
<td>Rentals</td>
<td>3,538</td>
<td>48</td>
<td>1,757</td>
<td>-</td>
</tr>
<tr>
<td>Other Charges</td>
<td>19</td>
<td>-</td>
<td>194</td>
<td>-</td>
</tr>
<tr>
<td>Capital</td>
<td>34</td>
<td>-</td>
<td>290</td>
<td>-</td>
</tr>
<tr>
<td>Operating Transfers Out</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,406</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$184,576</strong></td>
<td><strong>2,590</strong></td>
<td><strong>4,222</strong></td>
<td><strong>2,848</strong></td>
</tr>
</tbody>
</table>

**Procedures Performed**

The County of Wayne is the funding and administrative authority for its locally managed juvenile care managed system. Wayne County defines program priorities and appropriates a juvenile justice budget necessary to fulfill legal mandates and maximize efficiencies. The State DHS does not administer or provide delinquency services in Wayne County.

The County juvenile system is a cooperative effort between the Third Circuit Court, Wayne County Prosecutor and State Department of Human Services. There is no statute that mandates that Wayne County must operate a juvenile services system. There is a requirement that the County must pay 50% percent of the costs (for out-of-home placements). All of the parties to the MOU have voluntarily agreed to vest the County with responsibility to administer this program. The “Child Care Fund” (CCF) is the primary State funding source for the County’s juvenile care services system. The CCF is a 50/50 cost-sharing formula between the County and State. Wayne County incurs expenses and then bills the State for 50 percent reimbursement of eligible expenditures. The County must submit an Annual Plan and Budget, subject to the approval of DHS. Case management and service activities must conform to minimum DHS CCF requirements.

Other funding sources include:
1. State Ward Board and Care for juveniles placed in State operated training schools. The State DHS pays for services and then bills the County for 50 percent of expenses.

2. Federal Title IV-E is claimed when an eligible juvenile (family income and deprivation) is placed in an eligible facility (open, non-secure).

3. Medicaid is claimed for health and dental care when a juvenile is placed in a qualifying privately operated residential facility and for behavioral health care services provided through the Juvenile Assessment Center.

4. The Detroit-Wayne County-Community Mental Health Agency provides funding for behavioral health assessments and services provided through the Juvenile Assessment Center, for youth diagnosed as Seriously Emotionally Disturbed, and Wraparound services for juveniles assigned to CMOs.

We reviewed the Department of Children and Family Services -- Juvenile Justice and Abuse/Neglect Fund’s (Fund 292) budgets and the actual results for FY 2010-11 and 2011-12. In addition, we reviewed financial statements for the Juvenile Justice/Abuse & Neglect Fund dating back to 2006 noting historical trends. For the year ended September 30, 2006, this fund had total expenditures of $207.0 million and an unreserved fund balance deficit of $(39.2) million. Annual expenditures peaked in 2008 and totaled $233.1 million. This fund’s annual expenditures have declined every year since 2008, to a low of $184.6 million (unaudited) for the year ended September 30, 2012. Additionally, the fund balance deficit has decreased every year from 2006 to a low of $(8.7) million (unaudited) at September 30, 2012.
We requested a current year listing of the budget-to-actual data for the funds and business units included in our scope. The listing included the annual amended budget, and actual data for the year ended September 30, 2011 and 2012. We calculated the variance between the amended budget and the actual expenditures at the account level. Using subtotals, we rolled up the accounts at the major revenue and expenditure category levels. The report titled “Department of Children and Family Services – Budget-to- Actual Analysis – For the Years Ended September 30, 2011 and 2012” is shown on page 74.

We performed budget to actual analysis for all revenue and expenditure accounts in Fund 292. Our scope was determined by reviewing the rolled up accounts at the major revenue and expenditure category levels and selecting major accounts that had an unfavorable variance exceeding $500,000 and 20% of actual expenditures. In addition, we reviewed other unusual variances that came to our attention.

Results of Procedures Performed

For the year ended September 30, 2011, the Department of Children and Family Services operations in Fund 292 had a net budget surplus of $5.0 million.
Revenues had an unfavorable budget variance of $(15.6) million. We noted that the following revenue accounts had unfavorable budget variances:

**State Grants Variance, $(5.8) million** -- This variance was primarily due to funding from DHS, Child Care Fund, $(3.6) million. The budgeted funding was based on the number of youth that were anticipated to be served. The shortfall represents a reduction in the number of juveniles actually being referred for services by the Third Circuit Court.

**Local Grants Variance, $(6.6) million** -- This unfavorable variance was primarily due to eight local grants, from the Mental Health Agency, totaling $5.8 million, that were originally budgeted in Fund 292. DHS ended this program and the Court moved the program into Fund 835. The budget for this program was not amended or transferred to Fund 835 (see Appendix 1 Findings – Budget to Actual Analysis - 2n-3).

**General Fund Support Variance, $(7.7) million** -- Represents General Fund Support and had an unfavorable variance of $(7.7) million. This variance was due to General Fund Appropriation being diverted to other funds, since this fund ended the year in surplus. Expenditures ended the year with an overall favorable variance of $20.6 million (see Appendix 1 Findings – Budget to Actual Analysis - 2n-3).

Expenditures had a favorable budget variance of $20.6 million. There were no expenditure accounts with unfavorable variances that fell within our scope of review.
For the year ended September 30, 2012, the Department of Children and Family Services operations in Fund 292 had a net budget surplus of $2.5 million.

Revenues had an unfavorable budget variance of $(22.3) million. We noted that the following revenue accounts had unfavorable budget variances:

**Federal Grants Variance, $(1.7) million** -- $(1.2) million of this unfavorable variance was due to delays in billings per the department. This revenue will be recognized in the following year. In addition, the remaining unfavorable variance of $(0.8) relates to a federal grant, Juvenile Reentry Initiative, totaling $0.8 million that was budgeted in 2011-12, but, no revenue was received.
**State Grants Variance, $(14.5) million** -- This unfavorable variance was primarily due to grants from DHS Child Care Match, $(13.2) million, which are based on the number of juveniles that are anticipated to be served. The shortfall is due to fewer juveniles being directed for services by the Third Circuit Court.

**Local Contributions Variance, $(5.4) million** -- $(4.8) million of this unfavorable variance was due to a shortfall in donor contributions. In an effort to offset reductions in General Fund appropriation, the Department of Children and Family Services had pursued additional funding through a Donor Funding Program, that was budgeted for $17.3 million. Actual contributions were $12.5 million. The Donor Funding Program revenues were achieved through the recruitment of new service providers to the program. The net budget shortfall is a result of the failure to recruit as many new providers as was originally projected during the budget process.

**Operating Transfers in- Youth Services Variance, $(2.0) million** -- This funding originated from the 1/10 Millage tax revenues. The unfavorable variance was due to budgeted transfers totaling $2.0 million not being transferred to Fund 292. The Department indicated that these funds were retained in Fund 297 and would be used in the following year according to the Deputy CFO.

Expenditures ended the year with an overall favorable variance of $24.9 million. There were no expenditure accounts with unfavorable variances that fell within our scope of review.
2o. A memo on the management of outstanding accounts payable, including the process of reviewing aging payables, authorization of payment, processing of checks, and overall segregation of duties.

As part of our review of the management of outstanding accounts payables, we contacted staff in the Central Accounts Payables Division to request a copy of the County’s aged accounts payable report thru August 31, 2012. However, we were provided a copy of a monthly system generated payment monitoring report “Unpaid Items More than 30 Days Old” - By Department”, and a “Monthly Payment Monitoring Report - by Department” for the period under review (June 1 – August 31, 2012) by the Office of Management and Budget (M&B).

Procedures Performed

We reviewed the “Unpaid Items More than 30 Days Old” report which reflected General Ledger (G/L) dates that reported outstanding payables from prior years, and through the end of the period under SOW review, August 31, 2012. We searched for the oldest open payable transactions, and considered all departments/offices on the report. Our initial observations were as follows:

- The report does not reflect aging of the outstanding payables.
- The oldest outstanding payable item on the report was dated May 9, 2000.
- There are a couple of transactions that are closed in the system, but reported open on the report.
- The report did not include the invoice number, but provided an amount.

Due to our initial observations during review of the system generated report, we scheduled an interview with the supervisor in the Central Accounts Payables Division to discuss the current process related to aging accounts payable. We were informed that current activities related to review of outstanding payables consisted of the following:

- Each month, a copy of the “Unpaid Items More than 30 Days Old” is printed in M&B.
- The report is divided by department/office and distributed to department heads for review.
- It is the responsibility of each respective department to address outstanding payables in their areas, however there is no follow-up activity.
- At year-end, the outstanding payables are supposed to be reconciled to the general ledger.
- The Accounts Payable Division is not involved in the resolution of outstanding payables, nor monitoring activities.
- Accounts Payable does not receive the monthly payment monitoring reports.
2o. A memo on the management of outstanding accounts payable, including the process of reviewing aging payables, authorization of payment, processing of checks, and overall segregation of duties.

For additional information regarding this function, we contacted the Office of the Director of Financial Reporting, and requested a description of the current process used to manage outstanding payables. In addition, we submitted a list of random sample transactions from the report noted above and requested an explanation for open payables reported on the report, but closed in the system. The oldest open item on that schedule was dated November 15, 2007. M&B indicated that there were items on the report reviewed that had been closed, and that management was currently developing an outstanding payables policy/procedure document. A complete schedule of transaction samples from each report can be found in Appendix 10.

Results of Procedures Performed

Based on our review of the current tasks associated with outstanding payables, lack of a clearly defined process, and the internal reports reviewed, as indicated above, we noted three exceptions (see Appendix 1 Findings - Management of Outstanding Payables - 2o- 1, 2, 3).

The procedures performed in this section also resulted in several observations which are summarized as follows:

- There is no established or written outstanding payables policy/procedure document.
- Current tasks associated with outstanding payables process do not provide clear guidance.
- Accounts Payable Division is not involved with monitoring, or resolution of outstanding payables.
- The County does not prepare an aged payables report, and the report provided consisted of a random list of vendor accounts which were not presented in alphabetical or chronological order.
- There is no mechanism in place to facilitate follow-up with department heads regarding the resolution of outstanding payables.
- Our tests also indicate that the County is not always in compliance with its policy and procedure statement (Procurement Ordinance No. 2006-1101, Section 120-47 (b), (c), (d), and (e) related to processing invoices for payment. We noted several invoices were processed for payment after “45” days. Per the ordinance, “this could result in the County paying the vendor an additional amount equal to an annual rate of nine percent (9%) for the time that the payment remains past due.”
- As indicated in SOW 2l, the County does not consistently adhere to payment terms of vendors (usually net 30).

There were some outstanding payables on the report, yet in the system payment checks had been voided, in some cases several years ago.
SOW Phase 2 Section 2p

2p. A memo on the following:

1) Any opportunities for expenditure and or payable process improvement.
2) Any opportunities for reductions in expenditures both short term and long term.

SOW Phase 2 Section 2p-1

Policy and Procedures

Based upon our review associated with the County’s current processes related to the management of outstanding accounts payables and SOW 2o Findings No.1, and 2, we have identified an opportunity to improve the current accounts payable process by adopting a formal policy and procedures for management of outstanding payables.

As an addition to the County’s current control activities related to accounts payable, we recommend the development, documentation and immediate implementation of a formal policy and procedures. The current internal controls over outstanding payables, including review, reporting, monitoring, resolution, and follow-up, should be documented and distributed to department heads and others involved in the disbursement process. The policy and procedures will facilitate the establishment of clear individual responsibility and accountability regarding the process, and provide guidelines that support timely resolution of the outstanding payables, reducing inherent risks such as duplicate payments, and strengthening internal controls.

Written procedures are an important control activity that provides instruction, performance standards and a basis for measuring compliance with management’s financial policies, goals, and objectives.

Monthly Aged Accounts Payable Report

Development of an aged accounts payable report for outstanding payables that are over 30 days old. We were informed that the current financial system is not configured to produce an aged accounts payable report; however, the balances could be aged in an Excel spreadsheet to reflect payables over 30, 60, 90, 120, 120 days or older. The report should include columns for the suppliers (vendor) name, current amount owed, amounts 1-30 days past due, 31-60 days past due, 61-90 days past due, 91-120 days past due, 121 days and older past due, and a column for the total amount of outstanding payables for each supplier.

The accounts payable aging schedule provides a good indication of the amount of funds required in connection with expenditures for vendors during the fiscal year; it aides in cash flow and cash management activities, and may help the County take advantage of any discounts available based upon vendor payment terms where applicable, and identify potential cash problems early enough to avoid cash shortfalls during the fiscal year.
The aged accounts payables report should be distributed monthly to all County department heads and others involved in the disbursement process. The Accounts Payables division should spearhead the review, facilitate proper reconciliation between the general ledger and the A/P Open Payables by Fund report, and coordinate timely resolution of outstanding accounts payable issues.
Wayne County Health Care Costs and Liabilities

Changing health care benefits for new employees who began employment with the County after 2009 was a step in the right direction for reducing health care costs. Upon retirement, these employees will receive an annual fixed County contribution and will be required to contribute a fixed amount bi-weekly. Since only a few employees are impacted, the County needs to identify a more aggressive strategy for health care benefits that would include retirees (pre and post Medicare). Including this larger base will help to accelerate the reduction of health care costs.

Development of strategy options must be evaluated to ensure that other post-employment benefits (OPEB) liability is mitigated and health care costs are reduced more substantially. OPEB includes benefits other than pensions. A key parameter for any options under consideration is to ensure that an attractive, sustainable promise to employees and pre and post Medicare retirees is kept. The introduction of health care exchanges resulting from Health Care Reform is another opportunity. Furthermore, Governmental Accounting Standards Board Statement 45 (GASB 45) must be addressed. GASB 45 is an accounting and financial reporting provision requiring government employers to measure and report the liabilities associated with OPEB. Essentially, the value of retiree health care promises made must be actuarially calculated and accrued during the working years of employees and be recognized as a financial obligation of the employer.

As a result of assessing various factors, three key ‘Option Integration Strategies’ were identified by PM&A. These options and their rationale are listed below.

<table>
<thead>
<tr>
<th>Option</th>
<th>Description</th>
<th>Summary Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Offer Pre-Medicare Retirees Choice of Group or Public Exchange Coverage</td>
<td>• Offers incremental savings and OPEB reduction without significant near-term change • Up to 20 to 30% savings for retirees and County when retiree opts into Exchange • Sets stage for longer-term Option 2 approach</td>
</tr>
<tr>
<td>2</td>
<td>Transition all Pre-Medicare Retirees to Public Exchange</td>
<td>• 10 to 20% savings for retirees and the County even without Exchange Subsidies • If majority of pre-Medicares are subsidy eligible, savings to retirees and County could be as high as 40 to 50% • Virtually eliminates pre-Medicare liability</td>
</tr>
<tr>
<td>3</td>
<td>Move Medicare Retirees to Group-based Private Exchange</td>
<td>• Proven solution available from existing partners • Equivalent coverage options available for retirees at 20 to 25% cost reduction • Significant GASB-45 reduction and increased savings to the County and retirees</td>
</tr>
</tbody>
</table>

For additional information related to these options, refer to the Power Point deck entitled: *Addressing Wayne County Health Care Costs and Liabilities* (Strategic Opportunity Discussion Guide) – See Appendix 11
The proposed next steps for these options are: 1) Conducting further exploration and fine-tuning of these Strategy Options based on Plan Sponsor preference and organizational fit and, 2) Beginning to frame up the relative savings opportunity and employee/retiree economic outcomes associated with the highest-priority, best-fit strategy option.

In addition to the savings that will be achieved by selecting a strategic option for pre and post Medicare retirees, an opportunity exists to reduce health care costs for Wayne County’s 4501 active employee population. Employees could be moved from traditional defined benefit health care coverage to a defined contribution plan. With a defined contribution plan, Wayne County provides each employee a fixed dollar amount. The employee makes the determination of how the funds will be spent. These plans have also been called consumer directed, self-directed or consumer-driven but the concept is the same. The employee plays an active role in the process and selects a plan that best fits his or her needs.

Common vehicles used to fund these plans are Health Reimbursement Arrangements (HRAs) or Health Savings Accounts (HSAs). The HRA is employer-funded on a pre-tax basis. Employer contributions are not taxable to the employee. In this plan, employees are reimbursed up to the limit when medical expenses are incurred. Accounts are considered to be “notional,” there is no formal account with “real dollars.” Account activity is tracked within an accounting system. Funding occurs at the time the employee needs to be reimbursed. These plans also include a catastrophic insurance policy with a high annual deductible. HRAs are said to be more flexible for the employer because they are controlled solely by the employer. Most HRAs allow the “attributed funds” to accumulate from year to year but do not pay interest. Upon termination of the individual’s employment, the funds usually revert back to the employer.

Alternatively, HSAs can be considered. HSAs are tax sheltered savings accounts similar, in concept, to an Individual Retirement Account (IRA) but created primarily to pay for medical expenses. Unlike the HRA, HSAs may be funded by the employee, the employer or both. These accounts are funded with “real” dollars. A requirement for an HSA is that it be linked to a high-deductible health plan. Employer contributions are not taxable to the employee. Employee contributions can be made with pre-tax dollars through a Section 125 salary-reduction cafeteria plan.* HSA account holders can invest unused funds. A key feature of this plan is that it is portable. Because it is owned by the employee, upon termination, the funds can be transferred from one HSA administrator to another. This plan is usually more attractive to the employee.

The proposed next steps for considering defined contribution plans for health care benefits for active employees are: 1) Conducting further exploration and analysis of plan options using HRAs and HSAs and 2) Assessing the savings opportunity and outcomes associated with this type of plan compared to the traditional defined benefit plans currently in use.

For additional information related to these options, refer to the Power Point deck entitled: *Addressing Wayne County Health Care Costs and Liabilities (Strategic Opportunity Discussion Guide)* - see Appendix 11.

*Society for Human Resource Management (SHRM) – Consumer-Driven decision: Weighing HSAs vs. HRAs, August 2012.
**Pensions**

The Wayne County Employees' Retirement System (WCERS) is a public employee retirement system established by the County of Wayne on December 1, 1944. WCERS is administered by the Board of Retirement ("Board") to provide retirement, disability, death, and survivor benefits for its employees under the authority of the Home Rule Charter for the County and Section 12a of Act No. 156 of the Public Acts of Michigan of 1851 (MCL 46.12a, MSA 5.333(1)), as amended.

The WCERS investments, which are under the control of the Board, are subject to statutory regulations imposed the Michigan Public Pension Investment Act 314 of 1965, as amended (Act 55, P.A. 1982), and investment policy established by the Retirement Commission. The County provides retirement benefits to its employees through the WCERS. The WCERS provides five defined-benefit retirement options, four of which are contributory (together, the Defined Benefit Plan) and a Defined Contribution Plan. WCERS also administers retirement plans for the Wayne County Airport Authority (WCAA) and the Third Circuit Court Bailiffs. The WCAA is responsible for all costs for its active employees and retirees. The Bailiffs Plan is 100 percent funded.

In 1983, the County closed Plan Option 1 of the WCERS to new hires, and added two new options under the Defined Benefit Plan, which resulted in a lower final benefit to the participants. Effective October 1, 2001, WCERS established the Wayne County Hybrid Retirement Plan #5 ("Plan Option 5"), which contains both a defined benefit component and a defined contribution component. Participants in the Defined Benefit Plan options previously in existence ("Plan Option 1," "Plan Option 2", and "Plan Option 3") could elect to transfer their account balances to Plan Option 5 if authorized during specific time periods noted within collective bargaining agreements. New employees could elect to participate in Plan Option 4 through September 30, 2001.

Effective October 1, 2008, WCERS established the Wayne County Hybrid Retirement Plan # 6 ("Plan Option 6"), which contained both a defined benefit component and a defined contribution component. A defined contribution provision of this plan is voluntary for the member with no employer participation. Plan Option 6 is available only upon transfer from Plan Option 5, if authorized during specific time periods noted within collective bargaining agreements. Effective October 1, 2001, only Plan Option 5 is available to new employees, except for new executives who may continue to elect participation in Plan Option 4; Plan Options 1, 2, and 3 are closed to new hires.

PM&A reviewed the WCERS Preliminary September 30, 2011 actuarial report during Phase I of this engagement. The report was finalized and issued July 20, 2012 and showed that the County’s employer contribution rate will increase from 39.68 to 48.74% of payroll in FY 2012-13. The latter represents a 22.6% increase. The WCERS experienced a market value rate of return during fiscal year 2010-11 of 1.3 %, which is less than the assumed rate of 8.00%. The net result of this market value loss, and carryover gains and losses from prior years, is a net loss of $110.0 million as reported by the actuary. In addition, the actuary also projected that the computed employer’s contribution rate will likely increase significantly over the next three years due to prior year losses that have not been fully realized.
The County’s employer contribution rates, pension expenditures and funding ratio over the past five years have been as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Employer’s Contribution Rate</th>
<th>Pension Costs (millions)</th>
<th>Funding Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>15.82%</td>
<td>$18.44</td>
<td>81.00%</td>
</tr>
<tr>
<td>2008-09</td>
<td>23.67%</td>
<td>$24.12</td>
<td>73.60%</td>
</tr>
<tr>
<td>2009-10</td>
<td>27.82%</td>
<td>$23.72</td>
<td>67.20%</td>
</tr>
<tr>
<td>2010-11</td>
<td>30.26%</td>
<td>$24.77</td>
<td>60.00%</td>
</tr>
<tr>
<td>2011-12</td>
<td>39.68%</td>
<td>$37.77</td>
<td>49.80%</td>
</tr>
<tr>
<td>2012-13</td>
<td>48.74%</td>
<td>$31.10</td>
<td></td>
</tr>
</tbody>
</table>

The 2012-13 employer contribution rate has tripled since 2007-08. Over the last five years, actual County General Fund pension costs have doubled, increasing from $18.4 million in 2007-08; to $37.8 million in 2011-12. The County has budgeted $31.0 million for the 2012-13 budget year. PMA noted that the County used a contribution from the WCERS Inflation Equity Reserve totaling $16.4 million in the General Fund to offset a portion of these costs in 2010-11 and in 2011-12 amounting to $12.8 million and $3.6 million, respectively. Therefore, actual pension costs for 2011 and 2012 would have been $24.8 and $37.8, respectively. The funding ratio has declined from 81.0% in 2007-08 to 49.8% in 2011-12, a drop of 38.5% in the past four years. The statistics cited above point to higher annual pension costs for the County. Employer contributions are directly tied to the operating and investment performance of the pension system. Because of the concerns raised during Phase I of our review, PMA took a closer look at historical investment performance of the WCERS.

We compared WCERS investment performance to other public pension systems and indices, including LAGERS; NCPERS, S&P’s 500 Index and the Consumer Price Index. Investment performance for NCPERS was based on average investment performance for NCPERS members in a 2012 Study performed by NCPERS. NCPERS received responses from 147 state and local government pension funds with a total number of active and retired memberships surpassing 7.5 million and with assets exceeding $1.2 trillion. The majority –84 percent –were local pension funds, while 16 percent were state pension funds.

The chart below shows investment performance for one year (2012), three years (20010-2012), five years (2008-2012) and ten years (2003-2012). WCERS investments lead the other indices with one-year earnings.

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15 Employer contribution rate projected in the 2011 Actuarial Report for WCERS; Budgeted General Fund pension costs in the 2012-13 Amended Budget.
16 Actual General Fund cost was offset by contribution credit from the Inflation Equity Reserve in the Employers Retirement System totaling $12.8 million.
17 Actual General Fund costs were offset by contribution credit from the Inflation Equity Reserve in the Employers Retirement System, $3.6 million.
18 The Missouri Local Government Employees Retirement System (LAGERS) is a non-profit public pension system created by the State of Missouri. LAGERS provide retirement, disability and survivors benefits to local government employees within the state. Currently, LAGERS covers over 32,000 active members from over 625 employers and pays benefits to almost 16,000 retirees.
19 The National Conference on Public Employee Retirement Systems (NCPERS) is the largest trade association for public sector pension funds, representing more than 550 funds throughout the United States and Canada. Indices shown represent average rates reported by member public pension systems in a survey conducted in 2012.
20 The S&P 500, or the Standard & Poor’s 500, is a stock market index based on the market capitalizations of 500 leading companies publicly traded in the U.S. stock market, as determined by Standard & Poor’s.
of 16.75 percent. WCERS had earnings of 7.3 percent for the three-year performance and placed third of five respondents. WCERS did not perform, as well as the other respondents at the five-year and ten-year periods, trailing LAGERS, NCPERS, S&P 500 Index and the CPI.

<table>
<thead>
<tr>
<th>Reporting Entity</th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
<th>10 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>WCERS</td>
<td>16.8%</td>
<td>7.3%</td>
<td>0.3%</td>
<td>4.5%</td>
</tr>
<tr>
<td>LAGERS</td>
<td>3.6%</td>
<td>13.9%</td>
<td>3.1%</td>
<td>7.2%</td>
</tr>
<tr>
<td>NCPERS -- Avg. Rate</td>
<td>12.5%</td>
<td>4.4%</td>
<td>4.4%</td>
<td>5.3%</td>
</tr>
<tr>
<td>S&amp;P 500 Index</td>
<td>15.9%</td>
<td>13.5%</td>
<td>4.8%</td>
<td>7.9%</td>
</tr>
<tr>
<td>CPI</td>
<td>5.7%</td>
<td>6.2%</td>
<td>6.0%</td>
<td>6.5%</td>
</tr>
</tbody>
</table>

In a 2012 NCPERS Study, NCPERS determined that in typical public pension systems, revenues used to fund pension programs generally comes from three sources: member contributions, employer contributions and investment returns. Investment returns were the most significant source (73 percent of annual revenues; member contributions made up 10 percent of fund income and employer contributions equaled 17 percent.)
Wayne County Employees Retirement System
Summary of Financial Activity (in 000's)
For the Years Ended September 30,

<table>
<thead>
<tr>
<th>Changes in Net Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Description</strong></td>
</tr>
<tr>
<td>Beginning Net Assets -- 9-30-2006</td>
</tr>
<tr>
<td>Employer Contributions</td>
</tr>
<tr>
<td>Employee Contributions</td>
</tr>
<tr>
<td>Benefit Payments</td>
</tr>
<tr>
<td>13th Check Payments</td>
</tr>
<tr>
<td>Net Non-Investment Activity</td>
</tr>
<tr>
<td>Investment Gains (Losses)</td>
</tr>
<tr>
<td>Investment Expenses</td>
</tr>
<tr>
<td>Administrative Expenses</td>
</tr>
<tr>
<td>Investment Net Income (Loss)</td>
</tr>
<tr>
<td>Net Investment &amp; Admin Activity</td>
</tr>
<tr>
<td><strong>Ending Net Assets -- 9-30-2011</strong></td>
</tr>
</tbody>
</table>

We noted that for WCERS, over the five-year period, employer contributions totaled $115.2 million, while net investment earnings were $1.7 million. In a retirement system performing at an optimal level, investment earnings will normally provide the largest proportion of system revenues, as noted in the NCPERS Study.

Another major factor identified for the diminishing WCERS net assets has been the significant increase in pension benefit payments. Starting in 2009, benefit payments have sharply increased from 110.4 million, including 13th check payments, in 2006-07 to a projected $132.4 million in 2010-11. Pension benefit payments shown in the chart above, from 2006-07 to 2010-11, increased a total of $54.5 million, in relation to the base year, 2007-08 at $110.4 million. The increase in pension benefit costs was offset by increased employee contributions totaling $158.5 million between 2007-08 and 2010-11, in relation to the base year, 2007-08, at $7.8 million.

The chart above highlights two significant facts:

- Investment income exceeds investment expenses and administrative costs by a net $1.7 million. The beginning net assets times the assumed earning rate of 8.0 percent would have generated income of approximately $463.4 million.
- Benefits paid out exceeded employer and employee contributions by $293.7 million.

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21 WCERS Actuarial Reports, 2006-11;
22 WCERS Actuarial Reports, 2006-11;
The two factors noted above were the major contributors in the loss 292.0 million, of WCERS net assets over the last five years.

The top performing state pension funds from July 2002 to June 2012 were LAGERS with an annualized return of 7.2 percent, South Dakota with a return of 7.0 percent and the Oklahoma Teachers Retirement system with a return of 6.9 percent. Median return for the decade was 5.7 percent.

The WCERS changed senior management in 2011, hiring a new director and deputy director. The new director acknowledged that investment performance over the five years through 9-30-2010 has been disappointing at .04 percent. He further indicated that the recent financial crisis unmasked valuation deficiencies for certain WCERS alternative investments, including the manner in which these Investments were evaluated, accounted for, and valued. In the past, these deficiencies concealed the true level of poor performance of those investments over many years and finally revealed the true losses in market value. WCERS invested in various real estate funds and deals that were thought to be conservative investments, but eventually turned out very low or no returns and that many of those poor results could be attributed to the financial crisis that began in late 2008.

The director further stated that many factors have impacted the health of the defined benefit plan; for instance, benefits granted have far exceeded the potential rate of return WCERS could have reasonably expected to earn, which then further reduced the earnings potential of the portfolio due to eroding principal. In addition, the factors noted below were significant contributors to the disappointing investment performance over the past five years:

- Economic climate, 2008 market crash
- Investment losses that were not been written off by the previous administration, discussed above
- Transfers from Plan 4 (defined contribution) to Plan 5 (defined benefit) at a discount
- Transfers from Plan 5 to Plan 6 (defined benefit) at discounted rates ($500 or $750 per year)
- Allowing members of Plan 5 to purchase years of service or other governmental service at a discounted rate
- Extension of the amortization period for the unfunded accrued liability from 20 to 30 years with a declining scale
- Early retirement windows
- Double the outflow of payments versus inflow of contributions, as shown in the chart above
- The County election to offset it employer contribution to WCERS by a total of $32 million countywide, in fiscal years 2010-2011 and 2011-2012, by using reserves from the Inflation Equity Fund.

Industry best practices suggest the following remediation steps should be undertaken by the retirement board and the WCERS management as a cost and time efficient way to change investment performance and institute best administrative practices:
Review of the current Investment Manager(s) and strategy, including:

- Portfolio performance – an analysis of WCERS investment manager’s investment performance. This includes comparisons with selected indices, benchmarks and other investment managers across all of the asset classes in which you invest
- Risk analytics – a study of WCERS existing portfolio’s risk and volatility and a measurement of the levels of risk that you need to be exposed to in order to have the potential to meet your goals
- Strategic and tactical asset allocation – an analysis of WCERS current asset allocation strategy
- Portfolio benchmarking – an analysis of WCERS current benchmarks
- Portfolio cost analysis – an analysis of current fee arrangements and comparisons with other investment managers to ensure that the charges paid are competitive

Review of WCERS Investment Policy Statement, to include:

- Compliance and best practice – a check to establish if the statement meets regulatory requirements and industry best practice
- Appropriateness – a check to establish if your statement matches and properly communicates your investment needs

Investment Strategy Analysis, including:

- Analysis of WCERS current asset allocation strategy and its alignment with your investment policy statement
- Review of the range of asset classes open to you and their inherent risk and return characteristics
- Compare and contrast a range of asset allocation strategies

The retirement board is empowered by the Investment Act\(^{23}\) to investment WCERS assets. However, the board does not currently have an investment advisor and has not had a permanent investment advisor to rely upon. In the past, the retirement board has dealt directly with many of the WCERS investment managers. The Board has typically dealt directly with multiple investment managers at a time.

PM&A posed several additional questions to the new WCERS Director, including:

1. **What steps are being taken to improve under-performing pension assets?** WCERS has had an extensive education and training program for the Trustees and has completed a comprehensive review for all pension assets. This review required some assets to be re-categorized in the asset allocation to properly account for the risk profile and required some investments to be written off. The review also resulted in a consolidation of correlated assets, reduction in investment management fees; this resulted in the reduction in the number of investment professionals and investment products for a cost savings of $1.1 million.

2. **Has the WCERS revised its investment policy?** WCERS has hired Graystone Consulting and VanOverbeke, Michaud & Timmony, P.C. to review and recommend changes to our Investment Policy Statement in late

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\(^{23}\) Public Act 314 of 1965, as amended
2012 and anticipates the revised policy will be approved within the next 60 days. The policy includes further defining its watch list criteria and reporting procedures.

3. **Has the WCERS revised its Investment (Asset) allocations?** WCERS hired Graystone Consulting and VanOverbeke, Michaud & Timmony, P.C. to review and recommend changes to its Asset Allocation policy which was adopted by the Retirement Commission in 2012, resulting in some investments being reallocated under a different category. Until very recently, the WCERS Board had always had an investment philosophy of implementing its asset allocation mix using primarily active money managers. This resulted in employing too many active managers for the overall portfolio, thereby paying higher fees and having multiple managers whose performance returns were highly correlated. Since 2011, the Board has made a definitive move to reduce the number of active manager, negotiate lower fees, and begin to integrate more indexing in the overall asset allocation mix.

4. **Does the WCERS use benchmarks to monitor investment performance? If so? What are they?** WCERS does use benchmarks. The benchmarks are different for each investment, but are determined at the time of the investment. WCERS uses Northern Trust as their custodial bank and for performance monitoring including reporting investment returns against the benchmark for each particular investment. Further, Northern Trust reviews the benchmarks against each investment vehicle to insure compliance; issues will be brought to the administrations attention immediately. Northern presents quarterly to the Board with all of its recommendations and findings. In addition, each investment manager gives a presentation annually that includes year to date and inception to date return on investment performance, as well as, against the benchmark for that particular investment.

5. **NCPERS has recommended performance audits for public pension systems. Does WCERS have any plans for an investment performance audit?** The Retirement Commission is an active member of NCPERS and MAPERS. Trustees attend training and continually look for best practices that can be implemented within the System. The new Investment Policy Statement includes language for performance audits and tasks. The Investment Consultant will further define performance measurement goals and guidelines.

6. **PMA noted that an RFP was posted for an investment Consultant. Has that process been completed? What was the criterion for hiring?** WCERS issued the RFP for an Investment Consultant, a second time with a due date of December 12, 2012. WCERS Evaluation Committee is currently reviewing submissions for the RFP for Investment Consultant for the Defined Benefit Portfolio. The RFP Evaluation committee is in the process of selecting candidates for interviews.

We noticed that WCERS investment earning have rebounded in the past year ended September 30, 2012, earning a return of 16.75 percent. Market value of WCERS assets have increased to $7256.8 million. This is positive news because a well-managed investment portfolio with consistent earnings must be achieved to sustain the WCERS.

In addition to the steps being taken to address the WCERS investments, as discussed above, the following additional steps have been taken to ensure that plan changes are thoroughly reviewed and minimized, as follows:
- The State of Michigan Public Act 728 became effective in 2002 and requires an actuarial analysis to be provided to the decision making body at least seven days before the proposed benefit change is adopted.

- The County Commission has passed an Ordinance that requires all benefits being offered by the executive branch to be subject to approval by the County Commission. This Ordinance is identified as Ordinance 2012-096 and referred to as "the Wayne County Benefit Ordinance."

- Plan Option 6 has been closed entirely for active employees in CBAs executed since April 15, 2012. No active employees of the Third Circuit Court, union or otherwise, are being permitted to move into Plan Option 6.

- Public Act No. 329 of 2012, was enacted and will allow the County, and other local government units around the state, to finance the cost of funding pensions and health care for retired government employees. The new law has a few stipulations, as follows:
  - Local governments would need to act before Dec. 31, 2014
  - Before issuing each bond, approval would need to be given by the Michigan Department of Treasury
  - The governmental entity needs a credit rating of AA or higher
  - The government applying must take action to eliminate unfunded pension and retiree health care programs
  - Unfunded pension and retiree health care programs cannot be restored for the length of the bond term

Based on our discussion with WCERS senior management, as noted above, and the positive steps that the new management team has put in place since 2011, it appears that WCERS is well positioned to reform its investment processes and streamline administrative procedures in accordance with best industry practices. WCERS investment earnings should improve, as evidenced by investment earnings results for the year ended September 30, 2012. In addition, related investment expenses should decrease, as the investment processes become more efficient.

We offer two observations for the Board and senior management’s consideration, as follows:

- Best practices for pension plan governance suggest that fund managers issue annual reports to stakeholders in a manner that provides for openness, transparency, and accountability. Although the board annually publishes reports describing the status of WCERS matters, current reports do not adequately disclose investment outcomes for the more controversial matters, such as the alternative investments. The Board’s primary report to stakeholders remains the annual report. As such, the annual report should demonstrate to stakeholders, including the active employees and retirees whose retirement funds it invests, what oversight the board is taking to protect WCERS

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24 Collective bargaining agreements (CBA)
assets and how its various investments performed against associated financial markets and other benchmarks (see Appendix 12 -- The National Conference on Public Employee Retirement Systems -- Best Governance Practices for Public Retirement Systems).

- While we noted that senior management and the Board has put in place several procedures to help ensure appropriate oversight of WCERS funds, these procedures could be strengthened by adding an independent compliance function that would segregate WCERS management and oversight functions.
3. The Contractor may provide as part of the report any ideas on opportunities for Treasury’s Office of Fiscal Responsibility to improve its processes.

No comments
SOW Phase 2 Wayne County Delinquent Tax Revolving Fund

Contract #271B2200019, Change Request #6, Section 1.022. Provides an analysis and calculation of the Wayne County delinquent tax reserve. Provide and prepare a report covering the following:

2. a) A review of outstanding tax note covenants regarding reserve requirements
   b) A review of year-end transfers within the delinquent tax fund and sub-funds
   c) A review of current year payments on the delinquent tax notes
   d) A review of current year delinquent tax collections
   e) A re-computation of the delinquent tax reserve requirement indicating:
      i) the reason for the restriction (authority restricting)
      ii) the calculation of the restricted amount

The County established its Delinquent Tax Revolving Fund (DTRF) in accordance with Michigan Public Act No. 206 of the Public Acts of 1893, as amended ("Act 206"). This Act authorizes any county to establish a delinquent tax revolving fund (DTRF). DTRFs are used to pay the County and its constituent local taxing units (LTU) all delinquent and uncollected property taxes owed to the County and the LTUs. For this purpose, taxes are delinquent, and therefore reimbursable to the LTUs from the DTRF, if they remain uncollected on March 1 of the year following their assessment. LTUs participating in the revolving fund program primarily include the County and its constituent cities, townships, villages, school districts, intermediate school districts, community college districts, and special assessment districts. Under the Michigan Public Act 246 of 2003, the City of Detroit began participating with tax year 2003.

Each county maintaining a DTRF is responsible for its funding. The original legislation authorizing such borrowings was adopted in 1972 and it was thereafter superseded in 1975 by an amendment to Act 206, which continued to authorize such borrowings. After the Headlee Amendment was adopted in 1978, the legislature amended Act 206 to permit the issuance of General Obligation Limited Tax Notes, which pledged support from the County’s General Fund, but did not authorize the levy of any additional tax to repay the notes.

Wayne County funds its DTRF primarily by issuing revolving fund notes. Payment of the notes is made from the proceeds of delinquent tax collections. Separate, segregated accounts are established within the DTRF to account for annual borrowings with respect to each year’s delinquent taxes.

Once the notes are paid in full, any surplus in the fund may be transferred to the County General Fund by appropriate action of the County Commission25. The surplus earned, after any borrowing is paid off, is

25 **Michigan Compiled Laws 211.87b.** Wayne County became a “Home Rule Charter County in 1983. Under its charter, the County created the executive branch of government that was headed by a county executive and a legislative branch that was designated as the Wayne County Commission. References to the “Board of Commissioners” after 1983 refer to the Wayne County Executive and Wayne County Commission.
under the control of the board of commissioners. The surplus may be accumulated to reduce or avoid future borrowings, or expended for other purposes as authorized by the board of commissioners.26

2a.) A review of outstanding tax note covenants regarding reserve requirements

Procedures Performed

The County issued the following series of General Obligation Limited Tax Notes totaling $255 million in 2012.

<table>
<thead>
<tr>
<th>General obligation limited Tax Notes:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Series 2012 A</td>
<td>$ 30,000,000</td>
</tr>
<tr>
<td>Series 2012 B</td>
<td>135,000,000</td>
</tr>
<tr>
<td>Series 2012 C-1</td>
<td>20,000,000</td>
</tr>
<tr>
<td>Series 2012 C-2</td>
<td>20,000,000</td>
</tr>
<tr>
<td>Series 2012 D</td>
<td>30,000,000</td>
</tr>
<tr>
<td>Series 2012 E</td>
<td>20,000,000</td>
</tr>
<tr>
<td></td>
<td>$ 255,000,000</td>
</tr>
</tbody>
</table>

Based on our review of the offering circulars and the 2012 Delinquent Tax Note Covenants noted below, the County and the County Treasurer are responsible for the following:

1. **Creation of Fund, as follows.** The County Board of Commissioners, by resolution, must establish a Delinquent Tax Revolving Fund, which must be designated as the County’s 100% Tax Payment Fund. The County Treasurer must pay, from the 100% Tax Payment Fund, all delinquent real property taxes which were or are due and payable to the County and its constituent taxing units. A separate, 26 The Delinquent Tax Revolving Fund is established by resolution by the county board of commissioners pursuant to MCL 211.87b. This fund must be segregated into separate funds or accounts for each year’s delinquent taxes. Each year’s separate fund or accounts continue in existence until the delinquent taxes for that tax year have been collected and the County Board of commissioners have transferred any surplus to the County’s general fund, in accordance with MCL section 211.87b. (7). The County retains all delinquent taxes, interest and penalties collected to offset its tax collection costs.
A segregated account must be established within the 100% Tax Payment Fund to account for the annual borrowings with respect to each year’s delinquent taxes.

2. **Taxes, Interest and Fees Payable to Fund.** Upon the establishment of the 2012 separate fund (the "2012 Revolving Fund") pursuant to a resolution adopted by the Wayne County Board of Commissioners (the "Note Resolution"), in excess of $320 million in delinquent real property taxes which are collected after May 16, 2012, all statutory interest charges on such taxes, all County property tax administration fees for that specific year, and all investment earnings with respect to such collections will be deposited directly into the County's 2012 Collection Account (the "Note Payment Account") established within the 2012 Revolving Fund. Statutory interest on unpaid 2011 taxes and net property tax administration fees assessed to taxpayers will be placed in the Note Payment Account and commingled with the foregoing delinquent taxes and statutory interest.

3. **Borrowing Proceeds.** The proceeds of the Notes, together with other County funds described below, will be disbursed to the County and its local taxing units (LTU) in respective amounts equal to the taxes returned as delinquent to the County by the taxing unit. The County will, prior to final disbursement of the proceeds to all governmental units, deposit into the 2012 Revolving Fund from other County sources, the amount necessary to fund that portion of the 2011 delinquent real property taxes not funded by the proceeds of the sale of the Notes. Such other County sources include approximately $28 million in delinquent 2011 property taxes, statutory interest and property tax administration fees on delinquent 2011 property taxes that were outstanding on March 1, 2012 and were collected on or before May 16, 2012.

4. **Primary Security.** All of the 2011 delinquent real property taxes that were still uncollected on May 17, 2012, together with interest on such uncollected taxes, must be pledged by the County in the Note Resolution solely for the prompt payment of principal and interest on the Notes when due. Once the expenses of borrowing have been paid, these property tax administration fees attributable to the 2011 delinquent taxes collected after May 16, 2012, will be pledged as additional security for the payment of the Notes.

5. **County Recourse.** In order to protect the County (and the Note holders) from loss in the event any delinquent real property taxes are not collected for any reason, Section 87b of Act 206 provides that the primary obligation to pay to the County the amount of the taxes and interest thereon shall rest with the LTUs. Consequently, if the delinquent taxes which are due and payable to the County are not received by the County for any reason, the County has full right of recourse against the taxing unit to recover such taxes and interest thereon. The County Treasurer must deposit any such repayments from LTUs into the Note Payment Account, and these amounts are also pledged in the Note Resolution to the repayment of principal of and interest on the Notes in full. Prior to the final maturity of the Notes, the County Treasurer will, if necessary, pay principal of and interest on the Notes, charge back to the LTUs any 2011 delinquent taxes which then remain unpaid, as required by Act 206 and the Note Resolution.
6. **Limited Tax General Obligation.** The Notes are a general obligation of the County, backed by its full faith and credit, the County's tax obligation, within applicable constitutional and statutory limits, and its general funds. The County budget provides that if the Primary Security is not collected in sufficient amounts to meet the payment requirements for the principal and interest on the Notes when due, the County will advance from its general funds sufficient monies to pay such principal and interest.

**Results of Procedures Performed**

We reviewed the Official Statements for the 2010, 2011 and 2012 Delinquent Tax Note issuances and Note Covenants for the 2012 Series of Note issuances, as outlined above, including the creation of the fund, the inclusion of taxes, interest and fees in the 2012 Delinquent Tax Revolving Fund (DTRF), the transfer of note proceeds to the DTRF, and the subsequent disbursement to the County and its LTUs.

We reviewed the 2012 Note Resolution noting that the 2011 delinquent property, the 2011 delinquent real property taxes that were still uncollected on May 17, 2012, together with interest on such uncollected taxes, are pledged by the DTRF. We noted that the County has routinely charged back the County General Fund and its LTUs for any unpaid delinquent taxes. Additionally, we reviewed the County’s 2012-13 Amended Budget noting the County’s obligation to pay debt service on the notes from its General Fund in the event the Primary Security is not collected in sufficient amounts to meet the payment requirements. We noted no instances of non-compliance with the note covenants.

2b.) A review of year-end transfers within the delinquent tax fund and sub-funds

**Procedures Performed**

PM&A reviewed the County’s 2010 and 2011 CAFRs, the DTRF tax cash accounts in the County’s General Ledger for 2010-2012 -- Funds 500, 526, 527, 528, 529, 530 and 531. The 2010-11, 2011-12 and 2012-13 Amended Budgets. We reviewed supporting documentation for the transfers noted in the schedule of Fund transfers shown on page 96.
### Wayne County
Delinquent Tax Revolving Funds
Fund Transfers
For the Years Ended September 30,

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Delinq Tax-Reserve</td>
<td>500</td>
<td>501</td>
<td>526</td>
<td>527</td>
<td>528</td>
<td>529</td>
<td>530</td>
</tr>
<tr>
<td>Unpledged Reserve</td>
<td>(20,216,585)</td>
<td>(20,216,585)</td>
<td>21,982,086</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property Tax Forfeiture</td>
<td>1,352,315</td>
<td>(1,352,315)</td>
<td>(16,337,116)</td>
<td>20,856,668</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delinq Tax Revolv</td>
<td>(4,519,552)</td>
<td>(2,305,200)</td>
<td>(1,018,682)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delinq Tax Revolv</td>
<td>1,018,682</td>
<td>(1,018,682)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delinq Tax Revolv</td>
<td>1,168,614</td>
<td>(1,168,614)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delinq Tax Revolv</td>
<td>3,785,413</td>
<td>(3,785,413)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delinq Tax Revolv</td>
<td>(60,000,000)</td>
<td>60,000,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delinq Tax Revolv</td>
<td>4,000,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delinq Tax Revolv</td>
<td>35,092,106</td>
<td>(35,092,106)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delinq Tax Revolv</td>
<td>(66,900,233)</td>
<td>66,900,233</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delinq Tax Revolv</td>
<td>2,413,566</td>
<td>(2,413,566)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delinq Tax Revolv</td>
<td>(1,346,454)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delinq Tax Revolv</td>
<td>2,000,000</td>
<td>(2,000,000)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delinq Tax Revolv</td>
<td>2,244,587</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delinq Tax Revolv</td>
<td>15,000,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Delinq Tax Revolv</td>
<td>15,000,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delinq Tax Revolv</td>
<td>(66,229,072)</td>
<td>66,229,072</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delinq Tax Revolv</td>
<td>(24,699,275)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delinq Tax Revolv</td>
<td>(2,625,800)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delinq Tax Revolv</td>
<td>(1,838,680)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delinq Tax Revolv</td>
<td>(1,391,600)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- a Transfer residual equity to unpledged reserve
- b Interfund loan
- c Treasurer’s administrative charges
- d Transfer to the General Fund

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### Results of Procedures Performed

We noted that significant transfers from unrestricted funds to restricted funds occurred during years 2010-2012, which appeared to be primarily intra-fund loans; however, there were no corresponding intra-fund receivables and payables recorded to recognize those transfers (see Appendix 1 Findings – Delinquent Taxes – Intra-Fund Transfers).

We noted that in June 2012, $66.2 million was transferred from Fund 529 to Fund 531. Those proceeds appeared to be an accumulation of prior year unrestricted fund surpluses that are being used by the DTRF to internally finance a portion of the 2012 delinquent property transfer from the local taxing jurisdictions and the County.
2c.) A review of current year payments on the delinquent tax notes

**Procedures Performed**

We reviewed the County’s 2011 CAFR, the delinquent tax note payable balances to the County’s General Ledger for 2010-2012 -- Funds 526, 527, 528, 529, 530 and 531. The 2010-11, 2011-12 and 2012-13 Amended Budgets. We reviewed the various note maturity schedules and the note payments in the schedule below.

<table>
<thead>
<tr>
<th>Year Fund Established:</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funds:</td>
<td>529</td>
<td>530</td>
<td>531</td>
</tr>
<tr>
<td>FYE 9-30-2011:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delinquent tax notes issued</td>
<td>$229,000,000</td>
<td>$ 258,000,000</td>
<td>-</td>
</tr>
<tr>
<td>Principal &amp; interest payments</td>
<td>(116,585,000)</td>
<td>(16,060,000)</td>
<td>-</td>
</tr>
<tr>
<td>Ending notes payable</td>
<td>112,415,000</td>
<td>241,940,000</td>
<td></td>
</tr>
<tr>
<td>FYE 9-30-12:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delinquent tax notes issued</td>
<td>-</td>
<td>-</td>
<td>$255,000,000</td>
</tr>
<tr>
<td>Principal &amp; interest payments</td>
<td>(112,415,000)</td>
<td>(153,395,000)</td>
<td>(27,743,000)</td>
</tr>
<tr>
<td>Ending notes payable</td>
<td>$ -</td>
<td>$ 88,545,000</td>
<td>$227,257,000</td>
</tr>
</tbody>
</table>

**Results of Procedures Performed**

The delinquent tax notes in Fund 529 were not issued until October 2010. Under the County’s normal practice these notes would have been issued in June-July 2010 in the prior fiscal year. Based on our review of the Note Covenants, the delinquent tax note payable accounts in the general ledger and note maturity schedules, the County appears to be in compliance with the agreed upon terms of these issuances.

2d.) A review of current year delinquent tax collections

**Procedures Performed**

We reviewed the County’s 2010 and 2011 CAFRs, the delinquent tax receivable accounts in the County’s General Ledger for 2010-2012 -- Funds 526, 527, 528, 529, 530 and 531. We reviewed cash collections and
the delinquent tax accounts charged back to the County and other taxing entities. In addition, we reconciled delinquent taxes receivable for 2010, 2011 and 2012 and agreed ending delinquent taxes receivable balances to the general ledger for 2010, 2011 and 2012.

<table>
<thead>
<tr>
<th></th>
<th>Year Fund Established:</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Funds:</td>
<td>529</td>
<td>530</td>
<td>531</td>
</tr>
<tr>
<td>FYE 9-30-2010</td>
<td>Taxes receivable</td>
<td>$</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash collections</td>
<td>(80,793,765)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ending taxes receivable</td>
<td>(80,793,765)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FYE 9-30-2011</td>
<td>Taxes receivable</td>
<td>411,036,747</td>
<td>420,678,341</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash collections</td>
<td>(89,326,934)</td>
<td>(72,984,328)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Chargeback recoveries:</td>
<td>(49,490,219)</td>
<td>(69,265,065)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(51,651,339)</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Ending taxes receivable</td>
<td>139,774,490</td>
<td>278,428,948</td>
<td></td>
</tr>
<tr>
<td>FYE 9-30-12</td>
<td>Taxes receivable</td>
<td>$</td>
<td></td>
<td>429,095,082</td>
</tr>
<tr>
<td></td>
<td>Cash collections</td>
<td>(46,744,134)</td>
<td>(142,685,357)</td>
<td>(89,731,680)</td>
</tr>
<tr>
<td></td>
<td>Chargeback recoveries:</td>
<td>(93,098,140)</td>
<td></td>
<td>(80,508,010)</td>
</tr>
<tr>
<td></td>
<td>Ending taxes receivable</td>
<td>$ (67,784)</td>
<td>$135,743,591</td>
<td>$258,855,392</td>
</tr>
</tbody>
</table>

Results of Procedures Performed

Based on our review as noted above, we found no exceptions. The delinquent taxes receivable accounts appear to have been properly recorded and adjusted for cash collections.

2e.) A re-computation of the delinquent tax reserve requirement indicating:
   i) the reason for the restriction (authority restricting)
   ii) the calculation of the restricted amount
Procedures Performed

We reviewed applicable State statutes for delinquent property taxes, including the General Property Tax Law, (Act 206 of 1983) as amended, and Public Act 123 of 1999 (the Act), which amended the General Property Tax Law and required property on which taxes had become delinquent to undergo expedited forfeiture, foreclosure, and sale over a two-year period. Additionally, we reviewed the State Uniform Chart of Accounts which required the delinquent tax revolving funds to be accounted for as enterprise funds, in accordance with GASB Statement No. 34. We prepared a chart of DTRF net assets based on a review of the County’s CAFRs for 2005-2011 and a schedule of DTRF assets, liabilities and net assets. Assets were classified in accordance with the guidelines in the State Uniform Chart of Accounts, GASB Statement No. 34 and MCL 211.87b, for all DTRF sub-funds (500-531).

Results of Procedures Performed

PM&A reviewed the Delinquent Tax Revolving Fund audit reports for years 2005-2011. We noted that total net assets increased from $66.1 million in 2005 to $220.7 million in 2011. Further review noted that

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27 2002-2 Delinquent Tax Revolving Funds Change per Uniform Chart of Accounts which required the delinquent tax revolving funds to be accounted for as enterprise funds in accordance with GASB Statement No. 34, dated January 14, 2002.  
28 GASB Statement No. 34, Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments. GASB Statement No. 34 also provided guidance over the reporting of enterprise fund equity -- stating that net assets are an indicator of a government’s financial position—its financial standing at a given point in time (typically, the end of the fiscal year). Under GASB 34, net assets are divided into three components—invested in capital assets (net of related debt), restricted, and unrestricted. The first component is the difference between the amount shown for capital assets and the outstanding debt incurred to finance those capital assets. Restricted net assets represent resources that are constrained. Constraints may derive, for example, from the provider of the resources, such as a higher level of government or a donor, or from a law or regulation imposed on a government by another government. Governments themselves may impose restrictions through the use of enabling legislation. Enabling legislation is a law passed by a government that (a) creates a new revenue source and (b) limits the use of the revenue to a particular purpose. Enabling legislation may create an entirely new revenue stream, or it may add to an existing rate (such as an additional percentage point on a sales tax), but it rises above a mere “earmarking” of existing resources. Furthermore, the limitation imposed by enabling legislation has to be legally enforceable. Unrestricted net assets are resources that don’t fit in the first two categories which can be considered usable for any purpose, though they may not be in a spendable form, like cash.  
29 The County established the Delinquent Tax Revolving Fund (DTRF) in accordance with Michigan Law. Under this concept, the DTRF had to be segregated into separate funds or accounts for each year’s delinquent taxes. The County Commission was required to adopt a resolution establishing the separate fund or accounts for each tax year. Each year’s separate fund or accounts were to continue in existence until the delinquent taxes for that tax year had been collected and the County Board of Commissioners have transferred any surplus to the County’s General Fund, in accordance with MCL section 211.87b. (7), as interpreted by the Michigan Attorney General’s Opinion #6427 dated March 16, 1987. The County retains all delinquent taxes, interest and penalties collected to offset its tax collection costs. The surplus earned, after any borrowing is paid off, is under the control of the board of commissioners. The surplus may be accumulated to reduce or avoid future borrowings, or expended for other purposes as authorized by the board of commissioners.
restricted net assets increased from $25.6 million in 2005 to $216.7 million in 2011, while unrestricted net assets decreased from $40.5 million in 2005 to $3.9 million in 2011.

The charts on pages 101 and 102 reflect assets, liabilities and net assets of the DTRFs at September 30, 2011 and 2012 (unaudited). We noted that for the year ended September 30, 2011, Funds 500-528 had no outstanding notes payable. The shaded area of the chart refers to funds 529 and 530, which had outstanding notes payable at September 30, 2011. Therefore, based on PMA’s interpretation of the Michigan statutes, opinions and other accounting guidelines, any residual proceeds in Funds 500-528, exclusive of forfeiture proceeds, are not constrained and have no statutory obligation to pay current DTRF notes. Therefore, the net assets or surplus remaining in those funds should be classified as unrestricted and are subject to appropriation by the County Commission. The assets in funds 529 and 530 should be classified as restricted since there are notes payable in both of those funds. Using those assumptions, unrestricted DTRF net assets at September 30, 2011 would amount to approximately $67.1 million (total net assets of $77.2 million less forfeiture and foreclosure net assets of $10.1 million and amount invested in capital, net of related debt, of $.063. Restricted net assets would amount to approximately $143.5 million. The balance of total net assets, $220.7 million, agreed with the County’s general ledger, however, unrestricted net asset balances would increase from $3.9 million to $67.1 million, while restricted net assets would decrease from $216.7 million to $153.6 million.

The assets, liabilities and net assets at September 30, 2012 (unaudited) are displayed below. We noted that for 2012 Funds 500-529 had no outstanding notes payable at 9-30-12. The shaded area of the chart refers to Funds 530 and 531. These funds had outstanding notes payable at 9-30-12 and based on the discussion above, Funds 500-529 would be unrestricted, while Funds 530 and 531 would be classified as restricted. Again, using those assumptions, unrestricted net assets at 09-30-12 would amount to $91.3 million (total net assets in funds 500-529 amount to $105.4 million less $13.7 million for forfeiture assets and amount invested in capital, net of related debt, of $.350) and restricted net assets would amount to $143.2 million.

<table>
<thead>
<tr>
<th>Fund</th>
<th>Fund Name</th>
<th>Cash</th>
<th>Other Taxes Receivable</th>
<th>Other Assets</th>
<th>Total Assets</th>
<th>O/S Delinquent Tax Notes</th>
<th>O/S Delinquent Other Liabilities</th>
<th>Net Assets &amp; Net Assets 9/30/11</th>
<th>Total Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>500</td>
<td>DTRF - Unpledg Resv</td>
<td>$57.988</td>
<td>-</td>
<td>-</td>
<td>57.988</td>
<td>-</td>
<td>15.000</td>
<td>42.988</td>
<td>$57.988</td>
</tr>
<tr>
<td>501</td>
<td>DTRF - Forfeitures</td>
<td>0.493</td>
<td>-</td>
<td>0.136</td>
<td>0.629</td>
<td>-</td>
<td>0.639</td>
<td>(0.009)</td>
<td>0.629</td>
</tr>
<tr>
<td>519</td>
<td>DTRF - 1999</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>523</td>
<td>DTRF - 2003</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>524</td>
<td>DTRF - 2004</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>525</td>
<td>DTRF - 2005</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>526</td>
<td>DTRF - 2006</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>527</td>
<td>DTRF - 2007</td>
<td>0.362</td>
<td>0.004</td>
<td>-</td>
<td>0.367</td>
<td>-</td>
<td>-</td>
<td>0.367</td>
<td>0.367</td>
</tr>
<tr>
<td>528</td>
<td>DTRF - 2008</td>
<td>34.004</td>
<td>(0.031)</td>
<td>0.026</td>
<td>34.059</td>
<td>-</td>
<td>0.163</td>
<td>33.895</td>
<td>34.059</td>
</tr>
<tr>
<td>529</td>
<td>DTRF - 2009</td>
<td>48.719</td>
<td>139.771</td>
<td>-</td>
<td>188.490</td>
<td>112.415</td>
<td>0.895</td>
<td>75.180</td>
<td>188.490</td>
</tr>
<tr>
<td>530</td>
<td>DTRF - 2010</td>
<td>34.197</td>
<td>278.030</td>
<td>-</td>
<td>312.227</td>
<td>241.940</td>
<td>1.999</td>
<td>68.288</td>
<td>312.227</td>
</tr>
</tbody>
</table>

Total: $175.823 | 417.774 | 0.162 | 598.759 | 354.355 | 18.696 | 220.708 | 593.759 |
Wayne County
Delinquent Tax Revolving Funds (millions)
As of September 30, 2012

<table>
<thead>
<tr>
<th>Fund</th>
<th>Funne Name</th>
<th>Cash</th>
<th>Taxes Receivable</th>
<th>Other Assets</th>
<th>Total Assets</th>
<th>O/S Delinquent Tax Notes</th>
<th>Other Liabilities</th>
<th>Net Assets 9/30/11</th>
<th>Total Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>500</td>
<td>DTRF - Unpledged Resv</td>
<td>67.788</td>
<td>-</td>
<td>0.205</td>
<td>67.993</td>
<td>-</td>
<td>0.071</td>
<td>67.923</td>
<td>67.993</td>
</tr>
<tr>
<td>501</td>
<td>DTRF - Forfeitures</td>
<td>0.669</td>
<td>-</td>
<td>0.131</td>
<td>0.801</td>
<td>-</td>
<td>0.803</td>
<td>(0.002)</td>
<td>0.801</td>
</tr>
<tr>
<td>519</td>
<td>DTRF - 1999</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>523</td>
<td>DTRF - 2003</td>
<td>0.002</td>
<td>-</td>
<td>-</td>
<td>0.002</td>
<td>-</td>
<td>0.002</td>
<td>-</td>
<td>0.002</td>
</tr>
<tr>
<td>524</td>
<td>DTRF - 2004</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>525</td>
<td>DTRF - 2005</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>526</td>
<td>DTRF - 2006</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>527</td>
<td>DTRF - 2007</td>
<td>0.000</td>
<td>-</td>
<td>-</td>
<td>0.000</td>
<td>-</td>
<td>-</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>528</td>
<td>DTRF - 2008</td>
<td>0.039</td>
<td>(0.026)</td>
<td>-</td>
<td>0.013</td>
<td>-</td>
<td>-</td>
<td>0.013</td>
<td>0.013</td>
</tr>
<tr>
<td>529</td>
<td>DTRF - 2009</td>
<td>38.057</td>
<td>(0.071)</td>
<td>-</td>
<td>37.986</td>
<td>-</td>
<td>0.538</td>
<td>37.448</td>
<td>37.986</td>
</tr>
<tr>
<td>530</td>
<td>DTRF - 2010</td>
<td>31.197</td>
<td>135.510</td>
<td>0.182</td>
<td>166.888</td>
<td>88.545</td>
<td>0.487</td>
<td>77.856</td>
<td>166.888</td>
</tr>
<tr>
<td>531</td>
<td>DTRF - 2011</td>
<td>35.794</td>
<td>258.345</td>
<td>(0.153)</td>
<td>293.987</td>
<td>227.257</td>
<td>1.431</td>
<td>65.299</td>
<td>293.987</td>
</tr>
</tbody>
</table>

$ 173.547 | 393.758 | 0.365 | $567.669 | 315.802 | 3.331 | 248.537 | 567.669 |

We noted that in June 2011, the Treasurer’s Office transferred $66.9 million from Fund 528 to Fund 531. These funds were earmarked as “reserved” by the Treasurer’s Office and subsequently were used to fund a portion of the costs related to the 2012 acquisition of delinquent accounts receivable from the County and its LTUs. In June 2012, the Treasurer’s Office transferred $66.2 million from Fund 529 to Fund 531. These funds along with an additional $10.8 million were part of a total of $77 million in unrestricted funds that were earmarked as “reserved” by the Treasurer’s Office to be used to fund a portion of the 2013 delinquent taxes receivable from the County and other taxing entities.

While reviewing supporting documentation for the transfers noted above, we found no approval from either the Department of Management and Budget or from the Commission. Because the Treasurer’s Office by Charter has custody of the DTRF cash assets and the ability to make significant cash transfers, there should be intervening controls involving M&B, and the County Commission over this process (see Appendix 1 – Delinquent Taxes -- Finding No. 2 – Segregation of Duties).

We reviewed supporting documentation for a reimbursement request for the Treasurer’s Office administrative expenses and noted that the supporting documentation consisted of a copy of the budgeted line item. There was no actual supporting documentation for this reimbursement request (see Appendix 1 – Delinquent Taxes -- Finding No. 3 – Administrative Cost Reimbursements).

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31 Letter dated November 27, 2012 from the Wayne County Treasurer, Raymond J. Wojtowicz to the Wayne County Commission.
In our opinion, the County Treasurer’s Office, along with the Department of Management and Budget, and the County Commission should develop a formal policy for the disposition and use of unrestricted DTRF surplus proceeds (see Appendix 1 – Delinquent Taxes -- Finding No. 4 – Delinquent Tax Policy).
**Finding Reference No.:** Bank Account Reconciliations – 2b-1

**SOW Procedure Reference:** Section 2b

**Finding Description** — The Wayne County Treasurer’s Office (WCTO) Cash Ledger Balance did not agree with the related General Ledger Cash Account Balances for some of the Cash Pools.

**Finding Analysis** — In conducting our analysis comparing WCTO cash ledger balances to the related general ledger cash account balances we found they did not agree for all cash pools at June 30, July 31, and August 31, 2012. The table below lists the month, cash pool, WCTO and general ledger (G/L) balances and the difference between the two.

<table>
<thead>
<tr>
<th>Month</th>
<th>Cash Pool Name</th>
<th>WCTO Balance</th>
<th>G/L Balances</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 30, 2012</td>
<td>General</td>
<td>$217,551,831</td>
<td>$281,755,507</td>
<td>$(64,203,676)</td>
</tr>
<tr>
<td>July 31, 2012</td>
<td>General</td>
<td>$175,469,135</td>
<td>$239,853,910</td>
<td>$(64,384,775)</td>
</tr>
<tr>
<td>July 31, 2012</td>
<td>Building</td>
<td>$139,149,259</td>
<td>$139,146,919</td>
<td>$2,340</td>
</tr>
<tr>
<td>August 31, 2012</td>
<td>General</td>
<td>$240,130,157</td>
<td>$240,707,845</td>
<td>$(557,688)</td>
</tr>
</tbody>
</table>

After discussions with appropriate county officials and review of relevant documents, it appears the vast majority of the differences between the WCTO reconciled cash balances as compared to the general ledger cash accounts per cash pool, relate to voided checks/electronic fund transfers (EFT) by the M&B during a given month, which are not yet recognized in the WCTO cash ledgers due to timing differences. Generally, M&B’s voided checks near the end of a month are not recognized by WCTO’s cash ledger until the subsequent month. The existence of differences due to voided checks is ordinary and expected based on the cash reconciliation processes in place at the County.

We also inquired of county officials’ as to why the voided checks/EFTs was such a high amount. They explained that the large void amount for June and July relate primarily to two items: 1) a $64 million check to the City of Detroit prepared in June, for their portion of delinquent taxes, that had to be voided because it did not properly deduct the chargeback amounts; and 2) $4.6 million of combined void checks and EFTs that were voided by M&B but not forwarded to the WCTO, and not corrected until August in the general ledger cash accounts. Based on our understanding of the County’s cash reconciliation process, the explanations appear reasonable.
Our analysis did reveal a portion, $4,114; of voided checks discussed above appear to date back to March 2011. Though this amount is certainly immaterial to the GEN cash pools balance, carrying a reconciling item for such a long period of time is not consistent with best business practices.

**County Response:**

We agree. We will continue to monitor the timeliness of writing off reconciling amounts in the bank reconciliations. We understand regardless of the amounts best practices should be implemented.

**Finding Reference No.:** Bank Account Reconciliations – 2b-2

**SOW Procedure Reference:** Section 2b

**Finding Description** — The Wayne County Treasurer’s Office (WCTO) and Department of Management and Budget (M&B) did not prepare and review/approve all bank reconciliations within the six-week periods, subsequent to June 30, July 31, and August 31, 2012. We assessed whether the reconciliations were prepared by August 11, September 11, and October 12, 2012, respectively.

**Finding Analysis** — Combined over the entire three-month period of our review, the WCTO and M&B were responsible for preparing, reviewing and approving 246 bank/brokerage/cash reconciliations. We found they had a combined completion rate of approximately 99 percent, in completing the reconciliations within the six-week period. Our review found the WCTO did not prepare and review/approve bank reconciliations for two accounts within the six-week period subsequent to month-end date. We also found that M&B did not prepare and review/approve one cash pool reconciliation within the six-week period subsequent to the month end date.

We were unable to determine whether three reconciliations by WCTO for the Retainage Cash Pool were completed within the six-week period, subsequent to June 30, July 31, and August 31, 2012, because no prepared and reviewed/approved dates were present on the reconciliations. Including the date the reconciliations are prepared and reviewed/approved is in accordance with best business practices and internal controls. It also would allow WCTO officials to determine whether the reconciliations are completed within their policy guidelines.

**Office of the County Treasurer’s Response:**

This is a repeat finding from the Phase I report. The fieldwork for Phase I was completed in July, thus there was no time to make corrections for June and July. Reconciliations were up to date for August. There were two new bank accounts for the TAN proceeds. One is a Trust account held at BNY Mellon, the other is the account with Wells Fargo for the set aside. Due to misfiling, these accounts, which each had only one transaction per month, were not reconciled in a timely manner. They are now being reconciled timely.
Although the WCTO has a process for reviewer sign off on the retainage reconciliation, we acknowledge that although the reviews were performed, there was no evidence of such attached to the reconciliations. The WCTO will ensure that its reconciliation preparation and review procedures are followed.

**Department of Management & Budget’s Response:**

We agree. We will continue to monitor adherence to the timely completion of bank reconciliations. We consider this an isolated occurrence.

**Finding Reference No.:** Bank Account Reconciliations — 2b-3

**SOW Procedure Reference:** Section 2b

**Finding Description** — The Wayne County Treasurer’s Office (WCTO) did not prepare an outstanding check list to general ledger account reconciliations for two Controlled Distribution Accounts (CDA) also known as zero balance accounts; a Chase Bank account used for the clearing of payroll (Chase payroll), and a Bank of America (BoA) account used primarily for the clearing of retirement checks.

**Finding Analysis** — The WCTO did not prepare month end outstanding check list to general ledger account reconciliations for the two CDA’s for the months of June, July, and August 2012. In discussions with a WCTO official, they indicated that these reconciliations were being prepared by a former supervisor, but since that employee left the employ of the WCTO, these reconciliations have not been prepared. The official further indicated; though no reconciliations are prepared for these accounts the WCTO monitors the accounts activity and they are presently in the process of preparing the reconciliations with the assistance of the M&B and the Wayne County Retirement System. The treatment of these two CDA is not consistent with the treatment for the County’s other CDA, the primary disbursement account for the County. For that account, the WCTO ResIQ2 or cash ledger system has an account with a negative balance that equals the amount of outstanding checks, which affectively reduces the combined cash balance related to the General Cash Pool. However, the payroll and BofA CDA accounts do not have a corresponding account number in the cash ledger, rather the account balances directly relate to general ledger cash accounts in the Imprest Payroll and Imprest Retirement Trust and Agency funds.

Moreover, we found the County’s General Pool balance in the general ledger includes the outstanding checks as a positive cash balance, rather than reducing total general pooled cash. The outstanding checks against these two bank accounts at month end for June, June, and August 2012, ranged from approximately $5 to $1.5 million, for a monthly average of $1 million. The impact of these conditions is the county’s cash balance as recorded in the ResIQ2 or cash ledger and its general ledger cash balance would be overstated by the amount of outstanding checks against these two accounts at any month end date.
**County Response:**

The WCTO concurs that these reconciliations have not been completed and has been working with Management and Budget and the Retirement System to bring these reconciliations up to date. Reconciliations will be up to date prior to the end of the current fiscal year and will be completed timely from that point forward.

Regarding the accounting treatment for the two CDAs, as the amount of the outstanding checks is clearly segregated from general operating cash in the general ledger, there is no concern of reporting an overstated “available” cash balance. The WCTO and M&B will address the issue to determine if a change in current practice is warranted.

**Finding Reference No.:** Bank Account Reconciliations — 2b-4

**SOW Procedure Reference:** Section 2b

**Finding Description** – The Wayne County Treasurer’s Office (WCTO) did not make corrections to its ResIQ2, cash ledger system for identified and needed adjustments in a timely manner.

**Finding Analysis** – During our review of the WCTO May 2012 bank reconciliations, we noted that differences existed between the reconciled bank statement balance amounts and the balances in its ResIQ2 system for some Cash Pools; however, the necessary corrections were not posted to ResIQ2 system until months after they were identified. The table below lists the applicable Cash Pool and the identified correction amount that was included in our Phase 1 report of May 31, 2012 balances and the month when the correction was actually made.

<table>
<thead>
<tr>
<th>Cash Pool</th>
<th>Adjustment/Correction Amount</th>
<th>Month Correction Actual Made</th>
</tr>
</thead>
<tbody>
<tr>
<td>BLDG</td>
<td>$44</td>
<td>August</td>
</tr>
<tr>
<td>MIHIS</td>
<td>$(6,449)</td>
<td>August</td>
</tr>
<tr>
<td>RESV</td>
<td>$21,676</td>
<td>November</td>
</tr>
<tr>
<td>TAN</td>
<td>$15,736</td>
<td>November</td>
</tr>
<tr>
<td>TAX9</td>
<td>$30,627</td>
<td>August</td>
</tr>
</tbody>
</table>
We also found where an error in an inter-fund transfer of funds between the General and Building Cash Pools was identified in March 2012, but the correction did not occur until July 2012, the amount of the error was approximately $40,000. Though these amounts individually and collectively are not material to any of the specific Cash Pool balances or the County’s cash balance as a whole, best business practices require that all known and identified errors be corrected when discovered to ensure the cash balances per the WCTO ResIQ2 and related general ledger accounts are as accurate as possible.

**County Response:**

Although May 2012 was the period being audited in Phase I, the results were not presented until the end of July, so August was a reasonable date for corrections. The other corrections required further research before making adjustments in November. In order to detect any difference timelier, the WCTO has implemented a monthly “Pool Reconciliation” process.

**Finding Reference No.:** Bank Account Reconciliations - 2b-5

**SOW Procedure Reference:** Section 2b

**Finding Description** – The General Fund combined cash account balances within the County’s General Cash Pool have combined cash balances that are negative. Other funds in the General Cash Pool also have combined negative cash balances.

The County uses the Pool Cash approach to account for its cash. Each general ledger cash account is linked to a specific cash pool and the cash within a pool is maintained in one or more bank accounts or investments. By far the largest of the County's 11 Cash Pools is the General (GEN) Cash Pool. The GEN Cash Pool’s cash balance at June 30, July 31, and August 31, 2012 was approximately $282 million, $240 million, and $241 million, respectively. Our review found that over the three-month period, on average 25 of 138 funds in the GEN Pool had combined negative cash balances of $(210) million. The General Fund, which is included in the GEN Pool, had a combined average negative cash account balance at month end of $(104) million. We found that similar conditions existed in May 2012, and were conveyed in our Phase 1 report.

**Finding Analysis** – Our review further found, per inquiry of an M&B official, that the Pool Cash system does not have a mechanism in place to segregate restricted cash receipts and related accounts in a pool from being used for purposes other than those for what was intended. A consequence of the Cash Pool approach is that short-term borrowing occurs routinely among the General Ledger cash accounts/funds in a given pool; no entries are recorded in the General Ledger to indicate exactly from what fund the borrowing occurred. This practice may result in creditor funds reflecting cash balances in the General Ledger that are overstated. However, for funds with negative equity within a cash pool, the County sets up a liability in the financial statements at year-end.
County Response:

In accordance with Policy and Procedures #13005, Pooled cash and investments (which includes two outside legal opinions), the County is not in violation of any laws or regulations regarding the temporary borrowing of cash from other funds. As noted in the finding, in accordance with GAAP, the County records a liability at year end for all borrowing. To record such liabilities throughout the year is not useful and merely puts additional strain on staff prioritizing their duties and responsibilities. We are not aware of any best practices that would recommend the liability be recorded at month end.

Finding Reference No.: Revenue Allocation 2d

SOW Procedure Reference: Section 2d

Finding Description – A property taxes collection amounting to $3,827,143.59 was received by the Wayne County Treasurer’s Office (WCTO) from the City of Dearborn on February 24, 2012, and was properly recorded in the Undistributed Tax Receipts fund Deposit in Transit (DIT) general ledger account. However, the portion that was to be allocated to the General fund, $2,327,865.25, was not allocated until August 1, 2012, a lapse of 159 days, versus a norm of 1 to 5 days. Similarly, the difference of $1,499,278.34 which would normally have been remitted to various other tax authorities on March 15 was not done until August 31.

All wired funds received are reviewed by Treasury Cash Management within WCTO and if sufficient information is received to know that it is tax related, it is posted to the Fund 703 DIT account. Separately, Property Tax Accounting would normally receive a breakdown of the required allocation direct from the municipality. In this instance, such detailed information was never received. According to the supervisor of Property Tax Accounting, this function was short-staffed at that time --there was only one person responsible for reviewing this information. An additional person has been added to the process since this oversight, and reconciliations are now being performed. This error was not realized until the County’s settlement with the municipality in early July for 2011 taxes.

Finding Analysis – The Undistributed Tax Receipts fund is a trust/agency fund through which all wired property tax receipts flow. These receipts are subsequently allocated and paid/ transferred to the appropriate taxing authority. Controls were lacking to ensure that all tax receipts are properly identified on a timely basis. It is critical that property tax accounting reconciles taxes allocated with taxes received by treasury management, to ensure that all taxes are properly allocated on a timely basis. This procedure should be performed on a daily basis. Any exceptions should be timely followed up with the municipality involved.
**County Response:**

The WCTO acknowledges that there was an isolated human error that caused a wired receipt to not be properly reallocated within the required amount of time. As noted above, a process has been implemented to address this issue. As payments are required twice a month, it is logical that the reconciliation process is performed prior to each distribution.

**Finding Reference No.: Accounts Receivable 2f-1**

**SOW Procedure Reference:** Section 2f

**Finding Description** – All activities for which Central Accounts Receivable issues invoices for services rendered do not recognize revenues earned until cash is collected during the interim months of the fiscal year. Although this is the process as established in Policy/Procedure Statement (PPS) #14001, the result is an understatement of revenues in interim reports. This process, at best, will cause revenue recognition to be delayed until the second month following the month earned, assuming prompt invoicing and prompt collection. However, the situation is exacerbated by billing county customers by as many as 119 days beyond the end of the month in which revenue is earned. This, in addition to the built-in delay, results in late revenue recognition by up to five months as reflected in our sample selection. This finding affects interim periods only as all revenues earned for the year are recognized at year end if collected within 60 days of year end. This finding impacts the following functions:

- Fund 101 – Sheriff’s Department – Prisoner housing, transportation, etc. costs are charged to local municipalities, the State, the US Marshal, the Federal Bureau of Prisons and other federal agencies.
- Fund 101 – Sheriff’s Department – Secondary county road patrols are charged to the Office of Highway Safety Planning.
- Fund 101 – Prosecutor’s Department – Filing fees for forfeiture cases are charged to local police agencies.
- Fund 101 – Children and Family Services (CFS) – Alternative work force services charged to local municipalities (formerly in Fund 281 but moved to Fund 101 effective 10/01/2011).
- Fund 265 – Prosecutors Department – Attorney fees for forfeiture cases are charged to local police agencies.
- Fund 266 – Sheriff’s Department – On-campus security and outreach costs at Wayne County Community College campuses are charged to Wayne County Community College District.

**Finding Analysis** – The process in use causes revenues to be understated on interim financial reports. It could be argued that GAAP recognition under the modified accrual method of recognizing revenues might prohibit recognition as earned as there is a significant delay in time from the point of earning the revenue and the time funds are measurably available for use in some cases. However, this length of time could be shortened significantly.
At a minimum the submission of data must be submitted on a timely basis, within ten days of month end as provided by policy. Cash flow could be improved by at least 90 days so a review of staffing needs should be performed and acted upon if deemed necessary. Additionally, high level discussions with those municipalities who habitually dispute billings should take place to arrange to mitigate problems amicably.

**County Response:**

Several years ago the County made a management decision to record revenue when cash is collected throughout the year as opposed to month end. The recognition of revenues at month end resulted in significant adjustments at year end due to billing disputes and errors, particularly with other municipalities. Departments believed they had revenue and would spend accordingly. This practice caused budgetary issues.

Although central accounts receivable is responsible for invoicing customers, the user department is responsible for submitting the supporting documentation. Many of the departments, primarily elected officials, do not submit the information timely primarily. The County acknowledges the need in this area is critical and will continue to search for best practices in order to improve our bottom line.

**Finding Reference No.:** Accounts Receivable 2f-2

**SOW Procedure Reference:** Section 2f

**Finding Description** – While reviewing revenues in our sample, we noted that revenues received in August 2012 were overstated by $379,138. This error resulted from a computation error in an Excel spreadsheet utilized to calculate data for the journal entry that was posted to the JD Edwards accounting system.

**Finding Analysis** – We recommend that all data utilized in the preparation of journal entries be reviewed and approved by a superior prior to posting to the general ledger.

**County Response:**

The Director of Accounts Receivable and Grants Management currently reviews journal entries and the appropriate supporting documentation. We believe this to be an isolated occurrence.

**Finding Reference No.:** Receivable Collection 2h

**SOW Procedure Reference:** Section 2h

**Finding Description** – The County’s Accounts Receivable Billings and Accounting Procedures Policy was issued in July 2008 and revised in September 2011 to incorporate delinquency and collection procedures. While county departments and elected offices have primary responsibility for budgeting and collection of
its revenues, the Department of Management and Budget through its Grants Compliance and Contracts Management Division was designated primary responsibility for oversight and monitoring to ensure that the County maximized its collection of revenues for services provided. The Policies further stipulated the Central Accounts Receivable unit (CAR) within the Grants Compliance and Contracts Management Division would work closely with the departments and elected offices to ensure that those objectives were met, including the following:

- The CAR Supervisor was to meet quarterly with the persons responsible for collections from the user department to review receivables for collection issues and possible write-offs.
- Prepare the allowance for doubtful accounts and write-off general ledger entries.
- Timely respond to all customer inquiries and/or refer customers to the appropriate user department for resolution.
- Follow-up with user departments on any receivables that have not been collected, or for which an allowance for doubtful accounts has not been made as required under this policy, to determine if the receivable should be removed from the books.
- Contact those customers having outstanding delinquent accounts receivables (invoices that have not been paid) in excess of forty-five days.

Quarterly, the user departments/elected offices were to provide documentation to Central Accounts Receivable, as follows:

- Provide the Central Accounts Receivable Supervisor with support for any recommended write-off of accounts receivable.
- Timely respond to all customer inquiries.
- Respond to all written customer inquiries or Central Accounts Receivable requests for adjustments within fourteen (14) business days.
- Document discussions with customers and the decisions reached regarding payment.
- Additionally, user departments/elected offices were to continue pursuing collection of invoices even though an allowance has been recorded. Or the account had been written off.

Based on our review and follow-up with the CAR Unit, we noted that these policies, as to collection procedures, were only partially implemented, by CAR and the Offices of the Sheriff and the Prosecutor.

**Finding Analysis** – The accounts receivable policies in place appear to be adequate to address delinquent accounts receivable and collection problems. However, those policies have not been fully implemented.

We noted the following exceptions pertaining to CAR’s responsibilities:

- Invoice copies stamped “PAST DUE” are not being mailed between 31 and 60 days after initial invoice date.
- Registered demand letters are not being mailed within 30 days of becoming delinquent at 90 days.
- Second registered demand letters are not being sent between 30 and 60 days after the first demand letter.
- Accounts are not being referred to outside collection agencies or to Corporation Counsel once departmental collection efforts have been exhausted.
We noted the following exceptions pertaining to the Offices of the Sheriff and Prosecutor:

- Documentation of discussions with customers and decisions reached regarding payment are not being forwarded to CAR.
- Customer inquiries are sent directly to CAR for disposition without responding to the customer directly.
- Neither office responds to CAR requests for adjustments within the 14 business days of such requests as stipulated in the policy.
- Additionally, the disputes regarding Sheriff's Department billings to customers, in large part, are found to be due to billing errors. However, the Sheriff’s Department does not respond to requests by CAR for credit authorization and these accounts may eventually be written off as bad debts.

Our recommendation is to enforce the current policies, in full, as soon as possible, and to stress the responsibility of the user departments in the collection and/or the adjustment process.

**County Response:**

The County acknowledges the need to improve its collection efforts. However, it should be noted that the majority of the past due amounts pertain to disputed billings. Unfortunately, many of the past due accounts pertain to municipalities and the contracts are grant funds which limits the County’s ability to hold payment or contracts. In June and October 2012, the Director of Grants sent out demand letters and many customers responded with explanations for nonpayment (i.e. billing errors). The accounts receivable division is in the process of working with departments to reconcile the billings with customer dispute responses. In addition, the CFO will be in discussion with the Sheriff’s office to require some organizational changes.

Currently, the County’s procurement procedures require the accounts receivable division to approve all contracts in the procurement system. This procedure was implemented to improve collection efforts for anyone contracting with the County.

**Finding Reference No.:** Receivable Allowances and Write-offs 2i

**SOW Procedure Reference:** Section 2i

**Finding Description** – Policy/Procedure #14001, Accounts Receivable Billings and Accounting Procedures, revised as of September 12, 2011, includes procedures for setting up allowances for doubtful accounts, as well as providing an allowance for writing-off receivables. Although the policy is followed by the Central Accounts Receivable (CAR) division, there are key exceptions:
• Management and Budget has not established a dollar threshold over which the Chief Financial Officer’s approval is required to set up an allowance for doubtful accounts. The function is purely mechanical in that all receivables over one year old are reserved.
• The Chief Financial Officer’s approval of write-offs is not obtained for accounts written-off over $2,000.
• There is no evidence supporting continued collection efforts by the user departments on accounts for which an allowance has been established or on accounts written-off.

Finding Analysis – We believe in view of the one-year rule on establishing an allowance, and an additional year triggering a write-off of receivables by CAR, that a higher level approval should be obtained before either action is taken for amounts exceeding a certain amount. We also believe that a $2,000 threshold may be too low for CFO approval of write-off and would suggest a $5,000 threshold for an allowance and a $10,000 threshold for write-off.

It is our recommendation that quarterly meetings with the user departments be considered by CAR to review user departments’ collection efforts for both accounts reserved and accounts written-off.

Documentation of the user department collection efforts should be transmitted to CAR for record keeping. Specific action plans for uncollected accounts should be developed for the user departments at the quarterly meetings.

County Response:

The policy will be updated to eliminate the necessity for the CFO to approve the establishment of the allowance account. We will review the current threshold of the CFO for write-offs and update the policy accordingly.

As to further collection efforts after write-off; we agree. However, in some exceptional cases it may be in the best interest of the County and/or more cost effective to write-off a receivable without pursuing collection efforts. We will determine what that amount should be and include revised our current policy.

Additionally, in 2012, the CFO signed off on the write off of accounts receivable. We believe proper procedures are in place and the occurrence identified by PM&A was isolated.

Finding Reference No.: Grant Drawdowns 2m
Finding Reference: Section 2m

Finding Description – Our request and review of the County’s grant program, and related grant drawdown wage/fringe and other cost detail for test samples revealed that the Central Grants Division did not maintain a copy of grant agreements on file. Satellite locations maintain their grant agreements on-site.
**Finding Analysis** – The Grants Compliance and Contracts Management Division oversees the County's pre- and post-award administration of all grants, collaborative agreements and contracts: monitors compliance with all federal and state grantor regulations and requirements; and maintains historical files of grants and contracts. To ensure appropriate record keeping, complete files and compliance with financial guidelines related to grant drawdown and expenditure budget versus actual activities, as an internal control activity a copy of each related grant agreement should be maintained on file in the Central Grants Division.

**County Response:**

The Department of Management and Budget (M&B) is the official keeper of grant agreements. That said, copies of grant agreements are maintained within the Grants Division. We do not believe it is necessary to maintain numerous copies within each department, particularly in the new paperless world.

**Finding Reference No.:**  
Budget to Actual Analysis 2n-1

**SOW Procedure Reference:**  
Section 2n

**Finding Description** – PM&A reviewed personnel costs for the Sheriff’s General Fund operations. We noted that personnel costs were $13.3 million over budget for the year ended September 30, 2012. Overtime costs accounted for $12.0 million of that overage.

**Finding Analysis** – We reviewed budgeted positions for the Sheriff’s department. We noted no budget positions for certain of the Sheriff’s activities, including the drug enforcement, prisoner transportation and electronic monitoring (tether) units. Based on follow up, we understand that the tether unit, for example, is comprised of approximately 20 non-budgeted positions. Officers are re-deployed from other budgeted positions, such as the jails, to man these positions. Other officers then cover the jail assignments on overtime. There is no re-allocation or reconciliation of these added costs to the units receiving the actual services. Personnel costs within the Sheriff’s operations within the General Fund should be properly budgeted. Actual costs should be properly tracked and allocated to the benefitting units.

**Office of the Sheriff’s Response:**

For FY 2011-2012 positions were budgeted for drug enforcement, prisoner transportation, electronic monitoring and other areas. Based on the fact the population at the Jails was 25% higher than the approved budget staffing plan many areas of the Jails required direct assignments to support and other services which cause the position they left (generally security) to be filled on an overtime basis.

For example, the tether services require both case management and enforcement staff. With a tether population in excess of 500+ participants, 21 FTEs are required to support the 500+ participants however the County only budgeted 4 FTEs. The Sheriff’s Office would have two choices – continue to run a tether program with only the budgeted staff or incur overtime for the
500+ participants. If we based it on budgeted positions only just 80 participants could be in tether (case management ratio is 1 staff to 40 participants) plus 2 staff required for enforcement. The other 400+ would stay in the Jails at a cost of $20 million. Instead we elected to move 17 FTEs to tether program to serve 500+ participants and backfill the positions they left on an overtime basis (approximately cost of $1.5 million). With respect to transportation and other areas of Jail support services that are not adequately funding and require re-deployment of staff, overtime is used to backfill the positions they left at it is required to have adequate staffing to maintain a safe and secure facility.

For the tether program staff re-deployed for from security positions to tether positions were reassigned from the same Business Unit – 35110 Hamtramck. The overtime causes by the re-deployment also hits the same Business Unit – 35110 Hamtramck. Since the tether program does not have a separate business unit the only way to properly track and allocate the actual costs of the tether program would be to create a separate business unit.

Department of Management and Budget’s Response:

The County agrees that reallocation of resources from the Jails to other non-mandated functions causes significant budget overruns. Without cooperation from the independent elected officials, Management and Budget has difficulty reconciling where independent elected officials deploy their resources.

At the request of the CEO and with the cooperation of the Sheriff, a taskforce was formed in December, 2012 to calculate the actual true cost of managing the jail population and other prisoners under the care of the Sheriff (tether). Initially, the taskforce will be a staffing plan that would include jail prisoner security and other required jail ancillary functions; tether operations, internal affairs and prisoner transportation. Once the staffing plan is agreed to by the office of the CEO and the Sheriff, the more difficult task of finding the required funding will be done.

Finding Reference No.: Budget to Actual Analysis 2n-2

SOW Procedure Reference: Section 2n

Finding Description – Court security services provided by the Sheriff totaled $14.3 million in FY 2009-10; increased to $15.0 million in FY 210-11; and to $16.7 million in 2011-12, an increase of 16.8 percent over two years. These costs were over budget by $2.0 million in 2010-11 and by $1.3 million in 2011-12. We understand that the current agreement for security services is not evidenced by a written memorandum of understanding (MOU), but, is based on an informal verbal agreement.

Finding Analysis – There is no periodic accounting or other reconciliation of actual Sheriff’s personnel and related costs being reconciled to budgeted personnel and costs. Accounting entries are prepared monthly by the Department of Management and Budget and are based on budgetary allocations. The Third Circuit Court, Sheriff’s department, and Management and Budget office should draft an agreement that would
specify the number and classification of officers and other personnel assigned, plan for deployment of personnel and the required monthly administrative and accounting procedures.

**Office of the Sheriff’s Response:**

*It is management’s position that Wayne County does not need a memorandum of understanding (MOU) between Wayne County and the Court services for the security services provided by the Wayne County Sheriff’s Office. Because, there is a court order that was entered into between Wayne County and the Third Circuit Court which mandates that security services by the Wayne County Sheriff’s Office be provided. And MOU will be a duplication of what is already in place.*

*Furthermore, there are certain costs that are beyond the Sheriff Office’s control such as fringe benefits and chargeback that could account for the additional costs. For example, in Fiscal Year 2011 fringe benefits were budgeted at $5,437,289, however, actual costs were $7,087,445 $1,650,156 over the budget. In fiscal year 2012 fringe benefits were budgeted at $5,750,019, however, actual costs were $7,088,937 $1,338,918 over budget. For the same fiscal year, charge backs were budgeted at $838,352, however, actual costs for the charge backs were at $1,178,574 $340,222 over budget.*

**Department of Management & Budget’s Response:**

*The County agrees with the recommendation. Management and Budget, for a number of years, has recommended that a Memorandum of Understanding (MOUs) exist between the Third Circuit Court (Court) and the Offices of the County Clerk and Sheriff delineating responsibilities and staffing levels of each service to the Court. To date, we have not been unsuccessful with this recommendation. The Court, County Clerk and the Sheriff are all separately elected agencies and as such, Management and Budget or the Office of the CEO has limited ability to force the parties to an binding agreement The County meets with the Court on a monthly basis to discuss various issues. We will put this item on our agenda for further discussion.*

**Finding Reference No.:** Budget to Actual Analysis 2n-3

**SOW Procedure Reference:** Section 2n

**Finding Description** – There were numerous accounts where the budgeted amounts varied substantially from current year activity and/or had no budgets. In the General Fund, examples included Jail food costs, which were budgeted for $4.9 million in one account, but were actually charged in another unbudgeted account; this treatment overstated costs in one account and understated costs in another. In another example, health benefit costs were budgeted based on an assumption that labor concessions would be forthcoming, however, these concessions never materialized and consequently, the budgets for health benefit costs were understated in numerous accounts. Another example involved State grants being budgeted in one account and the actual grant revenues then being reclassified to another account, without the budget being transferred. In another example, eight local grants were originally budgeted in Fund 292. When the grantor ended
the program, grant activity was moved to another fund; however, the budget was not amended and/or transferred.

**Finding Analysis** – The Budget Division should maintain budgetary control of accounts. Care should be taken to ensure that actual amounts are posted to the proper budget account. When it becomes necessary, because of changed circumstances, to reclassify budget or actual accounts, the appropriate budget amendments should be executed. Effective budget monitoring requires that budget and actual are properly posted to the appropriate account.

**County Response:**

The County agrees that additional monitoring of the county budget would be beneficial. However, while the Budget and Planning Division of Management and Budget does maintain budgetary control of the County budget in the JD Edwards General Ledger system, and routinely makes budget adjustments and line item transfers between accounts, the Division cannot and should not make unilateral adjustments to operating budgets of County Departments, Offices and Agencies without their cooperation and input.

The lowest legal level of budgetary control is the Appropriation Ordinance which prior to FY 2012-13 was appropriated in “lump sum”. As a result, the department was not in violation of the ordinance unless the total appropriation was exceeded or projected to be exceeded. In FY 2012-13, the County budget was adopted at the account level for all departments, offices and agencies except the Court. The Court was excluded due to the 2011 agreement between the Court and the County. All other operations of the County now have to adhere to the appropriated budget on a line item bases – no exceptions. Variances now result in a hold on spending until funding is re-appropriated by the Commission. This has resulted more closely monitoring by the Commission and better planning on the part of the department regarding their spending.

**Finding Reference No.:** Budget to Actual Analysis 2n-4

**SOW Procedure Reference:** Section 2n

**Finding Description** – The County established two budget accounts called the “Mandatory Credit” (Account 969000) and the “Cost Recovery-Personnel and Fringe Benefits” (Account 7191000). These accounts had credit balances that amounted to $16,237,099 in the General Fund and were used to offset budgeted expenditures. The first account was set up to apply a mandatory credit to a department’s overall budget to bring that fund’s budget in line with the CEO’s recommended budget. The second account was to recognize employee concessions such as furlough days, increased medical co-pays, etc. No actual amounts were ever recorded in these accounts. The credits allowed departments to increase their line item expenditure budgets. This practice did not appear to be an effective budget tool as departments continued to exceed their budgets.
Finding Analysis – No actual amounts were ever recorded in these accounts. In some cases, the credits allowed departments to increase their line item expenditure budgets without curbing overall expenditures. This practice does not appear to be very effective as a budget monitoring tool as some departments continued to exceed their budgets.

County Response:

This is a repeated finding which was identified in Phase 1 of the consulting engagement. As stated previously, the lowest legal level of budgetary control is the Appropriation Ordinance which prior to FY 2012-13 was appropriated in “lump sum.” The FY 2012 budget included revenue reductions in appropriation of approximately 10% from the prior year budget in the form of a mandatory credit. In previous years, M&B would allocate the reductions to each department’s appropriation as part of CEO Comprehensive Recommended Budget. Instead of trying to manage within their appropriations, certain elected officials successfully sued the County and used the line item budget as part of the case against the County. As a result, M&B wanted to provide the elected official or the department the opportunity to identify the reductions required to bring them in line with the appropriation ordinance and/or to properly balance the 2011-12 Budget. With certain exceptions including but not limited to such items as internal service department chargebacks, rent, depreciation, debt services and other contractual obligations, the reductions could come from any area of the departments or elected officials budget. Each department and elected official had responsible for determining the specific expenditure reductions and/or position cuts that brought their operations in line with the funding that is being recommended in the proposed appropriation ordinance. For the most part, the mandatory credit worked. However, certain departments refused to take the necessary actions to reduce their budget or their spending.

The expense reductions housed in account 719100 – Other Fringe Benefits represents the 10% concessions to compensation that were negotiated by collective bargaining or in the case of At Will employees, voluntarily. As a result of the cafeteria style approach the County took in obtaining the concessions, a decision was made to house the concessions in one account. All departments were educated on this approach yet some departments continued to overspend their budgets. This was not the result of the use of this account or the mandatory credit account as indicated in the finding. It was the refusal of certain departments to accept the funding limitations provided to them by the Commission through the Budget appropriation.

Finding Reference No.: Accounts Payable 2o-1

SOW Procedure Reference: Section 2o

Finding Description – The County’s current activities related to the management of outstanding payables consists primarily of the distribution of a monthly payment monitoring report “Unpaid Items More than 30 Days Old. The report is system generated and lists open/outstanding payables; however, it does not age the payables. Each month the report is printed, separated and distributed to department heads for review and resolution of the open items.
**Finding Analysis** – Managing accounts payable is a major control activity, and proper cash management requires appropriate aging and reporting of outstanding payables to identify patterns of delinquencies, identify areas where payment efforts should be concentrated, help manage cash flow, reduce and/or eliminate the possibility of duplicate payments, and assist management with achieving its goal related to timely invoice payments. Proper internal controls should ensure that approved payments are made within the agreed upon terms. The development of an aged payables report listing all open items is critical to proper cash flow management, and analysis of cash flow statements to determine funding requirements and availability.

**County Response:**

As the report title indicates, the items are over 30 days old and indicate the general ledger input date which will assist the division in identifying the aging of the payable. We believe management produces a report that is sufficient.

The County does acknowledge that additional oversight for monitoring and communicating with departments should occur. The appropriate staff will meet bi-weekly to discuss aged payables and follow up with departments to determine whether the payable is valid and/or will require other action.

In addition to the benefits mentioned above, the accounts payable aging schedule is a useful tool for analyzing the makeup of the County’s accounts payable. A review of the schedule will allow the County to spot problems in the management of payables early enough to protect us from any major credit problems. The schedule can also be used to help manage and improve our cash flow, especially when projecting cash outflows for a cash flow budget. The accounts payable aging schedule gives us a good indication of the amount of cash needed to cover our expenses during the same time period.

**Finding Reference No.:** Accounts Payable 2o-2

**SOW Procedure Reference:** Section 2o

**Finding Description** – The Accounts Payable division does not receive the monthly payment monitoring reports, and there do not appear to be sufficient controls in place for follow-up with department heads regarding resolution of outstanding payables in their respective areas.

**Finding Analysis** – An aged monthly outstanding accounts payable report should be shared with the Accounts Payables manager once developed, and periodic follow-up with department heads established for accountability and timely resolution. In addition, items that are outstanding for an extended period of
time should be brought to the attention of the CFO, for example items that had checks void two years ago and recently processed for payment.

**County Response:**

*Refer to the response in Finding 2o-1*

**Finding Reference No.:** Accounts Payable 2o-3

**SOW Procedure Reference:** Section 2o

**Finding Description** – County procedures associated with the management of outstanding payables are not documented.

**Finding Analysis** – It is imperative that activities related to the management, reporting, and monitoring of outstanding payables be documented to establish a consistent, uniform process.

**County Response:**

*On July 2002 and August 20, 2008, the County issued Policy Nos. 13002 and 13004, Voucher Policy and Accounts Payable Policy, respectively. The County acknowledges we do not have a formal written policy regarding monitoring and reporting, however we have other procedures in place. We will review the recommendation to determine whether we should expand the reference policies.*

**Finding Reference No.:** Delinquent Taxes Addendum -1

**SOW Procedure Reference:** Addendum

**Finding Description** – Based on our review of DTRF cash transfers for the period October 1, 2009 through September 30, 2012, we noted that there does not appear to be a policy or clear practice for the classification of Delinquent Tax Revolving Fund net assets as restricted or unrestricted nor is there a policy governing the reservation of unpledged cash and its transfer from the general cash pool to a reserve (restricted) pool.

**Finding Analysis** – PM&A noted that when reviewed in conjunction with the governing statutes, unrestricted net assets appear to be misclassified as restricted for the year ended September 30, 2011, as we interpret the statues.

**County Response:**

*The WCTO is seeking legal clarification as to the intent of the statue regarding the restriction of DTRF cash. In addition, the WCTO is seeking clarification on the authority to set-aside or “reserve”, from the*
County’s general cash pool, the DTRF unpledged cash that will be required and necessary to purchase delinquent receivables that are in excess of borrowing proceeds. Once these points have been clarified in writing, the WCTO will establish a policy for the transfer of DTRF cash assets among DTRF funds and cash pools. This policy will be strictly adhered to and subject to audit by both the County’s Auditor General and external auditors.

The WCTO believes that cash is properly classified on its 9/30/2012 financial statements as presented to Management and Budget and the external auditors.

Finding Reference No.: Delinquent Taxes Addendum -2

SOW Procedure Reference: Addendum

Finding Description – We noted a possible segregation of duties (SOD) issue with the Treasurer’s Office regarding the handling and/or processing of unrestricted delinquent tax proceeds. The Treasurer is in a very unique role as custodian of all county cash, per the county charter, and as the County’s “agent or administrator” over the administration of Delinquent Tax Revolving Funds (DTRF). In addition, based on our review of the 2012 Borrowing Resolution, it appears that the County Commission has arguably granted special authority to the County Treasurer over essentially all matters pertaining to DTRF, including unrestricted DTRF assets.

Finding Analysis – There does not appear to be significant oversight performed by the Department of Management and Budget. A fundamental element of internal control is the segregation of certain key duties. The general premise of SOD is to prevent one person or group from having both access to assets and responsibility for maintaining the accountability of those assets. The principal incompatible duties to be segregated are custody of assets, the authorization /approval of related transactions affecting those assets and the recording /reporting of those related transactions. We believe the processing of DTRF transactions, including fund transfers of unrestricted DTRF assets, should still follow normal County internal control protocol.

County Response:

The WCTO disagrees with Pierce and Monroe. The Treasurer is not in a unique position as it relates to the funds produced through the collection of delinquent taxes. The position was not “granted” by the county Commission but rather is authorized by state law. The State created and empowered treasurers in the various counties to perform certain duties. Among these duties is to control those funds received and processed in relation to the DTRF.

MCL 211.87c, section 2 states “If a fund is created and a county determines to borrow pursuant to this section, the county treasurer shall be the agent for the county in connection with all transactions relative to the fund.
MCL 211.87b Section 7 states “Any surplus in the fund may be transferred to the county general fund by appropriate action of the county board of commissioners.”

**Finding Reference No.:** Delinquent Taxes Addendum -3

**SOW Procedure Reference:** Addendum

**Finding Description** – We reviewed supporting documentation for a reimbursement request for Treasurer’s Office administrative expenses and noted that the supporting documentation consisted of a copy of the budgeted line item. There was no actual supporting documentation for this reimbursement request.

**Finding Analysis** – While the County Treasurer is authorized to receive reimbursement for administrative costs, those reimbursement requests should be based on actual expenses incurred. The current practice circumvents sound internal control practices and could result in erroneous or inaccurate administrative expense reimbursements.

**County Response:**

*The WCTO is reviewing this finding and will determine the reimbursement based on actual figures. It is not expected to be a material difference. The WCTO does not believe it is circumventing any internal control practice, as M&B reviews and posts these reimbursement requests.*

**Finding Reference No.:** Delinquent Taxes Addendum - 4

**SOW Procedure Reference:** Addendum

**Finding Description** – The County does not have a formal policy for retention or distribution of surplus DTRF proceeds. While it should be everyone’s goal to ensure that the DTRF maintain a strong and stable corpus to facilitate payment of future delinquent real property taxes to the local taxing entities and to meet annual debt service requirements, PMA believes the County and the Treasurer should develop a formal policy that would define the retention and/or distribution of surplus DTRF proceeds.

**Finding Analysis** – The policy statement should, at a minimum, establish goals and objectives for the following:

1. Provisions to assure that adequate reserves are maintained within the DTRF, to facilitate prompt payment of all current and future outstanding general obligation limited tax notes, as well as, to ensure the continuation of the DTRF. The County may want to consider maintaining a long-term
general fund advance in the DTRF to permit continued market access and to otherwise assure funds will be available.

2. Establish a process or formula for making planned annual transfers from the DTRF into the General Fund while maintaining a sound financial position in the DTRF. In making that determination, net assets should be the operative measure, in accordance with GASB 34 and not cash on hand.

3. The policy should outline a framework for improved intergovernmental communication and coordination. It is imperative that the County, particularly the Department of Management and Budget and the Treasurer’s Office, share common financial goals and objectives that should be geared towards improving the County’s overall long-term financial position and bond rating. For instance, decisions regarding debt issuance and the use of surplus DTRF proceeds should be planned and coordinated with the goal of maximizing the County’s overall financial position.

Office of the County Treasurer’s Response:

The WCTO agrees that a policy is warranted and as stated in Addendum-1 above is currently working toward development of this policy in accordance with both legal and accounting guidelines and to ensure the continuation of the DTRF until such time that the County Commission resolves to terminate the program.

Department of Management & Budget’s Response:

We concur with the recommendation however we believe that in order to develop a meaningful policy; it will require the cooperation of the Treasurer’s office. In addition, we believe the policy should address the enforcement of MCL 211.87b(7) which requires the WCTO to obtain Commission approval prior to the transfer of DTRF surplus funds.
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<td>7/16/2012</td>
<td>8</td>
<td>10</td>
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<td>††</td>
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</tr>
<tr>
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<tr>
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<td>7/27/2012</td>
<td>7/31/2012</td>
<td>9</td>
<td>11</td>
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<td>15</td>
<td>Δ</td>
<td>€</td>
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<tr>
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<td>8/8/2012</td>
<td>8/15/2012</td>
<td>8</td>
<td>13</td>
<td>Δ</td>
<td>€</td>
<td></td>
<td>Friend of the Court</td>
</tr>
<tr>
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<td></td>
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<td>8/15/2012</td>
<td>7</td>
<td>12</td>
<td>Δ</td>
<td>€</td>
<td></td>
<td>Friend of the Court</td>
</tr>
</tbody>
</table>

**Transaction Sample Tested**

- **√**: Reviewed transaction and determined that cash was deposited within two days of receipt
- **Δ**: Reviewed transaction and determined that cash was not deposited within two days of receipt
- **††**: Reviewed transaction and determined that cash was recorded within ten days of receipt
- **€**: Reviewed transaction and determined that cash was not posted within ten days of receipt
<table>
<thead>
<tr>
<th>G/L Date</th>
<th>Fund</th>
<th>Account #</th>
<th>Explanation</th>
<th>Sample Amount</th>
<th>Receipt Date</th>
<th>Allocation Date</th>
<th>Recording Date</th>
<th>Results: Days Lapsed</th>
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<tbody>
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<td>PTA Transaction</td>
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<td>6/22/2012</td>
<td>6/26/2012</td>
<td>1 5  Δ Σ</td>
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<td>101.001000</td>
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<td>7/19/2012</td>
<td>7/23/2012</td>
<td>3 7  Δ Σ</td>
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<tr>
<td>7/23/2012</td>
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<td>101.001000</td>
<td>PTA Transaction</td>
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<td>7/23/2012</td>
<td>7/23/2012</td>
<td>7/25/2012</td>
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<td>101.001000</td>
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<td>8/1/2012</td>
<td>8/6/2012</td>
<td>159 164 Δ Σ √</td>
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<td>101.001000</td>
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<td>8/15/2012</td>
<td>8/21/2012</td>
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</tr>
<tr>
<td>8/21/2012</td>
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<td>101.001000</td>
<td>PTA Transaction</td>
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<td>8/21/2012</td>
<td>8/24/2012</td>
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</tr>
<tr>
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<td>8/28/2012</td>
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<tr>
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<td>8/30/2012</td>
<td>9/5/2012</td>
<td>1 6  Δ Σ</td>
</tr>
</tbody>
</table>

Δ Compared date of receipt per bank polling document to general ledger date of allocation. Days lapsed from receipts of funds to allocation appear reasonable with the exception of the 159 day exception. See √ below.

Σ Compared date of receipt per bank polling document to batch recording date of journal entry to general ledger. Days lapsed from receipt of funds to date of recording the allocation appear reasonable with the exception of the 164 day exception. See √ below.

√ Data from remitting municipality either not received or overlooked so receipt of funds not known for purposes of allocation until reconciliation of property taxes with communities which took place in early July.
<table>
<thead>
<tr>
<th>Fund</th>
<th>Customer No.</th>
<th>Customer Name</th>
<th>Invoice No.</th>
<th>Invoice Date</th>
<th>Business Unit</th>
<th>Revenue A/C</th>
<th>Amount</th>
<th>GAAP Date Revenue Earned</th>
<th>Date Revenue Recognized</th>
<th>Days Between Revenue Earned and Revenue Recognized</th>
</tr>
</thead>
<tbody>
<tr>
<td>292</td>
<td>NA</td>
<td>State of Michigan</td>
<td>NA</td>
<td>06/21/2012</td>
<td>35612</td>
<td>561010</td>
<td>4,193,381</td>
<td>05/31/2012 via Estimated Accrual</td>
<td>05/31/2012</td>
<td>0</td>
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<tr>
<td>835</td>
<td>NA</td>
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<td>Contract No. 20093982</td>
<td>07/31/2012</td>
<td>13262</td>
<td>529600</td>
<td>49,443</td>
<td>6/30/2012</td>
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<tr>
<td>101</td>
<td>500001</td>
<td>City of Detroit</td>
<td>266416</td>
<td>6/29/2012</td>
<td>35110</td>
<td>603020</td>
<td>17,150</td>
<td>4/30/2012</td>
<td>8/31/2012</td>
<td>123</td>
</tr>
<tr>
<td>101</td>
<td>500061</td>
<td>St of Mi Dept of Corrections</td>
<td>266304</td>
<td>6/15/2012</td>
<td>35110</td>
<td>603010</td>
<td>84,950</td>
<td>3/31/2012</td>
<td>7/31/2012</td>
<td>122</td>
</tr>
<tr>
<td>101</td>
<td>500046</td>
<td>United States Marshal</td>
<td>266688</td>
<td>7/27/2012</td>
<td>35110</td>
<td>603030</td>
<td>159,505</td>
<td>3/31/2012</td>
<td>Revenue incorrectly posted in Aug 2012 as $ 538,643.09</td>
<td>153</td>
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<td>101</td>
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<td>Dearborn, City of</td>
<td>266646</td>
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<td>35110</td>
<td>603020</td>
<td>20,335</td>
<td>5/31/2012</td>
<td>8/31/2012</td>
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<td>101</td>
<td>500059</td>
<td>Office Highway Safety Planning</td>
<td>266807</td>
<td>8/8/2012</td>
<td>33300</td>
<td>543000</td>
<td>341,792</td>
<td>Apr - Jun</td>
<td>8/24/2012</td>
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<td>507020</td>
<td>Wayne Co.Comm. College Dist.</td>
<td>266903</td>
<td>8/20/2012</td>
<td>32193</td>
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<td>58,333</td>
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<td>101</td>
<td>500046</td>
<td>US Marshall</td>
<td>266905</td>
<td>8/20/2012</td>
<td>35110</td>
<td>603030</td>
<td>194,446</td>
<td>5/31/2012</td>
<td>9/30/2012</td>
<td>92</td>
</tr>
</tbody>
</table>

ƒ Reviewed transaction documents, reimbursement requests, journal entries and supporting data to ascertain dates of revenue earned and revenue recognition. Revenue and receivable recorded on a timely basis. No exceptions.

✓ Reviewed transaction documents, including invoices, supporting data, bank polling report and journal entries. Exceptions are present where days between revenue earned and revenue recognized were excessive. Revenue is recognized when funds are received, except at fiscal year end. Revenue is recognized at year end for all revenue earned and received by November 30. November 30. (See Appendix 1 Findings 2f-1).

Σ Journal entry workpaper error by Central Accounts Receivable (See Appendix 1 Findings 2f-2)
<table>
<thead>
<tr>
<th>#</th>
<th>Name</th>
<th>Department/Area</th>
<th>G/L Date</th>
<th>Grant Receipt</th>
<th>(A) Grant Receipt Available</th>
<th>(B) Grant Receipt Requested / Drawndown</th>
<th>(C) Grant Receipt Received By County</th>
<th>Type of Grant</th>
<th>(A) - (B) Available to Requested (2.g.1)</th>
<th>(B) - (C) Requested to Received (2.g.3)</th>
<th>2.g.1</th>
<th>2.g.2</th>
<th>2.g.3</th>
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</thead>
<tbody>
<tr>
<td>292</td>
<td>Juvenile Justice Abuse/Neglect</td>
<td>Children and Family Services</td>
<td>8/9/2012</td>
<td>$ 6,430,030.29</td>
<td>6/1/2012</td>
<td>6/26/2012</td>
<td>8/9/2012</td>
<td>Reimbursement</td>
<td>17</td>
<td>32</td>
<td>¥</td>
<td>†</td>
<td>†</td>
</tr>
<tr>
<td>281</td>
<td>Community Corrections</td>
<td>Children and Family Services</td>
<td>6/25/2012</td>
<td>$ 251,845.00</td>
<td>5/1/2012</td>
<td>5/21/2012</td>
<td>6/25/2012</td>
<td>Reimbursement</td>
<td>14</td>
<td>25</td>
<td>¥</td>
<td>†</td>
<td>†</td>
</tr>
<tr>
<td>292</td>
<td>Juvenile Justice Abuse/Neglect</td>
<td>Children and Family Services</td>
<td>8/15/2012</td>
<td>$ 69,197.53</td>
<td>8/1/2012</td>
<td>8/16/2012</td>
<td>10/23/2012</td>
<td>Reimbursement</td>
<td>11</td>
<td>46</td>
<td>1</td>
<td>¥</td>
<td>†</td>
</tr>
<tr>
<td>292</td>
<td>Juvenile Justice Abuse/Neglect</td>
<td>Children and Family Services</td>
<td>7/18/2012</td>
<td>$4,172,047.96</td>
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<td>7/18/2012</td>
<td>9/12/2012</td>
<td>Reimbursement</td>
<td>11</td>
<td>39</td>
<td>¥</td>
<td>†</td>
<td>†</td>
</tr>
<tr>
<td>282</td>
<td>Victim Witness Program</td>
<td>Prosecuting Attorney’s Office</td>
<td>8/10/2012</td>
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<td>7/13/2012</td>
<td>8/10/2012</td>
<td>Reimbursement</td>
<td>9</td>
<td>20</td>
<td>¥</td>
<td>†</td>
<td>†</td>
</tr>
<tr>
<td>266</td>
<td>Law Enforcement</td>
<td>Sheriff’s Office</td>
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<td>8/27/2012</td>
<td>Reimbursement</td>
<td>22</td>
<td>19</td>
<td>¥</td>
<td>†</td>
<td>†</td>
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<td>Third Circuit Court</td>
<td>8/16/2012</td>
<td>$ 1,386,529.44</td>
<td>5/1/2012</td>
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<td>8/16/2012</td>
<td>Reimbursement</td>
<td>65</td>
<td>10</td>
<td>2</td>
<td>¥</td>
<td>†</td>
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<td>Third Circuit Court</td>
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<td>29</td>
<td>¥</td>
<td>†</td>
<td>†</td>
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<td>Third Circuit Court</td>
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<td>4/24/2012</td>
<td>5/25/2012</td>
<td>Reimbursement</td>
<td>16</td>
<td>23</td>
<td>¥</td>
<td>†</td>
<td>†</td>
</tr>
</tbody>
</table>

¥  Determined the type of grant per review of applicable grant agreement and/or inquiry of County official responsible for monitoring financial activity related to the grant receipt
†  Computed business days lapse from date grant receipt amount was available to date it was billed/drawndown requested
‡  Computed business days lapse from date grant receipt amount was billed/drawndown requested to date it was received by the County

1 The days lapse from date grant receipt was billed/requested to date it was received was extended for item because the request was initially rejected by the State because it included some disallowed costs; the County revised the request and it was subsequently approved by the State
2 The days lapse from date grant receipt was available to date it was billed/requested was extended for item because the State began implementation of a new electronic request/billing software that required the Courts to enter previously approved monthly request into the database of the new software before current months billing data could be billed/requested. This process significantly delayed the Court’s ability to bill/request payment for the applicable grant receipt item
## Sample of Invoices for Measurement of Lapsed Days to Collection Section 2h
### For the Period June - August 2012

<table>
<thead>
<tr>
<th>Doc No</th>
<th>Batch No</th>
<th>Batch Date</th>
<th>Fund</th>
<th>Unit</th>
<th>Amount</th>
<th>Revenue Account</th>
<th>Billing Date</th>
<th>Receipt Date</th>
<th>Days Lapsed</th>
<th>Total Invoice</th>
<th>Payor</th>
<th>Department</th>
</tr>
</thead>
<tbody>
<tr>
<td>266304</td>
<td>8514432</td>
<td>6/15/2012</td>
<td>101</td>
<td>35110</td>
<td>$ 84,950.00</td>
<td>35110.603010</td>
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<td>$ 104,350.00</td>
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<td>Sheriff</td>
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<td>8514449</td>
<td>6/15/2012</td>
<td>101</td>
<td>35110</td>
<td>$ 61,705.00</td>
<td>35110.603010</td>
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<td>7/9/2012</td>
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<td>13262.529600</td>
<td>6/26/2012</td>
<td>7/26/2012</td>
<td>30</td>
<td>$ 30,111.00</td>
<td>BYRNE</td>
<td>Circuit Court</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Doc No</th>
<th>Batch No</th>
<th>Batch Date</th>
<th>Fund</th>
<th>Unit</th>
<th>Amount</th>
<th>Revenue Account</th>
<th>Billing Date</th>
<th>Receipt Date</th>
<th>Days Lapsed</th>
<th>Total Invoice</th>
<th>Payor</th>
<th>Department</th>
</tr>
</thead>
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<td>292</td>
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<td>9/12/2012</td>
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<tr>
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<td>Sheriff</td>
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<td>8/16/2012</td>
<td>20</td>
<td>$ 1,386,529.44</td>
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</tr>
<tr>
<td>20121081</td>
<td>8517165</td>
<td>7/10/2012</td>
<td>835</td>
<td>13262</td>
<td>$ 49,427.00</td>
<td>13262.529600</td>
<td>7/31/2012</td>
<td>9/10/2012</td>
<td>41</td>
<td>$ 49,443.00</td>
<td>BYRNE</td>
<td>Circuit Court</td>
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<table>
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<th>Doc No</th>
<th>Batch No</th>
<th>Batch Date</th>
<th>Fund</th>
<th>Unit</th>
<th>Amount</th>
<th>Revenue Account</th>
<th>Billing Date</th>
<th>Receipt Date</th>
<th>Days Lapsed</th>
<th>Total Invoice</th>
<th>Payor</th>
<th>Department</th>
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<tbody>
<tr>
<td>266807</td>
<td>8520977</td>
<td>8/8/2012</td>
<td>101</td>
<td>33300</td>
<td>$ 341,792.00</td>
<td>33300.543000</td>
<td>8/8/2012</td>
<td>8/24/2012</td>
<td>16</td>
<td>$ 341,792.00</td>
<td>Office of Hwy Safety Planning</td>
<td>Sheriff</td>
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<tr>
<td>266826</td>
<td>8521651</td>
<td>8/13/2012</td>
<td>101</td>
<td>35110</td>
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<td>35110.603010</td>
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<td>17</td>
<td>$ 91,550.00</td>
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<td>Sheriff</td>
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<tr>
<td>956</td>
<td>8521968</td>
<td>8/15/2012</td>
<td>292</td>
<td>22981</td>
<td>$ 10,827.79</td>
<td>22981.569000</td>
<td>8/15/2012</td>
<td>10/23/2012</td>
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<td>$ 19,747,707.92</td>
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<td>Prosecuting Attorney</td>
</tr>
<tr>
<td>20121359</td>
<td>8525044</td>
<td>9/10/2012</td>
<td>836</td>
<td>13240</td>
<td>$ 1,273,426.89</td>
<td>12420.529000.02100</td>
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<td>8/29/2012</td>
<td>13</td>
<td>$ 1,273,426.89</td>
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<td>8522364</td>
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<td>101</td>
<td>35110</td>
<td>$ 47,232.00</td>
<td>35100.603030</td>
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<td>9/14/2012</td>
<td>25</td>
<td>$ 432,497.00</td>
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<td>Sheriff</td>
</tr>
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<td>266904</td>
<td>8522364</td>
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<td>101</td>
<td>35110</td>
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<td>8/20/2012</td>
<td>9/14/2012</td>
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<td>$ 319,203.60</td>
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<td>Sheriff</td>
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<td>101</td>
<td>35110</td>
<td>$ 12,215.00</td>
<td>35110.603020</td>
<td>8/30/2012</td>
<td>10/23/2012</td>
<td>54</td>
<td>$ 12,215.00</td>
<td>Lincoln Park</td>
<td>Sheriff</td>
</tr>
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</table>

Total Days: 158
Count of Items: 5
Average Days Outstanding - June: 32

Total Days: 196
Count of Items: 6
Average Days Outstanding - July: 33

Total Days: 219
Count of Items: 7
Average Days Outstanding - August: 31

Collection period appears reasonable.
## Allowance for Doubtful Accounts

<table>
<thead>
<tr>
<th>FUND*</th>
<th>No. of Invoices</th>
<th>Amount</th>
<th>Write offs of Uncollected 2009/2010 Allowances</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>No. of Invoices</td>
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<td>31</td>
<td>$328,853.81</td>
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<td>265</td>
<td>4</td>
<td>$2,506.00</td>
<td>√</td>
</tr>
<tr>
<td>266</td>
<td>1</td>
<td>$438,439.94</td>
<td>√ ∆</td>
</tr>
<tr>
<td>281</td>
<td>0</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>282</td>
<td>0</td>
<td>-</td>
<td>0</td>
</tr>
<tr>
<td>292</td>
<td>0</td>
<td>-</td>
<td>0</td>
</tr>
</tbody>
</table>

|       | 36             | $769,799.75 | 31           | $301,584.36 |

√ Number of invoices and amounts were obtained from a detail listing of open accounts receivable maintained by CAR listing as of September 30, 2011
∑ Traced to Journal Entry; agreed
∆ Reviewed agreement between County of Wayne and City of Highland Park

This amount was written off in July 2012 and represented the balance due from the City of Highland Park for police services provided by the County as well as for prisoner housing and related charges from February 2007 through June 2007. A settlement agreement was reached in February 2008 providing for payment of $1,000,000 against the total due in excess of $1,400,000 and a waiver of the balance once the $1,000,000 was received. The final payment was received in fiscal 2009/2010 and the allowance was established in that year for the $438,439.94 and written off in fiscal 2010/2011.

### Note:

The above schedule pertains to fiscal year September 30, 2011. The practice, in general, is to only write off or provide allowances for doubtful receivables at year end. The only exception to this practice was the write off of the $438,439.94 in Fund 266 for which an allowance was provided in the prior year as discussed above.

Only funds in the SOW with receivables managed by Central Accounts Receivable listed here:

- 101 General Fund
- 265 Drug Enforcement Fund
- 266 Law Enforcement Fund
- 281 Community Corrections Fund (merged with General Fund in 2011/12)
- 282 Victim Wellness Fund
- 292 Juvenile Justice Abuse/Neglect Fund

Other funds covered in the SOW have no allowance or write-offs of receivables:

- 834 Third Circuit Court - Capital Projects Fund
- 835 Circuit Court Fund
- 836 Friend of the Court Fund
- 297 Youth Services Fund
<table>
<thead>
<tr>
<th>Fund</th>
<th>Description</th>
<th>Unit</th>
<th>Description</th>
<th>PV Number</th>
<th>PO Number</th>
<th>Invoice Number</th>
<th>Supplier Name</th>
<th>Invoice Date</th>
<th>G/L Date</th>
<th>Due Date</th>
<th>PK/PT Number</th>
<th>Payment Date</th>
<th>Invoice Amount</th>
<th>2.L.1</th>
<th>2.L.2a-c</th>
<th>2.L.3</th>
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</thead>
<tbody>
<tr>
<td>101</td>
<td>General Fund</td>
<td>13290</td>
<td>Third Circuit Court</td>
<td>1346101</td>
<td>21270026</td>
<td>September-12</td>
<td>Child Advocacy Prog, PLLC</td>
<td>8/31/12</td>
<td>8/31/12</td>
<td>9/30/12</td>
<td>2043762</td>
<td>9/5/12</td>
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<td>¶</td>
<td>Δ</td>
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<td>General Fund</td>
<td>22900</td>
<td>Prosecuting Attorney</td>
<td>1345518</td>
<td>41202358</td>
<td>62865</td>
<td>Prisoner Trans Serv of Amer</td>
<td>7/5/12</td>
<td>8/10/12</td>
<td>8/24/12</td>
<td>2043672</td>
<td>9/5/12</td>
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<td>✓</td>
<td>¶</td>
<td>Δ</td>
</tr>
<tr>
<td>292</td>
<td>Juv. Justice Abuse/Neg</td>
<td>35612</td>
<td>Program Dev - Juvenile</td>
<td>1345667</td>
<td>41202286</td>
<td>6-Jun-12</td>
<td>United Way for S E MI</td>
<td>7/11/12</td>
<td>8/29/12</td>
<td>8/10/12</td>
<td>902671</td>
<td>9/7/12</td>
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<td>¶</td>
<td>Δ</td>
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<tr>
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<td>Juv. Justice Abuse/Neg</td>
<td>35612</td>
<td>Program Dev - Juvenile</td>
<td>1345655</td>
<td>41200927</td>
<td>FY12-0812</td>
<td>CCMO-Center for Youth &amp; Fam</td>
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<td>8/29/12</td>
<td>9/27/12</td>
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<tr>
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<td>Program Dev - Juvenile</td>
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<td>Global Vision Tech</td>
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<td>8/30/12</td>
<td>9/23/12</td>
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<td>Δ</td>
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<tr>
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<td>Youth Services</td>
<td>35900</td>
<td>Youth Services</td>
<td>1345768</td>
<td>21201554</td>
<td>PASS 2012-4</td>
<td>Comm Assessment Ref</td>
<td>8/23/12</td>
<td>8/30/12</td>
<td>9/22/12</td>
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<td>13205</td>
<td>Administrative Services</td>
<td>1346083</td>
<td>21269871</td>
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<td>Postmast-Detroit</td>
<td>8/16/12</td>
<td>8/31/12</td>
<td>9/15/12</td>
<td>2043788</td>
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<td>¶</td>
<td>Δ</td>
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<td>Circuit Court</td>
<td>13233</td>
<td>Clinic Treatment</td>
<td>1346115</td>
<td>21269827</td>
<td>BSFT-1YR FEE</td>
<td>University of Miami</td>
<td>8/22/12</td>
<td>8/31/12</td>
<td>9/21/12</td>
<td>2043798</td>
<td>9/5/12</td>
<td>65,016.00</td>
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<td>¶</td>
<td>Δ</td>
</tr>
<tr>
<td>836</td>
<td>Friend of the Court</td>
<td>13240</td>
<td>Friend of the Court</td>
<td>1345917</td>
<td>21269896</td>
<td>CE1113/CE261</td>
<td>Anthony D. Curto</td>
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<td>8/30/12</td>
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<td>¶</td>
<td>Δ</td>
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</tbody>
</table>

**Sample Total**: $2,814,497.87

**Results: Exp Transaction Test**

- **✓**: Reviewed transaction to determine whether the accounts payable were recorded on a GAAP basis; no exceptions noted
- **¶**: Reviewed transaction to determine whether transactions were a) properly processed b) properly authorized and c) properly recorded; no exceptions noted
- **Δ**: Reviewed reasonableness of transaction to determine whether any expenditures seem questional by nature, amount, or circumstance; transaction appears reasonable as to its nature, amount and circumstance
## Charter County of Wayne
### Grant Draw Downs - SOW Section 2m
#### June 1 – August 31, 2012

## Appendix 9

### Results: Grant Draw Down Wage/Fringe Costs

<table>
<thead>
<tr>
<th>Grant</th>
<th>Fund</th>
<th>Bus Unit</th>
<th>Bus Description</th>
<th>Account</th>
<th>Document Number</th>
<th>G/L Date</th>
<th>Batch Date</th>
<th>Batch Number</th>
<th>Document Description</th>
<th>Drawdown Amount</th>
<th>Wage/Fringe Amount</th>
<th>2m.1</th>
<th>2m.2</th>
<th>2m.3</th>
<th>Remarks</th>
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<td>22900</td>
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<td>$26,312.00</td>
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<td>√</td>
<td>√</td>
<td>Used original amt of drawdown</td>
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<td>DPS Team Court</td>
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<td>$17,571.36</td>
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<td>∆</td>
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<tr>
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<td>101</td>
<td>22900</td>
<td>Prosecuting Attorney</td>
<td>529000</td>
<td>29001533</td>
<td>6/29/2012</td>
<td>6/29/2012</td>
<td>8516129</td>
<td>SAK, phase II</td>
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<td>$48,687.27</td>
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<td>∆</td>
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<tr>
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<td>101</td>
<td>21504</td>
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<td>529000</td>
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<td>7/31/2012</td>
<td>8/9/2012</td>
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<td>July Accrued Revenue</td>
<td>-$45,635.00</td>
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<td>Spec ADVOC-VOCA</td>
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<td>22965131</td>
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<td>∆</td>
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<td>Spec ADVOC-VOCA</td>
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<td>22965153</td>
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<td>√</td>
<td>∆</td>
<td>Observed wage/fringe detail at WCPO</td>
</tr>
<tr>
<td>282</td>
<td>282</td>
<td>22965</td>
<td>Spec ADVOC-VOCA</td>
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<td>7/28/2012</td>
<td>7/28/2012</td>
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<td>∆</td>
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<td>13247</td>
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<td>529000</td>
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</tr>
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<td>13259</td>
<td>Adult Mental Health Treatment</td>
<td>529600</td>
<td>20120979</td>
<td>6/14/2012</td>
<td>6/14/2012</td>
<td>8514190</td>
<td>Mar-12 MHTC SCAO-ARRA</td>
<td>-$21,269.55</td>
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<td>√</td>
<td>∆</td>
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</tr>
<tr>
<td>836</td>
<td>836</td>
<td>13240</td>
<td>Friend of the Court</td>
<td>529000</td>
<td>02100</td>
<td>8/27/2012</td>
<td>8/27/2012</td>
<td>8523681</td>
<td>CRP-April 2012 Revenue: 3rd CC</td>
<td>-$1,386,529.44</td>
<td>$1,255,639.23</td>
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<td>√</td>
<td>∆</td>
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</tr>
</tbody>
</table>

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**Explanation:**

* Transaction was selected to ensure a grant drawdown sample total of “10”

**Grant Draw Down Test Procedures**

- Reviewed direct wages; verified the allocation of wages and propriety of wages; no exceptions noted
- Reviewed staff allocated to multiple funding sources; verified compliance with time keeping requirements; no exceptions noted
- Reviewed other costs as applicable; verified that expenditures were properly supported

**Note:**
The test procedure included footing the wage and fringe amounts related to each draw down. In some instances, the total draw down amount reflected wage and fringe expenses, and in other samples it included wage, fringe, office supplies, mileage costs. For test purposes, costs related to other expenditures were excluded. Tests results agreed and their allocation was appropriate.
<table>
<thead>
<tr>
<th>Fund</th>
<th>Description</th>
<th>Doc Unit</th>
<th>Description</th>
<th>Document Number</th>
<th>Doc Type</th>
<th>Supplier</th>
<th>Name</th>
<th>G/L Date</th>
<th>Amount</th>
<th>Tested</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>101</td>
<td>General Fund</td>
<td>13290</td>
<td>Third Circuit Court</td>
<td>1168436</td>
<td>PV</td>
<td>James C. Bishair</td>
<td>8/16/2010</td>
<td>375.00</td>
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<td>Atty Fees - Juvenile</td>
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<td>13290</td>
<td>Third Circuit Court</td>
<td>1118770</td>
<td>PV</td>
<td>Kareem L. Johnson</td>
<td>2/8/2010</td>
<td>730.00</td>
<td>√</td>
<td></td>
<td>Atty Fees - Criminal</td>
</tr>
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<td>General Fund</td>
<td>13290</td>
<td>Third Circuit Court</td>
<td>1134170</td>
<td>PV</td>
<td>Robert F. Mitchell</td>
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<td>690.00</td>
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<td>Atty Fees - Criminal</td>
</tr>
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<td>General Fund</td>
<td>13290</td>
<td>Third Circuit Court</td>
<td>1168448</td>
<td>PV</td>
<td>Peter J. Ellenson, P.C.</td>
<td>8/16/2010</td>
<td>250.00</td>
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<td>Atty Fees - Juvenile</td>
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<td>General Fund</td>
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<td>Third Circuit Court</td>
<td>1168243</td>
<td>PV</td>
<td>Judith A. Grady</td>
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</tr>
<tr>
<td>266</td>
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<td>Local Corrections Officer Training</td>
<td>21253712</td>
<td>OG</td>
<td>James R. Comb</td>
<td>11/11/2011</td>
<td>2,880.00</td>
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<td>Circuit Court</td>
<td>13220</td>
<td>Criminal Division</td>
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<td>OC</td>
<td>Event Metal Detectors, LLC</td>
<td>4/10/2012</td>
<td>1,355.00</td>
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<td>Repairs for FMHJ metal det</td>
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**Sample Total** $35,271.18

√ Reviewed invoice and confirmed that payable was outstanding for greater than 30 days; See Finding No. 1 SOW 2.o.

**Note:** As part of our review of the County process related to the management of outstanding payables, we reviewed a report provided by the client "Unpaid Items Over 30 days Old". This report is distributed each month to department heads for their review and resolution of the open items. The report is not aged and the items indicated above were reviewed, and determined to be still outstanding. Sample selection criteria was based upon payable transactions that were outstanding for more than 30 days.
## Appendix 10

### Business Payables Analysis

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<tr>
<th>Fund</th>
<th>Description</th>
<th>Business Unit</th>
<th>Supplier Name</th>
<th>Supplier Number</th>
<th>Invoice Number</th>
<th>Inv. Date</th>
<th>G/L Date</th>
<th>Payment Date</th>
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**Explanation:**

>Reviewed invoice to determine the days lapsed between invoice receipt date and payment date; Invoice was paid in excess of 45 days.

**Note:** Our sample selection was based upon review of the G/L and payment dates identified in a system generated report "Monthly Payment Monitoring Report - By Department, provided by the client.

The invoice sample transactions noted above represent items that were paid in excess of the 45-days stipulated in the County’s Comprehensive Procurement Ordinance.
The Challenge

1. Costs increases to health care for both actives and retirees
2. Fiscal budgetary pressures due to reduced tax and other revenue sources
3. Credit rating concerns
4. An aging workforce with the baby boomers approaching retirement
5. Sizable unfunded OPEB liability
6. Union Negotiation Implication since 41% of public sector workers are represented
7. Health care reform unknowns
The Opportunity

Mitigate OPEB liability and significantly reduce active and retiree health care costs...

...while keeping an attractive, sustainable promise to employees as well as pre and post Medicare retirees
GASB 45: frames the financials behind this situation

The value of retiree health care promises made must be actuarially calculated and accrued during the working years of employees and be recognized as a financial obligation of the employer

Key GASB 45 Impact Factors:
- Employee turnover rate
- Medical inflation
- Retiree mortality
- Discount rate (cash or accrual)
- The retiree plan design, including any benefit vesting requirements
- The nature of the promise to retirees
- Expected long-term and short-term rate of return on plan assets
Primer on the GASB-45 Terminology

**Other Post Employment Benefits** = OPEB; Accrued cost of benefits promised to members; includes healthcare, dental, vision, life insurance, disability and long-term care

**OPEB Liability** = Unfunded Actuarial Accrued Liability (UAAL) = NPV (Retirement Healthcare Promises)

**PAYGO** = amount paid for Retiree Healthcare each year = Pay-as-you-go, “PAYGO” amount

**Actuarially Required Contribution (ARC)** = PAYGO plus annual amount required to amortize the UAAL

**PAYGO Funding** = Funding less than the ARC each year; usually Negative Mortgage means covering only the PAYGO amount each year Amortization

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**Homeowner Finance Analogy**

**Home Purchase Price**

**30-year Mortgage on Purchased Home**

**Principal Payments on 30- Year Mortgage**

**Principal Payments (PAYGO) + Mortgage Interest on Home Loan**
Key Questions for Discussion

What strategies can best address costs and liabilities?

What are the tradeoffs associated with these strategies?

Which combination of these options is most viable for you?

Continuum of Health Care OPEB/ Cost Management Options

**Minimum Change**
- **Full DB Funding within an OPEB Trust**
  - DB for a designated grandfathered group to ensure continuity; Age/Tenure--tiered
  - DC for others; Group Health Insurance w/subsidy--eligible opt--out structure

**Hybrid DB/ DC**
  - Coordinated access to Group Insurance

**Move all Members to DC**
  - Coordinated Choice between Group and Public Exchange coverage for subsidy—eligible

**Move all Members to DC**
  - DC with Individual Insurance Coordination

**Maximum Change**
- **Exit Retirement Healthcare**

---

**Pre---Funding Options Private Exchange Options**

**NOTE:** All of the above options can include optional Retiree Medical Savings

**Notes:** Vehicle for Active Populations with access to retiree health care coverage

- DB = defined benefit
- DC = defined contribution
Key ‘Option Integration Strategies’ to Consider...

*Leveraging New Opportunities Created by Health Care Reform*

Wayne County can use each Option alone or combine: (i) Options 1 and 3 or (ii) Options 2 and 3 for greater savings

1. Offer Pre-Medicare Retirees Choice of Group or Public Exchange Coverage...

2. ...or Transition Pre-Medicare Retirees to Public Exchange*

3. ...and Move Medicare Retirees to Group-based Private Exchange*

* Accompanied by an Health Reimbursement Arrangement (HRA) Defined Contribution (DC) that can be fixed or pegged to the rate of return for County assets

---

**Total Cost/ OPEB Impact**

**Degree of Change from Status Quo**
## Key Strategy Rationale

<table>
<thead>
<tr>
<th>Option</th>
<th>Description</th>
<th>Summary Rationale</th>
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</table>
| 1      | Offer Pre-Medicare Retirees Choice of Group or Public Exchange Coverage | • Offers incremental savings and OPEB reduction without significant near-term change  
• Up to 20 to 30% savings for retirees and County when retiree opts into Exchange  
• *Sets stage for longer-term Option 2 approach* |
| 2      | Transition all Pre-Medicare Retirees to Public Exchange | • 10 to 20% savings for retirees and the County even without Exchange Subsidies  
• If majority of pre-Medicare are subsidy eligible, savings to retirees and County could be as high as 40 to 50%  
• *Virtually eliminates pre-Medicare liability* |
| 3      | Move Medicare Retirees to Group-based Private Exchange | • Proven solution available from existing partners  
• Equivalent coverage options available for retirees at 20 to 25% cost reduction  
• *Significant GASB-45 reduction and increased savings to the County and retirees* |
Details of Option 1:
Offer Pre-Medicare Retirees choice of Group or Public Exchange Coverage

- Health Care Reform creates a viable Public Exchange in each state for non-Medicare coverage – option alongside Group coverage

- Public Exchanges provides highly subsidized coverage for enrollees whose household incomes are more than 138% and less than 400% of the Federal Poverty Level
  - Subsidies are both actuarial and premium-based
  - 3:1 Age Band limits and near-term Reinsurance provisions could make even non-subsidized coverage cheaper than group-based coverage – up to 20% lower cost for same coverage

- The County has option to combine Exchange subsidies and an HRA-based defined contribution to offer pre-Medicare retirees

Key Issues to Investigate and Resolve
- How many of the County’s current and future pre-Medicare retirees could qualify for Exchange-based subsidies? Need to estimate and lineate the population.
- How much savings could subsidized retirees and the County achieve through this approach?
- Given all of the above considerations, what level of defined contribution would make the most sense for the County if this approach were executed?
- What savings and GASB-45 reduction could be derived from this option?
Details of Option 2: Transition Pre-Medicare Retirees into Public Exchange

- Builds on offering Option 1 by moving all pre-Medicare retirees to Exchange

- Option is especially viable longer-term regardless of subsidy eligibility

- The County still has option to combine Exchange subsidies and an HRA-based defined contribution to offer pre-Medicare retirees

- Key Issues to Investigate and Resolve
  - How many of the County’s current and future pre-Medicare retirees could qualify for Exchange-based subsidies? Need to estimate and lineate the population.
  - How much savings could retirees and the County achieve via subsidized and non-subsidized Exchange rates?
  - What level of defined contribution would make the most sense for the County if this approach were executed?
  - What savings and GASB-45 reduction could be derived from this option?
Details for Option 3:  
*Transition Medicare Retirees into Private Exchange*

- A proven approach to delivering greater value and choice to retirees while enhancing cost predictability and lowering OPEB liability significantly

- Entails setting a fixed contribution levels for single-only and 2+/ Family coverage that holds regardless of the plan selected
  - Contribution: These contributions can be fixed or pegged to an escalator that matches the County’s return on assets
  - Coverage Type: Exchange can be based on offering group or individual-based plans. There are myriad Exchange partners who can be evaluated

- Core execution issue with this approach is managing the communications and retiree education process as part of the initial rollout. It means many retiree outreach forums

- **Key Issues to Investigate and Resolve**
  - What type of Private Exchange represents the best fit for the County? Why?
  - What range and methods of contribution strategies would make the most sense under this kind of Option?  
  - What level of savings and OPEB reduction can be created by this approach?
  - What are best practices for rollout and communications?
Proposed Next Steps for Retirees Plans

- Conduct further exploration and fine-tuning of Strategy Options based on Plan Sponsor preference and organizational fit.

- Begin to frame up the relative savings opportunity and employee/retiree economic outcomes associated with the highest-priority, best-fit strategy option.
Defined Contribution Health Care Benefits for Active Employees
Shift from Traditional Defined Benefit Plans for Active Employees

• Defined contribution plans exist for active employees.

• Provides an additional opportunity for reducing health care costs for Wayne County.

• Usually funded with Health Reimbursement Arrangements (HRAs) or Health Savings Accounts (HSAs).

• Could include Prevention and Wellness programs (e.g., stress reduction, smoking cessation programs, nutrition education, etc.).
Proposed Next Steps for Active Employee Plans

- Conduct further exploration and cost analyses of defined contribution plan options using Health Reimbursement Arrangements (HRAs) and Health Savings Accounts (HSAs).

- Assess saving opportunities and related outcomes associated with defined contribution plan alternatives compared to the traditional defined benefit plans currently in use.
Glossary of Key Terms

- **Defined Benefit Health Care Plan** – traditional approach where employers agree to offer their employees a set dollar amount each year toward health insurance premiums. They usually include several plan options.

- **Defined Contribution Health Care Plan** – the employers provide each employee a fixed dollar amount (a “defined contribution”) that the employee chooses how to spend.

- **GASB 45** – Governmental Accounting Standards Board Statement 45 – an accounting and financial reporting provision requiring government employers to measure and report the liabilities associated with other post-employment benefits (OPEB).

- **Health Reimbursement Arrangements (HRAs)** – an employer-funded plan that reimburses employees for eligible and substantiated health-care expenses.

- **Health Savings Account (HSAs)** – a tax-sheltered savings account created to pay for medical expenses. Contributions can be made by the employer, the employee, or both.

- **Public Exchange** – marketplace of health insurance options targeted to individuals and small groups.

- **Private Exchange** – marketplace of health and other related products. Employers purchase health insurance through the private exchange and their employees choose a health plan from those supplied.*

* Source: Booz & Company
National Conference on Public Employee Retirement Systems
Best Governance Practices for Public Retirement Systems

Introduction
Increasingly, public employee retirement systems are implementing leading edge governance and risk management practices to position their funds for improved performance, while addressing risks related to the financial markets and global economy.

As the largest trade association for public sector pension funds representing more than 550 funds and nearly $3 trillion in assets, the National Conference on Public Employee Retirement Systems (NCPERS) supports these initiatives.

NCPERS believes that instituting best practices drives accountability, consistency and transparency, which enables improved performance and risk oversight for the benefit of public pension fund members, taxpayers and other stakeholders. To further these outcomes, NCPERS has developed Best Governance Practices for Public Retirement Systems.

Background
Governance is on the front burner for corporations, regulators and pension funds alike. In the private sector, lapses evidenced by overexposure to mortgage related securities, excessive leverage and lack of adherence to risk controls led to the collapse of well-known Wall Street investment banks and contributed to a meltdown that at one point eliminated $4 trillion from pensions worldwide.

Among retirement funds, boards and stakeholders are focusing on considerations such as board practices, standards of conduct, risk management and actuarial practices. In the current environment, there are several points for public fund fiduciaries to consider:

- There is a strong link between best practices and performance. Research has found that effective governance may improve long-term investment returns by up to 2.4%, annually
- Beyond investments, best practices such as fiduciary training and risk assessments drive performance across administrative, member service and compliance functions
- The current focus on fund governance is likely to increase in light of policy debates that are increasingly focused, largely without merit, on public employee benefit levels
- Managing reputation risk is an increasingly important challenge for public funds. A fund may reduce the probability and severity of risk events by implementing a risk framework
- Notwithstanding public pension funds’ record of implementing best practices, the need for communicating how they work to benefit stakeholders has never been greater.

Pension Fund Governance and Oversight
A pension fund’s governance structure is typically comprised of its board, executive management, functional staff and contracted service providers. Within this structure and under the fund’s statutory framework, the board sets strategy, approves implementation plans and oversees performance and risk. The board delegates specialized functions such as actuarial studies, asset management, benefits administration and auditing to internal staff and contracted service providers. The fund functions within a framework that is comprised of
statutes, rulings, agreements, policies and contracts that regulate system operations. Risk oversight is a key responsibility of the board. In the post financial crisis environment, managing reputation risk is an increasingly important responsibility for public funds.

**NCPERS Best Governance Practices**

NCPERS encourages fiduciaries who have not done so to consider adopting the following practices with the understanding that flexibility in implementation is one hallmark of effective governance.

I. Governance Manual

Whether it is in electronic or paper form, a fund should adopt a governance manual that serves as a central repository for the fund’s primary governance documents. A well designed governance manual facilitates effective management and provides a tool to educate trustees and stakeholders on fund operations. Key components include:

- Summaries of statutes, regulations, the plan document and board practices
- The systems’ mission statement and, if applicable, its vision and guiding principles
- The organization chart, lines of authority, job descriptions and summaries of contracts
- Board policies, key procedures and, if applicable, charters for committees of the board
- References to rulings and agreements that determine benefits and contribution levels

II. Board Practices

A pension fund should establish, document and adhere to a set of practices that have a proven impact on performance and risk oversight. Some of these practices are mandatory (e.g. actuarial valuations), while others may be optional. Recommended practices include:

- Development of a strategic plan or equivalent that guides the fund towards its goals
- Adoption of a fiduciary education program to continuously improve fiduciaries’ skill sets
- A program of assessments and audits to evaluate internal controls, performance and risk
- Actuarial valuations to inform the board of the fund’s future financial needs
- Asset allocation studies to identify asset mixes for meeting future financial needs
- A corporate governance approach under which the fund votes its proxies

III. Board Policies

A fund should adopt and adhere to a set of policies designed to guide system operations toward the achievement of stated goals within established risk tolerances. While their form may vary, a board’s key policies and procedures should include:

- Standards of conduct, ethics and conflicts of interest rules to codify the duties of fiduciaries
- An investment policy that includes goals, monitoring procedures and board risk tolerances
- Procurement guidelines that document procedures for selecting and monitoring contractors
- A privacy policy that sets forth procedures for protecting members’ confidential data
- A risk policy (or equivalent) that defines fund risks along with measures and processes

IV. Risk Oversight

A fund should adopt a risk management framework and document it in a risk policy or within other policy documents (e.g. investment policy, privacy policy). The board should delegate accountability for management of market, credit, operational, asset / liability, liquidity and other
Appendix 12

risks through job descriptions, contracts and charters. Key components include:

- A governance approach that defines risk categories, accountabilities and reporting
- Risk assessments (e.g. audits) to test controls and potential outcomes of risk events
- Key measures to assess market, operational, credit and asset / liability risk exposures
- Access to information technology to collect and distribute risk data across the fund

V. Strategic Planning
A fund should adopt a strategic planning approach either in the form of a multi-year plan or within other documents. Strategic planning is a hallmark of successful organizations. It provides the board with a mechanism to map out long-term goals along with the implementation steps necessary to achieve them. Key components include:

- Goals and performance measures for key functions such as benefits administration
- Long-term investment goals, investment risk tolerances and diversification objectives
- Multi-year budgetary needs for fund operating units and for the system
- Service quality goals, measures and tactical plans for achieving them
- Plans for strengthening the fund’s compliance program and internal controls

VI. Reporting: Key Performance and Risk Measures
Reports to the board should include a set of key performance and risk measures to help the board assess the fund’s progress toward goals across actuarial, administrative, audit, compliance and investment functions. Given their expansive duties, boards rely on efficient reporting to provide effective oversight. Key measures include:

- The funded ratio as measured by the ratio of fund assets to fund liabilities
- Net annualized investment returns relative to the return assumption and benchmarks
- Timeliness and accuracy of distributions paid to members and beneficiaries
- Member satisfaction with fund services as measured by surveys and correspondence
- Future benefits owed to members as measured by the actuarial accrued liability
- Net assets available for benefits and changes thereto as reported in the annual audit

VII. Stakeholder Communications
A fund should communicate regularly with members and other stakeholders through multiple media including web site notifications, publications and letters as well as required reports. Communications provide transparency into fund operations and may increase member satisfaction, while strengthening the fund’s reputation. Key components may include:

- A mission statement that describes the fund’s purpose to members and the public
- Surveys that measure participant satisfaction, while providing a basis for improvements
- Updates, letters, annual reports on fund operations and forms for member beneficiaries
- Reports on fund performance, board initiatives and external events that impact members
- Governance principles that summarize the fund’s structure and statutory framework

Challenges and Opportunities
It is important to note that development of a set of well written policies is by no means a guarantee of favorable results. In fact, common pitfalls of governance can lead to suboptimal performance for the most well intended organizations. These include:

- Lack of adherence to policies and rules that leads to compliance and/or risk failures
- Excessive bureaucracy (e.g. too many committees) that slows or halts decision making
Unattainable policies and goals that increase the probability of compliance failures
Cumbrous documentation that discourages stakeholders from understanding policies
Overly rigid rules that take discretion from experts who are compensated to exercise it

An organization can avoid these pitfalls by adhering to basic principles, many of which are embodied in NCPERS recommended practices. Enablers of effective governance include:

- Training to equip board and staff to adhere to policies (especially when they are new)
- Clear documentation of authority for decisions in job descriptions, charters and contracts
- Brief summaries of policy documents that trustees are asked to exercise decisions on
- Reasonable flexibility in applying performance targets, risk thresholds and timelines

Conclusion
Public pension funds have played a leadership in delivering high quality, cost-effective benefits to their members through effective oversight, accountability and transparency. However, the need for continuous improvement and for communicating how these practices work to benefit stakeholders has never been greater.

The practices we recommend are intended to provide a means for ongoing improvement and for maximizing long-range organizational performance through market cycles and management changes.

Contributing Author: Julian M. Regan; March 2012

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