MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT

PERFORMANCE AUDIT
OF THE

ECONOMIC DEVELOPMENT FUND

MICHIGAN DEPARTMENT OF TRANSPORTATION

March 2008

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

591-0135-06

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

– Article IV, Section 53 of the Michigan Constitution

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REPORT SUMMARY

Performance Audit

Economic Development Fund

Michigan Department of Transportation

Report Number:
591-0135-06

Released:
March 2008

The Economic Development Fund (EDF) was created by Act 231, P.A. 1987 (Sections 247.901 - 247.914 of the Michigan Compiled Laws). The mission of EDF is to fund transportation improvements that enhance the State's ability to compete in an international economy, that serve as a catalyst for the economic growth of the State, and that improve the quality of life in rural and urban areas of the State.

Audit Objective:
To assess the effectiveness of EDF's administrative controls to ensure that funds are distributed to local units of government for highway, road, and street projects that support economic growth.

Audit Conclusion:
We concluded that EDF's administrative controls to ensure that funds are distributed to local units of government for highway, road, and street projects that support economic growth were moderately effective. We noted five reportable conditions (Findings 1 through 5).

Reportable Conditions:
The Office of Economic Development and Enhancement (OEDE) did not complete a postproject verification of the actual jobs created or other economic benefits for the projects completed and funded by EDF (Finding 1).

OEDE did not sufficiently document the basis for the scoring of grant applications (Finding 2).

OEDE did not use up-to-date labor statistics to evaluate Category A grant applications (Finding 3).

OEDE's return on investment formula, used to evaluate Category A grant applications, did not consider the long-term economic impact of the new jobs reported in grant applications (Finding 4).

OEDE should seek amendatory legislation to require the use of current information when allocating funds for Category C and E grants (Finding 5).

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Audit Objective:
To assess the effectiveness of Transportation Economic Development System (TEDS) controls to ensure accurate, complete, and secure information used in evaluating and processing project grant applications.

Audit Conclusion:
We concluded that TEDS controls to ensure accurate, complete, and secure information used in evaluating and

processing project grant applications were moderately effective. We noted two reportable conditions (Findings 6 and 7).

Reportable Conditions:

OEDE did not document the complete basis used to score and evaluate Category A grant applications and did not utilize some established scoring criteria to review and evaluate Category A grant applications (Finding 6).

OEDE did not have adequate security over the access and use of TEDS (Finding 7).

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Agency Responses:

Our audit report contains 7 findings and 7 corresponding recommendations. The Michigan Department of Transportation's preliminary response indicates that OEDE agrees with all of the recommendations.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: http://audgen.michigan.gov

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March 11, 2008

Mr. Ted B. Wahby, Chair
State Transportation Commission
and
Kirk T. Steudle, P.E., Director
Michigan Department of Transportation
Murray Van Wagoner Transportation Building
Lansing, Michigan

Dear Mr. Wahby and Mr. Steudle:

This is our report on the performance audit of the Economic Development Fund, Michigan Department of Transportation.

This report contains our report summary; description of fund; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; five exhibits, presented as supplemental information; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

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MICHIGAN DEPARTMENT OF TRANSPORTATION

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Description of Fund

The mission of the Economic Development Fund (EDF) is to fund transportation improvements that enhance the State's ability to compete in an international economy, that serve as a catalyst for economic growth of the State, and that improve the quality of life in rural and urban areas of the State. EDF, a subfund of the State Trunkline Fund, was created by Act 231, P.A. 1987 (Sections 247.901 - 247.914 of the *Michigan Compiled Laws)*. The statute specifies those agencies that are eligible to receive funding and the criteria and requirements for eligible projects. EDF, which is administered by the Michigan Department of Transportation's (MDOT's) Office of Economic Development and Enhancement (OEDE), provides funding for the following categories:

Category A Road projects related to target industry development and redevelopment opportunities. Agencies eligible to receive funding include MDOT, county road commissions, and city and village agencies (see Exhibits 1 and 2).

Category C Reduction of traffic congestion in urban counties. Agencies eligible to receive funding include urban counties and cities within urban counties (see Exhibit 3).

Category D Road improvements in rural counties to create an all-season road network. Agencies eligible to receive funding include rural counties and cities and villages within rural counties (see Exhibit 3).

Category E Construction or reconstruction of roads essential to the development of commercial forests in Michigan. Agencies eligible to receive funding are counties having a national lakeshore or a national park or having at least 34% of their land as commercial forest (see Exhibit 4).

Category F Road and street improvements in cities in rural counties. Agencies eligible to receive funding include rural counties and cities and villages within rural counties (see Exhibit 5).

Act 149, P.A. 1993, ended Category B funding for conversion of local roads to State trunklines.

Act 231, P.A. 1987, established EDF to operate in accordance with the adopted policies of the State Transportation Commission. Executive Order No. 1999-2 transferred the statutory authority, power, duties, functions, and responsibilities to distribute EDF Category A grants and to direct OEDE, jointly, to the MDOT director and to the president of the Michigan Strategic Fund.

Funds appropriated to Categories A and F are awarded based on a competitive application process. Category C funds are awarded to counties with populations in excess of 400,000 in accordance with the formula specified in Section 247.911(3)(c) of the *Michigan Compiled Laws* (Act 231, P.A. 1987). Category D funds are awarded to counties with populations of 400,000 or less in accordance with the formula specified in Section 247.911(3)(d) of the *Michigan Compiled Laws*. Category E funds are awarded based on a formula that considers the extent of each county's commercial forests and whether the county contains a national lakeshore or a national park as specified in Section 247.911(2)(a) of the *Michigan Compiled Laws*.

In February 2000, the Transportation Economic Development System (TEDS), a relational database, was implemented to help evaluate competing Category A grant applications. Since 2001, TEDS has been used by OEDE to evaluate Category A grant applications.

Appropriations by category for the past two fiscal years are as follows:

	Fiscal Year	
Category	2005-06	2006-07
A	$17,966,200	$18,863,400
C	7,751,800	7,681,700
D	7,751,800	7,681,700
E	5,040,000	5,040,000
F	2,500,000	2,500,000
	$41,009,800	$41,766,800

As of April 30, 2007, OEDE had approximately 4.5 full-time equated employees working on EDF programs.

Audit Objectives

Our performance audit* of the Economic Development Fund (EDF), Michigan Department of Transportation (MDOT), had the following objectives:

1. To assess the effectiveness* of EDF's administrative controls to ensure that funds are distributed to local units of government for highway, road, and street projects that support economic growth.

2. To assess the effectiveness of Transportation Economic Development System (TEDS) controls to ensure accurate, complete, and secure information used in evaluating and processing project grant applications.

Audit Scope

Our audit scope was to examine the administration of the Economic Development Fund by the Michigan Department of Transportation's Office of Economic Development and Enhancement (OEDE), which included the examination of program and other records of the Economic Development Fund. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances. Our audit procedures, conducted from July through September 2006 and from April through June 2007, generally covered the period October 1, 2004 through April 30, 2007.

Audit Methodology

We conducted a preliminary review of EDF operations to formulate a basis for defining the audit objectives and scope. Our review included discussing EDF operations with OEDE and other MDOT personnel. We also reviewed pertinent legislation along with various policies and procedures relevant to EDF operations.

In connection with our first objective, we examined various documents and processes to gain an understanding of controls related to grant award processes and requirements. We identified critical administrative controls over EDF operations. Regarding

* *See glossary at end of report for definition.*

Category A funds, we determined the extent to which program administrators had created and implemented controls over grants. We judgmentally selected a sample of applicant files to test to determine what processes and controls MDOT's OEDE staff used to evaluate applicant files to use as a basis for recommending projects for funding. We also obtained and examined OEDE surveys of businesses that were served by completed Category A projects. For Category C through F funds, we evaluated grant award controls and processes relative to statutory requirements.

In connection with our second objective, we reviewed TEDS methodology for evaluating grant applications, recalculated TEDS mathematical relationships, reconciled selected applications data to TEDS, evaluated the types of information used by TEDS, and determined the type and extent of access to TEDS data. We also reviewed OEDE staff's understanding of how TEDS was utilized to evaluate grant applications.

We use a risk and opportunity based approach when selecting activities or programs to be audited. Accordingly, our audit efforts are focused on activities or programs having the greatest probability for needing improvement as identified through a preliminary review. By design, our limited audit resources are used to identify where and how improvements can be made. Consequently, our performance audit reports are prepared on an exception basis.

Agency Responses and Prior Audit Follow-Up

Our audit report contains 7 findings and 7 corresponding recommendations. MDOT's preliminary response indicates that OEDE agrees with all of the recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require MDOT to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

We released our prior performance audit of the Economic Development Fund, Michigan Department of Transportation (59-135-00), in August 2001. Within the scope of this audit, we followed up all 7 prior audit recommendations. MDOT complied with 2 of the prior audit recommendations. We repeated 3 prior audit recommendations (which are presented in Findings 2, 4, 5, and 7 in this report) and 2 were rewritten for inclusion in this report.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

EFFECTIVENESS OF EDF'S CONTROLS OVER THE DISTRIBUTION OF FUNDS TO LOCAL UNITS OF GOVERNMENT

COMMENT

Background: The Economic Development Fund (EDF) provides funding for economic development road projects under five different categories (A, C, D, E, and F). Category A and F grants are awarded on a competitive basis. Category C, D, and E grants are awarded based on formulas predetermined by statute. Category A grants, which are for road projects related to target industry development and redevelopment opportunities, is the largest EDF category. During fiscal years 2005-06 and 2006-07, appropriations for Category A grants accounted for approximately 43.8% and 45.2%, respectively, of total EDF appropriations.

Each year, the demand for Category A funding typically exceeds funding available. The enabling legislation requires grant applications for Category A projects to be submitted in order to be considered for Category A funding. The Michigan Department of Transportation's (MDOT's) Office of Economic Development and Enhancement (OEDE) is to then evaluate each grant application based upon approved criteria and make its recommendations for projects to be funded to the MDOT director and the president of the Michigan Strategic Fund.

Audit Objective: To assess the effectiveness of EDF's administrative controls to ensure that funds are distributed to local units of government for highway, road, and street projects that support economic growth.

Audit Conclusion: We concluded that EDF's administrative controls to ensure that funds are distributed to local units of government for highway, road, and street projects that support economic growth were moderately effective. We noted five reportable conditions related to job creation verification, support for grant application scoring, labor statistics, return on investment formula, and enabling legislation (Findings 1 through 5).

FINDING

1. Job Creation Verification

   OEDE did not complete a postproject verification of the actual jobs created or other economic benefits for the projects completed and funded by EDF. As a result, OEDE did not have a substantiated basis to report the number of jobs

created and retained and other economic benefits derived from projects completed and funded by EDF as required by State law. Further, OEDE did not have a substantiated basis to evaluate the success of EDF.

Section 247.913(c) of the *Michigan Compiled Laws* states that by December 31 of each year EDF shall report certain information to the Governor, the House and Senate Appropriations Committees, and the House and Senate Fiscal Agencies. This information shall include the number of jobs created and retained and any other economic benefits resulting from previously funded EDF grant projects. In addition, the instructions for Category A applicants from OEDE specify that OEDE is required to follow up with the firm after the project is completed to verify actual job creation and other economic benefits.

OEDE informed us that it has used annual surveys, sent to the firms directly benefiting from completed EDF projects, to verify job creation and other economic benefits. However, we determined that the last time OEDE had performed its annual survey was during calendar year 2000. We further determined that OEDE did not verify the information reported in these surveys.

As a result of our audit, OEDE sent 242 follow-up surveys during December 2006 to the firms directly benefiting from completed EDF projects approved for funding from 1998 through 2006. OEDE requested that the firms respond by December 31, 2006. As of December 31, 2006, OEDE had received 25 (10.3%) responses from the firms surveyed along with 45 (18.6%) stamped undeliverable.

RECOMMENDATION

We recommend that OEDE complete a postproject verification of the actual job creation and other economic benefits for the projects completed and funded by EDF.

AGENCY PRELIMINARY RESPONSE

OEDE agrees with the recommendation. By June 30, 2008, OEDE will develop procedures to ensure that postproject verifications of the jobs creation and other economic benefits occur for Category A projects completed and funded by EDF.

FINDING

2. Support for Grant Application Scoring

OEDE did not sufficiently document the basis for the scoring of grant applications. As a result, scores used in the grant application process could not be confirmed by subsequent reviewers.

OEDE used other MDOT technical experts to evaluate and score technical application factors related to 6 of the 16 criteria used to evaluate grant applications. We reviewed the scoring of all 37 project grant applications evaluated and scored by OEDE during our audit period. Our procedures included reviewing OEDE support for the scoring related to the 6 technical application factors (i.e., condition, capacity, safety, development user impact, criticality, and growth potential). Our review disclosed:

a. OEDE did not document its scoring support for "growth potential" for any of the 37 projects reviewed.

b. OEDE did not document support for the scoring of two or more of the remaining five criteria in 14 (37.8%) of 37 projects reviewed.

This same issue was reported in our prior audit report. At that time, OEDE agreed with the finding and expected to improve its supporting documentation in the near future.

RECOMMENDATION

WE AGAIN RECOMMEND THAT OEDE SUFFICIENTLY DOCUMENT THE BASIS FOR THE SCORING OF GRANT APPLICATIONS.

AGENCY PRELIMINARY RESPONSE

OEDE agrees with the recommendation. OEDE informed us that since the prior audit, supporting comments have normally been provided; however, as noted in the finding, comments were missed in some instances. Subsequent to this audit, in discussions with its technical experts, OEDE reemphasized the importance of providing comments documenting the basis for scoring, and by February 29, 2008, OEDE will reemphasize the need for comments in a memorandum to all of its technical experts.

FINDING

3. Labor Statistics

OEDE did not use up-to-date labor statistics to evaluate Category A grant applications. Using outdated labor statistics to evaluate grant applications could impact both OEDE calculations and funding award decisions.

OEDE received appropriations for Category A grants totaling $17,966,200 and $18,863,400 during fiscal years 2005-06 and 2006-07, respectively. OEDE uses 16 different criteria to score and evaluate Category A grant applications. OEDE uses labor statistics in its formulas to calculate the scores for 2 of these criteria: labor market (the jobs created and retained relative to the number of people eligible to work by county) and labor market ratio (the jobs created and retained relative to the number of firms benefiting from the project). These 2 criteria combined account for approximately 8.1% of the total points available for Category A grant applications.

During our audit period, OEDE relied upon State labor market information pertaining to January 1999 to calculate labor market and labor market ratio criteria values for grant applications. However, while performing our audit procedures, we determined that the Department of Labor and Economic Growth releases the State labor market information on a monthly basis via the Internet. This information is released approximately one month after the month in which the information is being reported.

As part of our review, we compared the January 1999 labor statistics to the January 2007 labor statistics to identify any changes that may have occurred. Our review of the data related to all 83 counties disclosed that jobless rates in individual counties did change between January 1999 and January 2007:

- 37 counties' jobless rates increased by over 2%, of which 4 counties' jobless rates rose by 4.5%, 18 counties' jobless rates rose between 3.0% and 4.3%, and 15 counties' jobless rates rose between 2.1% and 2.9%.

- 2 counties' jobless rates decreased by over 2%, of which 1 county's jobless rate fell by 3.9% and another county's jobless rate fell by 2.3%.

RECOMMENDATION

We recommend that OEDE use up-to-date labor statistics to evaluate Category A grant applications.

AGENCY PRELIMINARY RESPONSE

OEDE agrees with the recommendation. By June 30, 2008, OEDE will revise its procedures to provide that it use current labor statistics to evaluate Category A grant applications.

FINDING

4. Return on Investment Formula

OEDE's return on investment formula, used to evaluate Category A grant applications, did not consider the long-term economic impact of the new jobs reported in grant applications. As a result, OEDE's return on investment formula emphasizes capital investment more than job growth and could impact funding award decisions.

The return on investment criteria, which is a ratio of the benefits received from a project relative to the cost of the project, is one of the 16 criteria used by OEDE to evaluate grant applications. In order to evaluate a project's long-term impact, the project's benefits should be determined by the present value of future years' wages and taxes (e.g., five years) plus the sum of the proposed development's construction costs. However, OEDE defined "benefits" as a sum of the proposed development's construction costs plus estimates of only one year's wages for the new employees plus only one year's property tax increase on the new property. Because the expected life of the projects funded by EDF are of a long-term nature, OEDE should consider the long-term economic impact of each project when evaluating grant applications.

This same issue was reported in our prior audit report. At that time, OEDE agreed that the return on investment formula did not consider the long-term economic impact of new jobs contained in grant applications. OEDE indicated that it would examine the use of present value calculations and reassess whether a change to the program was warranted.

RECOMMENDATION

WE AGAIN RECOMMEND THAT OEDE CHANGE ITS RETURN ON INVESTMENT FORMULA, USED IN THE EVALUATION OF CATEGORY A GRANT APPLICATIONS, TO CONSIDER THE LONG-TERM ECONOMIC IMPACT OF THE NEW JOBS REPORTED IN GRANT APPLICATIONS.

AGENCY PRELIMINARY RESPONSE

OEDE agrees with the recommendation to help ensure balance in the benefits considered in the return on investment formula. OEDE informed us that the benefits of capital investments and jobs in the first year they are created are generally clear. However, OEDE believes the future benefits of jobs are less well-defined and less certain, since the economy may change impacting the number of workers employed. Determining the appropriate number of years' wages to include and the appropriate discount rate for future year wages must be considered carefully. OEDE will review the return on investment formula and the parameters used for determining benefits, including consideration of this component in relation to all the components used in the evaluation of project applications. OEDE plans to initiate this review by October 1, 2008.

FINDING

5. Enabling Legislation

OEDE should seek amendatory legislation to require the use of current information when allocating funds for Category C and E grants.

The Transportation Economic Development Act (Act 231, P.A. 1987, as amended) requires OEDE to use specific data to allocate grants for the reduction of traffic congestion (Category C) and grants for the construction of roads essential to the development of commercial forests (Category E). Because of the specific requirements of the Act, OEDE used outdated information sources when allocating funds for these grants.

Our review disclosed:

a. The Act did not allow for the use of the most recent Michigan forest inventory report statistics to annually allocate $5 million to eligible counties for roads essential to the development of commercial forests.

Section 247.901(c) of the *Michigan Compiled Laws* requires that MDOT use a specific 1981 forest inventory report to determine which counties have at least 34% commercial forest land so that $5 million can be proportionally allocated. In 1993, and again in 2004, updated forest inventory reports became available.

OEDE distributed funding for Category E grants in accordance with the current statutory provision using the 1981 forest inventory report. However, the use of the 1993 and 2004 forest inventory reports would have resulted in allocation changes totaling $1,776,919 from fiscal year 1994-95 through fiscal year 2005-06, reducing funding for 23 counties and increasing funding for 25 counties through fiscal year 2003-04. For fiscal years 2004-05 and 2005-06, the use of the reports would have resulted in reduced funding for 24 counties and increased funding for 23 counties. One county that has never received funding would have been eligible for a total of $556,241 in funding for the fiscal years 1994-95 through 2003-04.

b. The Act did not allow for the use of the most recent traffic count information to determine eligible Category C projects.

Section 247.912(1)(b) of the Act requires urban task forces to use traffic count information on or before April 1, 1993 when designating eligibility for roadway widening projects paid for with Category C funds.

As a result, eligibility for Category C funding was required to be based on traffic count information gathered on or before April 1, 1993. The use of current traffic count information would help ensure that program funds are spent as effectively as possible. In 2005-06, OEDE funded $25.9 million in Category C funded projects to reduce congestion on heavily traveled city streets and county roads within urban areas.

We noted similar conditions in our prior audit report. In response to that report, OEDE stated that it agreed with the finding and that it expected to refer the issue to its Office of Governmental Affairs for inclusion in MDOT's legislative agenda.

RECOMMENDATION

WE AGAIN RECOMMEND THAT OEDE SEEK AMENDATORY LEGISLATION TO REQUIRE THE USE OF CURRENT INFORMATION WHEN ALLOCATING FUNDS FOR CATEGORY C AND E GRANTS.

AGENCY PRELIMINARY RESPONSE

OEDE agrees with the recommendation. By February 29, 2008, OEDE will refer this recommendation to MDOT's Office of Governmental Affairs for review, discussion, and consideration for inclusion in future legislative agendas and to help ensure that any proposed changes are consistent with legislative intent.

EFFECTIVENESS OF TEDS CONTROLS OVER EVALUATING AND PROCESSING PROJECT GRANT APPLICATIONS

COMMENT

Background: The Transportation Economic Development System (TEDS) is a relational database system used by the OEDE as part of its process to evaluate and process competing Category A project grant applications. Category A grants are for road projects related to target industry development and redevelopment opportunities. Category A was appropriated $17,966,200 and $18,863,400 during fiscal years 2005-06 and 2006-07, respectively.

Because the demand for Category A funding typically exceeds the funding available, OEDE requires State and local agencies to competitively apply for funding. OEDE uses 16 different criteria to score and evaluate grant applications. OEDE determines a raw score for each of the 16 criteria. These raw scores are then used by TEDS to calculate normalized scores and weighted scores.

The sum of the weighted scores for all 16 criteria for each grant application is then compared, and the grant applications with the highest aggregated scores are recommended for funding.

Audit Objective: To assess the effectiveness of TEDS controls to ensure accurate, complete, and secure information used in evaluating and processing project grant applications.

Audit Conclusion: We concluded that TEDS controls to ensure accurate, complete, and secure information used in evaluating and processing project grant applications were moderately effective. We noted two reportable conditions relating to TEDS computation methodologies and TEDS access and use (Findings 6 and 7).

FINDING

6. TEDS Computation Methodologies

OEDE did not document the complete basis used to score and evaluate Category A grant applications and did not utilize some established scoring criteria to review and evaluate Category A grant applications. As a result, OEDE did not fully support its funding recommendations for Category A projects.

OEDE uses TEDS as its primary tool to quantify the scoring for Category A grant applications, which is then used by OEDE to support its funding recommendations. TEDS contains 25 different criteria to be used to evaluate and score Category A grant applications. These 25 criteria are made up of two categories: core values and non-core values.

The core values category is made up of 16 criteria, including condition, capacity, safety, user impact, criticality, new and retained jobs, relative increase in labor markets, benefits, local tax revenue, growth potential, wages per hour, wage rate ratio, labor market ratio, grant dollar per job, development dollar per grant, and return on investment. The maximum value for the 16 core value criteria is 86 points.

The non-core values category is made up of 9 criteria, including level of government support, level of private sector participation, year of construction, match level and type, environment impact, renaissance zones, low income community, federal redevelopment area, and CDBG community (Community Development Block Grant eligible). The maximum value for the 9 non-core value criteria is 14 points.

Our review of OEDE's use of TEDS disclosed:

a. OEDE did not document the rationale it used to assign the weighted values to each of the criteria within TEDS. Depending on the criteria, the weighted values assigned by OEDE range from 1 to 20 points. Because of the lack of system documentation, OEDE could not provide the specific support for the basis for the weighted values assigned to each of the criteria within TEDS and OEDE's scoring process could not be evaluated by subsequent reviewers.

b. OEDE did not use 9 of the 25 criteria contained within TEDS to evaluate and score Category A grant applications. During our audit period, we reviewed 36 Category A grant applications that were recommended and approved for funding. We obtained and examined the related TEDS scoring sheets for all 36 (100%) grant applications. From our review, we determined that these 36 grant applications were only evaluated on the 16 core value criteria within TEDS. None of the 36 projects received any score for the 9 non-core value criteria.

   OEDE informed us that it did not use the 9 non-core values that were built into TEDS and that the maximum score a Category A grant application could receive from TEDS was 86 points not the 100 points available using TEDS. However, OEDE had not retained the documentation explaining why it excluded the 9 non-core values from the grant application review process.

RECOMMENDATION

We recommend that OEDE document the complete basis used to score and evaluate Category A grant applications and utilize established scoring criteria to review and evaluate Category A grant applications.

AGENCY PRELIMINARY RESPONSE

OEDE agrees with the recommendation. By August 31, 2008, OEDE will document the relationship of the criteria used in scoring applications to the underlying legislation for the EDF program. OEDE believes that the current criteria were determined through a thoroughly rigorous process, which included calibrating the output with the system that preceded TEDS. Complete documentation of the underlying rationale for the existing criteria will require a thorough review and

analysis of the individual criteria and the established weightings. OEDE plans to initiate its review in this regard by October 1, 2008.

FINDING

7. TEDS Access and Use

OEDE did not have adequate security over the access and use of TEDS.

Security over the access and use of an information system is necessary to provide users with assurance that the database is accurate, complete, reliable, and secure. To achieve these control objectives, controls must be in place to ensure that only authorized personnel are able to make modifications and that all modifications are attributable to a particular individual.

Our review of TEDS and inquiry of agency staff disclosed:

a. OEDE had not established audit trails to track TEDS data modifications. At the time of our audit, TEDS could not identify or document which users logged into TEDS, what information they accessed, and what information they modified.

   Without being able to account for TEDS user activities, OEDE's ability to ensure that TEDS data is accurate, complete, and reliable is diminished.

b. Fourteen individuals had write access to TEDS. Our evaluation disclosed that 1 (7.1%) of the 14 did not require write access to perform his/her job function. As a result of our audit, OEDE modified the individual's access to read only.

   Without being able to ensure proper user access within TEDS, OEDE has reduced its ability to ensure that TEDS data is accurate, complete, and reliable.

RECOMMENDATION

WE AGAIN RECOMMEND THAT OEDE INCREASE ITS SECURITY OVER THE ACCESS AND USE OF TEDS.

AGENCY PRELIMINARY RESPONSE

OEDE agrees with the recommendation. OEDE stated that since the prior audit, it has generally limited users to the type of access required to perform their function within the program; however, tracking changes continues to be an issue due to the age of this program and the cost of modifying. OEDE believes that it has instituted compensating controls by maintaining hard copies of applications in project files and requiring file notes of significant changes to applications in an effort to lessen the risk.

OEDE informed us that TEDS is an aging system on a platform that MDOT has begun to retire. OEDE stated that it has looked into the possibility of rewriting or replacing the system since the prior audit, but limited funding was and continues to be an obstacle. OEDE also stated that limited information technology resources prohibit OEDE from making all but the most minor changes to this legacy system. OEDE informed us that it is currently piloting the State's grant software, EGrAMS, in another program as a potential replacement for TEDS. EGrAMS is reported by the Department of Information Technology to have the functionally to track changes to grants and to provide a secure environment for grant data. Once implemented, OEDE believes it will be able to evaluate the effectiveness of the software and its ability to meet OEDE's needs within the EDF program.

SUPPLEMENTAL INFORMATION

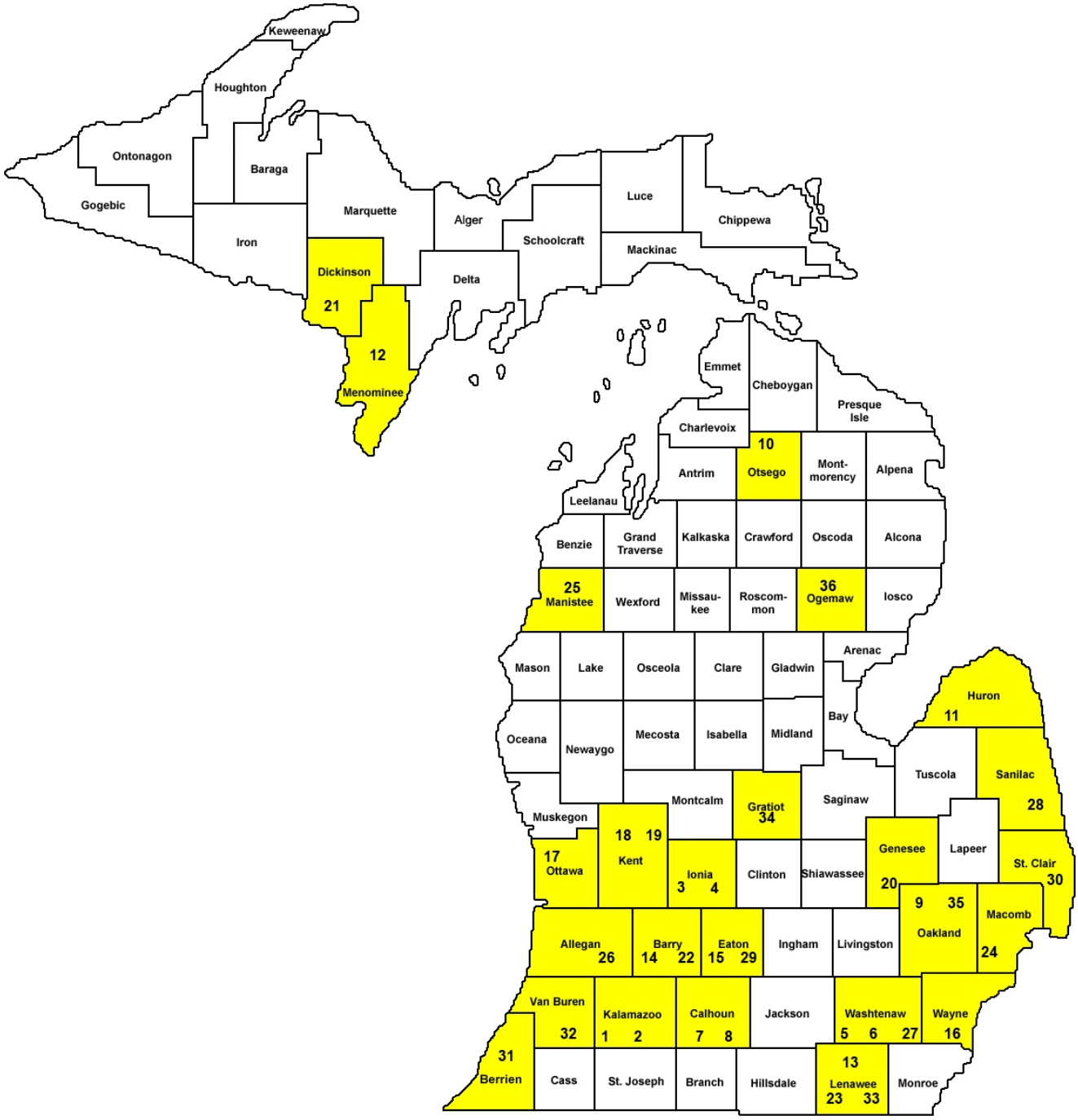
Exhibit 1

ECONOMIC DEVELOPMENT FUND
Michigan Department of Transportation
Category A Projects Approved For Funding
Fiscal Years 2004-05, 2005-06, and 2006-07 (through April 30, 2007)

Project Number	Award Amount ($)	Location
Fiscal Year 2004-05		
1	$ 425,000	Kalamazoo - Fairfield, Portage Road
2	$ 400,000	Portage - Sprinkle Road
3	$ 380,000	Ionia - Portland Road
4	$ 171,000	Lake Odessa - Bonanza Road
5	$ 255,600	Freedom Township/Lodi Township - Pleasant Lake Road
6	$ 300,000	Ypsilanti - Huron Road
7	$ 791,200	Battle Creek - Columbia Avenue, South Airport Road
8	$ 136,500	Albion - M-199
9	$ 2,648,000	Southfield - Telegraph, US-24 and I-696 at US-10
10	$ 490,000	Bagley Township/Hayes Township - South Townline Road
11	$ 941,030	Village of Sebewaing - Pine, Albert, Sharpsteen, Union, and Center
12	$ 725,000	Harris Township - Hannahville Road, US-2, and US-41
13	$ 1,217,000	Adrian - Silberhorn Road, US-223
14	$ 164,000	Middleville - Crane Road
15	$ 3,427,200	Delta Township - Canal Road, Mt. Hope Highway
16	$ 2,200,000	Redford - Gendale Avenue
17	$ 388,950	Holland Township - Lakewood Boulevard, Roost Avenue
Fiscal Year 2005-06		
18	$ 149,000	Kentwood - M-37
19	$ 616,000	Grand Rapids - US-131 (Division Avenue)
20	$ 167,000	Flint Township - Anoka, Monaco, Corunna Road (M-21)
21	$ 752,800	Iron Mountain - Trader's Mine Road, US-2
22	$ 455,000	Village of Middleville - State Street
23	$ 3,354,000	Village of Brookland, Hillsdale, Jackson - US-12, US-127, MIS Signage
24	$ 2,394,160	Warren - Nine Mile Road
25	$ 300,000	Filer Township - Filer City Hill Road
26	$ 614,865	Holland - East 40th Street
27	$ 5,424,000	York Twp. - Platt, Willis, Bemis, US-23 Entrances/Exits
28	$ 300,840	Sandusky - Argyle Street
29	$ 603,200	Charlotte - Reynolds Road
30	$ 484,664	Marysville - M-29, Busha Highway
31	$ 3,033,650	Benton Harbor - E&W Klock, Graham
32	$ 68,800	Bangor - Industrial Park Road
Fiscal Year 2006-07 (through April 30, 2007)		
33	$ 311,359	Adrian - M-34
34	$ 429,250	North Star Township - E Washington Road
35	$ 673,488	Pontiac - South Boulevard
36	$ 50,494	West Branch - Old M-76

Exhibit 2

ECONOMIC DEVELOPMENT FUND
Michigan Department of Transportation
Category A Approved Projects
Fiscal Years 2004-05 through 2006-07 (through April 30, 2007)

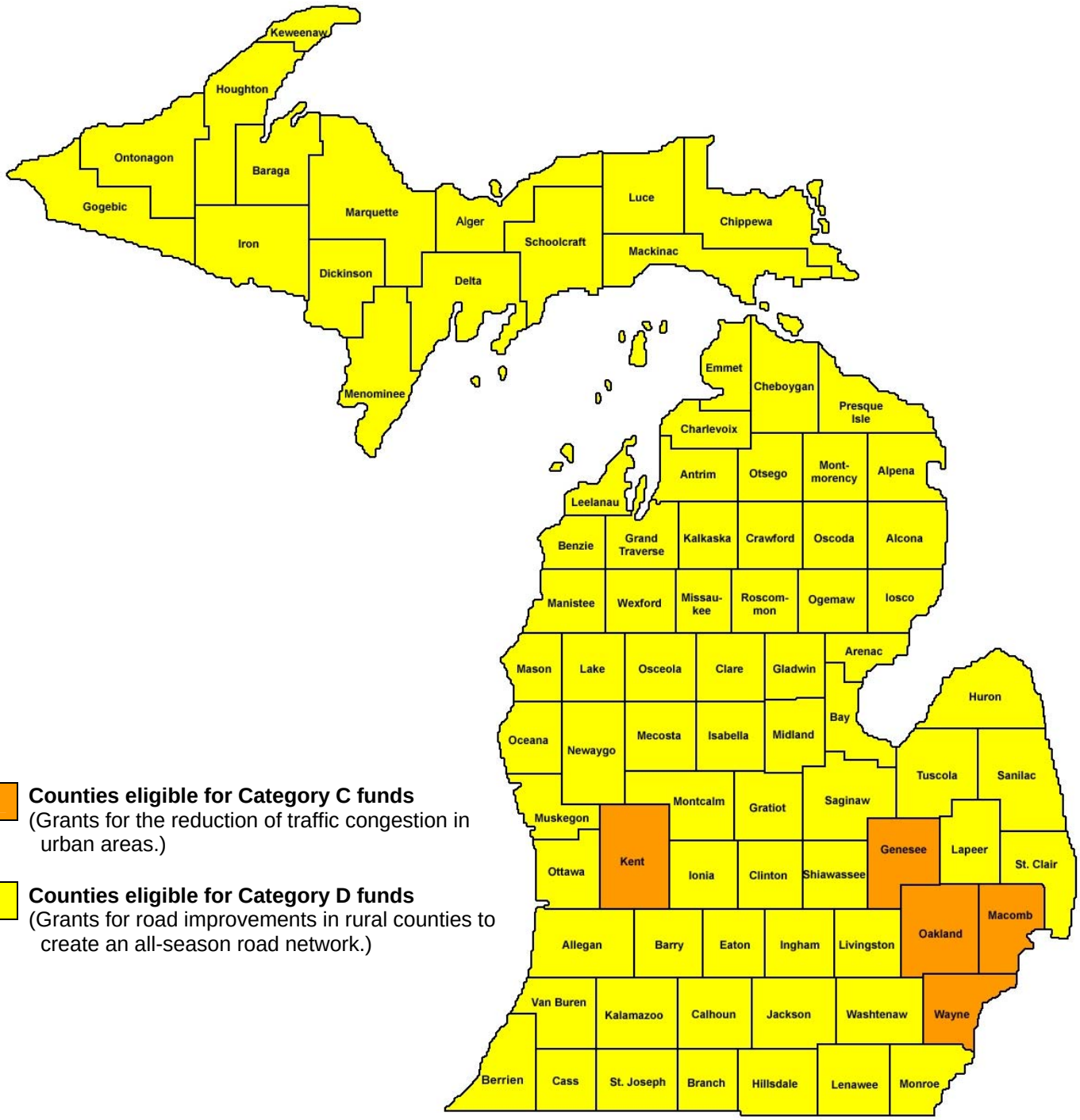


The numbers above represent one unique project; see Exhibit 1 for additional information regarding individual projects.

591-0135-06

Exhibit 3

ECONOMIC DEVELOPMENT FUND
Michigan Department of Transportation
Counties Eligible for Category C or D Funds
As of April 30, 2007



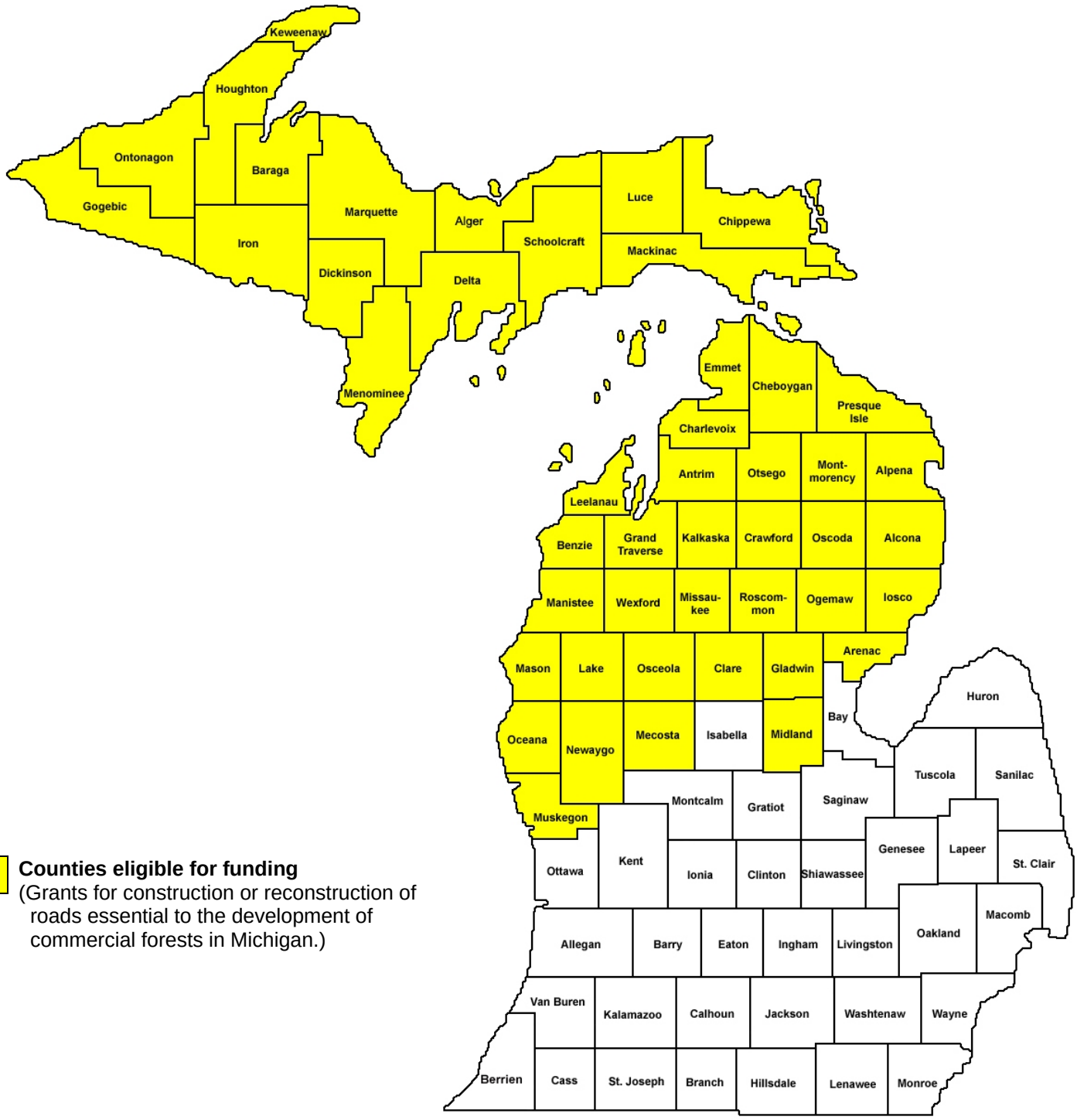
Counties eligible for Category C funds
(Grants for the reduction of traffic congestion in urban areas.)

Counties eligible for Category D funds
(Grants for road improvements in rural counties to create an all-season road network.)

591-0135-06

Exhibit 4

ECONOMIC DEVELOPMENT FUND
Michigan Department of Transportation
Counties Eligible for Category E Funds
As of April 30, 2007

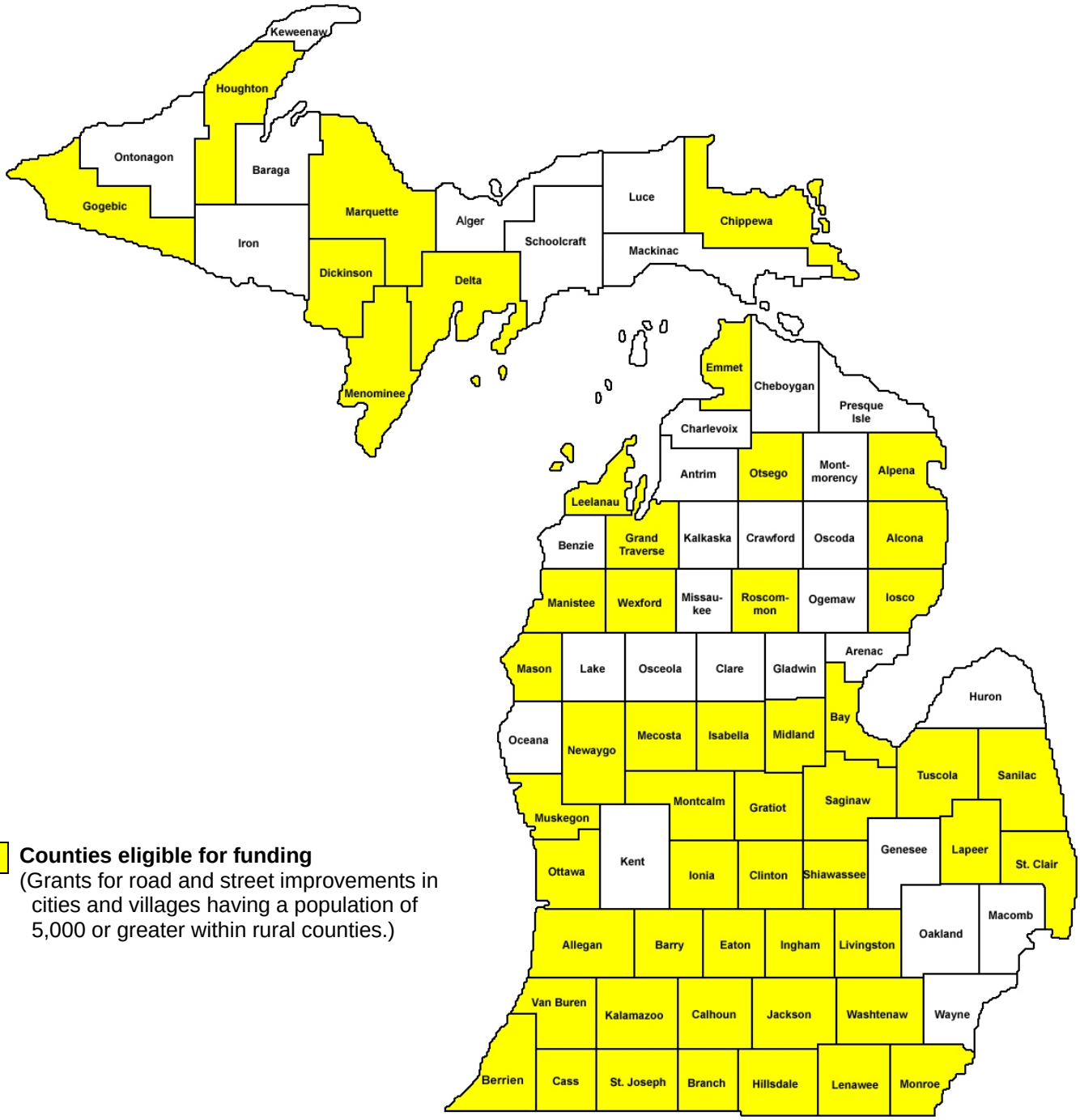


Counties eligible for funding
(Grants for construction or reconstruction of roads essential to the development of commercial forests in Michigan.)

591-0135-06

Exhibit 5

ECONOMIC DEVELOPMENT FUND
Michigan Department of Transportation
Counties Eligible for Category F Funds
As of April 30, 2007



Counties eligible for funding
(Grants for road and street improvements in cities and villages having a population of 5,000 or greater within rural counties.)

591-0135-06

GLOSSARY

Glossary of Acronyms and Terms

EDF	Economic Development Fund.
effectiveness	Program success in achieving mission and goals.
MDOT	Michigan Department of Transportation.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
OEDE	Office of Economic Development and Enhancement.
reportable condition	A matter that, in the auditor's judgment, represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.
TEDS	Transportation Economic Development System.

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STATE OF MICHIGAN

OFFICE of the AUDITOR GENERAL