

EXECUTIVE DIGEST

ECONOMIC DEVELOPMENT FUND

INTRODUCTION

This report, issued in August 2001, contains the results of our performance audit* of the Economic Development Fund (EDF), Michigan Department of Transportation (MDOT).

AUDIT PURPOSE

This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency*.

BACKGROUND

The mission* of EDF is to fund transportation improvements that enhance the ability of the State 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 the State. EDF was created under Acts 231 and 233, P.A. 1987. EDF is administered by MDOT's Office of Economic Development (OED). EDF provides funding for specific categories of road projects related to development and redevelopment opportunities (Category A), reduction of traffic congestion in urban counties (Category C), road improvements in rural counties to create an all-season road network (Category D), construction or reconstruction of roads essential to the development of commercial forests in Michigan (Category E), and road and street improvements in cities in rural counties (Category F).

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

Funds appropriated to Categories A, C, D, and F are awarded to applicable State, local, or county agencies based on competitive application processes. 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.

In February 2000, OED implemented the Transportation Economic Development System (TEDS), a relational database, to help evaluate competing Category A applications. During our audit period, TEDS was not used to help evaluate Categories C, D, and F applications.

Appropriations for the fiscal year ended September 30, 2000 were \$50,168,900. As of August 31, 2000, EDF had four employees.

**AUDIT OBJECTIVES,
CONCLUSIONS, AND
NOTEWORTHY
ACCOMPLISHMENTS**

Audit Objective: To assess the effectiveness of selected administrative controls in ensuring the accomplishment of EDF's mission, goals*, and objectives*.

Conclusion: **We concluded that the selected administrative controls were generally effective.** However, we noted reportable conditions* related to the direct grant process, continuous quality improvement* process, written procedures, and enabling legislation (Findings 1 through 4).

Noteworthy Accomplishments: In 1999, OED completed a Process Improvement Implementation project in which OED identified key issues, areas of deficiency, and subsequent recommendations. One resulting change

was the creation and use of a direct grant process for some projects versus MDOT's administration of all projects. OED intended that projects using the direct grant process would improve the timeliness of the projects' starts and completions while reducing the costs that MDOT incurs to administer the projects. OED's critical analysis of its own operations, and subsequently implemented changes, was an important initial effort in its use of continuous quality improvement concepts.

Audit Objective: To assess the reliability of TEDS controls in ensuring accurate, complete, and secure information for properly processing project grant application scores.

Conclusion: We concluded that TEDS controls generally ensured accurate, complete, and secure information for processing project grant application scores. However, we noted reportable conditions related to TEDS data and calculations, TEDS computation methodologies, and TEDS access and use (Findings 5 through 7).

**AUDIT SCOPE AND
METHODOLOGY**

Our audit scope was to examine the 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 included an examination of EDF's records and activities covering the period October 1, 1998 through August 31, 2000. Our audit methodology included discussing the mission, goals, and objectives of the grant categories with EDF and other MDOT personnel. Also, we reviewed various policies and procedures relevant to

EDF's operations. We made inquiries about and observations of EDF operations and tested selected files, systems, and controls to determine EDF's effectiveness relative to selected administrative controls and TEDS reliability.

AGENCY RESPONSES

Our audit report contains 7 findings and 7 corresponding recommendations. MDOT's preliminary response indicated that it generally agrees with our findings.