



Michigan  
*Office of the Auditor General*  
**REPORT SUMMARY**

*Performance Audit*

*Michigan Economic Growth Authority (MEGA)  
Tax Credit Program  
Michigan Strategic Fund*

Report Number:  
271-0415-09

Released:  
April 2010

*The MEGA tax credit is a tax credit to a company's business tax liability to the State of Michigan. The MEGA tax credit is awarded to businesses that make a commitment to make capital investments and create and/or retain jobs in the State. The minimum number of jobs that have to be created and/or retained is dependent on the type and location of the business and if the business is expanding or locating in the State. A company submits a request for a tax credit certificate to MEGA staff for approval. The company attaches the approved tax credit certificate to its Michigan Business Tax return to claim its MEGA tax credit.*

***Audit Objective:***

To assess the effectiveness of the Michigan Strategic Fund's (MSF's) procedures to review requests for MEGA tax credit certificates and audit the approved MEGA tax credit certificates.

***Audit Conclusion:***

We concluded that MSF's procedures to review requests for MEGA tax credit certificates were moderately effective and MSF's procedures to audit the approved MEGA tax credit certificates were not effective. We noted one material condition (Finding 2) and three reportable conditions (Findings 1, 3, and 4).

***Material Condition:***

MSF's postaudit procedures were not sufficient to validate the summary information submitted with the companies' requests for tax credit certificates to the detail job claim and wage data maintained by the companies (Finding 2).

***Reportable Conditions:***

MSF's policy to allow companies to annualize wages to meet their average weekly wage requirements was not in compliance with the MEGA agreements (Finding 1).

MSF did not audit the business activity credit portion of the MEGA tax credit certificates when conducting audits (Finding 3).

MSF should require companies to submit more detailed payroll data at the time of their requests for MEGA tax credit certificates (Finding 4).

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***Audit Objective:***

To assess MSF's compliance with the *Michigan Compiled Laws* reporting requirements for its annual report to the Legislature.

**Audit Conclusion:**

We concluded that MSF's annual report to the Legislature was in compliance with 6 of 7 reporting requirements and not in compliance with 1 reporting requirement of the *Michigan Compiled Laws*. We noted one reportable condition (Finding 5).

**Reportable Condition:**

MSF did not properly report all information required by Section 207.810 of the *Michigan Compiled Laws* in the fiscal year 2006-07 and fiscal year 2007-08 annual reports to the Legislature. In addition, MSF should consider enhancing its annual report to provide the Legislature with additional information to assist the Legislature in its evaluation of the MEGA Tax Credit Program. (Finding 5)

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**Audit Objective:**

To assess the effectiveness of MSF's efforts to evaluate the MEGA Tax Credit Program in creating and retaining jobs.

**Audit Conclusion:**

We concluded that MSF's efforts to evaluate the MEGA Tax Credit Program in creating and retaining jobs were moderately effective. We noted one reportable condition (Finding 6).

**Reportable Condition:**

MSF did not develop comparative evaluations to measure actual outputs and outcomes to a desired level of outputs and outcomes, a peer group performance, and/or historical performance of the MEGA Tax Credit Program (Finding 6).

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**Agency Response:**

Our audit report contains 6 findings and 9 corresponding recommendations. MSF's preliminary responses indicated that it agrees with 7 of the recommendations and partially agrees with 2 of the recommendations but disagrees with part of the finding.

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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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