



MICHIGAN

OFFICE OF THE AUDITOR GENERAL



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

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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July 26, 2011

Mr. Michael Finney, President and Chief Executive Officer
Michigan Strategic Fund
300 North Washington Square
Lansing, Michigan

Dear Mr. Finney:

This is our report on our follow-up of the material condition (Finding 2) and 2 corresponding recommendations reported in the performance audit of the Michigan Economic Growth Authority Tax Credit Program, Michigan Strategic Fund. That audit report was issued and distributed in April 2010. Additional copies are available on request or at <<http://www.audgen.michigan.gov>>.

Our follow-up disclosed that the Michigan Strategic Fund had complied with the 2 recommendations.

If you have any questions, please call me or Scott M. Strong, C.P.A., C.I.A, Deputy Auditor General.

AUDITOR GENERAL

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**MICHIGAN ECONOMIC GROWTH AUTHORITY
TAX CREDIT PROGRAM
MICHIGAN STRATEGIC FUND
FOLLOW-UP REPORT**

INTRODUCTION

This report contains the results of our follow-up of the material condition and corresponding recommendations and the agency's preliminary response as reported in our performance audit of the Michigan Economic Growth Authority (MEGA) Tax Credit Program, Michigan Strategic Fund (MSF) (271-0415-09), which was issued and distributed in April 2010. That audit report included 1 material condition (Finding 2) and 5 other reportable conditions.

PURPOSE OF FOLLOW-UP

The purpose of this follow-up was to determine whether the Michigan Strategic Fund has taken appropriate corrective measures in response to the material condition and corresponding recommendations.

BACKGROUND

The MEGA tax credit is a refundable tax credit to a company's business tax liability to the State of Michigan. The MEGA tax credit is awarded to businesses in Michigan 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.

Once a company has achieved the MEGA tax credit agreement requirements related to the minimum number of jobs created or retained, the company requests a tax credit certificate by submitting an annual certificate application. MSF staff review the

information submitted on the application and compare it with the requirements of the MEGA tax credit agreement. The information is then forwarded to the MSF audit staff, who determine whether the request meets the agreement requirements and verify the information. The MSF audit staff forward the application and audit work to the chief compliance officer and the MEGA Board secretary for review and approval. When approved, the tax credit certificate is issued to the company, which attaches the approved tax credit certificate to its Michigan Business Tax return to claim its MEGA tax credit.

SCOPE

Our fieldwork was performed primarily in June 2011. To determine the status of compliance with our audit recommendations, we interviewed agency personnel and reviewed MEGA's procedures manual as it relates to audits. In addition, we tested annual certificate applications, on-site audit spreadsheets, MEGA tax credit agreements and amendments, MEGA Board resolutions, and various forms of supporting documentation to ensure compliance with MEGA requirements.

FOLLOW-UP RESULTS

PROCEDURES TO REVIEW REQUESTS FOR MEGA TAX CREDIT CERTIFICATES AND AUDIT APPROVED TAX CREDIT CERTIFICATES

RECOMMENDATIONS AND RESPONSE AS REPORTED IN APRIL 2010:

2. Postaudit Procedures for MEGA Tax Credits

RECOMMENDATIONS

We recommend that MSF improve its postaudit procedures 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.

We also recommend that MSF report any improper credits to the Department of Treasury for possible recoupment of past tax credits that were not calculated correctly.

AGENCY PRELIMINARY RESPONSE

MSF agrees with the recommendations. MSF informed us that it is pursuing full data collection from the one company cited which submitted insufficient data. MSF also informed us that it will collect all necessary or required data elements as outlined in the MEGA tax credit agreements.

In addition, MSF informed us that it has increased MEGA application fees to provide additional revenue to support the in-depth, full audit procedures required to properly validate 100% of the MEGA certificate information issued. MSF also informed us that it has engaged a certified public accounting firm to assist in an audit of all MEGA tax credits issued for 2006 through 2009. Furthermore, MSF informed us that, as part of the audit process, auditors will be conducting on-site data verifications for all companies to test selected individual payroll records, W-2s, and other payroll information that support the audit spreadsheets.

MSF informed us that it is now using a checklist that documents the audit methodology and testing performed for each company. In addition, MSF informed us that, starting in 2010, it has revised audit procedures to conduct pre-audits prior to issuing a tax credit certificate.

MSF also informed us that it will report audited results to the Department of Treasury on a quarterly schedule approved by the Department of Treasury.

FOLLOW-UP CONCLUSION

We concluded that MSF had complied with our recommendations concerning the material condition noted in the audit report issued in April 2010.

MSF made significant improvements in its process to audit the MEGA tax credit certificates:

- MSF improved its procedures to validate the information submitted with the companies' requests for tax credit certificates to help ensure that MEGA tax credits are being properly issued.
- MSF submitted quarterly reports to the Department of Treasury for possible recoupment of incorrectly calculated tax credits.

