



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TRANSPORTATION
LANSING

KIRK T. STEUDLE
DIRECTOR

April 20, 2009

Mr. Robert Emerson
State Budget Director
Department of Management and Budget
111 South Capitol, 6th Floor
Lansing, Michigan 48909

Dear Mr. Emerson:

In accordance with the State of Michigan, Financial Management Guide, Part VII, enclosed is a summary table identifying our responses and corrective action plan to address the recommendations in the Office of the Auditor General's performance audit report of the Economic Development Fund, Michigan Department of Transportation for the period October 1, 2004 through April 30, 2007. The Office of Financial Management approved distribution of the plan.

Questions regarding the summary table or corrective action plan should be directed to Mike Kapp, Office of Economic Development, at 517-335-1069 or Jerry J. Jones, Commission Auditor, at 517-373-2384.

Sincerely,

Signature Redacted

Kirk T. Steudle
Director

Enclosure

cc: The Hon. Jennifer Granholm, Executive Office
The Hon. George Cushingberry, Jr., House Appropriations Committee
The Hon. Ron Jelinek, Senate Appropriations Committee
The Hon. Pam Byrnes, House Transportation Committee
The Hon. Jud Gilbert, Senate Transportation Committee
Mr. Thomas McTavish, Auditor General
Mr. Mitchell Bean, House Fiscal Agency
Mr. Gary Olson, Senate Fiscal Agency
Ms. Lisa Webb Sharp, Director, DMB

**Michigan Department of Transportation
Office of Economic Development
Summary of Agency Responses to Recommendations
Auditor General's Performance Audit of the Economic Development Fund
October 1, 2004 through April 30, 2007**

1. Audit recommendations the agency complied with:

1. **Job Creation Verification**

RECOMMENDATION

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

AGENCY RESPONSE

OEDE agrees with this recommendation. On September 18, 2008, OEDE developed procedures and added them to their Operations Manual to ensure that the post project verifications of job creation and other economic benefits occur for Category A projects completed and funded by EDF. In addition, OEDE is currently reviewing alternatives to automate the process.

2. **Support for Grant Application Scoring**

RECOMMENDATION

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

AGENCY RESPONSE

OEDE agrees with this recommendation. Since the prior audit, supporting comments have normally been provided; however, as noted in the finding, comments were missed in some instances. On April 1, 2008 OEDE re-emphasized the need for comments documenting the basis for scoring in a memorandum to the technical experts. In addition, in discussions with its technical experts on April 18, 2008 and June 6, 2008, OEDE re-emphasized the importance of providing comments documenting the basis for scoring.

3. **Labor Statistics**

RECOMMENDATION

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

**Michigan Department of Transportation
Office of Economic Development
Summary of Agency Responses to Recommendations
Auditor General's Performance Audit of the Economic Development Fund
October 1, 2004 through April 30, 2007**

AGENCY RESPONSE

OEDE agrees with the recommendation. OEDE revised its procedures and on September 18, 2008, added them to their Operations Manual to provide that it uses current labor statistics to evaluate Category A grant applications.

2. Audit recommendations the agency agrees with and will comply:

FINDING

4. **Return on Investment Formula**

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 RESPONSE

OEDE agrees with the recommendation to help assure balance in the benefits considered in the Return on Investments Formula. The benefits of capital investments and jobs in the first year they are created are generally clear. However, 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 ROI 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 initiated the review with a meeting on November 12, 2008, with application reviewers from across the department. This group includes the various technical experts who score applications, some of whom have been working with the program since its beginning in 1988; so they provided a logical place to begin our investigation.

At this meeting we learned that the TEDF formulas were designed by an MDOT economist, an MDOT Planning Manager, and a consulting economist. All three of whom are now deceased and we do not have documentation of their efforts. Our technical experts noted that the impact of new jobs is reflected in other factors in the system in

**Michigan Department of Transportation
Office of Economic Development
Summary of Agency Responses to Recommendations
Auditor General's Performance Audit of the Economic Development Fund
October 1, 2004 through April 30, 2007**

addition to the ROI formula, including *Average Wages*, *Wage Ratio*, and *Benefits*. It is likely that the economists that designed the system considered the question raised in Finding #4 and in their professional opinion arrived at the appropriate balance.

We agree that it would be appropriate given the passage of time and lack of documentation of the current system to undertake a new study and possibly re-calibrate the model for inclusion in a new system. However, at this time, given recent budget reductions, we do not believe it would be an efficient or effective use of resources to hire an outside consultant for this undertaking.

We did; however, want to do what we could to test the impact of increasing the weight of new jobs in the ROI formula. Due to the age of the system, the MDIT has placed the application in Break/Fix Only status, so we are unable to make changes to the program itself. We can, however, make changes to inputs and review the output to gage the impact of changes on relative final scores. To that end we have begun testing changes that as closely as possible mimic increasing the weight of new jobs in the ROI formula. We expect to complete our tests in the next 3-6 months.

FINDING

5. Enabling Legislation

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 RESPONSE

OEDE agrees with this recommendation. On October 29, 2008, OEDE referred the recommendation to the MDOT Office of Governmental Affairs for their review, discussion, and consideration for inclusion in future legislative agendas. On November 5, 2008, OEDE received a response indicating that they would honor this request. A recent inquiry with OGA revealed that higher priority issues such as the department budget, the American Recovery and Reinvestment Act, and the road funding crisis have prevented this issue from gaining attention to date.

However, in order to assist in the discussion when it does occur, OEDE has undertaken an analysis into the impact of the requested change on the formulas. This activity is being handled as time allows and is expected to be completed in the next 6 months.

**Michigan Department of Transportation
Office of Economic Development
Summary of Agency Responses to Recommendations
Auditor General's Performance Audit of the Economic Development Fund
October 1, 2004 through April 30, 2007**

6. TEDS Computation Methodologies

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 RESPONSE

OEDE agrees with the recommendation. On December 19, 2007, OEDE documented 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 November 30, 2008.

FINDING

7. TEDS Access and Use

RECOMMENDATION

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

AGENCY RESPONSE

OEDE agrees with the recommendation. Since the prior audit, OEDE 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 it as discussed below. OEDE has instituted the compensating controls of maintaining hard copies of applications in project files and requiring file notes of significant changes to applications in an effort to lessen the risk.

TEDS is an aging system on a platform that MDOT has begun to retire. OEDE looked into the possibility of rewriting or replacing the system since the prior audit, but limited funding was and continues to be an obstacle. Limited information technology resources

**Michigan Department of Transportation
Office of Economic Development
Summary of Agency Responses to Recommendations
Auditor General's Performance Audit of the Economic Development Fund
October 1, 2004 through April 30, 2007**

prohibit OEDE from making all but the most minor changes to this legacy system. OEDE 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 functionality 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.

The EGrAMS solution is partially implemented for the Safe Routes to School programs. Phase I, which includes the mandatory planning process, is operational. Phase 2, which includes the grant application and non-infrastructure project implementation processes, is currently in the beta/staff testing phase. OEDE anticipates that they are within one to two months of project acceptance.

OEDE does have some concerns regarding potential user training costs of the system, but they are awaiting full implementation to complete a formal evaluation and a subsequent alternatives analysis regarding replacing TEDS. At this time, EGrAMS continues to be the leading alternative to provide an affordable and functional substitute for our legacy system.

3. Audit recommendations the agency disagrees with:

None.