

300 N. WASHINGTON SQ.  
LANSING, MI 48913

517.373.9808

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July 26, 2010

Doug Ringler  
Office of Internal Audit Services  
Office of the State Budget  
George W. Romney Building  
111 South Capitol, 6th Floor  
Lansing, Michigan 48913

Dear Director Ringler:

In accordance with the State of Michigan, Financial Management Guide, Part VII, following is a summary table identifying our responses and corrective action plans to address recommendations contained within the Office of the Auditor General's audit report of the Michigan Strategic Fund - Performance Audit of the Michigan Economic Growth Authority Tax Credit Program.

Questions regarding the summary table or corrective action plans should be directed to:

Marna Wilson  
Business Process Review Manager  
(517) 335-5895  
wilsonm11@michigan.org

Sincerely,

Signature Redacted

D. Gregory Main  
President and CEO

cc:

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## Summary Table of 2009 MEGA Performance Audit Findings

Finding	MSF Response	MSF Corrective Action	Date of Compliance
#1	Agree	Tax credit agreements will be amended to reflect MEGA policy used to calculate the average weekly wage	Will comply by 12/31/10
#2	Agree	100% audit of all MEGA tax credits awarded 2006-2009 is underway and any shortfalls are being reported to Treasury; pre-audit required for all MEGA tax credit applications received after 2009	Started in January 2010; will be completed by 9/30/10
#3	Agree	100% audit of all MEGA tax credits awarded for 2006 and 2007, when BAC portion of credit was allowed, are underway	Started in January 2010; will be completed by 9/30/10
#4	Agree	New annual MEGA tax credit application process implemented January 1, 2010 will require use of standardized Excel-based application requiring collection of additional data fields, including detailed payroll data	Complied with in January 2010
#5	Agree to all but part b	Estimated jobs reporting will be supplemented with actual jobs reporting per PA 125 of 2009 starting in 2010	Will comply with all parts of finding by 10/1/10
#6	Agree	Comparative evaluations of maximum jobs anticipated to actual jobs created will be made starting in 2010	Will comply by 10/1/10

## **FINDING**

### **1. Review Procedures for MEGA Tax Credit Certificates**

## **RECOMMENDATION**

We recommend that MSF require companies to meet the minimum average weekly wage requirements contained in the MEGA agreements.

## **AGENCY FINAL RESPONSE**

MSF agrees with the recommendation. MSF will amend existing MEGA agreements and incorporate language in new MEGA agreements to include language that reflects the MSF's policy in regards to the calculation of the average weekly wage.

## **FINDING**

### **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 a tax credit certificate 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 FINAL RESPONSE**

MSF agrees with the recommendations. MSF is pursuing full data collection from the one company cited which submitted insufficient data. MSF also is collecting all necessary or required data elements as outlined in the MEGA Tax Credit Agreements.

In addition, MSF 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 Tax Credit Annual Certificates issued. MSF has engaged a CPA firm to assist in an audit of all MEGA tax credits issued for 2006 through 2009. Furthermore, as part of the audit process, auditors are 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 is now using a checklist or agreed-upon procedures document to delineate the audit methodology and testing performed for each company. In addition,

starting in January 2010, MSF has revised audit procedures to conduct pre-audits of all MEGA Tax Credit Annual Certificate Applications prior to issuing a tax credit certificate, if warranted.

MSF is reporting audited results of any shortfalls owed to Treasury on a quarterly schedule approved by the Michigan Department of Treasury.

**MSF Back-Log Audit Procedure (for all 2006 – 2009 MEGA Tax Credits Issued)**

1. Company notified to produce supporting documentation for filed MEGA Tax Credit Annual Certificate Applications for 2006 through 2009
2. Company supplies supporting data in spreadsheets for Base and Qualified New Jobs/Retained Jobs
3. Audit staff review spreadsheets
4. Audit staff conduct on-site review of selected payroll records and other supporting documentation to validate spreadsheets
5. Audit staff compares results of on-site audit to tax credits issued and notifies Michigan Department of Treasury of any shortfalls requiring payment to Treasury. Reporting of completed audits is on a quarterly basis per arrangement with Treasury.

**MSF Pre-Audit Procedure (for all MEGA Tax Credit Annual Certificate Applications received by MSF after January 1, 2010)**

1. Company submits MEGA Tax Credit Annual Certificate Application which includes standardized Excel-based spreadsheets containing supporting documentation for Base and Qualified New Jobs/Retained Jobs

2. MEGA staff review; after spreadsheets are properly completed, MEGA staff notify audit staff to arrange on-site audit
3. Audit staff conduct on-site review of selected payroll records and other supporting documentation
4. Audit staff make adjustments to spreadsheets if necessary to complete final review, the Chief Compliance Officer reviews, and notifies the MEGA Board Secretary to issue MEGA Tax Credit Annual Certificate, if warranted
5. MEGA Board Secretary issues MEGA Tax Credit Annual Certificate

## **FINDING**

### **3. Postaudit Procedures Related to the Business Activity Credit (BAC)**

#### **RECOMMENDATIONS**

We recommend that MSF audit all portions of the MEGA tax credit certificate when conducting audits.

We also recommend that MSF audit prior BACs and report the information to the Department of Treasury for possible recoupment of past tax credits that were not calculated correctly.

#### **AGENCY FINAL RESPONSE**

MSF agrees with the recommendations. MSF subsequently determined that the total Business Activity Credit audit exceptions for the five companies were \$24,114 and the amount for each company was reported to Treasury.

MSF has engaged a CPA firm to assist in the audit of all MEGA tax credits for 2006 through 2009, including several with BAC credits in 2006 and 2007. Companies may not file for BAC credits after 1/1/08 due to the elimination of the BAC tax credit in the MBT.

Any shortfalls found in the audit process that require payment to Treasury are being reported by the MSF to Michigan Department of Treasury on a quarterly basis.

## **FINDING**

### **4. Additional Data Submission for Requests for MEGA Tax Credit Certificates**

## **RECOMMENDATION**

We recommend that MSF require companies to submit more detailed payroll data at the time of their requests for MEGA tax credit certificates.

## **AGENCY FINAL RESPONSE**

MSF agrees with the recommendation. MSF has implemented a new MEGA Tax Credit Annual Certificate Application process which requires companies to utilize a new Excel-based application. The new process is being utilized for every MEGA Tax Credit Annual Certificate Application submitted after January 1, 2010 regardless of the approval date of the original MEGA tax credit.

The new application requires detailed data for every base and Qualified New/Retained Job a company is submitting for the MEGA tax credit. Examples of the data required to be submitted for each Qualified New/Retained Job includes state of residency, tax withholding status, wages paid, hours worked, and start and end dates if an employee was not employed for the entire period.

The Excel-based spreadsheet includes embedded formulas that will be used to evaluate the data and to ensure companies are meeting the requirements included in their MEGA agreements. This should reduce or eliminate mathematical errors.

In addition to the updated application, the new process will incorporate a "Pre-Audit" function that each company will be required to complete before the MSF issues a MEGA Tax Credit Certificate. This "Pre-Audit" function will require an on-site visit and will include the review of selected payroll records and other supporting



documents which will verify the information the company is providing in their MEGA Tax Credit Annual Certificate Application.

**(MEGA Tax Credit Annual Certificate Applications process for requests received by MSF after January 1, 2010)**

1. Company submits MEGA Tax Credit Annual Certificate Application which includes standardized Excel-based spreadsheets containing supporting documentation for Base and Qualified New Jobs/Retained Jobs
2. MEGA staff review; after spreadsheets are properly completed, MEGA staff notify audit staff to arrange on-site audit
3. Audit staff conduct on-site review of selected payroll records and other supporting documentation
4. Audit staff make adjustments to spreadsheets if necessary to complete final review, the Chief Compliance Officer reviews, and notifies the MEGA Board Secretary to issue a MEGA Tax Credit Annual Certificate, if warranted
5. MEGA Board Secretary issues MEGA Tax Credit Annual Certificate

## **FINDING**

### **5. Annual Report to the Legislature**

#### **RECOMMENDATION**

We recommend that MSF properly report all information required by Section 207.810 of the *Michigan Compiled Laws* in its annual reports to the Legislature.

We also recommend the MSF enhance its annual report to provide the Legislature with additional information to assist the Legislature in its evaluation of the MEGA Tax Credit Program.

#### **AGENCY FINAL RESPONSE**

MSF partially agrees with the recommendation. MSF will review all MEGA reports prior to submitting them to the Legislature to ensure all required data is provided and accurate, including data related to capital investment, projects approved, location of companies, and the amount of the estimated tax credit.

MSF will also comply with Act 125, P.A. 2009, which required that MEGA provides the Legislature with the actual number of jobs created or retained for each authorized business, however, MSF believes the change in legislation creates a new requirement to report on actual jobs that previously was not state in the law.

## **FINDING**

### **6. Evaluation of the MEGA Tax Credit Program Effectiveness**

#### **RECOMMENDATION**

We recommend that MSF 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.

#### **AGENCY FINAL RESPONSE**

MSF agrees with the recommendation. MSF will develop a report which compares the maximum anticipated job creation/retention to the actual job creation/retention for each authorized business which has claimed MEGA Tax Credits.