



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT

PERFORMANCE AUDIT
OF THE

OFFICE OF ECONOMIC DEVELOPMENT

MICHIGAN DEPARTMENT OF TRANSPORTATION

June 2014



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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Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit

Report Number:
591-0135-13

Office of Economic Development

Michigan Department of Transportation

Released:
June 2014

The Office of Economic Development (OED) administers one fund, two federal grant programs, and one federally capitalized loan program for the Michigan Department of Transportation: Transportation Economic Development Fund (TEDF); Transportation Alternatives Program (TAP); Safe Routes to School (SRTS) Program; and State Infrastructure Bank (SIB) Loan Program. Act 231, P.A. 1987, as amended, established TEDF to operate as a subfund of the State Trunkline Fund. TAP, the SRTS Program, and the SIB Loan Program are federally funded programs. OED stated that its mission is transportation solutions for vibrant communities.

Audit Objective:

To assess the effectiveness of OED's processes for awarding grants and loans from TEDF or federal funds for projects that promote economic development.

Audit Conclusion:

We concluded that OED's processes for awarding grants and loans from TEDF and federal funds for projects that promote economic development were effective. However, we noted two reportable conditions (Findings 1 and 2).

Reportable Conditions:

OED did not evaluate Category A grant applications using current labor statistics data (Finding 1).

OED should continue to seek amendatory legislation for Act 231, P.A. 1987, as amended (Finding 2).

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Audit Objective:

To assess the effectiveness of OED's efforts to evaluate the outcomes of TEDF or federally funded programs.

Audit Conclusion:

We concluded that OED's efforts to evaluate the outcomes of TEDF or federally funded programs were not effective. We noted one material condition (Finding 3) and one reportable condition (Finding 4).

Material Condition:

OED had not comprehensively assessed the effectiveness of all programs funded by TEDF and federal grants. Without comprehensive assessments, OED could not determine the extent to which these programs met program goals and objectives (Finding 3).

Reportable Condition:

OED did not verify the reported number of actual jobs created or retained for

Category A grants. Also, OED did not report to the Legislature the economic benefits or the degree to which projects funded achieved statutory objectives for non-Category A programs (Finding 4).

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Audit Objective:

To assess the effectiveness of OED's efforts to monitor, manage, and secure the Transportation Economic Development System (TEDS), which is used to evaluate TEDF grant applications.

Audit Conclusion:

We concluded that OED's efforts to monitor, manage, and secure TEDS, which is used to evaluate TEDF grant applications, were effective. However, we noted one reportable condition (Finding 5).

Reportable Condition:

OED had not documented the rationale used to assign the weighted values to each application scoring criteria within TEDS (Finding 5).

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Agency Response:

Our audit report contains 5 findings and 6 corresponding recommendations. The Michigan Department of Transportation's (MDOT's) preliminary response indicates that it agrees with 5 recommendations and disagrees with 1 recommendation.

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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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June 6, 2014

Mr. Jerrold M. Jung, Chair
State Transportation Commission
and
Kirk T. Steudle, P.E., Director
Michigan Department of Transportation
Murray Van Wagoner Transportation Building
Lansing, Michigan

Dear Mr. Jung and Mr. Steudle:

This is our report on the performance audit of the Office of Economic Development, Michigan Department of Transportation.

This report contains our report summary; a description of agency; our audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; various exhibits, presented as supplemental information; and a glossary of abbreviations and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's response at the end of our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a plan to comply with the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We appreciate the courtesy and cooperation extended to us during the audit.

Sincerely,

A handwritten signature in black ink that reads "Thomas H. McTavish".

Thomas H. McTavish, C.P.A.
Auditor General

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Description of Agency

The Office of Economic Development (OED) is responsible for administering one fund, two federal grant programs, and one federally capitalized loan program within the Michigan Department of Transportation (MDOT): Transportation Economic Development Fund (TEDF); Transportation Alternatives Program (TAP); Safe Routes to School (SRTS) Program; and State Infrastructure Bank (SIB) Loan Program. OED stated that its mission* is transportation solutions for vibrant communities. OED administers the following:

- TEDF

The purpose of TEDF is to serve as a catalyst for economic growth and enhance the State's ability to compete in the global market place, while improving the quality of life for the residents of the State of Michigan. TEDF was created under Act 231, P.A. 1987, as amended, as a subfund of the State Trunkline Fund. The statute specifies those agencies eligible to receive funding and the criteria and requirements for eligible projects. TEDF is administered by OED to provide necessary infrastructure improvements across the State and provides funding for the following five categories:

1. Category A provides funding for road projects related to target industry economic development opportunities. The purpose of Category A is to allow road agencies to respond more quickly to the transportation needs of expanding companies. Funds are awarded based on a competitive application process. See Exhibit 2 for the Category A scoring criteria.
2. Category C provides funding for road improvements to reduce traffic congestion on county primary and city major streets including advanced traffic management systems within urban counties with a population in excess of 400,000. Funds are allocated based on a formula specified in Section 247.911(3)(b) of the *Michigan Compiled Laws*. Individual projects are selected by urban task forces in each of the eligible counties.
3. Category D provides funding for road improvements to upgrade rural primary roads in rural counties with a population of less than 400,000 and major

* See glossary at end of report for definition.

streets in cities and villages with a population of 5,000 or less to create an all-season road network. Funds are allocated based on a formula specified in Section 247.911(3)(c) of the *Michigan Compiled Laws*. Individual projects are selected by rural task forces made up of a group of eligible counties.

4. Category E provides funding for construction or reconstruction of roads essential to the development of commercial forests in Michigan to qualified counties which have a national lakeshore or a national park or have 34% or more of land within the county that is commercial forest land. Funding is allocated based on a formula specified in Section 247.911(2)(a) of the *Michigan Compiled Laws*. Individual projects are selected by the county road agency in each of the eligible counties.
5. Category F provides funding for improvements to roads and streets that are eligible for federal aid in cities and villages having a population of 5,000 or greater within rural counties with populations of 400,000 or less. Funds are awarded based on a competitive application process. See Exhibit 2 for Category F scoring criteria.

- TAP

TAP is a federal program which replaced the federal Transportation Enhancement Program under legislation passed in July 2012 that became effective October 1, 2012. The federal Transportation Enhancement Program provided funding to Michigan of \$20 to \$25 million annually and could be utilized for nonmotorized transportation, pedestrian and bicycle facilities, transportation aesthetics, historic preservation projects, and water quality and wildlife projects. TAP provided \$23 million of funds during fiscal year 2012-13. OED administered \$16.5 million through a competitive grant process and metropolitan planning organizations administered \$6.5 million through a competitive grant process for urban areas with populations greater than 200,000. Funding recipients are required to match 20% of the project cost. The U.S. Congress has designated specific uses for federal transportation funds.

- SRTS Program

TAP also provides funding to the SRTS Program, which began as a school-based international movement to make bicycling and walking to school safe, convenient,

and fun for all children. The SRTS Program's goal is to create a safe environment for children to get the regular physical activity needed to encourage a healthy and active lifestyle. Also, the SRTS Program's initiatives help to ease traffic jams, reduce air pollution, unite neighborhoods, and contribute to students' readiness to learn in school. OED administers the SRTS Program with training, logistical, administrative, and technical support from the Michigan Fitness Foundation. The SRTS Program funds are available for infrastructure projects, such as sidewalks or pedestrian crosswalks, and noninfrastructure projects, such as activities to encourage walking or bicycling to school or traffic education.

- SIB Loan Program

The SIB Loan Program is a federal loan program created under the federal National Highway System Designation Act of 1995 to provide loans to public and private entities for eligible transportation improvements. The SIB Loan Program complements traditional funding techniques and serves as a useful tool to meet urgent project financing demands, thus stretching federal, State, and local dollars. Eligible borrowers include cities, villages, county road commissions, State agencies, regional planning commissions, transit agencies, airports, port authorities, and economic development corporations. Also, private companies, such as railroads and nonprofit organizations developing publicly owned facilities, are eligible for SIB Loan Program financing. There is no minimum loan amount and, generally, SIB Loan Program financing will not exceed \$2.0 million per project. The level of SIB Loan Program participation in proposed projects is determined on a case-by-case basis. The interest rate for SIB Loan Program loans was 3% as of June 30, 2013.

OED was appropriated \$41.6 million from TEDF for the fiscal year ended September 30, 2013. For the period October 1, 2010 through June 30, 2013, \$186.3 million was distributed from TEDF (see Exhibit 1). As of August 31, 2013, OED had 9 full-time equated employees.

Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

Audit Objectives

Our performance audit* of the Office of Economic Development (OED), Michigan Department of Transportation (MDOT), had the following objectives:

1. To assess the effectiveness* of OED's processes for awarding grants and loans from the Transportation Economic Development Fund (TEDF) or federal funds for projects that promote economic development.
2. To assess the effectiveness of OED's efforts to evaluate the outcomes* of TEDF or federally funded programs.
3. To assess the effectiveness of OED's efforts to monitor, manage, and secure the Transportation Economic Development System (TEDS), which is used to evaluate TEDF grant applications.

Audit Scope

Our audit scope was to examine the program and other records of the Office of Economic Development. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered the period October 1, 2010 through August 31, 2013.

Our audit report includes supplemental information presented as Exhibits 1 through 5. Our audit was not directed toward expressing an opinion on this information and, accordingly, we express no opinion on it.

* See glossary at end of report for definition.

Audit Methodology

To establish our audit objectives and obtain an understanding of OED's operations, we conducted a preliminary survey that consisted of interviewing management and program staff and reviewing applicable laws, regulations, policies, and procedures. In addition, we reviewed program grant files and analyzed applicable data for award criteria.

To accomplish our first objective, we interviewed OED staff and reviewed OED policies as they related to reviewing grant applications and awarding funding for projects. We obtained and reviewed the listings of grants awarded during our audit period (see Exhibit 1) and assessed whether the highest scored projects were selected for funding and whether funded projects met program eligibility requirements. We tested Category A, Category F, Transportation Alternatives Program (TAP), and Safe Routes to School (SRTS) Program projects to determine whether the projects were in compliance with federal or State statutes and OED operating manual procedures. We analyzed the impact that using 1993 roadway as miles mandated by law instead of known 2008 roadway mileage totals had on the distribution of Category C funding. We compared labor statistics used by OED as part of the grant application review process with more recent labor statistics. Also, we compared 1980 forest data used to distribute Category E funding to county road commissions with available 2012 data.

To accomplish our second objective, we reviewed Section 247.913 of the *Michigan Compiled Laws* to obtain an understanding of economic impact reporting requirements. We identified the funds distributed by funding source for the audit period (see Exhibit 1). We reviewed annual reports to identify the number of jobs that OED reported as created or retained as a result of Category A projects. Also, we interviewed OED staff to obtain an understanding of how OED measured the economic impact of funded projects. In addition, we reviewed OED's listing of post-project surveys that it forwarded to entities.

To accomplish our third objective, we interviewed OED staff to determine the internal control* in place to monitor, manage, and secure TEDS. We reconciled Category A projects recorded in TEDS with OED's annual reports and reviewed TEDS's user manual to identify user controls. We reviewed the projects awarded Category A grants and assessed whether the highest scored projects were selected. Also, we reviewed user access to determine whether OED provided individuals with the appropriate level of access.

* See glossary at end of report for definition.

When selecting activities or programs for audit, we use an approach based on assessment of risk and opportunity for improvement. Accordingly, we focus our audit efforts on activities or programs having the greatest probability for needing improvement as identified through a preliminary survey. Our limited audit resources are used, by design, to identify where and how improvement can be made. Consequently, we prepare our performance audit reports on an exception basis.

Agency Responses and Prior Audit Follow-Up

Our audit report contains 5 findings and 6 corresponding recommendations. MDOT's preliminary response indicates that it agrees with 5 recommendations and disagrees with 1 recommendation.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion at the end of our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require MDOT to develop a plan to comply with the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We released our prior performance audit of the Economic Development Fund, Michigan Department of Transportation (591-0135-06), in March 2008. OED complied with 4 of the 7 prior audit recommendations. We repeated 2 prior audit recommendations in Findings 1 and 5 of this audit report and rewrote 1 prior audit recommendation for inclusion in Finding 2 of this audit report.

COMMENTS, FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES

EFFECTIVENESS OF PROCESSES FOR AWARDING GRANTS AND LOANS FOR PROJECTS THAT PROMOTE ECONOMIC DEVELOPMENT

COMMENT

Audit Objective: To assess the effectiveness of the Office of Economic Development's (OED's) processes for awarding grants and loans from the Transportation Economic Development Fund (TEDF) or federal funds for projects that promote economic development.

Audit Conclusion: We concluded that OED's processes for awarding grants and loans from TEDF and federal funds for projects that promote economic development were effective.

Our audit conclusion was based on our audit efforts as described in the audit scope and audit methodology sections and the resulting reportable conditions* noted in the comments, findings, recommendations, and agency preliminary responses section.

We noted two reportable conditions related to the five TEDF funding categories and the three federally funded programs reviewed. In our professional judgment, the reportable conditions are less severe than a material condition* but represent opportunities for improvement in OED operations. The reportable conditions related to labor statistics and enabling legislation (Findings 1 and 2).

For the Category A grant application selection process, we reviewed the supporting documentation that OED provided within its analysis of 13 (21.3%) of the 61 Category A applications processed between October 1, 2010 and May 8, 2013, analyzed labor statistics from 2006 to 2010, and reviewed return on investment formulas utilized to award \$34.2 million during our audit period.

We reviewed qualitative factors, such as the significance of the identified weaknesses, the risk of fraud, and the services provided to grantees during the grant application review process. OED used labor statistics in the Category A scoring process but not

* See glossary at end of report for definition.

those most currently available. Also, the Michigan Department of Transportation's (MDOT's) compliance with statutory language negatively impacted the equity of MDOT's distribution of Category C and Category E funds. In addition, we did not identify anything that would have a significant impact on our conclusion within our review of the risk of fraud and the services provided.

In reaching our conclusion, we considered the reportable conditions and the absence of other significant qualitative factors. We believe that the results of our audit efforts provide a reasonable basis for our audit conclusion for this audit objective.

FINDING

1. Labor Statistics

OED did not evaluate Category A grant applications using current labor statistics data. OED's use of outdated labor statistics data to evaluate applications may have adversely impacted OED's scoring calculations.

Section 247.908(2) of the *Michigan Compiled Laws* states that OED shall use criteria approved by the State Transportation Commission to review each application and make recommendations for projects to fund. The State Transportation Commission criteria requires OED to score and evaluate applications using 16 core criteria for Category A grant applications. OED uses labor statistics to calculate 5 of the 16 core criteria, including wage ratio, benefits, return on investment, labor market, and labor market ratio.

OED used U.S. Census Bureau labor statistics and Department of Technology, Management, and Budget (DTMB) labor market information from 2006 and 2008, respectively, to calculate the 3 labor statistic scores for grant applications evaluated from October 1, 2010 through May 8, 2013. However, more current labor statistics were available through the U.S. Census Bureau's annual labor statistic estimates for county populations and DTMB's monthly and annual labor statistic estimates for county labor markets.

We compared the labor statistics data used by OED in its scoring process with the most current DTMB monthly and annual labor statistics for Michigan's 83 counties and noted:

- a. From 2006 to 2010, unemployment rates for 74 (89.2%) counties increased by over 4.0 points, of which 13 (17.6%) of the 74 counties' unemployment rates increased greater than 7.0 points. Also, 46 (62.2%) of the 74 counties' unemployment rates increased between 5.0 and 6.9 points.
- b. From 2008 to 2010, unemployment rates for 47 (56.6%) counties increased by over 4.0 points, of which 2 (4.3%) of the 47 counties' unemployment rates increased greater than 7.0 points. Also, 15 (31.9%) of the 47 counties' unemployment rates increased between 5.0 and 6.9 points (see Exhibit 3).

OED stated that it was unlikely that its use of aged labor statistics would have caused the outcome of the Category A funding recommendations to change because most counties experienced increased unemployment during the periods reviewed. However, OED could not provide documentation supporting its position that the older labor statistics did not impact scoring criteria.

We noted a similar situation in our prior audit report. OED indicated that it agreed with the recommendation and that it would revise procedures to require the use of current labor statistics to evaluate Category A grant applications. OED did revise its procedures to address the previous issue. However, OED did not ensure that the proper labor statistics were input into the Transportation Economic Development System (TEDS). This resulted in OED using aged labor statistics within its evaluation of Category A grant applications.

RECOMMENDATION

We again recommend that the OED evaluate Category A grant applications using current labor statistics data.

AGENCY PRELIMINARY RESPONSE

MDOT agrees with the recommendation and informed us that, in January 2014, MDOT adopted procedures to ensure the use of current labor statistics data. Also,

MDOT stated that the grant system implemented in April 2014 has further lessened the possibility of using incorrect data. In addition, MDOT noted that its oversight had no impact on any funding decisions or outcomes.

FINDING

2. Enabling Legislation

OED should continue to seek amendatory legislation for Act 231, P.A. 1987, as amended. Amendatory legislation would help ensure that the most recent and accurate data is utilized to fund, select, and report on TEDF projects.

Our evaluation of the provisions of the Act disclosed:

- a. Section 247.912(1)(b) of the *Michigan Compiled Laws* requires urban task forces to use traffic count information gathered prior to April 1, 1993 when designating eligibility for roadway widening projects paid for with Category C funds. As a result, approval for projects funded with Category C funding was based on traffic count information that was greater than 15 years old. Also, road miles added after 1993 would be eligible for project funding within the counties receiving funds. Updated traffic counts were available to OED on a yearly basis with the latest counts occurring in 2012. OED completed an analysis of the change in road miles based on 2008 data (see Exhibit 4). OED funded \$26.0 million and \$13.8 million for fiscal years 2010-11 and 2011-12, respectively, in Category C projects.
- b. Section 247.901(c) of the *Michigan Compiled Laws* requires MDOT to use the forest inventory completed in May 1981 to proportionally allocate the \$5.0 million of Category E funding to counties that have at least 34% commercial forest land for roads essential to the development of commercial forests. As a result, Category E allocations to counties were based on forest inventory reports that were over 30 years old.

We recalculated that, if MDOT had used 2012 data instead of 1980 data for the 2012 distribution, 33 counties would have received less funding, including 1 county that would have lost all funding. Also, 14 counties that received funding would have received additional funds, and 7 counties that previously were not allocated funds would have received funding (see Exhibit 5).

- c. Section 247.912(1) of the *Michigan Compiled Laws* states that the urban task force shall select and designate for eligibility projects for funding under Section 11(3)(c) within their respective allocations. However, Section 11(3)(c) identifies the percentage of funding for development projects within rural counties. The reference should be to Section 911(3)(b).

In addition, Sections 247.912a(1), 247.912a(2), and 247.912a(4) of the *Michigan Compiled Laws* relate to the regional rural task force and its recommendations to the State Transportation Commission and the administrator for funding projects, the basis for funding, and the administration of the projects under Section 11(3)(d). However, there is no such section. The reference should be to Section 911(3)(c).

We noted a similar situation for Category C and Category E funding identified in parts a. and b. in our prior two audit reports. OED indicated that it agreed with the recommendations and would refer the issue to MDOT's Office of Governmental Affairs for review, discussion, and consideration for inclusion in future legislative agendas. OED did refer these items to MDOT's Office of Governmental Affairs in October 2008 and in June 2011. MDOT's Office of Governmental Affairs submitted the requested changes to the Legislature for its consideration. However, the Legislature made no change to the legislation.

RECOMMENDATION

We recommend that OED continue to seek amendatory legislation for Act 231, P.A. 1987, as amended, to provide for updated criteria upon which funding decisions are made and to correct references within the Act.

AGENCY PRELIMINARY RESPONSE

MDOT agrees with the recommendation and informed us that OED will refer issues relative to amendatory legislation to MDOT's Office of Governmental Affairs for review, discussion, and consideration for inclusion in future legislative agendas.

EFFECTIVENESS OF EFFORTS TO EVALUATE PROGRAM OUTCOMES

COMMENT

Audit Objective: To assess the effectiveness of OED's efforts to evaluate the outcomes of TEDF or federally funded programs.

Audit Conclusion: **We concluded that OED's efforts to evaluate the outcomes of TEDF or federally funded programs were not effective.**

Our audit conclusion was based on our audit efforts as described in the audit scope and audit methodology sections and the resulting material condition and reportable condition noted in the comments, findings, recommendations, and agency preliminary responses section.

We noted one material condition and one reportable condition related to program outcomes. In our professional judgment, the material condition is more severe than a reportable condition and could impair management's ability to operate effectively and/or efficiently. The material condition related to program outcome assessments (Finding 3). Also, in our professional judgment, the reportable condition is less severe than a material condition but represents an opportunity for improvement. The reportable condition related to reporting requirements (Finding 4).

We applied our audit procedures to the \$186.3 million distributed from TEDF and to the \$86.9 million awarded in federal grants and loans during the audit period. In addition, we evaluated qualitative factors, such as the lack of known instances of fraud and the enhancement nature of the programs.

In reaching our conclusion, we considered the material condition and the reportable condition that related to OED's lack of assessment of economic impact created by completed projects. We believe that the results of our audit efforts provide a reasonable basis for our audit conclusion for this audit objective.

FINDING

3. Program Outcome Assessments

OED had not comprehensively assessed the effectiveness of all programs funded by TEDF and federal grants. Without comprehensive assessments, OED could not determine the extent to which these programs met program goals* and objectives*.

Program effectiveness can often be evaluated and improved by having an effective continuous quality improvement* process. Such a process includes performance measures* for measuring outputs* and outcomes and includes performance standards* or goals that describe the desired level of outputs or outcomes based on management expectations.

While OED stated that it conducted post-project assessments, OED had not conducted comprehensive assessments to measure the effectiveness of the Category C, Category D, Category E, or Category F State-funded programs. Although OED believed that the intent of Section 247.913 of the *Michigan Compiled Laws* was to provide legislators with the number of jobs created and retained and other economic benefits, OED also believed that this intent applied only to projects funded by Category A. However, Section 247.913 of the *Michigan Compiled Laws* does not specify a specific category of funding but rather requires that the economic impacts of projects funded by TEDF be reported annually to State legislators. As a result, OED could not quantify the potential economic impact that non-Category A projects had on the State.

In addition, OED had not developed performance outcomes to measure the effectiveness of the three federally funded programs. OED informed us that it has contracted with Michigan State University and Western Michigan University to assist with analysis of both pre- and post-project surveys and to assist schools with the engineering aspects of their walking audits and action plans for the Safe Routes to Schools (SRTS) program. OED also informed us that the Transportation Alternatives Program (TAP) performance measures were being developed as part of the federal legislation and were not yet fully developed. Because the SRTS and TAP assessment models were not complete and because OED had not implemented alternatives to obtain performance results and feedback from the surrounding community, OED cannot determine whether these projects met the intended objectives of the programs.

* See glossary at end of report for definition.

RECOMMENDATION

We recommend that OED comprehensively assess the effectiveness of all programs funded by TEDF and federal grants.

AGENCY PRELIMINARY RESPONSE

MDOT agrees with the recommendation regarding TEDF grants and federal grants and will continue to improve how it assesses the effectiveness of all federal and TEDF-funded grant programs. MDOT also agrees that it can improve its efforts to assess the effectiveness of federal grants and TEDF grants but disagrees with the implication that it did not do post-project assessments.

MDOT informed the Office of the Auditor General that, with respect to its grant programs, MDOT incorporates its expected performance measures and standards of effectiveness into the development and evaluation of projects for each of the grant programs. MDOT stated that it evaluates projects against those expected standards at the concept stage. MDOT informed us that by front-loading the evaluation process and by creating a dialog between MDOT and the community throughout the application development phase, MDOT is able to improve community concepts to meet expected standards and the community's goals for the project. MDOT also informed us that it grants funds to only the projects that best meet MDOT's expected standards.

MDOT stated that it conducts post-project assessments to document project completion and outcomes, to complete financial closeout and determine readiness for audit, and to provide feedback to improve program effectiveness and efficiency and that MDOT will consider whether and how those post-project assessments might be improved.

FINDING

4. Reporting Requirements

OED did not verify the reported number of actual jobs created or retained for Category A grants. Also, OED did not report to the Legislature the economic benefits or the degree to which the projects funded achieved statutory objectives for non-Category A programs. Obtaining and reporting the statutorily required information for all projects funded with TEDF would allow OED and the Legislature to better evaluate TEDF program results.

Section 247.913 of the *Michigan Compiled Laws* requires that, by December 31 of each year, the State Transportation Commission shall report TEDF projects funded during the previous fiscal year, the status of projects funded in the immediately preceding fiscal year, the number of jobs created and retained, and any other economic benefits resulting from projects funded in the previous fiscal year.

Our review of OED's process to obtain and report the job and economic benefit information in fiscal years 2010-11 and 2011-12 disclosed:

- a. OED did not verify the counts provided by entities that potentially could have benefited from TEDF Category A grants. As a result, OED presented a count of 2,867 jobs created or retained by these entities to the Legislature within the 2012 annual TEDF report without disclosing that the job numbers were taken from the applications for Category A grants and without verifying the job counts upon conclusion of the projects.
- b. OED did not report any of the data required by Sections 247.913(c) and 247.913(d) of the *Michigan Compiled Laws* for the TEDF projects funded with non-Category A funds. OED believed that the intent of Section 247.913 of the *Michigan Compiled Laws* was to provide legislators with the number of jobs created and retained and other economic benefits of only projects funded by Category A. However, the law requires that the economic impacts of projects funded by TEDF and the degree to which the projects funded achieved the objectives of Act 231, P.A. 1987, be reported annually to State legislators and does not specifically exclude any funding categories from the reporting requirements.

RECOMMENDATIONS

We recommend that OED verify the reported number of actual jobs created or retained for Category A grants.

We also recommend that OED report to the Legislature the economic benefits and the degree to which the projects funded achieved statutory objectives for non-Category A programs.

AGENCY PRELIMINARY RESPONSE

In regard to the first recommendation, MDOT agrees with the concept of ensuring the use of the most accurate information for the purposes of application scoring and program reporting. However, MDOT believes that the current process to verify job numbers and other application data is the most effective and efficient way to accomplish that goal and knows of no cost-effective way to improve the process.

MDOT disagrees with the second recommendation. As noted in Finding 2 of this audit report, the law has several flaws in its construction and MDOT believes that it was not the intent of the Legislature to require the reporting of job creation or economic benefits for non-Category A programs.

MDOT allocates Categories C, D, and E by formula (i.e., are not granted by OED) to local road agencies to encourage investments that reduce congestion, increase all-season connectivity, and support the forest industry. Such projects improve the transportation system's ability as a whole to enhance economic activity. However, MDOT believes that identifying the specific increases in jobs and other economic benefits of individual projects, as suggested by the finding, is not fiscally possible. Specifically, MDOT believes that, to meet the intent of the recommendation for projects reported in MDOT's fiscal year 2012-13 annual report on the activities and progress of the Michigan Transportation Economic Development Fund, MDOT would need to hire an unknown number of employees, such as economists and analysts, to assess the degree to which the projects funded achieved statutory objectives for 9 Category C projects, 127 Category D projects, 178 Category E projects, and 9 Category F projects.

Consistent with the response to Finding 2, MDOT informed us that OED plans to seek assistance from MDOT's Office of Governmental Affairs in regard to changes to the wording of the current law.

EFFECTIVENESS OF EFFORTS TO MONITOR, MANAGE, AND SECURE THE TRANSPORTATION ECONOMIC DEVELOPMENT SYSTEM

COMMENT

Background: The Transportation Economic Development System (TEDS) is a database system used by OED to evaluate and process Category A grant applications. Category A grants are for road projects related to target industry development or redevelopment opportunities. OED uses competitive scoring techniques in 16 different criteria to evaluate grant applications. OED determines a raw score for each of the 16 criteria and inputs these raw scores into TEDS. TEDS then normalizes the raw scores and weighs the normalized scores in order to calculate a final score. Grant applications with the highest aggregate scores are recommended for funding.

The director of the Michigan Department of Transportation and the president of the Michigan Strategic Fund approved 33 Category A grants totaling \$34.2 million for the period October 1, 2010 through June 30, 2013 (see Exhibit 1).

Audit Objective: To assess the effectiveness of OED's efforts to monitor, manage, and secure TEDS, which is used to evaluate TEDF grant applications.

Audit Conclusion: **We concluded that OED's efforts to monitor, manage, and secure TEDS, which is used to evaluate TEDF grant applications, were effective.**

Our audit conclusion was based on our audit efforts as described in the audit scope and audit methodology sections and the resulting reportable condition noted in the comments, findings, recommendations, and agency preliminary responses section.

We noted one reportable condition related to OED's application scoring within TEDS. In our professional judgment, this matter is less severe than a material condition but represents an opportunity for improvement. This reportable condition was a documentation issue related to OED's application scoring rationale within TEDS (Finding 5).

We evaluated qualitative factors, such as access to TEDS, the age of TEDS, and TEDS's ability to track changes made.

In reaching our conclusion, we considered the reportable condition, the project selection process, and the process ensuring that access to TEDS was limited. We believe that the results of our audit efforts provide a reasonable basis for our audit conclusion for this audit objective.

FINDING

5. Application Scoring Rationale Within TEDS

OED had not documented the rationale used to assign the weighted values to each application scoring criteria within TEDS. As a result, OED did not have full understanding of the weightings utilized in the TEDS scoring model and could not effectively relate the weightings of the criteria to the program outcomes.

TEDS is OED's primary tool for quantifying the scoring for Category A grant applications used to support its funding recommendations. TEDS calculates grant application scores based on input from a grant application review team and direct input from the applicant. The scoring criteria included 5 core relative transportation need factors and 11 other core factors (see Exhibit 2). OED input the scores into TEDS, which applied a weighting value to each criterion and assigned the grant applications an overall score. Because of OED's lack of available system documentation, OED could not provide specific support for the basis of weighted values assigned to each criterion.

OED staff stated that the scoring model within TEDS was approximately 25 years old and that the designers of the scoring model were unavailable. Therefore, according to OED, it could not easily re-create the rationale or methodology used to allocate weighted values to each scoring criterion. OED reported that it intends to roll the same scoring model into an updated version of TEDS that is scheduled to be operational in 2014.

We noted a similar situation in our prior audit report. OED indicated that it agreed with the recommendation and that, by August 31, 2008, it would document the relationship of the criteria used in scoring applications to the underlying legislation for TEDF. OED did complete this documentation. OED also indicated that it would initiate a thorough review of the individual criteria and established weightings by October 1, 2008. OED stated that an economist at a local university reviewed the scoring criteria with weightings; however, the result of this review was not documented and OED is still unable to document the weighted scoring rationale.

RECOMMENDATION

We again recommend that OED document the rationale used to assign the weighted values to each application scoring criteria within TEDS.

AGENCY PRELIMINARY RESPONSE

MOOT agrees that documenting the rationale used to assign the weighted values to each application scoring criteria within TEDS would be useful. Unfortunately, the 25-year-old paper files and the economists who developed the scoring model are unavailable.

MDOT stated that it would like to commission a full review of the model if the funding to do so was made available. In the meantime, as a tool for comparing the relative benefits of individual Category A applications, MDOT stated that it continues to validate the overall rationale and output of the scoring model by continuous scrutiny by an experienced team of users of the model and the continued presence of positive outcomes. MDOT informed us that, while the cost of a full review of the model has prevented MDOT from a complete review of the model, MDOT did request an informal review of the model from a university economist who MDOT stated identified no obvious failings with the model for MDOT's purposes. MDOT believes that the model is very robust and that it continues to promote the projects with the greatest economic benefit to the State in conformance with the law. MDOT stated that it will document the rationale as it understands it from experience.

SUPPLEMENTAL INFORMATION

OFFICE OF ECONOMIC DEVELOPMENT
Michigan Department of Transportation
Office of Economic Development Projects and Loans
October 1, 2010 Through June 30, 2013

	Fiscal Year					
	2010-11		2011-12		2012-13 (Through June 30, 2013)	
	Number of Projects/Loans	Total Value	Number of Projects/Loans	Total Value	Number of Projects/Loans	Total Value
TEDF - Category A (1)	15	\$15,277,904	10	\$12,615,354	8	\$6,270,521
TEDF - Category C (2)	9	25,963,508	7	13,813,627	N/A	N/A
TEDF - Category D (2)	148	46,109,494	158	44,633,577	N/A	N/A
TEDF - Category E (3)	229	6,988,109	180	5,968,947	N/A	N/A
TEDF - Category F (1)	10	2,893,116	8	2,970,000	9	2,756,650
TEP (4)	42	15,492,562	36	17,471,450	23	33,492,918
TAP (4)	0	0	0	0	23	7,653,914
SRTS Program (4)	11	2,297,219	17	5,186,773	7	3,997,825
SIB Loan Program (5)	2	829,405	2	450,000	0	0
Total all projects/loans	466	\$115,851,317	418	\$103,109,728	70	\$54,171,828

- (1) Category A and Category F are projects approved for funding in that fiscal year.
- (2) Category C and Category D are projects presented in planning documents for construction for that fiscal year.
- (3) Category E is projects that were completed by county road commissions during the fiscal year.
- (4) TEP, TAP, and SRTS Program are projects approved for funding in that fiscal year.
- (5) SIB Loan Program is the number of loans approved by fiscal year.

N/A - Data was not available as of June 30, 2013.

TEDF - Transportation Economic Development Fund.

TEP - Transportation Enhancement Program.

TAP - Transportation Alternatives Program.

SRTS - Safe Routes to School.

SIB - State Infrastructure Bank.

Source: The Office of the Auditor General compiled this exhibit based on information received from the Office of Economic Development.

UNAUDITED
Exhibit 1

Total	
<u>Number of Projects/Loans</u>	<u>Total Value</u>
33	\$34,163,779
16	39,777,135
306	90,743,071
409	12,957,056
27	8,619,766
101	66,456,930
23	7,653,914
35	11,481,817
4	1,279,405
<u>954</u>	<u>\$273,132,873</u>

OFFICE OF ECONOMIC DEVELOPMENT
Michigan Department of Transportation
Category A and Category F Scoring Criteria
As of August 31, 2013

Category A Scoring Criteria

Relative Transportation Need Factors:

1. Condition - Road surface and base condition rated excellent to very poor.
2. Capacity - Road congestion rated on level of service roadway as not an issue to significant relief of congestion.
3. Safety - Road project rated on increase in accidents to reducing accidents by 50%.
4. Development user impact - Road project rated on no cost savings for the users to significant reduction in costs for the users.
5. Criticality - Road project rated on impact of business decisions from adequate to critical.

Other Core Factors:

6. Eligible jobs (new and retained jobs) - The total of the jobs lost to Michigan, transfers into Michigan, and newly created jobs.
7. Labor market ratio (Relative increase in labor market) - New and retained jobs relative to the eligible people for jobs in the county.
8. Benefits - The total salaries of jobs lost to Michigan, transfers into Michigan, new jobs, and indirect jobs for tourism related projects.
9. Local tax (local tax revenue) - Net change in local tax revenues.
10. Growth potential - The total of all the growth scores.
11. Average wages - The total average annual salaries of new and retained jobs.
12. Wage ratio - The total hourly wage reported on the application relative to the county hourly wage.
13. Labor market ratio - The total number of new and retained jobs per application attachment A1 relative to the number of employed people in the county.
14. Grant money per job - The total Category A project amount requested relative to the new and retained jobs.
15. Development money per grant - The total project development investment amount relative to the total Category A project amount requested.
16. Return on investment - The total of benefits, local tax, and development investment amounts relative to the Category A amount requested.

Category F Scoring Criteria

1. Existing road conditions - Roadway scored based on the inverse of the pavement management system rating scale from excellent to poor.
2. Safety factors - Road project scored based on the potential to reduce accidents.
3. Commercial traffic - Road project scored based on the percent of commercial vehicle traffic.
4. System continuity - Road project scored based on the connectivity to an all-season road.
5. Direct scoring modifiers - If applicable, an application score can be modified by geographic, prior project, inter-modal, and/or all-season system expansion modifiers.

Source: Transportation Economic Development Fund Operation Manual and Office of Economic Development.

OFFICE OF ECONOMIC DEVELOPMENT
Michigan Department of Transportation
Unemployment Rate Change From 2008 to 2010

County	Unemployment Rate		Percent Point Increase	Percent Increase
	2008	2010		
Baraga	13.6	23.4	9.8	72%
Ontonagon	9.2	17.2	8.0	87%
Oscoda	12.7	19.5	6.8	54%
Alcona	11.5	18.1	6.6	57%
Montmorency	13.9	19.8	5.9	42%
Antrim	9.4	15.3	5.9	63%
Lapeer	10.1	15.9	5.8	57%
Arenac	10.4	16.1	5.7	55%
Benzie	9.0	14.7	5.7	63%
Iosco	10.8	16.4	5.6	52%
Oakland	7.0	12.4	5.4	77%
Macomb	8.7	14.0	5.3	61%
Gladwin	10.8	16.1	5.3	49%
St. Clair	10.4	15.6	5.2	50%
Osceola	9.4	14.5	5.1	54%
Otsego	10.0	15.0	5.0	50%
Muskegon	8.5	13.5	5.0	59%
Wayne	9.9	14.8	4.9	49%
Kalkaska	8.7	13.6	4.9	56%
Charlevoix	9.7	14.5	4.8	49%
Van Buren	8.1	12.9	4.8	59%
Livingston	6.7	11.5	4.8	72%
Emmet	9.8	14.6	4.8	49%
Missaukee	10.4	15.1	4.7	45%
Oceana	10.4	15.1	4.7	45%
Lake	11.3	16.0	4.7	42%
Luce	9.2	13.8	4.6	50%
Wexford	11.0	15.6	4.6	42%
Berrien	7.9	12.5	4.6	58%
Allegan	7.4	11.9	4.5	61%
Ottawa	6.9	11.3	4.4	64%
Grand Traverse	7.4	11.8	4.4	59%
Jackson	8.4	12.8	4.4	52%
Gogebic	8.5	12.9	4.4	52%
Sanilac	11.0	15.3	4.3	39%
Tuscola	10.1	14.4	4.3	43%
Lenawee	9.8	14.1	4.3	44%
Alpena	8.9	13.2	4.3	48%
Presque Isle	13.6	17.8	4.2	31%
Clare	11.6	15.8	4.2	36%
Bay	7.6	11.8	4.2	55%
Hillsdale	10.3	14.5	4.2	41%

OFFICE OF ECONOMIC DEVELOPMENT
Michigan Department of Transportation
Unemployment Rate Change From 2008 to 2010
(Continued)

County	Unemployment Rate		Percent Point Increase	Percent Increase
	2008	2010		
Huron	8.9	13.1	4.2	47%
Ogemaw	9.2	13.3	4.1	45%
Menominee	6.3	10.4	4.1	65%
Alger	9.4	13.5	4.1	44%
Leelanau	6.1	10.2	4.1	67%
Dickinson	6.9	10.9	4.0	58%
Mason	8.4	12.4	4.0	48%
Manistee	8.8	12.8	4.0	45%
Ionia	8.4	12.4	4.0	48%
Montcalm	11.4	15.4	4.0	35%
Monroe	8.6	12.5	3.9	45%
Roscommon	11.0	14.9	3.9	35%
Cass	6.8	10.7	3.9	57%
Kalamazoo	6.2	10.1	3.9	63%
Branch	8.5	12.3	3.8	45%
St. Joseph	8.7	12.4	3.7	43%
Genesee	10.2	13.9	3.7	36%
Mecosta	8.6	12.3	3.7	43%
Newaygo	9.0	12.7	3.7	41%
Crawford	9.3	13.0	3.7	40%
Delta	8.4	12.1	3.7	44%
Ingham	7.0	10.7	3.7	53%
Kent	6.7	10.3	3.6	54%
Calhoun	7.5	11.1	3.6	48%
Saginaw	8.4	11.9	3.5	42%
Keweenaw	10.8	14.3	3.5	32%
Chippewa	9.6	13.0	3.4	35%
Shiawassee	9.8	13.2	3.4	35%
Iron	8.3	11.7	3.4	41%
Gratiot	9.3	12.7	3.4	37%
Barry	6.5	9.8	3.3	51%
Houghton	7.8	11.0	3.2	41%
Midland	6.2	9.4	3.2	52%
Isabella	6.0	9.1	3.1	52%
Eaton	6.2	9.2	3.0	48%
Marquette	6.9	9.8	2.9	42%
Schoolcraft	11.2	14.0	2.8	25%
Clinton	5.9	8.7	2.8	47%
Washtenaw	5.7	8.1	2.4	42%
Mackinac	11.6	13.6	2.0	17%
Cheboygan	11.2	12.7	1.5	13%

Source: The Office of the Auditor General compiled this exhibit based on data obtained from the Department of Technology, Management, and Budget labor market information.

OFFICE OF ECONOMIC DEVELOPMENT
Michigan Department of Transportation
TEDF Category C Vehicle Road Miles
Comparison of 1993 to 2008 Eligible Road Miles

County	1993 Road Miles			2008 Road Miles		
	With ADT > 10,000, Road Lanes = 2	With ADT > 25,000, Road Lanes > 2	Total	With ADT > 10,000, Road Lanes = 2	With ADT > 25,000, Road Lanes > 2	Total
Genesee	44.2	28.9	73.1	61.2	14.9	76.1
Kent	47.0	18.0	65.0	81.1	33.8	114.9
Macomb	99.0	70.6	169.6	184.3	91.9	276.2
Oakland	276.6	73.7	350.3	411.6	81.6	493.2
Wayne	204.3	134.0	338.3	290.9	208.0	498.9
Totals	671.1	325.2	996.3	1,029.1	430.2	1,459.3

ADT - average daily traffic.

TEDF - Transportation Economic Development Fund.

Source: The Office of the Auditor General compiled this exhibit based on information received from the Office of Economic Development.

UNAUDITED
Exhibit 4

Change in Road Miles
From 1993 to 2008

<u>Total</u>	<u>Percent</u>
3.0	4.1%
49.9	76.8%
106.6	62.9%
142.9	40.8%
<u>160.6</u>	47.5%
<u><u>463.0</u></u>	46.5%

OFFICE OF ECONOMIC DEVELOPMENT
Michigan Department of Transportation
TEDF Category E Distribution Comparison Using 1980 and 2012 Data
For the Fiscal Year Ended September 30, 2013

County	1980			2012	
	All Land in Thousands of Acres	Commercial Forest in Thousands of Acres	Percent of Forest Acres to All Land in County	Timberland Thousands of Acres (1)	Percent of Timberland Acres to All Land in County
Alcona	434	307	71%	262	60%
Alger	579	492	85%	494	85%
Allegan	529	137	26%	189	36%
Alpena	361	218	60%	218	60%
Antrim	304	157	51%	177	58%
Arenac	235	93	39%	129	55%
Baraga	577	513	89%	519	90%
Barry	355	111	31%	131	37%
Benzie	202	121	60%	110	55%
Charlevoix	265	139	52%	150	56%
Cheboygan	461	367	79%	378	82%
Chippewa	1,018	706	69%	774	76%
Clare	365	216	59%	242	66%
Crawford	359	273	76%	301	84%
Delta	753	575	76%	616	82%
Dickinson	485	377	78%	392	81%
Emmet	295	195	66%	207	70%
Gladwin	322	193	60%	233	72%
Gogebic	708	620	88%	636	90%
Grand Traverse	296	152	51%	205	69%
Houghton	651	514	79%	561	86%
Iosco	348	225	65%	224	64%
Iron	750	654	87%	690	92%
Isabella	366	78	21%	129	35%
Jackson	447	83	19%	156	35%
Kalamazoo	360	67	19%	139	39%
Kalkaska	362	253	70%	285	79%
Keweenaw	344	207	60%	193	56%
Lake	365	300	82%	331	91%
Leelanau	221	76	34%	76	34%
Luce	580	468	81%	521	90%
Mackinac	649	524	81%	565	87%
Manistee	354	226	64%	256	72%
Marquette	1,170	970	83%	994	85%
Mason	313	148	47%	201	64%
Mecosta	358	123	34%	107	30%
Menominee	664	493	74%	504	76%
Midland	333	148	44%	156	47%
Missaukee	361	204	57%	258	71%
Montcalm	456	145	32%	169	37%
Montmorency	355	302	85%	292	82%
Muskegon	321	165	51%	205	64%
Newaygo	544	310	57%	400	74%
Oceana	343	148	43%	186	54%
Ogemaw	366	220	60%	204	56%
Ontonagon	842	675	80%	650	77%
Osceola	372	157	42%	214	58%
Oscoda	360	307	85%	309	86%
Otsego	338	261	77%	277	82%
Presque Isle	415	267	64%	263	63%
Roscommon	333	247	74%	271	81%
Schoolcraft	756	543	72%	575	76%
St. Joseph	324	60	19%	114	35%
Wexford	358	250	70%	270	75%
State Total	24,380	15,777	65%	17,110	70%

(1) Timberland used in the 2012 U.S. Department of Agriculture forest inventory report is the equivalent of the commercial forest category used in the 1980 U.S. Department of Agriculture forest inventory report.

(2) According to the *Michigan Compiled Laws*, at least 34% of land has to be covered by forest to receive Category E funding.

Amounts may not foot due to rounding.

Source: The Office of the Auditor General compiled this exhibit based on the 1980 and 2012 Michigan Forest Inventory Reports prepared by the Forest Service, U.S. Department of Agriculture, and the Transportation Economic Development Fund (TEDF) Annual Report.

UNAUDITED
Exhibit 5

Fiscal Year 2012-13		
Distribution Calculation Based on		Distribution Difference
1980 Data (2)	2012 Data (2)	Between Data Sets
\$ 100,023	\$ 77,060	\$ (22,963)
172,195	145,397	(26,798)
	55,528	55,528
71,047	64,053	(6,994)
51,107	51,984	877
30,253	38,045	7,792
167,485	152,633	(14,852)
	38,583	38,583
43,148	32,480	(10,668)
45,232	44,028	(1,204)
119,641	111,024	(8,617)
230,373	227,684	(2,689)
70,394	71,287	893
89,062	88,534	(528)
187,490	181,119	(6,371)
122,905	115,356	(7,549)
63,704	60,967	(2,737)
62,921	68,388	5,467
202,307	186,910	(15,397)
49,671	60,263	10,592
167,648	165,051	(2,597)
73,299	65,754	(7,545)
213,436	202,987	(10,449)
	38,044	38,044
	45,825	45,825
	40,890	40,890
82,665	83,676	1,011
111,248	56,797	(54,451)
97,841	97,349	(492)
39,593	22,350	(17,243)
152,864	153,282	418
171,107	166,029	(5,078)
73,593	75,258	1,665
316,694	292,210	(24,484)
48,300	59,170	10,870
40,043		(40,043)
161,023	148,066	(12,957)
48,137	46,004	(2,133)
66,706	75,839	9,133
	49,789	49,789
98,559	85,999	(12,560)
53,718	60,349	6,631
101,169	117,590	16,421
48,398	54,764	6,366
71,634	59,954	(11,680)
220,191	191,166	(29,025)
51,172	63,032	11,860
100,256	90,927	(9,329)
85,113	81,563	(3,550)
87,104	77,349	(9,755)
80,511	79,704	(807)
177,308	169,065	(8,243)
	33,559	33,559
81,686	79,283	(2,403)
<u>\$ 4,999,974</u>	<u>\$ 5,000,000</u>	<u>\$ 26</u>

GLOSSARY

Glossary of Abbreviations and Terms

continuous quality improvement (CQI)	A process that aligns the vision and mission of an organization with the needs and expectations of internal and external customers. It normally includes a process to improve program effectiveness and efficiency by assessing performance measures that evaluate outputs and outcomes related to the program vision, mission, goals, and objectives.
DTMB	Department of Technology, Management, and Budget.
effectiveness	Success in achieving mission and goals.
goal	An intended outcome of a program or an entity to accomplish its mission.
internal control	The plan, policies, methods, and procedures adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes the systems for measuring, reporting, and monitoring program performance. Internal control serves as a defense in safeguarding assets and in preventing and detecting errors; fraud; violations of laws, regulations, and provisions of contracts and grant agreements; or abuse.
material condition	A matter that, in the auditor's judgment, is more severe than a reportable condition and could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.
MDOT	Michigan Department of Transportation.

mission	The main purpose of a program or an entity or the reason that the program or entity was established.
objective	Specific outcome(s) that a program or an entity seeks to achieve its goals.
OED	Office of Economic Development.
outcome	An actual impact of a program or an entity.
output	A product or a service produced by a program or an entity.
performance audit	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.
performance measure	A composite of key indicators of a program's or an activity's inputs, outputs, outcomes, productivity, timeliness, and/or quality. Performance measures are a means of evaluating policies and programs by measuring results against agreed upon program goals or standards.
performance standard	A desired level of output or outcome.
reportable condition	A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the audit objectives; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives;

significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.

SIB	State Infrastructure Bank.
SRTS	Safe Routes to School.
TAP	Transportation Alternatives Program.
TEDF	Transportation Economic Development Fund.
TEDS	Transportation Economic Development System.

