

Office of the Auditor General
Follow-Up Report on Prior Audit Recommendations

Office of Economic Development
Michigan Department of Transportation

January 2017

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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Office of the Auditor General

Report Summary

Follow-Up Report

Office of Economic Development (OED)

Michigan Department of Transportation (MDOT)

Report Number:
591-0135-13F

Released:
January 2017

We conducted this follow-up to determine whether MDOT had taken appropriate corrective measures in response to the one material condition noted in our June 2014 audit report.

Prior Audit Information	Follow-Up Results		
	Conclusion	Finding	Agency Preliminary Response
Finding #3 - Material condition OED needed to comprehensively assess the effectiveness of all programs funded by the Transportation Economic Development Fund and federal grants. Agency agreed.	Partially complied	Reportable condition exists. See <u>Finding #3</u> .	Agrees

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: www.audgen.michigan.gov

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January 10, 2017

Mr. Todd Wyett, Chair
State Transportation Commission
and
Kirk T. Steudle, PE, Director
Michigan Department of Transportation
Murray Van Wagoner Transportation Building
Lansing, Michigan

Dear Mr. Wyett and Mr. Steudle:

I am pleased to provide this follow-up report on the one material condition (Finding #3) and one corresponding recommendation reported in the performance audit of the Office of Economic Development, Michigan Department of Transportation. That audit report was issued and distributed in June 2014. Additional copies are available on request or at www.audgen.michigan.gov.

Your agency provided a preliminary response to the recommendation at the end of our fieldwork. The *Michigan Compiled Laws* and administrative procedures require an audited agency to develop a plan to comply with the recommendations and submit it within 60 days of the date above 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 our follow-up. If you have any questions, please call me or Laura J. Hirst, CPA, Deputy Auditor General.

Sincerely,

A handwritten signature in black ink that reads "Doug Ringler". The signature is written in a cursive, flowing style.

Doug Ringler
Auditor General

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OFFICE OF ECONOMIC DEVELOPMENT

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INTRODUCTION, PURPOSE OF FOLLOW-UP, AND AGENCY DESCRIPTION

INTRODUCTION

This report contains the results of our follow-up of the one material condition* (Finding #3) and one corresponding recommendation reported in our performance audit* of the Office of Economic Development (OED), Michigan Department of Transportation (MDOT), issued in June 2014.

PURPOSE OF FOLLOW-UP

To determine whether MDOT had taken appropriate corrective measures to address our corresponding recommendation.

AGENCY DESCRIPTION

MDOT's OED is responsible for administering the Transportation Economic Development Fund (TEDF) State-funded Category C, Category D, Category E, and Category F programs and the federally funded Transportation Alternatives Program (TAP):

- Category C provides funding for road improvements to reduce traffic congestion in urban counties, and Category D provides funding for road improvements in rural counties' all-season road networks. Metropolitan planning organizations* (MPOs) and rural task forces* (RTFs) select projects through a local planning process. MDOT distributed TEDF funds in the amount of \$7.9 million each for Category C and Category D in fiscal year 2016, using a formula prescribed in law.
- Category E provides funding to local county road commissions* in qualified eligible counties for road improvements that increase access to harvestable forest resources and aid in the safe and efficient collection and transport of forest raw materials. The local county road commissions select the projects. MDOT distributed TEDF funds in the amount of \$5.0 million for Category E in fiscal year 2016, using a formula prescribed in law.
- Category F provides funding for road improvements in the urban areas of rural counties that expand or preserve the all-season road network. OED selects projects using a competitive grant application process. MDOT awarded TEDF funds in the amount of \$2.5 million for Category F in fiscal year 2016.
- TAP is a federal grant program that provides funding for specific activities designated by Congress that enhance the intermodal transportation system and provide safe

* See glossary at end of report for definition.

alternative transportation options, such as pedestrian and bicycle facilities, conversion and use of abandoned railroad corridors, preservation and rehabilitation of historic transportation facilities, and safe routes for non-drivers. Safe Routes to School (SRTS) is a component of TAP and provides funding for infrastructure projects and other activities that encourage students to bike and walk to school and improve student health and safety while reducing traffic, fuel consumption, and air pollution in the vicinity of schools. OED selects TAP projects using a competitive grant application process. MDOT provided TAP funds in the amount of \$24.0 million during fiscal year 2016 for current year projects, including \$3.5 million for SRTS projects.

OED is also responsible for administering the State-funded TEDF Category A program and the State Infrastructure Bank (SIB); however, neither the Category A program nor the SIB were included in the June 2014 audit finding or this follow-up.

PRIOR AUDIT FINDING AND RECOMMENDATION; AGENCY PLAN TO COMPLY; AND FOLLOW-UP CONCLUSION, RECOMMENDATION, AND AGENCY RESPONSE

FINDING #3

Audit Finding Classification: Material condition.

Summary of the June 2014 Finding:

OED had not conducted comprehensive assessments to measure the effectiveness* of the State-funded TEDF Category C, Category D, Category E, or Category F programs and had not developed performance outcomes or implemented alternative methods for obtaining performance results to measure the effectiveness of the federally funded TAP and SRTS programs.

Recommendation Reported in June 2014:

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

AGENCY PLAN TO COMPLY*

OED's plan to comply indicated that it comprehensively assessed the effectiveness of all TEDF-funded programs and federal grants on an ongoing basis and that OED would continue to look for opportunities to improve its methods for assessing the effectiveness of OED programs.

FOLLOW-UP CONCLUSION

OED partially complied with the recommendation. A reportable condition* exists.

Our follow-up noted:

- OED had made improvements in its efforts to assess the effectiveness of State-funded TEDF Category C, Category D, and Category E programs; however, continued improvement is still needed. We noted:
 - OED published an annual report detailing all program objectives for Category C, Category D, and Category E funding and made the report widely available to interested parties.
 - MDOT's Bureau of Transportation Planning (BTP) provided guidance to MPOs and RTFs for Category C and Category D project selection. BTP's participation in the selection process provided OED some level of assurance that the MPOs and RTFs most likely selected projects based on the program's objectives. However, OED could increase its assurance by establishing a process to verify that the selected project proposals met the program's goals and objectives.

* See glossary at end of report for definition.

- OED restricted TEDF funding for the Category E program, in accordance with statute, to only the qualified eligible counties in which a national lakeshore or national park is located or in which 34% or more of the land is commercial forest land to help ensure that the program objectives are met. However, OED informed us that it had not implemented additional measures, such as performing post-project site visits to evaluate performance.
- OED's assessment of the effectiveness of State-funded TEDF Category F funding included selecting projects from proposals that demonstrated how the project would meet the Category F objectives and performing post-project site visits of funded projects to ensure that the projects had been completed as planned.
- OED had made improvements in its development of performance outcomes and other methods to measure the effectiveness of the federally funded TAP; however, continued improvement is still needed. We noted:
 - OED had not fully developed program outcomes for TAP. The Federal Highway Administration (FHWA) published the *TAP Performance Management Guidebook* in March 2016 to provide states with guidance for performance objectives and measures to consider as they administer, implement, and evaluate TAP projects and program outcomes.

OED informed us that it is in the process of examining the FHWA guidance and establishing program objectives for TAP and will continue to look for ways to improve the program's performance management framework. In addition, OED had outlined some TAP performance results in its fiscal year 2015 annual accomplishment document and had developed surveys for future use in obtaining feedback from TAP grant recipients to evaluate program performance.

- OED had established program objectives for the SRTS component of TAP and contracted with the Michigan Fitness Foundation to collect and analyze pre- and post-project surveys to help evaluate program performance. Our review of SRTS grant applications also determined that OED selected projects from project proposals that provided information regarding how the project would meet the objective of the SRTS Program.

**FOLLOW-UP
RECOMMENDATION**

We recommend that OED continue to improve its assessments of the effectiveness of the State-funded TEDF Category C, Category D, and Category E programs and TAP.

**FOLLOW-UP
AGENCY
RESPONSE**

MDOT provided us with the following response:

MDOT agrees with the recommendation.

MDOT will continue to look for opportunities to improve its methods for assessing federal and TEDF-funded grant programs.

FOLLOW-UP METHODOLOGY, PERIOD, AND AGENCY RESPONSES

METHODOLOGY

During our follow-up, we:

- Interviewed OED staff and reviewed MDOT's corrective action plan to determine the status of MDOT's compliance with the recommendation related to the material condition.
- Reviewed applicable State laws, federal laws and guidance, OED's TEDF annual report, and other information to gain an understanding of program requirements and objectives for TEDF Category C, Category D, Category E, and Category F programs and TAP.
- Interviewed OED staff and reviewed applicable documentation to gain an understanding of the programs administered by OED, OED's grant application process, and OED's post-project evaluations.
- Evaluated OED's oversight of project selection for TEDF Category C, Category D, and Category E grants.
- Reviewed a sample of project proposals for TEDF Category F and SRTS funding to determine whether the proposals clearly demonstrated how the project would meet program objectives.
- Reviewed documentation of OED's efforts to implement alternative methods for obtaining performance results to measure the effectiveness of the federally funded TAP.

PERIOD

Our follow-up generally covered June 2014 through September 2016.

AGENCY RESPONSES

Our follow-up report contains 1 recommendation. MDOT's preliminary response indicates that it agrees with the recommendation.

The agency preliminary response that follows the 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 an audited agency to develop a plan to comply with the recommendations and submit it within 60 days after release of the 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.

GLOSSARY OF ABBREVIATIONS AND TERMS

agency plan to comply	The response required by Section 18.1462 of the <i>Michigan Compiled Laws</i> and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100). The audited agency is required to develop a plan to comply with the Office of the Auditor General audit recommendations and submit the plan 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.
BTP	Bureau of Transportation Planning.
county road commission	A governmental agency, composed of staff and a three- or five-member board of directors, that exists to maintain safe and efficient roads and bridges for the people of Michigan. It is responsible for 90,000 miles of roads, streets, and highways and 5,700 bridges, making it the largest road owner in the State.
effectiveness	Success in achieving mission and goals.
FHWA	Federal Highway Administration.
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.
metropolitan planning organization (MPO)	The forum for cooperative transportation decision making for a metropolitan planning area.
OED	Office of Economic Development.
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.

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.

rural task force (RTF)

Project selection committee responsible for cooperative transportation decision making composed of equal representation from the county road commission, the cities and villages under 5,000 population within the county, and the rural transit provider.

SIB

State Infrastructure Bank.

SRTS

Safe Routes To School.

TAP

Transportation Alternatives Program.

TEDF

Transportation Economic Development Fund.

