

Office of the Auditor General
Performance Audit Report

Michigan Business Development Program
Michigan Strategic Fund
Department of Talent and Economic Development

January 2019

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

Performance Audit
Michigan Business Development Program
(MBDP)
Michigan Strategic Fund (MSF)
Department of Talent and Economic
Development

Report Number:
186-0500-17

Released:
January 2019

Public Act 250 of 2011 created MBDP to provide grants, loans, and other economic assistance to qualified businesses that make investments or provide qualified new jobs (QNJ) in Michigan. MBDP is administered by MSF, in conjunction with the Michigan Economic Development Corporation. From December 13, 2011 through May 8, 2017, MSF allocated \$399.2 million to MBDP, of which \$163.8 million was expended; \$223.0 million was committed to existing MBDP projects; and \$12.5 million remained available to fund additional MBDP projects. From October 1, 2014 through June 30, 2017, MSF entered into 196 MBDP project agreements.

Audit Objective			Conclusion
Objective #1: To assess the sufficiency of MSF's process for awarding MBDP projects.			Sufficient
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
None reported.			Not applicable.

Audit Objective			Conclusion
Objective #2: To assess the effectiveness of MSF's efforts to monitor MBDP project agreement compliance.			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
MSF could improve its verification process to help ensure that businesses created and maintained the required QNJs. MSF could not verify QNJs to independent sources, did not validate QNJ achievements through the term of the grant, and did not have sufficient documentation to support 6% of the QNJs that we reviewed (<u>Finding #1</u>).		X	Disagrees

Audit Objective			Conclusion
Objective #3: To assess MSF's compliance with MBDP statutory reporting requirements.			Complied, with exceptions
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
MSF did not properly report all annually required information, including overstating the aggregate projected return on investment (ROI) for fiscal year 2016 by 30% (<u>Finding #2</u>).		X	Partially agrees

Audit Objective			Conclusion
Objective #4: To assess the sufficiency of MSF's efforts to evaluate MBDP's economic development outcomes.			Sufficient, with exceptions
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
MSF should improve its efforts to evaluate the economic impacts of MBDP. MSF expended \$161.2 million and committed an additional \$219.4 million for over 300 projects from fiscal year 2012 through March 2017, and it had not determined the actual ROI as a measure of the overall benefit to the State (<u>Finding #3</u>).		X	Disagrees

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Office of the Auditor General
201 N. Washington Square, Sixth Floor
Lansing, Michigan 48913

Doug A. Ringler, CPA, CIA
Auditor General

Laura J. Hirst, CPA
Deputy Auditor General



OAG

Office of the Auditor General

201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • audgen.michigan.gov

Doug A. Ringler, CPA, CIA
Auditor General

January 29, 2019

Ms. Stephanie Beckhorn, Acting Director
Department of Talent and Economic Development
and
Mr. Jeff Mason
President, Michigan Strategic Fund
Chair, Michigan Strategic Fund Board of Directors
300 North Washington Square
Lansing, Michigan

Dear Ms. Beckhorn and Mr. Mason:

This is our performance audit report on the Michigan Business Development Program, Michigan Strategic Fund (MSF), Department of Talent and Economic Development.

We organize our findings by audit objective. MSF provided preliminary responses to the recommendations 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 to submit it to the State Budget Director upon completion of an audit. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, 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 this audit.

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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AUDIT OBJECTIVES, CONCLUSIONS, FINDINGS, AND OBSERVATIONS

AWARDING PROJECTS

BACKGROUND

To be considered for a Michigan Business Development Program (MBDP) project, a business must submit an application package documenting adherence to MBDP guidelines, the projected economic development benefits to the State, and the support of the local community. The business must be in good standing with the Michigan Strategic Fund (MSF) and other State agencies, and the business, any related businesses, and key personnel must pass criminal and civil background checks.

For each accepted application, the Michigan Economic Development Corporation (MEDC) prepares a term sheet, including key milestone* dates and incentive amounts, for the business's review and acknowledgment and submits a recommendation to the MSF Board of Directors for approval. Upon approval, MEDC finalizes the project agreement for signatures by all appropriate representatives.

From the inception of MBDP in December 2011 through September 30, 2016, MSF executed 274 MBDP project agreements with award amounts totaling \$277.7 million (see Exhibit #1). During our audit period (October 1, 2014 through June 30, 2017), MSF executed 196 MBDP project agreements with award amounts totaling \$179.1 million, including 187 agreements that were active as of June 30, 2017 (see Exhibit #2).

AUDIT OBJECTIVE

To assess the sufficiency of MSF's process for awarding MBDP projects.

CONCLUSION

Sufficient.

FACTORS IMPACTING CONCLUSION

- For the 25 MBDP projects that we reviewed, MEDC:
 - Evaluated all necessary project application factors.
 - Maintained sufficient documentation of its financial and creditability reviews for 24 (96%) of the projects and 98% of the background checks performed for the individuals and entities associated with the projects.
 - Properly obtained MSF Board approval and project agreement signatures.

* See glossary at end of report for definition.

- MSF approved only qualified projects.
- MEDC appropriately documented the reasons for not approving the 15 rejected applications that we reviewed.
- MSF and MEDC had an established process to identify, document, and resolve any potential employee conflicts of interest and sufficiently addressed all identified potential conflicts of interest for the 5 MEDC employees that we reviewed.

MONITORING PROJECT AGREEMENT COMPLIANCE

BACKGROUND

MBDP project agreements contain key milestones, such as adding qualified new jobs* (QNJs) or qualified investment*, and the corresponding portion of the project award eligible for disbursement. Upon attainment of a key milestone, businesses submit a milestone report* to request disbursement of funds. MEDC compares the milestone report with the project agreement requirements and supporting documentation, including employee identification numbers, earnings statements, and driver's licenses, prior to authorizing the disbursement of funds.

Also, businesses submit annual progress reports* that describe the key milestones achieved during the preceding 12 months and other data needed for MSF's annual legislative report. In addition, MEDC compares the information from the progress reports with requirements within the MBDP project agreements to help identify any instances of noncompliance.

MEDC uses Salesforce* to monitor compliance with the project agreement terms. There were 339 MBDP projects in the monitoring stage at some point from October 1, 2014 through June 30, 2017, including 309 active projects as of June 30, 2017 (see Exhibit #3).

AUDIT OBJECTIVE

To assess the effectiveness* of MSF's efforts to monitor MBDP project agreement compliance.

CONCLUSION

Moderately effective.

FACTORS IMPACTING CONCLUSION

- MEDC reviewed the milestone report and supporting documentation prior to disbursing funds for the 11 project agreements that we tested that had a key milestone disbursement during our audit period.
- MEDC appropriately followed up, issued a default letter, or worked with the business to amend the project agreement for the 7 project agreements that we tested for which the businesses had not complied with terms of their agreement.
- MEDC ensured that businesses submitted their annual progress reports in a timely manner for the 20 project agreements we tested that required submission of an annual progress report during our audit period.
- Reportable condition* related to enhancement of the verification process for MBDP project QNJs (Finding #1).

* See glossary at end of report for definition.

FINDING #1

Enhancements needed over compliance verification process.

MSF could not verify QNJ's to independent sources.

MSF could improve its QNJ verification process to help ensure that businesses created and maintained the QNJ's as required by their project agreements. MSF risks disbursing MBDP funds to, and has limited its ability to recover funds from, businesses that did not achieve or maintain the agreed-upon milestones.

Section 125.2088r(2)(b)(v) of the *Michigan Compiled Laws* requires MSF to verify that businesses meet milestone job creation requirements established for MBDP projects. Also, MBDP's compliance and monitoring procedures require examination of supporting documentation provided by the businesses. In addition, the project agreements require that the businesses achieve QNJ's and maintain them through the term of the grant* or repay MSF an amount as specified in the agreement.

Our review of MSF's QNJ verification process noted:

- a. MSF did not require businesses to provide sufficient employee information (i.e., employee names or social security numbers) to enable MSF to verify the achievement of key milestone requirements through an independent source, such as Michigan's Unemployment Insurance or the Department of State.
- b. MSF did not consider the term of the grant end date as a key milestone date and, therefore, did not validate compliance with QNJ requirements through that date. The term of the grant often extends a year or more after the final project disbursement milestone date.
- c. MSF had not obtained or maintained sufficient documentation to support that 11 (6%) of the 170 employees selected by MSF in its verification process, for the 11 projects that we reviewed, met all QNJ requirements including that the employee:
 - Worked for the business as of the key milestone date.
 - Worked at the project location.
 - Was a Michigan resident.
 - Was hired after the required job creation date.

Businesses provided employee identification numbers, driver's licenses, human resource system screen shots, payroll reports, and earnings statements. However, in some instances, the supporting documentation included handwritten information or information that was redacted to the point that it could not be useful to the verification

* See glossary at end of report for definition.

process. For example, to support Michigan residency, one business submitted copies of driver's licenses with the employee's picture, name, and license number redacted. In other instances, businesses submitted earnings statements with handwritten employee numbers or a crosswalk when the employee numbers did not correspond with those selected for verification.

MSF indicated that documentation may not have been maintained or requested because of its efforts to protect confidential information.

After our fieldwork, MSF obtained documentation from the businesses that supported the QNJ requirements for 10 of the 11 employee exceptions.

RECOMMENDATION

We recommend that MSF strengthen its QNJ verification process.

AGENCY PRELIMINARY RESPONSE

MSF provided us with the following response:

MSF disagrees with this finding.

- a. *MSF's current process for collecting and verifying employee information to support business compliance with project milestones is robust, containing multiple sources of verification that are cross-referenced to ensure accuracy. Milestone verification is conducted as of a specific date, based on the requirements of project agreements. Documentation for base level employees is collected to confirm the employee was active as of the required data pull date, where the information submitted is verified through multiple sources including earnings statements, employment location, and employment dates. Documentation for QNJs is supported in the same manner. Evidence that an employee is a Michigan resident is also collected.*

There are instances when the employee identification numbers used on multiple pieces of supporting documentation do not match, often due to the use of different systems for payroll distributions and human resources management functions. When this type of mismatch occurs, documentation is collected with the employee name visible. Once the compliance review is completed and recorded as complete within MSF's tracking system, the personal information is redacted prior to being maintained in archived files. This is done to protect the security of the data and to meet project agreement requirements to preserve employee confidentiality.

MSF, through its multi-variant approach, has reduced risk for any improper disbursements to a low level, and maintains appropriate documentation to meet statutory requirements, MSF board approved programmatic guidelines, and internal policies. If a business fails to provide the information or the

information cannot be verified, MSF has an established process to pursue any necessary remedies to ensure compliance, up to and including repayment of funds.

Accessing information housed within Michigan's Unemployment Insurance or Department of State for headcount verification purposes poses significant legal and confidentiality concerns. Moreover, the information gathered by Unemployment Insurance is aggregated and would not provide MSF with site specific information, which is required when verifying jobs. MSF does not agree that any potential benefit beyond its current robust verification processes would exceed the increased risk with this approach.

- b. MSF meets its statutorily required monitoring obligations, including the validation of continued compliance with QNJ requirements through the end of the agreement period. The process requires businesses to provide information to verify the maintenance of QNJs per the terms of the project agreements.*

The finding is not accurate. The information for each of these final headcount verification reports is validated using a robust process, regardless of whether an issue of non-compliance is indicated as indicated in response (a) above.

- c. MSF obtained information to validate the QNJs for the MBDP projects identified through multiple sources, including some documentation where personally identifiable information for employees may be present. As indicated in response (a) above, once the compliance review is completed and recorded as complete within the organization's tracking system, the personal information is redacted prior to being maintained in archived files. This is done to protect the security of the data and to meet project agreement requirements to preserve employee confidentiality.*

MSF continues to review and improve its records management policies and has included MBDP as a program of focus for fiscal year 2019.

**AUDITOR'S
COMMENTS TO
AGENCY
PRELIMINARY
RESPONSE***

- a. MSF obtains multiple types of documentation (employee identification numbers, earnings statements, and driver's licenses) to support employee milestone compliance. However, as indicated in the finding, all of the data is obtained from the businesses themselves and, therefore, would not be impartial. Additional assurance could be achieved by obtaining sufficient employee information (i.e., employee names or social security numbers) and corroborating the validity and reliability of the employee data with an independent third party.*

* See glossary at end of report for definition.

- b. As indicated in the finding, MSF did not validate compliance with QNJ requirements through the term of the grant end date. Subsequent to our audit fieldwork, MSF informed us that it updated its procedure manual and retroactively began validating compliance with QNJ requirements through the end of the agreement period. Therefore, the finding is accurate as of the conclusion of our fieldwork. We commend MSF for making these process changes subsequent to our review.
- c. MSF provided e-mails that it sent to the businesses when requesting documentation that instructed the businesses to redact all sensitive information (such as name or social security number) prior to submission.

We understand MSF's need to protect the personally identifiable information of the businesses' employees and we appreciate its efforts; however, Section 18.1285 of the *Michigan Compiled Laws* (Section 285, Public Act 431 of 1984) requires the head of each State agency to maintain records that are necessary for all of the following:

- (1) The continued effective operation of the State agency.
- (2) An adequate and proper recording of the activities of the State agency.
- (3) The protection of the legal rights of the State.

Therefore, the finding stands as written.

COMPLIANCE WITH STATUTORY REPORTING REQUIREMENTS

BACKGROUND

Section 125.2009 of the *Michigan Compiled Laws* (Public Act 270 of 1984, as amended) and Section 1007, Public Act 84 of 2015 (MSF's fiscal year 2016 appropriations act) require MSF to annually report on MBDP activities, including the following information:

- A listing of approved projects, including the amount, type, and duration of financial assistance; the number of QNJs committed or projected; and the actual number and average annual salary of QNJs created.
- A listing of amended project agreements, including amendment details.
- A listing of revoked project agreements and the reason for revocation.
- The estimated return on investment* (ROI) to the State as a result of the MBDP projects.
- An evaluation of the aggregate ROI that the State realized on the actual QNJs and actual qualified investment made by qualified businesses*.
- All revenue sources, actual expenditures, and the number of full-time equated (FTE) positions of MBDP for the previous fiscal year.

Also, Sections 125.2009 and 125.2088r of the *Michigan Compiled Laws* require MSF to periodically post various MBDP project data on the Internet, including the business name, location, and agreement amount for each MBDP project.

MSF uses Salesforce to compile MBDP data for reporting purposes.

AUDIT OBJECTIVE

To assess MSF's compliance with MBDP statutory reporting requirements.

CONCLUSION

Complied, with exceptions.

FACTORS IMPACTING CONCLUSION

- MSF implemented sufficient controls to help ensure the completeness and accuracy of MBDP data in Salesforce:
 - MSF's documentation supported the accuracy of the Salesforce data for 97% of the data elements that we reviewed for the 10 project agreements that we tested.

* See glossary at end of report for definition.

- MSF's fiscal year 2016 annual report agreed with Salesforce for 98% of the data elements that we reviewed for the 15 project agreements that we tested.
- MEDC's Web site agreed with Salesforce for all of the data elements that we reviewed for the 9 project agreements that we tested.
- MSF submitted its annual reports for fiscal years 2015 and 2016 in a timely manner.
- The MBDP information on the Internet was up to date for the 5 dates reviewed.
- Reportable condition related to the omission of two required reporting elements and the accuracy of the aggregate projected ROI in the annual report (Finding #2).

FINDING #2

Improvements to the completeness and accuracy of the MBDP annual report needed.

MSF did not properly report all required information in its MBDP annual report, which was then provided to the Governor, the Legislature, and others.

Section 125.2009 of the *Michigan Compiled Laws* requires MSF to annually report on MBDP activities, including an evaluation of the aggregate ROI realized by the State on the actual QNJs and actual qualified investment made by qualified businesses. Also, Section 1007, Public Act 84 of 2015 (MSF's fiscal year 2016 appropriations act) required MSF to report on MBDP activities, including the following:

- An estimate of the ROI to the State as a result of MBDP.
- Details of all MBDP associated revenue sources, actual expenditures, and the number of FTE positions for the previous fiscal year.

Our review of the MBDP information included in MSF's fiscal year 2016 annual report noted:

MSF did not report actual ROI realized by the State from MBDP projects.

- a. MSF did not include an evaluation of the aggregate ROI realized by the State on the actual QNJs and actual qualified investments generated by MBDP. The report identified 12 "ended" MBDP projects as of September 30, 2016 for which MSF should have evaluated and reported the actual aggregate ROI.
- b. MSF did not report itemized revenue sources, actual expenditures, or the number of FTE positions for MBDP.
- c. MSF miscalculated the aggregate projected ROI, overstating it by 23%. MSF indicated that its misunderstanding of the data and transposition errors caused the miscalculation.
- d. MSF calculated the aggregate projected ROI using a simple average calculation of the individual projects' ROI, rather than a weighted average calculation based on the combined projects' new cash flow to the State relative to the State's combined cost of the projects. MSF's calculation resulted in an aggregate projected ROI that was 7% higher than the ROI based on a weighted average calculation. We subsequently noted that MSF used a weighted average calculation for its fiscal year 2017 annual report.
- e. MSF did not use the job creation and private investment figures identified in the executed project agreement to calculate the projected ROI for each project. For 21 (91%) of the 23 projects that we reviewed that required the creation of new jobs or private investment, MSF used the estimated job creation and private investment figures from the projects' applications.

- f. MSF did not include or included inaccurate local tax abatement costs for 2 (15%) of the 13 projects that we reviewed that required local tax abatements.

MSF overstated the aggregate projected ROI for fiscal year 2016 by 30%.

After adjusting MSF's reported aggregate projected ROI for the issues noted in parts c. and d., we calculated an aggregate projected ROI for MBDP that was 30% lower than MSF's reported projection. We did not determine the effect from parts e. and f. because necessary information was not readily available.

RECOMMENDATION

We recommend that MSF properly report all annually required information.

AGENCY PRELIMINARY RESPONSE

MSF provided us with the following response:

MSF partially agrees with this finding as indicated below.

- a. *MSF disagrees with this portion of the finding. Business development projects consist of multi-year, multi-milestone agreements, where aggregate data for the projects to calculate actual ROI is available only after agreements come to a close and final data has been reviewed and confirmed. During the audit period, there were not a sufficient number of projects that had met these requirements to calculate an actual ROI for the program as a whole.*

MSF agrees that this is important information and will include the evaluation of the actual aggregate ROI in its next annual report based on the data that is now available, but was not during the identified audit period.

- b. *MSF disagrees with this portion of the finding. The organization has provided transparent reporting on its programmatic and financial activities. Expenditures associated with the program, along with the revenue source, were reported. FTEs supporting the program were also reported through a delineation by status and general area of responsibility. Enhanced reporting was also included in the fiscal year 2017 annual report to further separate central administrative and programmatic functions generally within MSF and MEDC.*

MSF worked with the Legislature to adjust the boilerplate language governing this reporting for fiscal year 2019 (PA 207 of 2018) to eliminate ambiguity in the language as to the Legislature's intent regarding reporting on FTEs. MSF's existing methodology is consistent with this revised language.

- c. *MSF agrees that there were errors in the aggregate projected ROI. To prevent an error in aggregate reporting in the future, MSF has implemented processes to clarify the fields within the reporting system and to improve training in entering the data across program units.*

- d. *Although the methodology used within the 2016 annual report was appropriate, MSF will use a weighted average to report the aggregate ROI beginning with the fiscal year 2017 annual report.*
- e. *MSF agrees that the figures from the actual program agreements should be used to report on projected ROI for individual projects and has implemented that change in its methodology. However, the organization will continue to calculate a projected ROI at application as a factor for decision-making on a project. It is important to note that the difference between the application and approved agreement values does not represent a significant difference that would have changed the decision to approve the projects in question or the approved amounts of funding for the projects.*
- f. *MSF agrees that local tax abatement figures for the projected ROI must be accurate and sufficient documentation must be maintained to demonstrate the accuracy of the calculation. MSF has updated its processes to ensure that the data is verified for accuracy and documentation to support that verification is retained.*

**AUDITOR'S
COMMENTS TO
AGENCY
PRELIMINARY
RESPONSE**

As stated in parts a. and b. of the finding, we contend that MSF was not in compliance with Section 125.2009 of the *Michigan Compiled Laws* and Section 1007, Public Act 84 of 2015. Specifically, MSF did not include an aggregate ROI based on the actual QNJs and actual qualified investments generated by the 12 "ended" MBDP projects. Also, MSF did not report itemized revenue sources, actual expenditures, or the number of FTE positions specific to MBDP.

Therefore, the finding stands as written.

EVALUATING ECONOMIC DEVELOPMENT OUTCOMES

BACKGROUND

MSF, in conjunction with MEDC, compiles the following information regarding MBDP performance:

- Total number of actual jobs created compared with the number of jobs committed as identified in the project agreement.
- Cost per job.
- Leverage ratio*.
- Aggregate projected ROI for projects approved during each fiscal year.

MSF reported that, from inception in December 2011 through May 2017, MBDP grantees:

- Committed to 23,732 QNJs.
- Amended their commitments to 19,535 QNJs.
- Created 19,756 QNJs, with a cost per job of \$8,432.

MBDP defines ROI as the ratio of wages, investments, taxes, and benefits relative to the cost of the MBDP project. The purpose of ROI is to evaluate a project's long-term impact for economic benefit.

AUDIT OBJECTIVE

To assess the sufficiency of MSF's efforts to evaluate MBDP's economic development outcomes*.

CONCLUSION

Sufficient, with exceptions.

FACTORS IMPACTING CONCLUSION

- MSF analyzed defaulted projects to identify causes and recommend changes to the selection and awarding processes.
- Approximately 95% of the 155 QNJs that we reviewed, associated with 11 MBDP projects, were full-time jobs*.
- Reportable condition related to enhancing the evaluation of the economic impacts of MBDP (Finding #3).

* See glossary at end of report for definition.

FINDING #3

Enhancements to program evaluation needed.

MSF had not calculated an actual aggregate ROI for completed MBDP projects.

MSF should improve its efforts to evaluate the economic impacts and overall benefit of MBDP. MSF expended \$161.2 million and committed an additional \$219.4 million of State funding to MBDP projects from its inception in fiscal year 2012 through March 2017.

Section 125.2009 of the *Michigan Compiled Laws* requires MSF to report on its evaluation of MBDP's aggregate ROI realized by the State. Program evaluation would include identifying performance benchmarks* of the desired level of outcomes based on management's expectations and commitments specified within formal contract agreements and comparing the actual results to the benchmarks.

Our review of MSF's efforts to measure the impacts of MBDP noted that MSF had not:

- a. Calculated an actual aggregate ROI for completed MBDP projects. MSF indicated that there were not enough completed projects to warrant this calculation. However, we identified 13 projects as of September 30, 2016, and an additional 21 projects as of June 30, 2017, that had received funding and, based on MSF information, had reached, or were ended or terminated prior to, the term of the grant end date. Measurement of actual results for these 34 projects could have assisted management, the MSF Board, and others charged with governance with making program decisions.

In March 2018, MSF contracted for a study to assess MBDP's overall effectiveness and actual ROI based on 20 identified completed projects.

- b. Projected a cumulative aggregate ROI for all MBDP projects since its inception. MSF calculated an aggregate projected ROI for the projects approved during each fiscal year; however, calculation of a cumulative projected ROI for the program as a whole would provide a performance benchmark to assist in overall program evaluation.
- c. Used the contractually agreed-upon job creation and private investment figures to calculate the projected ROI for each project, as discussed in Finding #2, part e., which would have impacted the aggregate projected ROI in MSF's annual report.

RECOMMENDATION

We recommend that MSF improve its efforts to evaluate the economic impacts and overall benefit of MBDP.

* See glossary at end of report for definition.

**AGENCY
PRELIMINARY
RESPONSE**

MSF provided us with the following response:

MSF disagrees with this finding.

- a. *Recognizing the significant investment from the State in this program, MSF has established and reported on program performance metrics including projected ROI for each project, verification of actual jobs created, calculation and target setting of total incentive cost per job and associated leverage ratio through a variety of mechanisms.*

Since 2012, MBDP has created over 25,600 actual new jobs within the State, demonstrating a significant economic impact. Further, of the jobs the program contracted with businesses to create, over 85% have been created, demonstrating high program effectiveness.

MSF commissioned an independent third-party analysis of the program through a request for proposal process beginning in December 2017. MSF anticipates providing aggregate actual ROI calculations in its legislative annual report for fiscal year 2018. Prior to this date, these calculations could not be completed, based on generally accepted research standards for program evaluation, including sufficient number of completed projects to evaluate for actual results and ability to complete final compliance reviews before certifying that projects were completed for inclusion. A project is not considered complete until validation of final reporting is complete; the finding is inaccurate in asserting that 34 projects met this definition by June 30, 2017.

- b. *MSF calculates aggregate projected ROI for each fiscal year and individually for each project. This approach meets legislative reporting requirements.*
- c. *For consistency and to alleviate any further confusion, MSF will utilize the contractually agreed upon timeframe and jobs for future ROI calculations in legislative reports. As noted in its responses to Finding #2, MSF concludes this change will have no meaningful impact on the projected ROI or decision-making on projects, since it has been shown that even with the modified timeline for calculating ROI, the results prove the program's effectiveness and economic benefit to the state.*

**AUDITOR'S
COMMENTS TO
AGENCY
PRELIMINARY
RESPONSE**

- a. *As stated in the finding, MSF had not calculated an actual aggregate ROI for the 34 MBDP projects that, based on MSF information, had reached, or were ended or terminated prior to, the term of the grant end date. We contend that 34 projects would be sufficient to start evaluating the actual aggregate ROI for MBDP as a whole.*

- b. MSF's response does not address the issue noted in part b. The finding encourages MSF to calculate a projected cumulative aggregate ROI to provide a performance benchmark to assist in overall program evaluation.

Therefore, the finding stands as written.

SUPPLEMENTAL INFORMATION

UNAUDITED
Exhibit #1

MICHIGAN BUSINESS DEVELOPMENT PROGRAM

Michigan Strategic Fund, Department of Talent and Economic Development

Listing of Executed Project Agreements by Fiscal Year Awarded
As of September 30, 2016

MBDP Project Agreement Information

This exhibit identifies the individual businesses and cumulative activity associated with the 274 MBDP project agreements approved by the MSF Board from March 15, 2012 through September 30, 2016, excluding revoked agreements. For some agreements, the information reported may not reflect the original agreement because the MSF Board subsequently approved amendments.

Column Descriptions

Business Name - The name of the business that executed the MBDP agreement with the MSF Board.

County - Location where the agreed-upon jobs were to be created.

Grant End Date - End of the term of the MBDP agreement. On average, the duration of a MBDP project is 5.23 years.

Approved Amount - The total MBDP project agreement amount approved by the MSF Board.

Cumulative Amount Disbursed - The total amount of the MBDP project agreement disbursed to the business as of September 30, 2016.

Projected Private Investment - The amount of investment that the company stated on its application and what is expected to occur by the completion of the project.

Actual Private Investment - The actual investment reported by the company that has been made at the project site.

New Jobs Committed - The number of new jobs that the company has committed to create at the project site.

Actual New Jobs Created - The actual number of qualified new jobs created and verified through milestone applications submitted to MSF through September 30, 2016.

Status - The status of the project as of September 30, 2016. "Ended" indicates that the project has been successfully closed out and/or approved as part of the project package and there is no further monitoring required by MEDC. "Monitoring" indicates that the agreement has been executed and the project requires future monitoring or administration by MEDC.

This exhibit continued on next page.

MICHIGAN BUSINESS DEVELOPMENT PROGRAM
Michigan Strategic Fund, Department of Talent and Economic Development

Listing of Executed Project Agreements by Fiscal Year Awarded
As of September 30, 2016

Business Name	County	Grant End Date	Approved Amount	Cumulative Amount Disbursed	Projected Private Investment	Actual Private Investment	New Jobs Committed	Actual New Jobs Created *	Status
MBDP project agreements awarded in fiscal year 2012:									
Teijin Advanced Composites America Inc.	Oakland	12/31/2017	\$ 375,000	\$ 375,000	\$ 7,952,000	\$	25	22	Ended
Computerized Facility Integration, LLC	Oakland	12/31/2019	434,500	110,000	908,400	12,207,012	79	20	Monitoring
Lacks Enterprises, Inc.	Kent	12/31/2017	350,000	325,000	31,900,000	102,988,780	120	124	Monitoring
Magna Seating of America Inc.	Wayne	12/31/2015	732,000	732,000	2,248,000	2,248,000	244	263	Ended
Hark Orchids LP	Kalamazoo	12/31/2018	500,000	375,000	5,000,000	16,858,144	80	84	Monitoring
Huntington Foam Corporation	Montcalm	06/30/2016	340,000	340,000	2,564,000	17,239,831	30	30	Ended
HCL America Inc.	Jackson	12/31/2016	875,000	700,000	3,350,000	960,425	200	184	Monitoring
Muskegon Castings Corp	Muskegon	04/30/2017	540,000	540,000	10,362,200	25,450,000	55	56	Monitoring
MedDirect, Inc.	Kent	05/31/2017	250,000	250,000	2,109,524	2,292,465	100	100	Monitoring
Credit Acceptance Corporation	Oakland	12/31/2017	1,750,000	1,750,000	10,218,177	2,600,000	274	310	Monitoring
Sakthi Auto Group USA	Wayne	04/01/2017	1,500,000	1,500,000	18,600,000	40,000,000	170	172	Monitoring
Hyundai-Kia America Technical Center, Inc.	Washtenaw	01/03/2018	2,500,000	2,500,000	15,000,000		50	60	Monitoring
AG Simpson Automotive Systems	Macomb	12/31/2016	900,000	900,000	21,200,000	22,383,996	90	90	Ended
FIAMM Technologies, Incorporated	Wexford	05/31/2016	500,000	500,000	4,427,875	5,010,408	31	35	Ended
Quality Edge, Inc.	Kent	06/30/2017	240,000	240,000	10,478,300	502,110	50	53	Ended
Brose New Boston, Inc.	Wayne	12/31/2016	3,500,000	3,500,000	61,773,500	36,696,213	350	350	Ended
ArcticAx US Ltd	Kent	12/31/2017	220,000	120,000	1,859,500	1,836,342	28	9	Monitoring
Cooper Standard Automotive	Oakland	03/30/2017	235,730	128,580	3,546,940		55	30	Monitoring
Cherry Growers, Incorporated	Grand Traverse	12/31/2016	2,500,000	2,500,000	12,499,760	5,929,456	72	0	Monitoring
Materne North America Gogo Squeeze	Grand Traverse	12/31/2027	3,000,000	3,000,000	23,472,500	22,521,824	65	65	Monitoring
Thai Summit America Corporation	Livingston	06/30/2017	300,000	300,000	34,987,000	201,180,355	78	78	Monitoring
Pinnacle Foods Corporation/Vlasic Brands	Lapeer	12/31/2015	800,000	800,000	14,331,125	51,680,000	29	46	Ended
Jason Incorporated (dba Janesville Acoustics)	Calhoun	12/31/2017	1,500,000	1,500,000	15,050,000	12,700,000	225	253	Monitoring
Mayser Polymer USA Inc.	Wayne	12/31/2017	200,000	200,000	3,921,600	4,677,000	50	50	Monitoring
Magna Closures - Engineered Glass	Ottawa	12/31/2018	1,200,000	1,200,000	10,148,304	2,200,000	177	207	Monitoring
Mophie, LLC	Kalamazoo	12/31/2017	240,000	240,000	4,010,000	9,457,112	50	52	Monitoring
The Martin-Brower Company LLC	Clinton	03/31/2016	500,000	350,000	16,250,000	18,953,782	150	126	Ended
Dieomatic, Inc.	Oakland	12/31/2017	690,000	360,000	25,861,000	59,045,000	230	128	Monitoring

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Business Name	County	Grant End Date	Approved Amount	Cumulative Amount Disbursed	Projected Private Investment	Actual Private Investment	New Jobs Committed	Actual New Jobs Created *	Status
MBDP project agreements awarded in fiscal year 2013:									
Continental Automotive Systems	Oakland	12/31/2019	\$ 900,000	\$ 450,000	\$ 1,650,000	\$	250	100	Monitoring
RNFL Acquisition LLC-Biogenic Reagents	Marquette	12/31/2016	2,000,000	2,000,000	16,985,000	7,100,000	27	27	Monitoring
The Armored Group, LLC	Wayne	12/31/2017	1,000,000	400,000	1,455,000	5,481,970	240	0	Monitoring
Undercar Products Group	Kent	03/31/2017	475,000	475,000	26,047,023	85,000	150	151	Monitoring
Henrob Corporation	Oakland	12/31/2017	300,000	300,000	68,491,000		152	154	Monitoring
Summit Polymers, Inc.	Kalamazoo	06/30/2017	370,000	370,000	9,300,000	22,492,843	70	77	Monitoring
Dart Container Corporation	Ingham	06/30/2018	3,000,000	3,000,000	47,000,000	194,273,752	325	551	Monitoring
OPS Solutions	Oakland	12/31/2019	400,000	300,000	268,000	1,950,000	25	12	Monitoring
Founders Brewing Company	Kent	12/31/2017	2,000,000	2,000,000	26,000,000	44,700,031	52	87	Monitoring
La-Z-Boy, Inc.	Monroe	12/31/2018	3,000,000	3,000,000	51,500,000	184,456,021	50	72	Monitoring
Two Men and A Truck International	Ingham	12/31/2017	350,000	350,000	3,951,900	8,538,676	70	76	Monitoring
Whirlpool Corporation	Berrien	12/31/2016	2,400,000	2,400,000	18,945,000	28,249,848	180	180	Monitoring
Denso Manufacturing Michigan, Inc.	Calhoun	06/30/2018	1,460,000	1,460,000	105,440,764	476,642,191	266	266	Monitoring
Rigaku Innovative Technologies, Inc.	Oakland	12/31/2019	2,000,000	2,000,000	55,700,000		25	0	Monitoring
Denso International America, Inc.	Oakland	12/31/2017	1,540,000	1,540,000	45,700,000	110,598,000	176	176	Monitoring
Moran Iron Works, Incorporated	Cheboygan	12/31/2018	2,000,000	1,000,000	16,224,911	4,929,942	75	35	Monitoring
KIRCHHOFF Van-Rob Tecumseh	Lenawee	12/31/2018	5,300,000	4,300,000	30,682,381	106,673,379	450	322	Monitoring
Dieomatic, Inc.	Calhoun	12/31/2018	1,600,000	664,000	162,072,542	162,072,542	500	201	Monitoring
Norplas Industries, Inc. - Magna	Wayne	06/30/2017	1,250,000	630,000	81,750,485	163,500,970	400	393	Monitoring
Black & Veatch Corporation	Washtenaw	12/31/2017	435,000	265,000	13,488,723	8,947,481	75	51	Monitoring
Baker Industries, Inc.	Macomb	12/31/2017	800,000	500,000	9,856,650	18,900,000	0	92	Ended
Herbruck Poultry Ranch Inc.	Ionia	03/31/2018	500,000	500,000	17,150,000	40,756,390	50	53	Monitoring
Lyons Consulting Group	Washtenaw	03/31/2018	300,000	300,000	1,142,833	6,072,332	30	30	Monitoring
Challenge Manufacturing Company	Allegan	06/30/2017	1,000,000	1,000,000	10,290,000	2,978,244	180	300	Ended
Hanwha Advanced Materials America LLC	Monroe	06/30/2019	231,440	165,720	12,000,000	175,083,000	54	36	Monitoring
Detroit Thermal Systems, LLC	Wayne	12/31/2017	750,000	750,000	27,073,125	3,491,000	312	329	Monitoring
Southwest Michigan First Corp	Kalamazoo	10/31/2018	4,000,000	4,000,000	4,265,000	3,785,160	0	0	Monitoring
Newell Rubbermaid	Kalamazoo	12/31/2017	2,000,000	2,000,000	2,300,000	50,000	100	102	Monitoring
Rassini Brakes, LLC	Genesee	01/31/2017	500,000	500,000	17,310,800	25,600,000	55	61	Monitoring
Bleistahl North America, LP	Calhoun	03/01/2018	475,000	475,000	11,593,900	13,960,414	55	56	Monitoring
Kay Manufacturing Co	Berrien	05/31/2018	350,000	350,000	9,290,000	18,939,903	80	83	Monitoring
Belmont Engineered Plastics, LLC	Kent	06/30/2018	900,000	900,000	5,510,000	5,600,000	62	71	Monitoring
Grand Rapids Chair Company	Kent	03/31/2018	200,000	200,000	2,540,000	7,370,000	50	53	Monitoring
CDK Global, LLC	Wayne	12/31/2017	1,500,000	1,500,000	3,300,000	4,000,000	150	150	Monitoring
Rec Boat Holdings, L.L.C.	Wexford	03/31/2018	1,000,000	800,000	4,785,381	5,767,229	135	35	Monitoring
JR Automation Technologies, LLC	Ottawa	06/30/2018	300,000	300,000	4,166,000		90	93	Monitoring

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Business Name	County	Grant End Date	Approved Amount	Cumulative Amount Disbursed	Projected Private Investment	Actual Private Investment	New Jobs Committed	Actual New Jobs Created *	Status
Kay Automotive Graphics	Oakland	04/30/2021	\$ 350,000	\$ 175,000	\$ 12,915,000	\$ 13,950,000	50	30	Monitoring
SMR	St. Clair	05/31/2018	4,000,000	3,000,000	40,237,154	110,727,174	350	253	Monitoring
Merhow Acquisition LLC, dba Merhow Industries	St. Joseph	06/30/2018	200,000	200,000	1,075,000	1,040,100	46	49	Monitoring
TRMI, Inc.	Calhoun	06/15/2018	700,000	700,000	11,100,000	27,467,414	150	153	Monitoring
Senderra RX Partners, LLC	Genesee	09/30/2018	200,000	200,000	675,500	51,285	70	72	Monitoring
Blissfield Manufacturing Company	Lenawee	06/30/2018	365,000	125,000	1,530,735		68	39	Monitoring
ZYNP International Corporation	Wayne	12/31/2018	350,000	175,000	9,561,532	2,822,452	51	26	Monitoring
Integrated Manufacturing & Assembly, LLC	Wayne	01/24/2017	3,400,000	3,400,000	32,454,809	112,965,698	566	620	Monitoring
GKN Driveline North America Inc.	Oakland	12/31/2017	1,000,000	1,000,000	5,100,000	9,602,689	50	50	Monitoring
Daimler AG, Plant Detroit Diesel	Wayne	12/31/2018	250,000		77,200,000	106,000,000	50	0	Monitoring
Fairlife, LLC	Ottawa	06/30/2017	900,000	900,000	127,563,150	480,113,260	125	130	Monitoring
Jackson National Life	Ingham	09/30/2023	5,300,000	750,000	100,000,004	226,439,669	704	100	Monitoring
Coyote Logistics	Washtenaw	06/30/2018	1,000,000	600,000	1,200,500	420,000	120	75	Monitoring
VernDale Products, Incorporated	Wayne	12/31/2018	436,000	436,000	15,991,458	57,436,000	13	0	Monitoring
Firstronic, LLC	Kent	04/30/2018	300,000	300,000	2,245,000	1,269,437	110	110	Monitoring
ADAC Automotive	Muskegon	04/30/2018	650,000	650,000	7,903,000	12,310,733	90	90	Monitoring
Dairy Farmers of America Inc.	Tuscola	12/31/2017	500,000	500,000	40,000,000	133,894,725	25	31	Monitoring

MBDP project agreements awarded in fiscal year 2014:

Yanfeng US Automotive Interior Systems II LLC	Monroe	08/31/2017	800,000	800,000	16,927,000	41,989,202	182	219	Monitoring
Triumph Gear Systems	Macomb	06/30/2020	250,000	100,000	15,180,000	36,708,611	60	33	Monitoring
CHi - Charter House Innovations	Ottawa	03/31/2018	200,000	200,000	3,052,000	9,722,301	50	63	Monitoring
Comprehensive Logistics	Wayne	12/31/2018	800,000	600,000	18,140,000	52,300,000	400	300	Monitoring
Navitas Advanced Solutions Group	Washtenaw	06/30/2019	1,000,000	500,000	9,287,000	8,898,407	125	57	Monitoring
Aisin Technical Center of North America	Wayne	04/30/2021	1,200,000	400,000	32,724,600		151	84	Monitoring
Pillar Technology Group, LLC	Washtenaw	01/31/2018	350,000	190,000	1,425,000	2,146,000	45	25	Monitoring
Ventra Grand Rapids 5, LLC	Kent	02/28/2017	650,000	650,000	16,296,797	54,133,356	150	170	Monitoring
Cooper Standard Automotive (Fairview)	Oscoda	09/30/2018	1,000,000	700,800	6,359,817	10,625,267	177	114	Monitoring
Lauren Plastics	Ottawa	01/31/2019	300,000	225,000	7,063,000		70	50	Monitoring
SRI International	Wayne	12/31/2020	800,000	384,000	624,535		25	13	Monitoring
HTC Global Services, Incorporated	Oakland	02/28/2019	1,750,000	430,000	3,372,500	1,191,825	203	102	Monitoring
Niowave, Inc.	Ingham	03/31/2020	3,000,000	1,500,000	79,000,000		90	31	Monitoring
Spartan Stores	Kent	01/31/2021	2,750,000	1,500,000	18,271,496	6,154,754	372	72	Monitoring
Mahindra GenZe	Washtenaw	03/31/2020	300,000	140,000	2,010,000	11,067,196	34	25	Monitoring
Circuit Controls Corporation	Emmet	09/30/2018	180,000	180,000	21,722,000	44,691,474	36	38	Monitoring
Vectorform LLC	Oakland	01/30/2020	375,000	125,000	2,240,455		75	25	Monitoring

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Business Name	County	Grant End Date	Approved Amount	Cumulative Amount Disbursed	Projected Private Investment	Actual Private Investment	New Jobs Committed	Actual New Jobs Created *	Status
Mediimpact Healthcare Systems, Inc.	Wayne	12/31/2018	\$ 150,000	\$ 100,000	\$ 2,074,000	\$ 29,013	75	66	Monitoring
Magna Exteriors and Interiors USA, Inc.	St. Clair	07/28/2015	1,329,000	822,000	3,639,100		443	274	Ended
MANN+HUMMEL USA, Inc.	Kalamazoo	05/31/2019	325,000	255,000	17,425,000	7,153,240	70	57	Monitoring
Advance Engineering Company	Wayne	12/31/2017	400,000	200,000	6,554,000	8,528,653	150	78	Monitoring
ThinkTech, Inc.	Washtenaw	03/31/2019	500,000	500,000	2,938,551	1,139,863	50	52	Monitoring
Capital Welding, Inc.	Wayne	12/31/2018	600,000	420,000	20,030,000	4,700,000	100	70	Monitoring
Kalitta Air	Iosco	02/28/2020	2,000,000	2,000,000	9,730,431	20,680,701	200	220	Monitoring
Eberspacher North America, Inc.	Livingston	03/31/2022	4,500,000	1,200,000	122,000,000	39,825,070	545	150	Monitoring
Xanedu	Washtenaw	08/31/2020	325,000	100,000	1,030,000	225,000	50	20	Monitoring
Proos Manufacturing, Inc.	Kent	04/30/2019	200,000	75,000	5,665,370	360,000	50	20	Monitoring
Avon Protection Systems, Incorporated	Wexford	02/28/2017	100,000	100,000	925,500	934,508	29	29	Monitoring
Nyloncraft of Michigan, Inc.	Hillsdale	12/31/2017	150,000	150,000	4,693,000	1,200,000	40	41	Monitoring
Borgwarner Inc.	Oakland	02/28/2019	3,200,000	3,200,000	11,000,000	15,908,000	180	180	Monitoring
M1 Rail	Wayne	12/31/2028	10,000,000	10,000,000	131,957,023	62,769,691	0	0	Monitoring
Fuyao Automotive North America, Inc.	Oakland	12/31/2019	1,000,000	750,000	15,390,000	500,000	100	84	Monitoring
Molina Healthcare of Michigan	Oakland	12/31/2018	2,296,000	2,000,000	20,323,311		462	400	Monitoring
NOVO 1	Kent	08/31/2019	550,000	272,000	1,500,000		287	143	Monitoring
INGlass USA	Kent	08/31/2019	300,000	211,500	17,668,890	21,108,517	73	50	Monitoring
Herbruck Poultry Ranch Inc.	Ionia	08/31/2019	750,000	487,000	76,500,000	68,012,592	100	65	Monitoring
Mahindra Vehicle Manufacturers Limited	Oakland	12/31/2018	500,000	395,000	1,912,854	29,074,067	112	96	Monitoring
Toyoda Gosei North America Corporation	Oakland	11/30/2018	250,000	250,000	7,951,500	5,101,969	51	51	Monitoring
AvaSure	Kent	07/01/2019	550,000	200,000	1,896,400	830,000	110	40	Monitoring
Challenge Manufacturing Company	Oakland	12/31/2019	2,238,000	550,000	50,000,000	108,021,426	450	100	Monitoring
SolarBos	Kent	06/01/2019	250,000	160,000	884,000	1,579,000	50	35	Monitoring
JanSar Inc.	Calhoun	01/31/2020	950,000	236,500	22,842,000	10,957,778	186	95	Monitoring
Cascade Die Casting Group	Kent	12/31/2019	275,000	275,000	5,336,000	627,000	50	54	Monitoring
Ventra Ionia Main, LLC	Ionia	06/01/2018	500,000	500,000	8,504,539	8,541,998	144	406	Monitoring
Hirotec America Inc.	Oakland	12/31/2018	1,000,000	575,000	26,000,000	427,166	110	55	Monitoring
Medbio, Inc.	Kent	07/01/2019	180,000	120,000	3,393,000	5,200,000	45	38	Monitoring
NEMO Capital Partners LLC	Oakland	11/30/2021	621,000	300,000	2,607,300	1,900,000	145	55	Monitoring
S&P Data LLC	Oakland	06/30/2019	1,000,000	600,000	4,380,546	5,050,000	400	100	Monitoring
Walbro Engine Management	Tuscola	03/31/2019	165,000	108,000	4,150,000	5,109,000	25	21	Monitoring
Eissmann Automotive Port Huron LLC	St. Clair	04/30/2019	850,000	440,000	13,550,000	14,350,000	225	132	Monitoring
Roush Industries, Inc.	Wayne	12/31/2018	1,000,000	1,000,000	8,700,775	12,697,714	210	210	Monitoring
HA Automotive Systems, Inc.	Oakland	12/30/2021	2,250,000		28,800,000	11,800,000	208	0	Monitoring
Suniva, Inc.	Saginaw	04/30/2019	2,500,000	1,050,000	12,225,000	17,980,000	350	25	Monitoring
Brembo North America, Inc.	Calhoun	03/31/2020	2,000,000		78,428,651	23,990,537	254	0	Monitoring

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Business Name	County	Grant End Date	Approved Amount	Cumulative Amount Disbursed	Projected Private Investment	Actual Private Investment	New Jobs Committed	Actual New Jobs Created *	Status
Anchor Coupling, Inc.	Menominee	12/31/2018	\$ 1,000,000	\$ 746,666	\$ 9,056,000	\$ 7,107,415	110	57	Monitoring
Celia Corporation	Kent	07/30/2019	233,000		4,175,000	500,000	50	0	Monitoring
Flow-Rite Controls, Ltd.	Kent	07/31/2019	224,000	105,000	6,055,552	105,000	64	0	Monitoring
Middleville Tool & Die Company, Inc.	Barry	08/01/2019	350,000	250,000	6,300,000		35	25	Monitoring
Unified Business Technologies, Inc.	Oakland	12/31/2018	650,000	300,000	17,174,800	6,507,486	150	25	Monitoring
Transform Automotive, LLC	Macomb	02/28/2019	550,000	175,000	41,946,000	36,000,000	77	25	Monitoring
Toyota Motor Engineering & Manufacturing, N.A. Inc.	Washtenaw	12/31/2022	5,000,000		107,650,000		335	0	Monitoring
Neogen Corporation	Ingham	07/31/2019	100,000	72,000	1,035,000	3,320,695	25	155	Monitoring
CDK Global, LLC	Wayne	05/31/2018	1,000,000	250,000	3,590,000	2,000,000	100	25	Monitoring
American Axle & Manufacturing	Wayne	08/31/2019	1,000,000	533,000	15,400,000	24,000,000	75	44	Monitoring
Costco	Wayne	12/31/2019	450,000	225,000	47,890,000	102,789,941	126	179	Monitoring
Hannigan Insurance Agency	Washtenaw	04/30/2019	400,000	81,000	516,000	105,000	75	179	Monitoring
Plasan Carbon Composites, Inc.	Kent	06/30/2020	6,000,000	4,800,000	29,022,000		620	16	Monitoring
Dicastal North America, Inc.	Montcalm	03/31/2020	3,500,000	3,500,000	139,616,538	50,000,000	300	73	Monitoring
Android Industries	Wayne	06/30/2019	500,000	500,000	16,487,341	22,000,000	100	197	Monitoring
Nexthermal Corporation	Calhoun	08/01/2019	250,000	50,000	1,964,000	1,157,130	50	10	Monitoring
Harman- Novi	Oakland	12/31/2020	800,000		44,889,000	16,828,204	150	0	Monitoring

MBDP project agreements awarded in fiscal year 2015:

SL America Corporation	Oakland	12/31/2019	615,000	250,000	8,011,214	1,134,208	72	10	Monitoring
L & W Engineering Company	Wayne	12/31/2018	300,000	150,000	10,100,000	10,324,065	100	62	Monitoring
Summit Polymers, Inc.	Kalamazoo	11/01/2019	800,000	250,000	7,290,552	12,685,405	198	74	Monitoring
NBJX	Wayne	04/30/2020	300,000		8,053,000	363,222	75	0	Monitoring
Lippert Components Manufacturing, Inc.	Macomb	12/31/2018	200,000	100,000	1,668,000	1,461,102	102	103	Monitoring
Mobis North America, LLC	Wayne	02/28/2019	1,250,000	750,000	26,570,000	28,400,000	121	75	Monitoring
Greenfield Die & Manufacturing Corp.	Wayne	12/31/2020	2,000,000	920,000	42,968,954		128	61	Monitoring
Thomson Reuters (Tax & Accounting) Inc.	Washtenaw	12/31/2021	2,400,000		19,866,000	6,207,266	300	0	Monitoring
Magna International of America, Mimco Inc.	Wayne	12/31/2018	3,000,000		59,227,000	59,227,000	175	0	Monitoring
LTC Roll & Engineering	St. Clair	11/30/2019	450,000		8,550,000		90	0	Monitoring
Fullerton Tool Company, Inc.	Saginaw	12/31/2019	430,000	130,000	8,044,884	7,823,331	58	12	Monitoring
Shanghai SIIC Automotive Electric Company STEC	Oakland	12/31/2022	700,000		15,097,200	4,985,327	176	0	Monitoring
TG Fluid Systems USA Corporation	Livingston	05/31/2019	150,000	125,000	12,934,128	24,000,000	36	30	Monitoring
Founders Brewing Company	Kent	12/01/2019	250,000	50,000	40,400,000	50,000,000	72	30	Monitoring
Arconic	Muskegon	12/31/2020	285,000		16,734,500	2,205,297	25	0	Monitoring
DAVID Corporation	Wayne	06/30/2019	150,000	104,000	418,180	1,113,594	26	18	Monitoring
Paslin Company	Macomb	06/30/2020	1,700,000	1,700,000	20,612,000	22,367,794	200	200	Monitoring

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Business Name	County	Grant End Date	Approved Amount	Cumulative Amount Disbursed	Projected Private Investment	Actual Private Investment	New Jobs Committed	Actual New Jobs Created *	Status
Loc Performance Products, Inc.	Wayne	12/31/2019	\$ 600,000	\$ 475,000	\$ 12,140,000	\$ 4,418,615	95	65	Monitoring
Brose North America, Inc.	Wayne	03/31/2022	4,250,000	1,250,000	97,600,000	4,993,035	475	154	Monitoring
Fori Automation	Macomb	12/31/2019	250,000	125,000	9,900,000	21,420,048	52	26	Monitoring
NHK International Corporation	Oakland	12/31/2019	150,000	150,000	9,000,000		26	26	Monitoring
Irwin Seating Company	Kent	12/01/2019	300,000	100,000	1,900,000		60	42	Monitoring
TI Automotive	Oakland	12/31/2020	500,000		7,033,133	3,016,000	97	26	Monitoring
Cargill Kitchen Solutions	Ionia	03/31/2019	262,500	131,250	27,512,000	41,752,705	35	33	Monitoring
OMT VEYHL USA CORPORATION	Ottawa	12/01/2019	750,000	210,000	9,831,700	10,181,115	206	60	Monitoring
Sensient Flavors	Huron	12/31/2020	150,000		31,850,000		28	0	Monitoring
Gentherm Incorporated	Oakland	12/31/2020	750,000	150,000	8,442,500	5,477,515	150	50	Monitoring
Denso Manufacturing Michigan, Inc.	Calhoun	08/14/2017	640,000	640,000	56,635,500	297,818,829	100	100	Monitoring
3Con Corporation	Oakland	02/28/2020	550,000		6,417,500	170,000	136	0	Monitoring
KUKA Systems North America LLC	Macomb	12/31/2019	900,000	250,000	14,400,000	7,130,255	116	28	Monitoring
Superior Industries International Inc.	Oakland	06/30/2022	900,000	645,000	2,517,000		75	51	Monitoring
Daimler AG, Plant Detroit Diesel	Wayne	12/31/2019	1,300,000		208,000,000	106,000,000	245	0	Monitoring
Emhart Teknologies	Macomb	12/31/2019	350,000	200,000	32,871,000	24,200,000	83	50	Monitoring
Plasan North America	Kent	04/01/2020	850,000	350,000	12,330,000		121	41	Monitoring
Atomic Object, LLC	Kent	06/30/2020	250,000	80,000	2,942,700		33	8	Monitoring
Sakthi Auto Group USA	Wayne	12/31/2021	3,500,000	2,750,000	31,865,000	15,000,000	350	251	Monitoring
Terryberry Company	Kent	04/01/2020	250,000	140,000	2,650,000	3,108,160	53	23	Monitoring
Harloff Manufacturing Company	Van Buren	12/31/2019	158,000	60,000	920,250	1,653,000	38	11	Monitoring
Hearthside Food Solutions	Kent	12/31/2017	450,000	450,000	10,698,400	20,806,107	91	149	Monitoring
Bmax USA	Oakland	05/31/2020	250,000		1,348,900	500,000	26	0	Monitoring
Michigan Brand	Saginaw	04/30/2019	250,000	250,000	4,785,000		94	98	Monitoring
Magna Cosma International	Oakland	12/31/2019	1,600,000	130,000	56,088,310	56,088,310	250	20	Monitoring
Ferrous CAL Co.	Wayne	12/31/2050	6,000,000	6,000,000	50,200,000	52,500,000	25	0	Monitoring
Mico Industries	Kent	06/30/2020	350,000	73,000	8,186,955	2,973,793	81	19	Monitoring
Agape Plastics, Inc.	Ottawa	06/01/2020	300,000	90,000	14,715,000	13,425,276	54	30	Monitoring
ZF North America, Inc.	Wayne	12/31/2022	4,000,000		71,198,290	7,756,654	571	0	Monitoring
Spirit Airlines	Wayne	11/30/2019	1,000,000		31,710,000	19,780,744	84	0	Monitoring
Shepherd Caster Corporation	Berrien	12/31/2019	350,000	350,000	1,549,000	1,800,000	50	50	Monitoring
Shift Digital	Oakland	08/31/2020	465,000	150,000	2,481,687	1,486,826	93	76	Monitoring
CW Bearing USA, Inc.	Wayne	07/31/2022	550,000		24,900,000	4,704,917	125	0	Monitoring
Hearthside Food Solutions	Kent	12/31/2018	300,000	150,000	15,678,894	18,200,870	66	64	Monitoring
Magna Dexsys (Norplas)	Eaton	09/01/2019	640,000		10,555,252	3,430,252	192	128	Monitoring
Coyote Logistics	Washtenaw	12/31/2020	320,000		990,800		80	0	Monitoring
Valiant International, Inc.	Oakland	04/30/2021	2,300,000		32,690,000		223	0	Monitoring

This exhibit continued on next page.

Business Name	County	Grant End Date	Approved Amount	Cumulative Amount Disbursed	Projected Private Investment	Actual Private Investment	New Jobs Committed	Actual New Jobs Created *	Status
Neapco Drivelines, LLC	Wayne	12/31/2021	\$ 1,500,000	\$ 500,000	\$ 57,700,000	\$ 17,297,449	167	58	Monitoring
Carhartt, Inc.	Wayne	09/30/2018	625,000		19,340,000	7,671,311	100	0	Monitoring
MBDP project agreements awarded in fiscal year 2016:									
Pro Services	Kalamazoo	09/01/2020	875,000		3,900,000	849,530	175	0	Monitoring
Byrne Electrical Specialists	Montcalm	06/30/2019	160,000		250,000	1,265,000	32	0	Monitoring
Faurecia Automotive Seating Inc.	Macomb	09/30/2018	350,000		8,006,800		90	0	Monitoring
Global Tooling Systems	Macomb	01/30/2020	475,000		3,610,000	5,818,248	70	0	Monitoring
Notions Marketing Corporation	Kent	12/01/2020	800,000		33,000,000		250	0	Monitoring
Total Quality Logistics	Kent	12/31/2021	300,000		839,000	315,624	75	0	Monitoring
MMI Engineered Solutions, Inc.	Washtenaw	02/28/2021	150,000		5,595,000	2,500,000	47	0	Monitoring
Urban Science Applications, Inc.	Wayne	06/30/2020	566,600	165,000	2,084,105	2,794,418	102	30	Monitoring
Hanson Systems, LLC dba Eagle Technologies Group	Berrien	12/31/2021	500,000	200,000	5,970,000	3,275,000	100	28	Monitoring
Rivian Automotive, Inc.	Wayne	07/31/2020	1,770,000	650,000	29,486,000	1,679,286	174	68	Monitoring
Performance Fabricating, LLC	Genesee	03/31/2020	150,000		9,052,942	9,087,000	52	0	Monitoring
LHP Engineering Solutions	Oakland	12/31/2019	399,000		2,300,000	1,900,000	57	0	Monitoring
SalesPad LLC	Kent	12/01/2020	364,000		3,850,000		91	0	Monitoring
Great Expressions Dental Center HQ	Oakland	11/30/2019	300,000		2,550,000	1,567,000	84	0	Monitoring
ThinkTech, Inc.	Washtenaw	07/31/2021	500,000		5,750,000	52,440	75	0	Monitoring
Magna Seating of America Inc.	Wayne	03/30/2019	740,000	247,000	5,989,000		148	95	Monitoring
Disher	Washtenaw	03/01/2021	200,000		1,545,339	505,000	42	0	Monitoring
ROL USA, Inc.	Ottawa	03/01/2020	300,000		19,800,000	900,000	51	0	Monitoring
Swoboda Inc.	Kent	12/31/2021	200,000		15,129,000	1,500,000	37	0	Monitoring
Firstronic, LLC	Kent	03/01/2021	200,000		1,857,000		50	0	Monitoring
Norma Group Americas	Oakland	12/31/2018	175,000		16,079,780	13,796,121	90	0	Monitoring
Marquardt Switches Inc.	Oakland	11/30/2020	300,000		2,514,387	1,921,400	29	0	Monitoring
ST USA Holding Corp dba Sport Truck USA	Branch	04/30/2021	555,000		6,272,500	2,498,312	129	0	Monitoring
Knight Logistics LLC	Kent	02/15/2021	300,000		573,698		87	0	Monitoring
Stoneridge, Inc.	Oakland	06/30/2023	1,400,000		5,150,700	1,053,334	140	0	Monitoring
Duo Security	Washtenaw	04/30/2021	2,500,000		2,485,000	528,000	297	0	Monitoring
iSourceWorldwide, LLC	Genesee	12/31/2025	3,000,000	1,500,000	2,650,000	1,225,000	25	0	Monitoring
Kraft Heinz Company	Ottawa	05/31/2018	500,000		17,200,000		50	0	Monitoring
Spiech Farms	Van Buren	04/30/2021	220,000	100,000	1,052,200	320,000	55	25	Monitoring
Schmitz Foam	Branch	01/31/2020	200,000		9,140,000	2,000,000	39	0	Monitoring
Eagle Film Extruders	Kent	10/31/2020	300,000		17,120,721	13,220,000	50	0	Monitoring
Kent Quality Foods, Inc.	Kent	12/31/2021	750,000		34,870,000		140	0	Monitoring
Majestic Industries, Inc.	Macomb	01/30/2021	210,000		2,110,000	1,436,563	25	0	Monitoring

Business Name	County	Grant End Date	Approved Amount	Cumulative Amount Disbursed	Projected Private Investment	Actual Private Investment	New Jobs Committed	Actual New Jobs Created *	Status
Dornerworks Ltd	Kent	04/01/2020	\$ 200,000	\$ 48,000	\$ 710,000	\$ 20,000	25	12	Monitoring
Shipston Aluminum Technologies International	Ottawa	04/01/2021	600,000		9,974,000		114	0	Monitoring
Cosworth, LLC	Macomb	06/30/2020	2,100,000	1,583,000	1,500,000		50	0	Monitoring
Flex-N-Gate, Inc.	Wayne	06/30/2021	3,500,000		95,075,000		650	0	Monitoring
TREMEC	Oakland	04/30/2020	731,500		53,737,500		133	0	Monitoring
OptiMed	Kalamazoo	06/30/2020	500,000		1,228,750		77	0	Monitoring
Unique Instruments, Inc. dba Orchid Bridgeport	Saginaw	09/30/2017	105,000		5,000,000	2,230,000	30	0	Monitoring
Receptec Corp.	Genesee	11/30/2020	550,000		14,403,000		60	0	Monitoring
Daifuku North America Holding Company	Oakland	01/30/2021	700,000		15,150,000		85	0	Monitoring
Denso Manufacturing Michigan, Inc.	Calhoun	06/30/2017	686,500		37,289,000		125	0	Monitoring
TecNiq	Kalamazoo	09/30/2019	540,000		5,930,819		120	0	Monitoring
Logos Logistics, Inc.	Wayne	09/30/2020	300,000		8,615,000	3,000,000	91	0	Monitoring
JR Automation Technologies, LLC	Ottawa	05/31/2020	2,200,000		5,650,000		250	0	Monitoring
FEV North America, Inc.	Oakland	05/30/2020	1,200,000		27,350,000		246	0	Monitoring
Mitchell Plastics	Macomb	06/30/2019	427,000		20,565,000		122	0	Monitoring
124 Grand Holdings, DBA Stikwood	Kent	04/30/2020	400,000		4,179,999		73	0	Monitoring
National Composites LLC fka Owosso Composite, LLC	Shiawassee	01/31/2020	275,000		1,400,000		76	0	Monitoring
C3 Ventures Flint, LLC	Genesee	06/30/2025	5,700,000	2,500,000	9,684,000	600,000	380	0	Monitoring
Engineered Machined Products, Inc.	Delta	01/31/2020	250,000		3,667,000		40	0	Monitoring
BorgWarner, Inc. - HQ	Oakland	08/31/2018	750,000		15,550,000		76	0	Monitoring
Koops, Incorporated	Allegan	06/01/2020	360,000		4,888,000	52,917	60	0	Monitoring
GE Aviation - Muskegon	Muskegon	11/01/2020	800,000		14,481,000		100	0	Monitoring
Martinrea International Inc.	Oakland	01/31/2021	420,000		5,123,180		60	0	Monitoring
Zhongding USA Cadillac dba Michigan Rubber Products, Inc.	Wexford	01/31/2020	600,000		4,300,000		125	0	Monitoring
Gemini Group, Inc.	Huron	08/31/2022	700,000		48,000,000		85	0	Monitoring
Chem-Trend, Limited Partnership	Livingston	06/30/2020	250,000		7,686,000		25	0	Monitoring
The Oakwood Group	Wayne	05/31/2019	200,000		5,211,500		50	0	Monitoring
Yen Group, LLC	St. Clair	12/31/2019	400,000		10,237,800		80	0	Monitoring
Royal Technologies Corporation	Ottawa	12/31/2019	400,000		33,678,000		66	0	Monitoring
Par Sterile Products, LLC	Oakland	12/31/2019	350,000		58,400,000		30	0	Monitoring
Coastal Automotive	Allegan	09/30/2019	436,000		6,489,848		110	0	Monitoring
Oerlikon Metco USA, Inc.	Wayne	08/30/2019	600,000		49,700,000		67	0	Monitoring
Flex-N-Gate	Calhoun	06/30/2019	250,000		22,300,000		59	0	Monitoring
Totals			<u>\$ 277,656,770</u>	<u>\$ 156,777,016</u>	<u>\$ 5,478,137,088</u>	<u>\$ 5,990,506,566</u>	<u>35,170</u>	<u>17,913</u>	

* The actual number of qualified new jobs created and verified through milestone applications submitted through September 30, 2016. In accordance with MCL Section 125.2088r(7)(d) and the MBDP Program Guidelines adopted by the MSF Board, a qualified new job means a job performed for the qualified business for consideration by an individual who is a resident of Michigan, and whose Michigan income taxes are withheld by an employer, or an employee leasing company or a professional employer organization on behalf of the employer, that is in excess of the number of jobs maintained by the qualified business in this state prior to the expansion or location. MSF may also consider full-time equivalent or hours worked as a method to count a job as a qualified new job and may impose other terms and conditions, including without limitation that the qualified new job may not count if it includes a job transferred from any qualified business facility in Michigan to another qualified business facility located, or to be located, in Michigan.

Source: The OAG prepared this exhibit using MSF's fiscal year 2016 annual report and its Salesforce data.

MICHIGAN BUSINESS DEVELOPMENT PROGRAM
Michigan Strategic Fund, Department of Talent and Economic Development

Number of Active Projects Executed and Qualified New Jobs Committed by Industry¹
For October 1, 2014 Through June 30, 2017

Industry ²	Projects		Jobs	
	Number	Percent	Number	Percent
Transportation Equipment Manufacturing ³	56	30%	9,587	43%
Professional, Scientific, and Technical Services	26	14%	3,040	14%
Machinery Manufacturing	18	10%	1,657	7%
Plastics and Rubber Products Manufacturing	14	7%	1,212	5%
Fabricated Metal Product Manufacturing	11	6%	853	4%
Food Manufacturing	8	4%	579	3%
Primary Metal Manufacturing	6	3%	573	3%
Management of Companies and Enterprises	6	3%	475	2%
Credit Intermediation and Related Activities	3	2%	710	3%
Specialty Trade Contractors	3	2%	306	1%
Computer and Electronic Product Manufacturing	3	2%	252	1%
Chemical Manufacturing	3	2%	240	1%
Furniture and Related Product Manufacturing	3	2%	190	1%
All Other Industries	27	14%	2,727	12%
Total	187	100%	22,401	100%

¹ This exhibit includes only projects executed from October 1, 2014 through June 30, 2017 and in the monitoring stage as of June 30, 2017, as identified in MSF's Salesforce.

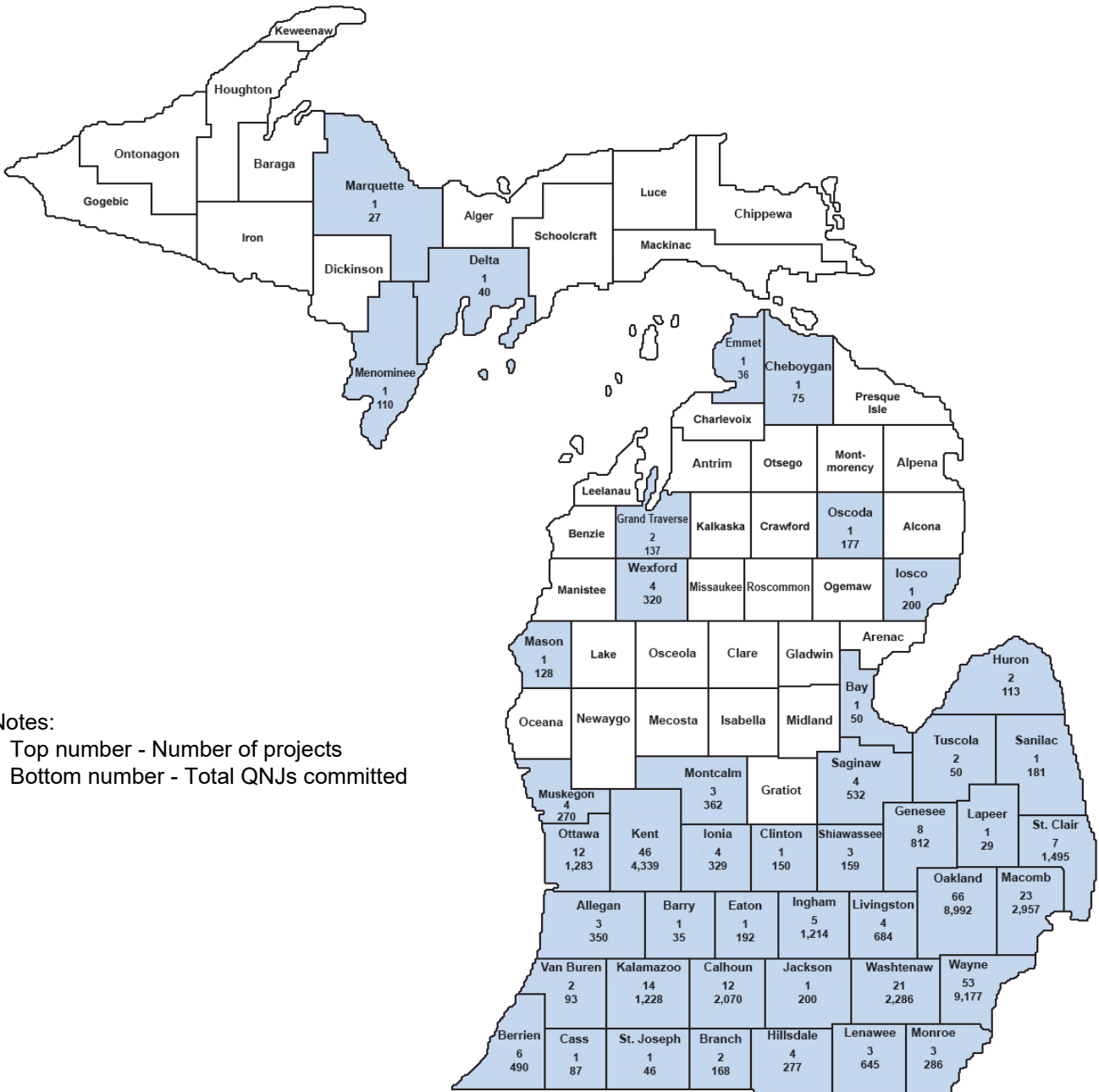
² Industry titles are based on the three-digit North American Industry Classification System (NAICS) codes shown in MSF's Salesforce.

³ Further analysis, using the four-digit NAICS code, indicated that approximately 75% of the projects and new jobs committed related to motor vehicle parts manufacturing.

Source: The OAG prepared this exhibit using MSF's Salesforce data.

MICHIGAN BUSINESS DEVELOPMENT PROGRAM
Michigan Strategic Fund, Department of Talent and Economic Development

Number of Projects and Qualified New Jobs Committed by County*
As of June 30, 2017



Notes:
Top number - Number of projects
Bottom number - Total QNJ's committed

* This exhibit includes only projects in the monitoring stage at some point from October 1, 2014 through June 30, 2017, as identified in MSF's Salesforce.

Source: The OAG prepared this exhibit using MSF's Salesforce data.

PROGRAM DESCRIPTION

Effective December 13, 2011, Public Act 250 of 2011 created MBDP within MSF to provide grants, loans, and other economic assistance to businesses that make qualified investments or provide QNJs in Michigan. Executive Order No. 2014-12 created the Department of Talent and Economic Development and transferred MSF from the Department of Treasury to the Department of Talent and Economic Development.

Qualified investments are capital investments made by the business in the State in support of the project. The QNJs must be held by Michigan residents and be in addition to those maintained in the State prior to the MBDP project. MBDP guidelines require that high technology projects and those located in a rural county create a minimum of 25 QNJs; otherwise, the minimum requirement is 50 QNJs.

There are three types of MBDP projects:

- Performance-based grants to qualified businesses seeking to locate or expand in the State rather than a competing state. Grants represent the majority of MBDP projects.
- Performance-based loans to qualified businesses needing assistance to expand in the State. MBDP loan agreements include flexible terms and conditions, such as below-market interest rates, extended grace and repayment provisions, zero or minimal collateral requirements, and possible loan forgiveness.
- Other economic assistance agreements include MSF participation or other support to enhance the offering of loans by other lenders.

MEDC provides MBDP support services to the MSF Board and handles day-to-day operations for MBDP.

MBDP funding is provided by legislative appropriations from the State General Fund and transfers from the State's 21st Century Jobs Trust Fund. From December 13, 2011 through May 8, 2017, MSF allocated \$399.2 million to MBDP, of which \$163.8 million was expended; \$223.0 million was committed to existing MBDP projects; and \$12.5 million remained available to fund additional MBDP projects.

AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

AUDIT SCOPE

To examine activities and records related to MBDP. 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.

PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered October 1, 2014 through June 30, 2017.

METHODOLOGY

We conducted a preliminary survey to gain an understanding of MBDP operations and controls to establish our audit objectives and methodology. During our preliminary survey, we:

- Interviewed MSF and MEDC management and staff regarding their functions and responsibilities related to MBDP.
- Reviewed applicable State laws, MBDP guidelines, and other pertinent information.
- Obtained an understanding of Salesforce in relation to MBDP, including data input procedures.
- Analyzed MBDP expenditure and other selected data by agreement type, industry type, and county location.
- Obtained an overview of MSF's processes for awarding and monitoring MBDP projects, including a review of documentation for 4 judgmentally selected projects.
- Verified that the key data elements for the 31 projects, cited in the approved minutes of 5 randomly selected monthly MSF Board meetings, were accurately entered into Salesforce.
- Reviewed MSF's fiscal year 2016 annual report to determine if any businesses were awarded more than \$10 million for MBDP projects in any fiscal year.

* See glossary at end of report for definition.

OBJECTIVE #1

To assess the sufficiency of MSF's process for awarding MBDP projects.

To accomplish this objective, we:

- Randomly selected 25 of the 196 MBDP projects awarded from October 1, 2014 through June 30, 2017 to determine if:
 - MSF considered the appropriate factors when evaluating the project's initial approval.
 - MSF conducted creditability reviews and background checks.
 - MSF reviewed and considered all relevant financial information.
 - MSF entered accurate and complete information for key fields into the Regional Economic Models, Inc.* (REMI) system.
 - MSF entered accurate and complete information for key fields in its REMI-ROI spreadsheet and ensured that the REMI-ROI spreadsheet contained accurate formulas.
 - The MSF Board approved and the applicable parties signed the project agreement.

We randomly selected these projects to eliminate bias and enable us to project the results to the entire population.

- Analyzed MBDP data within Salesforce to determine if any approved projects did not include the minimum required QNJs or if they relate to a retail or job retention project.
- Reviewed 15 of the 259 unpursued MBDP applications submitted from December 13, 2011 through June 30, 2017 to determine if any were improperly closed. We randomly selected these applications to eliminate bias and enable us to project the results to the entire population.
- Reviewed 5 of the 25 employees involved in the MBDP project application process from October 1, 2014 through June 30, 2017 to verify that the employees completed a conflict of interest form and had no unresolved conflicts. We randomly selected these employees to eliminate bias and enable us to project the results to the entire population.

* See glossary at end of report for definition.

OBJECTIVE #2

To assess the effectiveness of MSF's efforts to monitor MBDP project agreement compliance.

To accomplish this objective, we:

- Selected 25 of the 339 MBDP projects that were in the monitoring stage of the project agreement at any time during our audit period and reviewed MSF's documentation that it:
 - Verified the businesses' compliance with key milestone requirements for the 14 projects that had a key milestone date during our audit period, which included our examination of the supporting documentation maintained by MEDC.
 - Reviewed supporting documentation prior to disbursing grant funds for the 11 projects that had a QNJ milestone date during our audit period.
 - Ensured that the businesses submitted their annual progress report for the 20 projects that were required to submit an annual progress report during our audit period.
 - Appropriately addressed noncompliance with key milestone requirements for the 7 projects that were not in compliance with the project agreement.

We randomly selected these projects to eliminate bias and enable us to project the results to the entire population.

OBJECTIVE #3

To assess MSF's compliance with MBDP statutory reporting requirements.

To accomplish this objective, we:

- Reviewed MSF's evaluation of data input controls.
- Compared information included in MSF's fiscal year 2015 and 2016 annual reports and posted on MEDC's Web site with the legislative reporting requirements.
- Compared data for 10 of the 339 projects in Salesforce with the supporting documentation to ensure the accuracy of the Salesforce data. We randomly and judgmentally selected the projects to eliminate bias and increase audit efficiency. Therefore, we could not project the results to the entire population.
- Traced key information included in the fiscal year 2016 annual report for 15 of the 274 projects to Salesforce.

We randomly selected the projects to eliminate bias and enable us to project the results to the entire population.

- Reviewed the reasonableness of the average annual salary for new jobs as reported in the businesses' annual progress reports for 10 of the 339 projects in Salesforce. We randomly selected the projects to eliminate bias and enable us to project the results to the entire population.
- Recalculated the aggregate projected ROI included in MSF's annual reports for fiscal years 2015 and 2016.
- Traced key information posted on MEDC's Web site to Salesforce for 9 of the 184 projects indicated on the Web site as approved from October 1, 2014 through June 30, 2017. We randomly selected the projects to eliminate bias and enable us to project the results to the entire population.
- Tested the timeliness of the submission of the fiscal year 2015 and 2016 annual reports and reviewed MEDC Web site updates for selected dates.

OBJECTIVE #4

To assess the sufficiency of MSF's efforts to evaluate MBDP's economic development outcomes.

To accomplish this objective, we:

- Interviewed MSF and MEDC management and staff to identify program evaluation measures and to determine if MSF had compared the actual and projected ROI's for completed projects.
- Judgmentally selected 4 of the 8 "BDP Effectiveness" documents completed by MEDC and/or MSF during our audit period and verified the accuracy of selected factors used by MSF to evaluate MBDP. We then judgmentally selected businesses for verification. We could not project our results to the entire population because of the judgmental selection.
- Selected 11 of the 339 projects that were in the monitoring stage of the agreement at any time during our audit period and that had a QNJ milestone requirement during our audit period. We reviewed the employees' earning statements to determine if the QNJs created were full-time or part-time jobs. We randomly selected these projects to eliminate bias and enable us to project the results to the entire population.
- Reviewed MEDC's analysis of the defaulted projects and related recommendations.

CONCLUSIONS

We base our conclusions on our audit efforts and any resulting material conditions* or reportable conditions.

When selecting activities or programs for audit, we direct our efforts based on risk and opportunities to improve State government operations. Consequently, we prepare our performance audit reports on an exception basis.

**AGENCY
RESPONSES**

Our audit report contains 3 findings and 3 corresponding recommendations. MSF's preliminary response indicates that it disagrees with 2 recommendations and partially agrees with 1 recommendation.

The agency preliminary response that follows each recommendation in our report was taken from MSF's written comments and oral discussion at the end of our 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 to submit it to the State Budget Director upon completion of an audit. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, 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.

**SUPPLEMENTAL
INFORMATION**

Our audit report includes supplemental information presented as Exhibits #1 through #3. Our audit was not directed toward expressing a conclusion on this information.

* See glossary at end of report for definition.

GLOSSARY OF ABBREVIATIONS AND TERMS

auditor's comments to the agency preliminary response	Government auditing standards require auditors to evaluate the validity of the audited entity's response when it is inconsistent or in conflict with the findings, conclusions, or recommendations. If the auditors disagree with the response, they should explain in the report their reasons for disagreement. Therefore, when this situation arises, the OAG includes auditor's comments to comply with this standard.
benchmark	A criterion, or standard, by which to measure something.
effectiveness	Success in achieving mission and goals.
FTE	full-time equated.
full-time job	As used within MBDP project applications, a job that is 35 hours or more per week.
key milestone	A required major achievement of a business as described in its MBDP project agreement.
leverage ratio	The ratio of private investment by the businesses to the incentive dollars provided to these businesses. Incentive dollars do not include programs that utilize funding mechanisms that are not included in the MSF budget (e.g., tax increment financing and private activity bonds).
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. Our assessment of materiality is in relation to the respective audit objective.
MBDP	Michigan Business Development Program.
MEDC	Michigan Economic Development Corporation.
milestone report	A report submitted by a business to demonstrate and certify the completion of one or more key milestones.

MSF	Michigan Strategic Fund.
NAICS	North American Industry Classification System.
outcome	An actual impact of 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.
progress report	The annual report submitted by a business no later than October 10 of each year during an MBDP project that includes quantitative data required by Public Act 270 of 1984, as amended.
qualified business	A business that is located or operates in Michigan or will locate or operate in Michigan as determined by MSF. A qualified business may include more than one business as determined by the MSF Board.
qualified investment	Investment in Michigan related to a project subject to a written agreement under Section 125.2088r of the <i>Michigan Compiled Laws</i> .
qualified new job (QNJ)	A job performed by an individual who is a resident of Michigan whose Michigan income taxes are withheld by an employer, or an employee leasing company or professional employer organization on behalf of the employer, that is in excess of the number of jobs maintained by the qualified business in Michigan prior to the expansion or location, as determined and verified by MSF. A QNJ need not be a full-time job.
Regional Economic Models, Inc. (REMI)	A method of analysis that utilizes projected personal income generated through direct jobs created by the companies, indirect jobs as a result of the projects, and projected capital investment.
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.

return on investment (ROI) A performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. To calculate ROI, the benefit (or return) of an investment is divided by the cost of the investment, and the result is expressed as a percentage or a ratio.

Salesforce A customer relationship management information system used by MSF and businesses to document and monitor MBDP.

term of the grant The period specified in an MBDP project agreement within which the business must maintain required base employee and QNJ levels.



Report Fraud/Waste/Abuse

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