



MICHIGAN STRATEGIC FUND

November 12, 2019

Mr. Richard Lowe
Office of Internal Audit Services
State Budget Office
George W. Romney Building
111 South Capitol Avenue, 6th Floor
Lansing, Michigan 48913

Dear Mr. Lowe:

In accordance with the State of Michigan, Financial Management Guide, Part VII, please see the attached summary of findings and associated corrective action plans to address recommendations contained within the Office of the Auditor General's report on the Michigan Business Development Program (Report Number: 186-0500-17) administered by the Michigan Strategic Fund in conjunction with the Michigan Economic Development Corporation.

Should you have any questions regarding the attached information, please contact me directly at (517) 241- 6733 or at TrepkoskiJ2@michigan.org.

Sincerely,

Signature Redacted

Jill Trepkoski
Chief Financial and Procurement Officer

c: JoAnne Huls, Chief of Staff, Executive Office
Doug Ringler, Office of the Auditor General
Sen. Jim Stamas, Chair, Senate Appropriations Committee
Sen. Ken Horn, Chair, Senate Economic and Small Business Development Committee
Rep. Shane Hernandez, Chair, House Appropriations Committee
Rep. Mark Huizenga, Chair, House Appropriations Subcommittee on General Government
Rep. Steve Marino, Chair, House Commerce and Tourism Committee
Chris Harkins, Director, Senate Fiscal Agency
Mary Ann Cleary, Director, House Fiscal Agency
Christin Armstrong, MEDC Compliance
Allen Williams, LEO Internal Control Officer

Michigan Strategic Fund
Michigan Business Development Program
Summary of Agency Responses to Recommendations
Audit Period: October 1, 2014 — June 30, 2017

Audit recommendations the agency complied with:

2c, 2d, 2e, 2f, and 3c

Audit recommendations the agency agrees with and will comply:

None

Audit recommendations the agency disagrees with:

1a, 1b, 1c, 2a, 2b, 3a, 3b

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Audit Finding:

1. MSF could improve its qualified new job (QNJ) verification process to help ensure that businesses created and maintained the QNJs 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.

Recommendation:

We recommend that MSF strengthen its QNJ verification process.

Agency Response:

1a: Require additional information from businesses to verify the completion of milestones with the grant agreements, including verification from independent sources.

- *MSF disagrees and identified multi-variant approach for verification already in place and identified large barriers to use of independent sources, like unemployment insurance data, for verification based on issues of data security and increased risk for limited benefit in process improvement.*

1b: Require verification of milestones through the end of the grant period.

- *MSF disagrees and identified inaccuracies within the finding that contradict the recommendation.*

1c: Obtain and maintain records for milestone verification.

- *MSF disagrees and provided data in response to requests; MSF has a continuous improvement process in place to support records retention.*
- *Records retention improvements will be complete by 9/30/2019.*

Audit Finding:

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

Recommendation:

We recommend that MSF properly report all annually required information.

Agency Response:

2a: Report aggregate actual return on investment for the program.

- *MSF disagrees and the reporting period did not include enough completed agreements to complete this calculation, as MSF indicated in its response. The next annual report will include that calculation.*
- *The next annual report will be out by April 10, 2020.*

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2b: Report itemized revenues sources, actual expenditures and FTE positions for the program.

- *MSF disagrees and contends that it met the legislative reporting requirements for revenues, expenditures and FTEs. To alleviate further confusion, MSF worked with the Legislature to adjust the boilerplate language containing the requirements for greater clarity moving forward.*

For findings 2c-f, MSF complied and has made the recommended adjustments to its calculations for greater precision, and the organization has updated its training as it implemented these changes.

2c: Adjust methodology and training to support more accurate projected return on investment calculations for the program.

2d: Adjust methodology for calculations from simple average to weighted average for projected aggregate return on investment.

2e: Adjust methodology for calculations to use the numbers from final grant agreements rather than grant applications for return on investment calculations.

2f: Adjust process to ensure that data used to calculate local tax abatement costs is accurate and the resulting calculations are accurate.

Audit Finding:

3. MSF should improve its efforts to evaluate the economic impacts and overall benefit of MBDP.

Recommendation:

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

Agency Response:

3a: Report aggregate actual return on investment for the program.

- *MSF disagrees and the reporting period did not include enough completed agreements to complete this calculation, as MSF indicated in its response. The next annual report will include that calculation.*
- *The next annual report will be out by April 10, 2020.*

3b: Report a cumulative projected return on investment for the program rather than fiscal year by fiscal year.

- *MSF does not agree that the approach used in reporting their projected return on investment by fiscal year was out of compliance with legislative requirements.*

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3c: Adjust methodology for calculations to use the numbers from final grant agreements rather than grant applications for return on investment calculations.

- *MSF has made the recommended adjustments to its calculations for greater precision, and the organization has updated its training as it implemented these changes.*