

Office of the Auditor General
Performance Audit Report

Disadvantaged Business Enterprise Program

Office of Business Development
Michigan Department of Transportation

December 2020

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.

The auditor general may make investigations pertinent to the conduct of audits.

Article IV, Section 53 of the Michigan Constitution



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Report Summary

*Performance Audit
Disadvantaged Business Enterprise (DBE)
Program
Office of Business Development (OBD)
Michigan Department of Transportation
(MDOT)*

Report Number:
591-0351-20

Released:
December 2020

The DBE Program operates under the federal requirements in Title 49, Part 26 of the *Code of Federal Regulations* to increase the participation of minorities, women, and other socially and economically disadvantaged business owners in federally funded road projects. The DBE Program strives to remove barriers to entry and help disadvantaged firms develop the ability to compete in their industry. As of May 29, 2020, 397 certified DBEs had worked on more than 1,600 jobs between October 1, 2018 and May 31, 2020. The DBE Program is administered by MDOT's OBD, which expended \$3.36 million in fiscal year 2019 and had 22 full-time employees as of April 7, 2020.

Audit Objective			Conclusion
Objective #1: To assess the sufficiency of OBD's efforts to ensure that DBEs comply with certification requirements.			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 OBD's administration of the DBE Program.			Effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
MDOT field staff did not submit 8 (24%) of 33 sampled forms to document that DBEs performed the contracted work. Also, in 4 (16%) of 25 instances, the form was not complete (<u>Finding #1</u>).		X	Agrees

Audit Objective			Conclusion
Objective #3: To assess the effectiveness of selected access controls over the Michigan Unified Certification Program (MUCP) system.			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
Three (8%) of 38 users we reviewed no longer required access to the MUCP system (<u>Finding #2</u>).		X	Agrees

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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



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Doug A. Ringler, CPA, CIA
Auditor General

December 23, 2020

Mr. Todd Wyett, Chair
State Transportation Commission
and
Paul C. Ajegba, PE, Director
Michigan Department of Transportation
Murray D. Van Wagoner Building
Lansing, Michigan

Dear Mr. Wyett and Mr. Ajegba:

This is our performance audit report on the Disadvantaged Business Enterprise Program, Office of Business Development, Michigan Department of Transportation.

We organize our findings and observations by audit objective. Your agency 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 Office 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

TABLE OF CONTENTS

DISADVANTAGED BUSINESS ENTERPRISE PROGRAM

	<u>Page</u>
Report Summary	1
Report Letter	3
Audit Objectives, Conclusions, Findings, and Observations	
Certification Requirements	8
Administration of the DBE Program	10
Findings:	
1. Improvements needed to the preparation of CUF review forms.	11
Access Controls Over the MUCP System	13
Findings:	
2. Improvements needed to MUCP system security and access controls.	14
Supplemental Information	
Exhibit #1 - Locations of Certified DBEs	16
Exhibit #2 - Total Amount of FHWA Funding to DBEs and Non-DBEs	17
Exhibit #3 - Total Amount of FHWA Funding by DBE Group	18
Program Description	19
Audit Scope, Methodology, and Other Information	20
Glossary of Abbreviations and Terms	25

AUDIT OBJECTIVES, CONCLUSIONS, FINDINGS, AND OBSERVATIONS

CERTIFICATION REQUIREMENTS

BACKGROUND

The Disadvantaged Business Enterprise* (DBE) Program* is a federally required program designed to increase the participation of minorities, women, and other socially and economically disadvantaged business owners in federally funded road projects. The DBE Program is administered by the Office of Business Development (OBD), Michigan Department of Transportation (MDOT).

OBD reviews applications submitted by prospective DBEs to ensure that applicants meet federal eligibility standards defined by the United States Department of Transportation (USDOT). OBD must inform the applicant within 15 days if additional information is needed. After OBD determines that an application is complete, it has 90 days to approve or deny the application or provide notice to the applicant of a 60-day extension. Each individual firm owner applying to participate as a DBE must certify that he or she has a personal net worth (PNW) that does not exceed \$1.32 million. OBD maintains an online directory of certified DBEs so that MDOT and contractors can identify the DBEs for potential subcontracts or other opportunities.

To maintain eligibility, DBEs must submit annual affidavits to OBD affirming that they continue to meet USDOT eligibility criteria. OBD decertifies firms that fail to submit affidavits within a reasonable time frame or that no longer meet the DBE Program eligibility criteria.

MDOT certified 57 new DBEs from October 1, 2018 through May 19, 2020. As of May 29, 2020, there were 397 MDOT-certified DBEs that worked on more than 1,600 jobs between October 1, 2018 and May 31, 2020 (see Exhibit #1 for locations of certified DBEs).

AUDIT OBJECTIVE

To assess the sufficiency of OBD's efforts to ensure that DBEs comply with certification requirements.

CONCLUSION

Sufficient.

FACTORS IMPACTING CONCLUSION

- OBD made timely approval or denial decisions within 90 days as required by Title 49, Part 26 of the *Code of Federal Regulations** (CFR) for the 63 DBE applications that we reviewed.

* See glossary at end of report for definition.

- OBD maintained sufficient documentation to support its approval decisions for the 10 DBE applications that we reviewed.
- OBD ensured that each DBE applicant's PNW did not exceed the eligibility threshold for the 10 applicants that we reviewed.
- OBD reviewed application materials, completed necessary site visits, and retained documentation to support its denial decisions for the 6 applications that we reviewed.
- For the 75 applications we reviewed, OBD notified prospective DBEs within a timely manner that their applications contained insufficient information to be considered viable for approval.
- OBD ensured that DBEs submitted annual affidavits within a reasonable time for the 25 firms that we reviewed.
- OBD maintained appropriate documentation and documented a reasonable basis for decertifying the 6 firms that we reviewed.
- All currently certified firms were appropriately published in the DBE online directory.

ADMINISTRATION OF THE DBE PROGRAM

BACKGROUND

OBD establishes an annual DBE participation goal and submits it to USDOT for approval. To meet that goal, MDOT assigns individual goals to selected federally funded construction contracts. Contractors must meet the individual project goal or submit a good faith effort* (GFE) request documenting that they made a reasonable effort to achieve the DBE goal.

Certified DBEs working on federally funded contracts must perform commercially useful functions* (CUFs) for the work to count toward MDOT's annual DBE participation goal. Examples of CUFs include fence clearing and restoration, concrete construction, asphalt hauling to emulsion plants, and landscape restoration.

OBD provides supportive services to assist DBEs in developing their ability to compete for federal-aid construction contracts. This support includes providing training, enlisting consultants for individualized assistance, and reimbursing DBEs for certain business expenses. OBD reimbursed DBEs approximately \$140,000 from October 1, 2018 through May 31, 2020 for business-related expenses.

AUDIT OBJECTIVE

To assess the effectiveness* of OBD's administration of the DBE Program.

CONCLUSION

Effective.

FACTORS IMPACTING CONCLUSION

- GFE requests included appropriate supporting documentation for OBD to make a reasonable decision for the 18 requests that we reviewed.
- Expense reimbursements were appropriate and properly supported for the 25 DBE reimbursements that we reviewed.
- Of the 138 DBEs surveyed, 89% rated their satisfaction with the support provided by OBD as very satisfied, satisfied, or neutral.
- OBD received federal approval for its annual Federal Highway Administration (FHWA) goals for fiscal years 2017 through 2019 and its annual Federal Transit Administration goal for fiscal years 2018 through 2020.
- Reportable condition* related to ensuring that CUF forms are prepared for all projects with DBE participation (Finding #1).

* See glossary at end of report for definition.

FINDING #1

Improvements needed to the preparation of CUF review forms.

MDOT did not ensure that CUF review forms were prepared or complete for all projects with DBE participation. These forms help ensure that DBEs performed the work for which they were responsible.

USDOT and MDOT require DBE firms to comply with CUF regulations when working on federally funded construction contracts. A DBE firm performs a CUF when it is responsible for the execution of the contracted work and carries out its responsibilities by performing, managing, and supervising the work involved. Federal regulation 49 *CFR* 26.37(b) requires that MDOT's DBE Program include a mechanism to verify that DBE firms actually performed the work that they were contracted to do.

To verify that the DBEs accomplished the contracted work, we reviewed 33 instances between October 1, 2018 and May 31, 2020 in which a CUF review form should have been prepared by MDOT. Our review disclosed that:

- a. MDOT field staff did not prepare CUF review forms in 8 (24%) of the 33 instances.

Prior to 2016, OBD used a log to track the forms but discontinued using the log and began selecting an annual sample of projects to verify the completion of CUF reviews. Implementing a method to track projects with DBE participation would help OBD ensure that all CUF review forms were completed, thereby providing greater assurance that OBD includes in its annual goal only instances in which a DBE performed a CUF.

- b. Of the 25 instances in which MDOT prepared a CUF review form, 4 (16%) were only partially completed.

In these instances, the form was substantially filled out but was not signed by the project engineer or their designee. Also, 1 (4%) was not signed by the project engineer until 11 months after the CUF review occurred and after we requested the form.

OBD believed that there was a lack of clarity among field personnel regarding responsibility for completing the CUF review forms.

RECOMMENDATION

We recommend that MDOT ensure that CUF review forms are prepared and complete for all projects with DBE participation.

AGENCY PRELIMINARY RESPONSE

MDOT provided us with the following response:

MDOT agrees that current DBE monitoring activities, which include a process that was approved by FHWA, can be improved. To help ensure that CUF forms are always prepared and

completed, MDOT's central office and field staff will need to collaborate to develop a process that delivers the desired result.

MDOT will increase training and support to the field to clarify the responsibilities that field personnel have for preparation and completion of the CUF review form.

OBD will increase the running of the random sample from annually to every six months. Region leadership will review results of the sampling with the field to help support a more effective implementation of the approved procedures.

ACCESS CONTROLS OVER THE MUCP SYSTEM

BACKGROUND

Access controls* limit or detect inappropriate access to computer resources, thereby protecting the resources from unauthorized modification, loss, and disclosure. For access controls to be effective, they should be properly authorized, implemented, and maintained.

The Michigan Unified Certification Program (MUCP) system provides a searchable directory of all current Michigan DBE certified firms. Michigan has three certifying agencies: OBD, the Detroit Department of Transportation (DDOT), and Wayne County. These agencies use the MUCP system to administer the DBE Program. In addition to controlling its own user access, OBD controls the access rights for MUCP system users at DDOT and Wayne County. As of June 1, 2020, 28 State employees, 3 DDOT employees, and 7 Wayne County employees had access to the MUCP system.

AUDIT OBJECTIVE

To assess the effectiveness of selected access controls over the MUCP system.

CONCLUSION

Moderately effective.

FACTORS IMPACTING CONCLUSION

- MDOT appropriately limited edit and view capabilities of active MUCP system users to the data belonging to their certifying agency.
- Reportable condition related to improvements needed to MUCP system security and access controls (Finding #2).

* See glossary at end of report for definition.

FINDING #2

Improvements needed to MUCP system security and access controls.

OBD should improve its controls over MUCP system user access to help prevent and detect inappropriate access and protect confidential information from unauthorized access, use, disclosure, modification, or destruction.

State of Michigan Technical Standard 1340.00.020.01 requires agencies to establish a process to control and document the assignment of access rights based on current job responsibilities and the principle of least privilege* and to monitor privileged users' activities. In addition, the Federal Information System Controls Audit Manual* (FISCAM) states that system owners and security managers should periodically monitor user access.

The MUCP system allows users to access sensitive and confidential information, such as federal employer identification numbers, tax returns, and bank documents. The MUCP system had 305 active users as of June 1, 2020. Users are assigned 1 of 5 user roles that provide read-only or edit capability. Thirty-eight users were granted access that allowed them to view or edit confidential information for multiple DBEs within the system. Of the 38 users, 28 were State of Michigan employees and 10 were employees at the other certifying agencies.

Our review disclosed that 3 (8%) of the 38 users no longer required access to the MUCP system. One user was an MDOT employee who left the department in January 2020 (five months prior to our review), and two users worked for certifying agencies. We were unable to determine the time frame for which these users no longer required access; however, the certifying agencies indicated that MDOT had not yet been informed that access should be removed.

OBD indicated that it relies on the other certifying agencies to inform it when an individual no longer requires access to the MUCP system. Also, MDOT holds quarterly meetings with the agencies where user access would be discussed; however, MDOT did not document the discussions. As of June 10, 2020, OBD had not periodically reviewed user access roles and, therefore, could not ensure that user access role privileges were consistent with the user's position, duties, and job responsibilities.

RECOMMENDATION

We recommend that OBD improve its controls over the MUCP system by promptly removing users no longer needing access.

AGENCY PRELIMINARY RESPONSE

MDOT provided us with the following response:

MDOT agrees with the recommendation.

MDOT has dedicated resources to monitor and help ensure the timely review of MUCP user access and is implementing a

* See glossary at end of report for definition.

process to better identify and take timely action on MUCP users who should have access reduced or revoked.

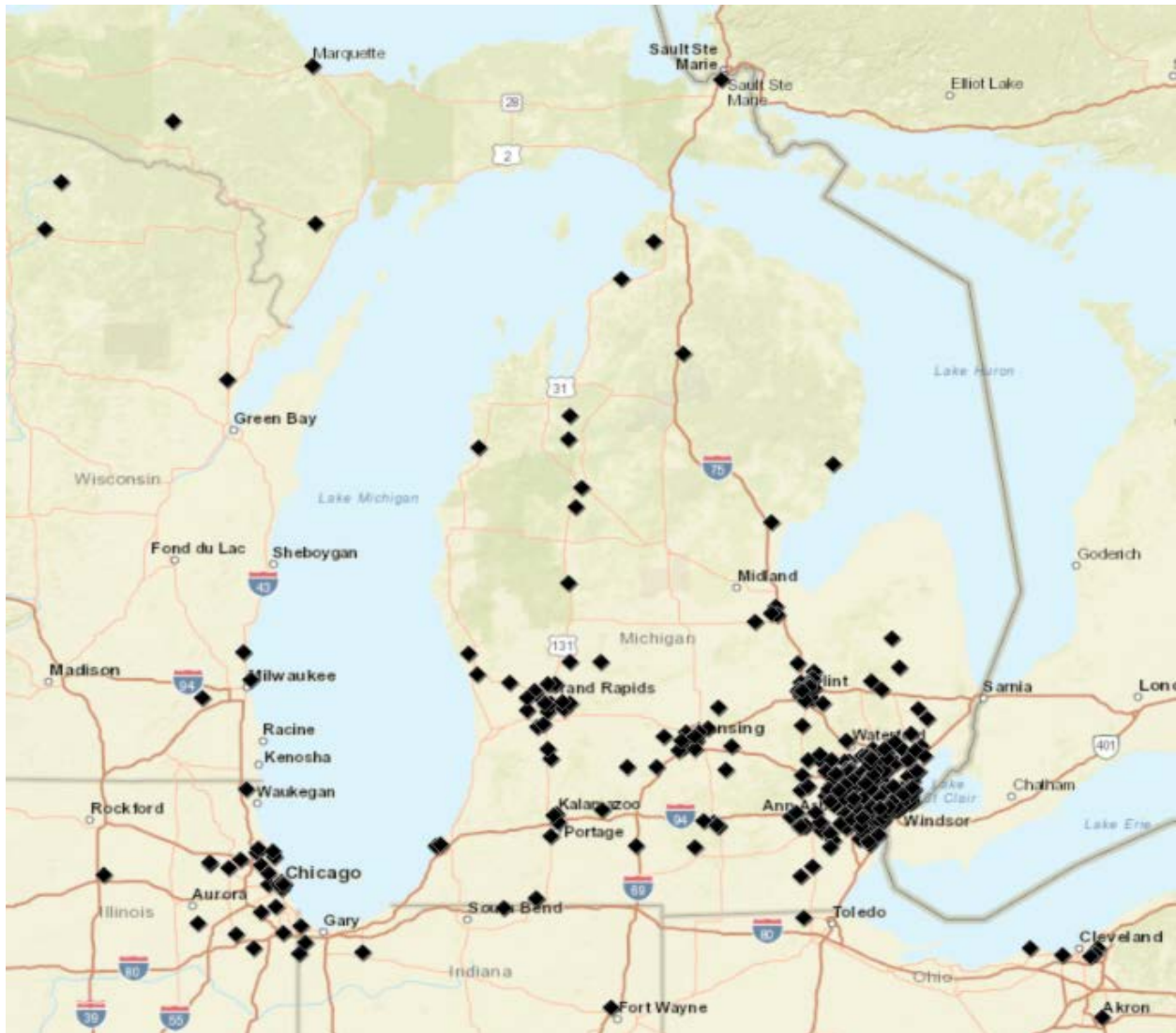
MDOT is implementing a recurring monthly communication with its MUCP certifying-agency partners to review and approve existing MUCP user access. These communications will be documented to facilitate future reviews.

SUPPLEMENTAL INFORMATION

UNAUDITED
Exhibit #1

DISADVANTAGED BUSINESS ENTERPRISE PROGRAM Michigan Department of Transportation

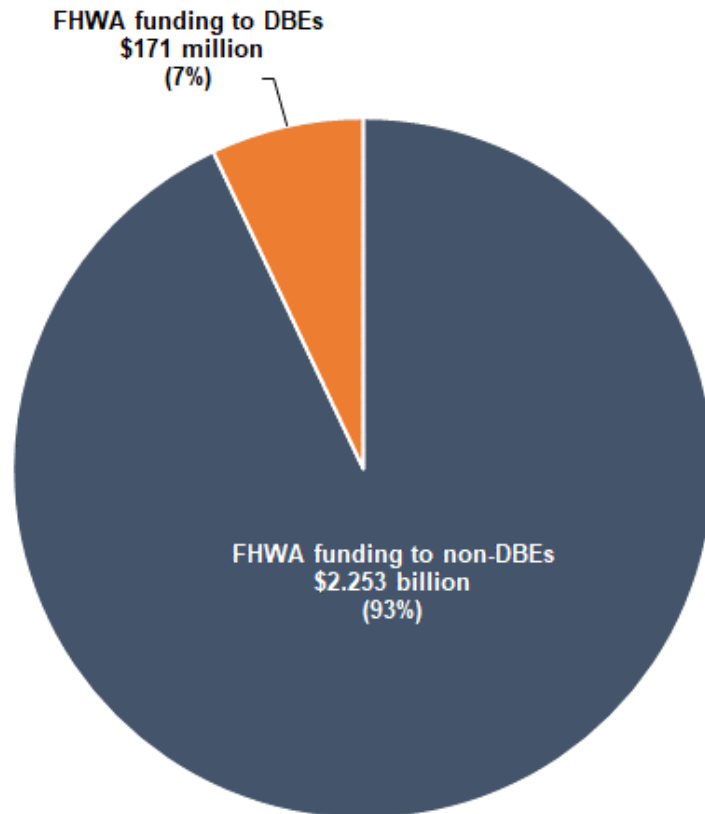
Locations of Certified DBEs
As of September 1, 2020



Source: MDOT prepared this exhibit using data from the MUCP database.

DISADVANTAGED BUSINESS ENTERPRISE PROGRAM
Michigan Department of Transportation

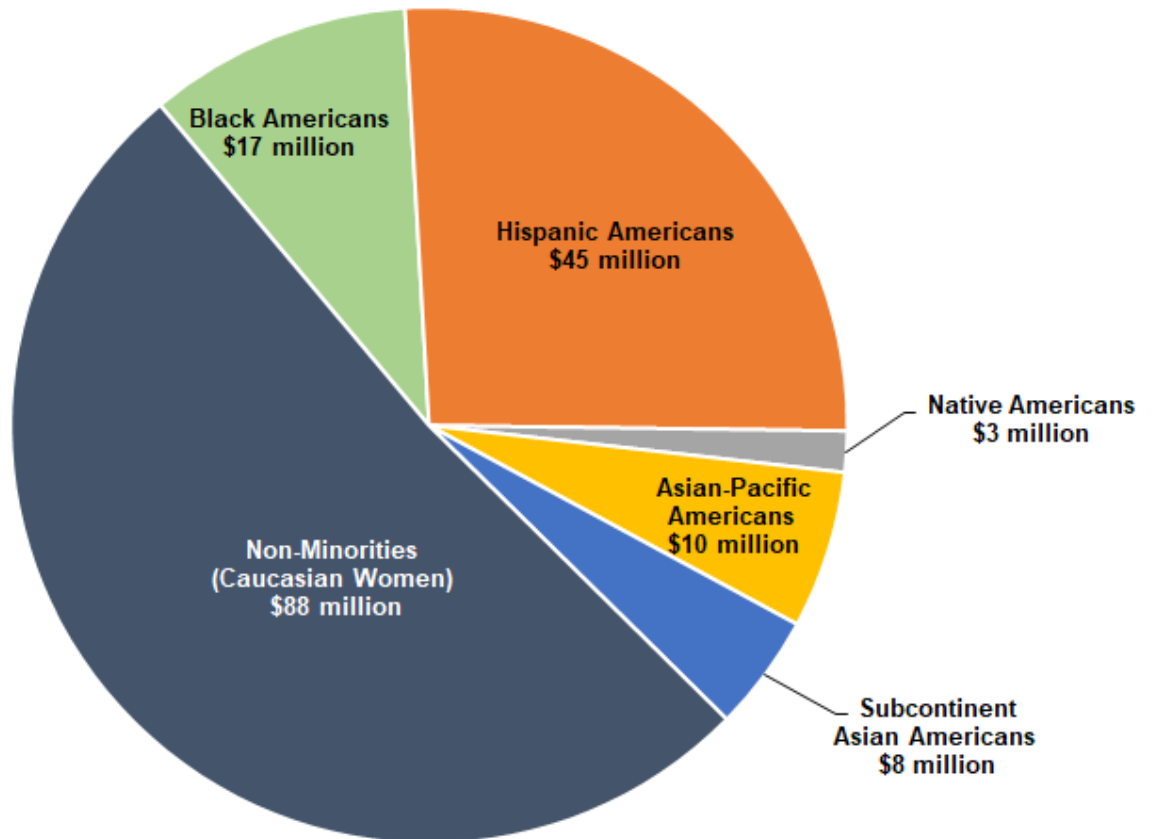
Total Amount of FHWA Funding to DBEs and Non-DBEs
For Fiscal Years 2018 and 2019



Source: MDOT provided the OAG with this information, which originates from MDOT's Trns*Port and AASHTOWare Project systems.

DISADVANTAGED BUSINESS ENTERPRISE PROGRAM
Michigan Department of Transportation

Total Amount of FHWA Funding by DBE Group
For Fiscal Years 2018 and 2019



Source: MDOT provided the OAG with this information, which originates from MDOT's Trns*port and AASHTOWare Project systems.

PROGRAM DESCRIPTION

The DBE Program is a federally mandated program, established by federal regulation 49 *CFR* 26, which is designed to increase the participation of minorities, women, and other socially and economically disadvantaged business owners in federally funded road projects. It strives to remove barriers to entry and help disadvantaged firms develop the ability to compete in their industry (see Exhibits #2 and #3 for the total amount of funding to DBEs and non-DBEs and by DBE group). The DBE Program is administered by MDOT's OBD. In addition to the DBE Program, OBD maintains the On-the-Job Training Program and the Small Business Program.

In fiscal year 2019, OBD expended \$3.36 million on salaries, wages, and administrative expenses. As of April 7, 2020, OBD had 22 full-time employees.

AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

AUDIT SCOPE

To examine the records and processes of OBD related to the DBE Program. 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.

As part of the audit, we considered the five components of internal control (control environment, risk assessment, control activities, information and communication, and monitoring activities) relative to the audit objectives and determined that all components were significant.

PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered October 1, 2018 through May 31, 2020.

METHODOLOGY

We conducted a preliminary survey to gain an understanding of OBD's operations and activities related to the DBE Program in order to establish our audit objectives, scope, and methodology. During our preliminary survey, we:

- Interviewed OBD management and staff regarding DBE Program functions, responsibilities, and activities.
- Obtained an understanding of the various information systems used by OBD to administer the DBE Program.
- Reviewed MDOT policies and procedures and federal laws.
- Reviewed and analyzed OBD expenditures between October 1, 2018 and May 31, 2020.
- Reviewed a sample of applications for timeliness, completeness, and appropriateness of PNW determinations.
- Obtained and analyzed OBD's application intake logs, GFE request tracking logs, DBE reimbursement logs, and a population of currently certified DBEs.
- Reviewed OBD's processes for setting its annual DBE participation goals and reporting goals to USDOT in accordance with federal regulation 49 *CFR* 26.

* See glossary at end of report for definition.

OBJECTIVE #1

To assess the sufficiency of OBD's efforts to ensure that DBEs comply with certification requirements.

To accomplish this objective, we:

- Reviewed all 57 approved applications and all 6 denied applications between October 1, 2018 and May 19, 2020 to determine whether OBD made decisions within the 90-day time frame required by federal regulation 49 *CFR* 26.
- Assessed the reasonableness of MDOT's approval of OBD applications, including PNW documentation, for a random sample of 10 of 57 applications submitted between October 1, 2018 and May 19, 2020.
- Reviewed all 6 denied applications between October 1, 2018 and May 19, 2020 to ensure that OBD's reason for denial was appropriately supported.
- Reviewed all 75 applications submitted between October 1, 2018 and May 19, 2020 that did not contain sufficient information to be considered viable for approval to ensure that OBD informed the applicant of the incomplete application within a reasonable amount of time.
- Randomly sampled 25 of 364 DBEs that were certified as of May 31, 2019 and would have been required to submit at least one annual affidavit to ensure that contractors submitted annual affidavits within a reasonable amount of time.
- Randomly sampled 6 of 51 DBEs that had their certification revoked between October 1, 2018 and May 19, 2020 to evaluate whether OBD had sufficient documentation supporting its decision to decertifying the firms.
- Reviewed data contained within the MUCP system to ensure that the data was complete and accurate and that all firms certified as of May 19, 2020 were included in the online DBE directory.

Our random samples were selected to eliminate any bias and enable us to project the results to the populations.

OBJECTIVE #2

To assess the effectiveness of OBD's administration of the DBE Program.

To accomplish this objective, we:

- Randomly and judgmentally sampled 18 of 167 GFE requests received between October 1, 2018 and May 31, 2020 to review supporting documentation.
- Randomly and judgmentally sampled 25 of 213 DBE reimbursement requests paid between October 1, 2018 and May 31, 2020 to determine whether they were made for proper amounts, had appropriate supporting documentation, and were properly approved.
- Surveyed 400 certified DBEs as of May 19, 2020 and examined the results received from 138 respondents.
- Reviewed OBD's goal methodology that it submitted to FHWA for approval for fiscal years 2017 through 2019 and OBD's goal methodology submitted to the Federal Transit Administration for approval for fiscal years 2018 through 2020.
- Randomly sampled 33 of 1,661 instances in which MDOT or a prime contractor contracted with a DBE to perform a CUF between October 1, 2018 and May 31, 2020 and verified whether MDOT field staff completed documentation supporting that DBEs had performed a CUF.

Our random samples were selected to eliminate any bias and enable us to project the results to the populations. For our judgmental samples, we could not project the results to the respective populations.

OBJECTIVE #3

To assess the effectiveness of selected access controls over the MUCP system.

To accomplish this objective, we:

- Obtained an understanding of the MUCP system, including an explanation of the various user roles and capabilities.
- Obtained and reviewed a listing of 310 active user accounts in the MUCP system as of June 1, 2020. We performed additional review over 38 user accounts that had access privileges allowing them to see records for multiple DBEs to ensure that access was appropriate.
- Interviewed MUCP system administrators to gain an understanding of monitoring activities for the MUCP system.

- Observed a walk-through of an agency user account in the MUCP system to verify that users could not view or edit files maintained by other certifying agencies.
- Obtained and tested read-only access to the MUCP system to verify that users with a read-only role could not edit records in the system.

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 2 findings and 2 corresponding recommendations. MDOT's preliminary response indicates that it agrees with both of the recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion at the end of our 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 Office 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.

* See glossary at end of report for definition.

PRIOR AUDIT FOLLOW-UP

Following is the status of the reported findings from our June 2016 performance audit of the Office of Business Development, Michigan Department of Transportation (591-0350-15):

Prior Audit Finding Number	Topic Area	Current Status	Current Finding Number
1	DBE Certification Decisions	Complied	Not applicable
2	DBE Annual Affidavit Requirements Regulations	Complied	Not applicable
3	Commercially Useful Function (CUF) Regulations	Rewritten*	1
4	Monitoring of On-the-Job Training Opportunities for Disadvantaged Individuals	Not in scope of this audit.	
5	On-the-Job Training Program Reporting Regulations	Not in scope of this audit.	

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

access controls	Controls that protect data from unauthorized modification, loss, or disclosure by restricting access and detecting inappropriate access attempts.
<i>Code of Federal Regulations (CFR)</i>	The codification of the general and permanent rules published by the departments and agencies of the federal government.
commercially useful function (CUF)	A function performed by a DBE when it is responsible for execution of the work of a contract and is carrying out its responsibilities by performing, managing, and supervising the work involved. To perform a CUF, the DBE must also be responsible, with respect to materials and supplies used on the contract, for negotiating price, determining quality and quantity, ordering the material, and installing (where applicable) and paying for the material itself.
DDOT	Detroit Department of Transportation.
disadvantaged business enterprise (DBE)	A for-profit small business concern: (1) that is at least 51% owned by one or more individuals who are both socially and economically disadvantaged or, in the case of a corporation, in which 51% of the stock is owned by one or more such individuals; and (2) whose management and daily business operations are controlled by one or more of the socially and economically disadvantaged individuals who own it.
Disadvantaged Business Enterprise (DBE) Program	A federally required program designed to ensure that firms owned and controlled by minorities, women, and other socially and economically disadvantaged persons have the opportunity to grow and become self-sufficient through participation in federally funded MDOT contracts.
effectiveness	Success in achieving mission and goals.
Federal Information System Controls Audit Manual (FISCAM)	A methodology published by the U.S. Government Accountability Office (GAO) for performing information system control audits of federal and other governmental entities in accordance with <i>Government Auditing Standards</i> .
FHWA	Federal Highway Administration.
good faith effort (GFE)	A documented effort to achieve a DBE goal or other contractual requirement related to the DBE Program.

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.
MDOT	Michigan Department of Transportation.
MUCP	Michigan United Certification Program.
OBD	Office of Business 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.
PNW	personal net worth.
principle of least privilege	The practice of limiting access to the minimal level that will allow normal function. Applied to employees, the principle of least privilege translates to giving people the lowest level of user access rights that they can have and still perform their jobs.
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: a deficiency in internal control; noncompliance with provisions of laws, regulations, contracts, or grant agreements; opportunities to improve programs and operations; or fraud.
rewritten	The recurrence of similar conditions reported in a prior audit in combination with current conditions that warrant the prior audit recommendation to be revised for the circumstances.
USDOT	United States Department of Transportation.



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