



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



THOMAS H. McTAVISH, C.P.A.
AUDITOR GENERAL

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

– Article IV, Section 53 of the Michigan Constitution

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Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit

Report Number:
271-0410-13

21st Century Jobs Trust Fund Programs

Michigan Strategic Fund

Released:
September 2013

The Michigan Strategic Fund Act (Act 270, P.A. 1984, as amended) creates programs that make investments and award grants and loans for the purposes of helping to diversify Michigan's economy, helping to create jobs, and providing for economic development. The Michigan Strategic Fund (MSF) Board contracted with the Michigan Economic Development Corporation to provide administrative services for all 21st Century Jobs Trust Fund programs. Section 125.2088n(1) of the Michigan Compiled Laws requires a periodic performance audit of these programs.

Audit Objective:

To assess the effectiveness of MSF's and the Strategic Economic Investment and Commercialization Board's processes for awarding grants, loans, and contracts for economic development through the 21st Century Jobs Trust Fund programs.

Audit Conclusion:

We concluded that MSF's and the Strategic Economic Investment and Commercialization Board's processes for awarding grants, loans, and contracts for economic development through the 21st Century Jobs Trust Fund programs were effective. Our audit report does not include any reportable conditions related to this audit objective.

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Audit Objective:

To assess the effectiveness of MSF's efforts to monitor recipients' compliance with grant, loan, and contract requirements.

Audit Conclusion:

We concluded that MSF's efforts to monitor recipients' compliance with grant, loan, and contract requirements were moderately effective. We noted one reportable condition (Finding 1).

Reportable Condition:

MSF did not consistently ensure that recipients were in compliance with grant or contract provisions (Finding 1).

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Audit Objective:

To assess the effectiveness of MSF's efforts to evaluate the economic development outcomes of the 21st Century Jobs Trust Fund programs.

Audit Conclusion:

We concluded that MSF's efforts to evaluate the economic development outcomes of the 21st Century Jobs Trust Fund programs were moderately effective. We noted one reportable condition (Finding 2).

Reportable Condition:

MSF needs to improve its processes to assess the effectiveness of the programs administered under the 21st Century Jobs Trust Fund (Finding 2).

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Audit Objective:

To assess MSF's compliance with selected reporting requirements of the *Michigan Compiled Laws* for the 21st Century Jobs Trust Fund programs.

Audit Conclusion:

We concluded that MSF was in partial compliance with selected reporting requirements of the *Michigan Compiled Laws* for the 21st Century Jobs Trust Fund programs. We noted one reportable condition (Finding 3).

Reportable Condition:

MSF did not consistently report program information for the 21st Century Jobs Trust Fund programs that was correct and contained the significant disclosures necessary to fully understand the reported information (Finding 3).

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Agency Response:

Our audit report contains 3 findings and 3 corresponding recommendations. MSF's preliminary response indicates that it agrees with the 3 findings and will comply.

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



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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

September 24, 2013

Mr. Michael A. Finney, President
Michigan Strategic Fund
300 North Washington Square
Lansing, Michigan

Dear Mr. Finney:

This is our report on the performance audit of the 21st Century Jobs Trust Fund Programs administered by the Michigan Strategic Fund.

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

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

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

Sincerely,



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

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Description of Programs

Statutory Authority

The Michigan Strategic Fund Act (Act 270, P.A. 1984, as amended) provides for the Michigan Strategic Fund (MSF) and creates programs that make investments and award grants and loans to help diversify the economy of the State, to help create jobs, and to provide for economic development. Act 215, P.A. 2005, amended the Michigan Strategic Fund Act and provided funding from the 21st Century Jobs Trust Fund for new programs and expanded previous programs. The MSF Board contracted with the Michigan Economic Development Corporation to provide administrative services for all 21st Century Jobs Trust Fund programs.

In addition, Act 215, P.A. 2005, created the Strategic Economic Investment and Commercialization (SEIC) Board to award competitive edge technology* grants and loans for basic research*; applied research*; university technology transfer*; and commercialization* of products, processes, and services. Executive Order No. 2010-8 abolished the SEIC Board and transferred all the powers and duties of the SEIC Board to the MSF Board effective October 18, 2010.

Program Overview

The 21st Century Jobs Trust Fund programs received funding from legislative appropriations through specific line-item appropriations, from earmarks identified in boilerplate language, or from MSF Board allocations of the 21st Century Jobs Trust Fund line-item appropriation. As of March 31, 2013, MSF was appropriated and allocated \$1.0 billion, and \$619.8 million had been expended from fiscal year 2005-06 through March 31, 2013. Exhibits 1 and 2, presented as supplemental information, provide an overview of these programs and appropriations and a summary of the funds appropriated and/or allocated, expended, and invested by program from the 21st Century Jobs Trust Fund. Our audit included 10 of the 39 programs funded by the 21st Century Jobs Trust Fund.

* See glossary at end of report for definition.

We selected the 10 programs based on audit risk and from those that had substantial activity during our audit period. The programs selected included:

- Centers of Energy Excellence
- Business Plan Competitions
- Early Stage Fund
- Entrepreneurial Support Services
- Accelerator Fund Program
- Michigan Promotion Program
- Michigan Defense Center
- University Technology Acceleration and Commercialization Program
- Business Incubators*
- Lakeshore Advantage

MSF administered these 10 selected programs within the following areas:

Attract New Investment Programs (MSF Board Allocation)

The purpose of the Attract New Investment programs is to promote the development and acceleration of businesses in Michigan by leveraging State grants and loans to obtain both private and federal investments. As of March 31, 2013, 109 grants and loans, totaling \$192.6 million, had been awarded and \$77.2 million of the \$192.6 million had been expended through the Attract New Investment programs. Exhibit 3, presented as supplemental information, provides summary information of the grants and loans.

Specifically, we reviewed the 2008 and 2010 Business Plan Competition grants awarded by the MSF Board for the development, acceleration, and sustainability of energy excellence sectors in the State through the Centers of Energy Excellence (COEE). The funds from COEE were used to match federal funding received by grantees. As of March 31, 2013, \$67.0 million had been allocated and awarded. MSF has distributed \$63.7 million of the \$67.0 million to 12 grantees.

Competitive Edge Technology (CET) Entrepreneurial Ventures (MSF Board Allocation)

The purpose of the CET programs is to encourage the development of competitive edge technologies to create jobs in the State. The SEIC Board and the MSF Board awarded grants and loans through a competitive process to organizations that research or

* See glossary at end of report for definition.

commercialize products, processes, or services for the four competitive edge technology sectors of life sciences technology*; advanced automotive, manufacturing, and materials technology*; homeland security and defense technology*; or alternative energy technology* and for infrastructure grants related to those technology sectors. As of March 31, 2013, 167 grants and loans totaling \$212.9 million had been awarded and \$181.9 of the \$212.9 million had been expended through all CET programs. Exhibit 4, presented as supplemental information, provides summary information of the grants and loans.

Specifically, we reviewed the 2006 grants and loans awarded by the SEIC Board for commercialization activities related to bringing a new product to market and commercialization support services for activities that assist companies bringing a product to market. Also, we reviewed the 2008 grants and loans awarded by the SEIC Board for business competition to foster growth of Michigan's technology-based economy by investing in the most promising, nationally competitive commercialization opportunities in one of the four competitive edge technology sectors. As of March 31, 2013, 100 grants and loans totaling \$139.3 million had been awarded and \$134.4 million had been expended through the 2006 and 2008 Business Plan Competitions.

In addition, we reviewed the 2011 grants awarded by the MSF Board for the Early Stage Fund and Entrepreneurial Support Services (ESS). The purpose of these programs is to aid Michigan entrepreneurs in commercializing competitive edge technology fields, including alternative energy, life sciences, homeland security and defense, advanced manufacturing and materials, agricultural processing, information technology, and other innovative sectors. As of March 31, 2013, the Early Stage Fund had awarded 2 grants totaling \$18.4 million and \$8.4 million had been expended and ESS had awarded 8 grants totaling \$12.0 million and \$8.7 million of the \$12.0 million had been expended through ESS.

Further, we reviewed the two 2010 loans awarded by the MSF Board for the Accelerator Fund Program to invest venture capital funds in companies that are at the earliest stages of commercial development, are based in Michigan, and plan to develop products or services that are centered in one of the four competitive edge technology

** See glossary at end of report for definition.*

sectors. As of March 31, 2013, 2 loans totaling \$12.0 million had been awarded and \$4.7 million of the \$12.0 million had been expended through the Accelerator Fund Program.

Michigan Promotion Program (Legislative Line-Item Appropriation)

The purpose of the Michigan Promotion Program is to assist the State of Michigan in the development and implementation of a marketing campaign to improve, among business leaders and tourists, the positive perception of Michigan as a desirable place to do business and travel. Tourism Marketing attracts visitors to the State through seasonal campaigns, familiarization tours, and partnership advertising. Business Marketing and Business Development attracts business growth to the State through a variety of media, broadcast, and print advertising. In 2006 and each succeeding year, the MSF Board allocated funding for purposes of the Michigan Promotion Program. Exhibit 7, presented as supplemental information, details the \$164.9 million allocated for this program and the \$135.8 million expended as of March 31, 2013.

Other 21st Century Jobs Trust Fund Programs (MSF Board Allocations)

The purpose of these other programs is to assist in the areas of defense, university technology, and life sciences, and all have the goal of improving the State's economy through assistance to businesses and universities. These other significant programs and funding were provided for under the 21st Century Jobs Trust Fund programs through statute and annual appropriations. As of March 31, 2013, funding totaling \$39.0 million had been appropriated or allocated and \$17.7 had been expended for all other 21st Century Jobs Trust Fund programs. Exhibit 7, presented as supplemental information, provides the details of these programs.

Specifically, we reviewed the funding for the Michigan Defense Center for Procurement Technical Assistance Centers (PTACs). The PTACs assist Michigan companies in securing federal defense and homeland security procurement contracts. As of March 31, 2013, the Michigan Defense Center had been appropriated \$14.8 million and \$12.1 million had been expended.

Also, we reviewed the University Technology Acceleration and Commercialization (UTAC) Program. The UTAC Program's goal is to facilitate partnerships between universities and the private sector to accelerate the process of implementing

technologies developed by universities to the commercialization phase. As of March 31, 2013, the UTAC Program had been appropriated \$12.8 million and \$4.2 million had been expended.

Legislative Earmarks (Legislative Line-Item Appropriations or Boilerplate Provisions)

These legislative earmarks are for the purpose to assist in projects and programs in a wide variety of areas seeking to improve the State's economy. Legislative earmarks were appropriated directly through annual public acts for projects or programs by the Legislature. As of March 31, 2013, earmarked appropriations by the Legislature totaling \$33.3 million had been made and \$19.2 million had been expended for all legislative earmarks. Exhibit 7, presented as supplemental information, provides the details of these projects and programs.

Specifically, we reviewed Business Incubators. Business Incubators' goal is to foster the development and growth of new, small entrepreneurial companies during their start-up phase. As of March 31, 2013, Business Incubators had been appropriated \$16.6 million and \$5.2 million had been expended.

Also, we reviewed the Lakeshore Advantage appropriations. The Lakeshore Advantage project's goal is to retain a Pfizer-owned facility in Holland, Michigan. Pfizer moved its operation out of the State in 2005, and the Lakeshore Advantage project sought to retain the facility for life sciences technology projects. As of March 31, 2013, Lakeshore Advantage had been appropriated \$10.3 million and \$7.8 million had been expended.

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

Audit Objectives

Our performance audit* of the 21st Century Jobs Trust Fund Programs administered by the Michigan Strategic Fund (MSF) had the following objectives:

1. To assess the effectiveness* of MSF's and the Strategic Economic Investment and Commercialization Board's processes for awarding grants, loans, and contracts for economic development through the 21st Century Jobs Trust Fund programs.
2. To assess the effectiveness of MSF's efforts to monitor recipients' compliance with grant, loan, and contract requirements.
3. To assess the effectiveness of MSF's efforts to evaluate the economic development outcomes of the 21st Century Jobs Trust Fund programs.
4. To assess MSF's compliance with selected reporting requirements of the *Michigan Compiled Laws* for the 21st Century Jobs Trust Fund programs.

Audit Scope

Our audit was required by Section 125.2088n(1) of the *Michigan Compiled Laws*. Our audit scope was to examine the program and other records of the 21st Century Jobs Trust Fund programs. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit procedures, conducted from August 2012 through May 2013, generally covered the period July 1, 2010 through March 31, 2013.

As part of our audit, we compiled supplemental information about the 21st Century Jobs Trust Fund programs based on unaudited information provided by MSF. Our audit was

* See glossary at end of report for definition.

not directed toward expressing an opinion on this information and, accordingly, we express no opinion on it.

Audit Methodology

We conducted a preliminary review of the 21st Century Jobs Trust Fund programs to formulate a basis for developing our audit objectives. Our preliminary review included interviewing staff; reviewing applicable laws, rules, regulations, policies, procedures, reports, grant and loan agreements, contracts, meeting minutes, and other information; analyzing available records, data, and statistics; and obtaining an understanding of the programs' internal control* and operational activities. We selected 10 programs, based on audit risk and from those that had substantial activity during our audit period, to include in our audit scope.

To accomplish our first objective, we reviewed a random sample of grants, loans, and contracts for 7 of the 10 programs to determine whether the awards, investments, and contracts were made in accordance with applicable laws, rules, appropriations acts, and procedures. Also, we examined the MSF Board's meeting minutes and resolutions, procurement practices, requests for proposal, evaluation of proposals, conflict of interest procedures and disclosure statements, and other information we considered necessary.

To accomplish our second objective, we reviewed MSF's monitoring process for the 10 programs by randomly selecting a sample of grants, loans, and contracts to determine if program staff completed monitoring procedures and documented the results.

To accomplish our third objective, we reviewed MSF's files and reports to determine MSF's evaluation efforts regarding the effectiveness of the 10 selected 21st Century Jobs Trust Fund programs. Also, we reviewed the reasonableness of the performance indicators and the accuracy of the selected data. In addition, we conducted research to identify comparable performance standards used in evaluating economic growth programs. Further, we reviewed the reported program metrics to determine the overall success of selected 21st Century Jobs Trust Fund programs.

* See glossary at end of report for definition.

To accomplish our fourth objective, we compared information included with MSF's annual reports for the 10 selected programs with the reporting requirements within the *Michigan Compiled Laws*. On a judgmental basis, we compared the information in the detail reports with program supporting documentation for completeness and accuracy.

Agency Responses and Prior Audit Follow-Up

Our audit report contains 3 findings and 3 corresponding recommendations. MSF's preliminary response indicates that it agrees with the 3 findings and will comply.

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

We released our prior performance audit of the 21st Century Jobs Trust Fund Programs, Michigan Strategic Fund and Strategic Economic Investment and Commercialization Board (271-0410-10), in October 2010. MSF complied with 1 of the 5 prior audit recommendations. We rewrote 3 prior audit recommendations for inclusion in Findings 1 through 3 and determined that 1 prior audit recommendation was no longer applicable.

COMMENTS, FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES

EFFECTIVENESS OF MSF'S PROCESSES FOR AWARDING GRANTS, LOANS, AND CONTRACTS

Audit Objective: To assess the effectiveness of the Michigan Strategic Fund's (MSF's) and the Strategic Economic Investment and Commercialization Board's processes for awarding grants, loans, and contracts for economic development through the 21st Century Jobs Trust Fund programs.

Audit Conclusion: We concluded that MSF's and the Strategic Economic Investment and Commercialization Board's processes for awarding grants, loans, and contracts for economic development through the 21st Century Jobs Trust Fund programs were effective. Our audit report does not include any reportable conditions related to this audit objective.

EFFECTIVENESS OF MSF'S EFFORTS TO MONITOR RECIPIENTS' COMPLIANCE WITH GRANT, LOAN, AND CONTRACT REQUIREMENTS

COMMENT

Background: The 10 programs included within the scope of our audit (see description of programs) had various requirements for progress reports, site visits, quarterly reports, and milestone achievements, including:

- 147 progress reports and 51 site visits required for the 44 recipients sampled in the 10 programs.
- 29 quarterly reports for the 7 recipients sampled in 2 of the 10 programs.
- 190 milestone achievements required for the 39 recipients sampled in 8 of the 10 programs.

We based our assessments on the effectiveness of MSF's processes for monitoring grants, loans, and contracts on the overall results of our audit procedures applied to the 10 programs.

After April 2011, MSF utilized Salesforce* to monitor grants, loans, and contract requirements for 7 of the 10 programs. Salesforce is an on-demand customer relationship management software system that organizes, automates, and synchronizes sales, marketing, customer service, and technical support. MSF specifically uses Salesforce to document program activity, progress reports, site visits, and disbursements related to the 21st Century Jobs Trust Fund programs.

Audit Objective: To assess the effectiveness of MSF's efforts to monitor recipients' compliance with grant, loan, and contract requirements.

Audit Conclusion: We concluded that MSF's efforts to monitor recipients' compliance with grant, loan, and contract requirements were moderately effective. Our audit disclosed one reportable condition* related to the monitoring of recipients (Finding 1).

FINDING

1. Monitoring of Recipients

MSF did not consistently ensure that recipients were in compliance with grant or contract provisions. As a result, MSF could have disbursed funds for grants or contracts that did not achieve the desired economic development goals.

MSF requires recipients to be in material compliance with the requirements of the grant or contract agreement to receive payments. MSF's methods to monitor these requirements, which are unique to each program and each recipient, include reviewing supporting documentation pertaining to milestones or expenditures, conducting site visits, and/or reviewing progress reports.

For the Centers of Energy Excellence (COEE), the 2006 and 2008 Business Plan Competitions, and the Michigan Defense Center, we noted the following exceptions:

- a. MSF's annual site visits conducted for COEE recipients did not fully document the recipients' compliance with grant provisions. As a result, MSF could not document that the MSF staff site visits ensured that recipients were in material compliance with grant agreements.

* See glossary at end of report for definition.

COEE grants require that COEE recipients materially comply with the requirements of the agreement to receive grant payments. MSF's procedures require MSF staff to conduct a minimum of one annual site visit, review submitted semiannual progress reports, and review the final report.

Our review of 20 site visit reports prepared by MSF staff for 6 judgmentally selected COEE recipients disclosed that MSF did not fully document the detail of what was performed and reviewed during the site visit for 9 (45%) of the 20 site visits. Because MSF had not developed policies and procedures to describe the requirements for conducting and documenting site visits, we identified weaknesses in the documentation. Examples of the weaknesses included documentation that consisted of only a site visit meeting agenda, a list of site visit attendees, or a few sentences stating that the site visit occurred. These documents did not detail the activities conducted during the site visit.

- b. MSF did not consistently enforce the submission of progress reports by the 2006 and 2008 Business Plan Competition recipients within the required due dates. As a result, MSF could not effectively monitor grant and/or contract compliance.

Business Plan Competition grants and contracts require recipients to submit progress reports semiannually, due on specific dates. Recipients must be in material compliance with their contract to receive payments.

Our review of 40 progress reports for 11 2006 and 2008 Business Plan Competition recipients disclosed that 8 recipients submitted 14 (35%) of the 40 progress reports at least 10 days past the due date. These progress reports were an average of 39 days late.

- c. MSF did not ensure that payments to each Procurement Technical Assistance Center (PTAC) for the Michigan Defense Center were for actual qualifying expenditures. Verification by MSF of reported expenditures would provide additional evidence that recipients have successfully completed contract requirements.

The contracts between the Michigan Economic Development Corporation and each PTAC require that payments be made upon receipt and approval by the grant administrator of the grantee's quarterly activity report, of an itemized invoice of eligible expenses during the quarter for which payment is sought, and of any other information reasonably requested by the grant administrator. Payment to each PTAC is contingent upon its contract performance and actual qualifying expenditures.

Our review of 5 judgmentally selected PTAC quarterly expenditure reports noted that the PTACs did not submit itemized invoices with the quarterly expenditure reports. Also, the grant administrator did not verify the expenditures in the PTACs' quarterly expenditure reports. MSF allowed PTACs to submit quarterly reports showing only budget-to-actual expenditures by line item. Verification of these expenditure reports through review of itemized invoices and other supporting documentation would assist MSF with ensuring that submitted expenditures were qualified and substantiated. We subsequently substantiated the 5 PTAC expenditure reports by directly obtaining supporting documentation from the PTACs.

We noted a similar condition in our prior audit. In response to that audit, MSF stated that it agreed with the recommendation and would require validation of progress and milestone achievement in the progress report and would validate all reported expenses.

RECOMMENDATION

We recommend that MSF ensure that recipients are in compliance with grant or contract provisions.

AGENCY PRELIMINARY RESPONSE

MSF agrees with the finding. MSF informed us that, for those specific situations cited relating to COEE site visits, Business Plan Competition progress reports, and PTACs, MSF will take the following steps to ensure that those grant and loan recipients are in compliance with grant or contract provisions:

- MSF will develop policies and procedures for site visits and fully document company compliance during annual site visits if required in the grant or

contract provisions. All material site visit information will be input into Salesforce.

- MSF will institute a policy to enforce timely progress reports by notifying companies in advance of progress report due dates and follow up with companies if their progress reports are past due.
- MSF will randomly sample PTACs' self-reporting on a quarterly basis. All PTACs will be sampled at least annually for verification.

EFFECTIVENESS OF MSF'S EFFORTS TO EVALUATE ECONOMIC DEVELOPMENT OUTCOMES

COMMENT

Background: MSF designed the 21st Century Jobs Trust Fund grants, loans, and contracts to provide for measurable milestones for monitoring the progress of the recipients in achieving the economic development goals and objectives of each grant, loan, or contract. The economic development goals are specific to each of the 21st Century Jobs Trust Fund programs, and the milestones are specific to each individual recipient of the grants, loans, and contracts. Various output* performance data is available during the different stages of company growth; however, outcome* performance data may not necessarily be available until the later stages of a program.

Audit Objective: To assess the effectiveness of MSF's efforts to evaluate the economic development outcomes of the 21st Century Jobs Trust Fund programs.

Audit Conclusion: We concluded that MSF's efforts to evaluate the economic development outcomes of the 21st Century Jobs Trust Fund programs were moderately effective. Our audit disclosed one reportable condition related to economic development outcomes (Finding 2).

* See glossary at end of report for definition.

FINDING

2. Economic Development Outcomes

MSF needs to improve its processes to assess the effectiveness of the programs administered under the 21st Century Jobs Trust Fund. Without improved processes, MSF could not determine the extent to which these programs were effective in meeting the program goals and objectives. Program effectiveness should be periodically evaluated to provide management with information that will allow it to make necessary decisions and changes to meet the established program goals. Such an evaluation would require performance indicators for measuring outputs and outcomes; performance standards* for each performance indicator that describe the desired level of outputs or outcomes based on management expectations, peer group performance, and/or historical performance; a management information system to accurately gather output and outcome data; an evaluation of actual data with desired outputs and outcomes; a reporting of the evaluation results to management; and proposals of program modification to improve effectiveness.

For the 10 programs that we reviewed, 4 programs were too early in the program phase to assess their effectiveness. MSF had developed goals and measurable objectives for each program and had collected a variety of outputs related to each program. However, our review of MSF's efforts to evaluate the effectiveness of the remaining 6 programs noted:

- a. MSF had not evaluated the effectiveness of 3 of the remaining 6 programs, including the 2006 and 2008 Business Plan Competitions, COEE, and Business Incubators:
 - (1) MSF did not collect 2006 and 2008 Business Plan Competition performance data, did not evaluate overall effectiveness, and did not evaluate specific grant or contract success. Also, MSF did not compare 2006 and 2008 Business Plan Competition job totals, funds leveraged, and capital investment originally projected in the grant or contract application with the amounts reported as accomplished by recipients whose grants and contracts were completed.

* See glossary at end of report for definition.

Without outcome performance data, MSF could not analyze the economic impact that these program outputs had on the State. For example, new jobs (output) result in increases in personal income to Michigan residents and related individual income tax (outcome) to the State. Developing new products and commercializing these products (outputs) generates business sales and results in increases in sales tax and business tax (outcome).

Our review of the 2006 and 2008 Business Plan Competitions noted that recipients who completed grants self-reported that they met only 390 (22%) of 1,742 of their projected job totals. In one case, the projected job total was 600; however, the recipient created only 7 jobs.

- (2) MSF did not compare the COEE job totals, funds leveraged, and capital investment originally projected in the grant or contract application with the amounts reported as accomplished by recipients whose grants and contracts were completed.

Our review of COEE noted that recipients who completed grants self-reported that they met only 96 (19%) of 500 of their projected job totals. In one case, the projected job total was 200; however, the recipient created only 14 jobs. Comparisons of original projections with final results would aid MSF's evaluation process for future grant and loan applicants.

- (3) MSF did not use relevant performance outcome data to measure the effectiveness of business incubators.

National performance measures for the effectiveness of business incubators include increases in revenue, increases in employment numbers, and additional investments for both current and graduated clients. National standards state that the data to measure these criteria should be collected annually from current clients and for at least five years for clients who have moved from the incubator to their own places of business.

We determined that MSF collected outputs including number of clients served, occupancy rates, programming provided, number of graduates, and entrepreneurial events. MSF informed us that it believes that these are relevant indicators of program effectiveness. However, none of the outputs collected by MSF allow it to measure the outcomes of the program related to increases in revenue, increases in employment numbers, and additional investments created by business clients of the incubators.

We noted a similar condition in our prior audit. In response to that audit, MSF stated that it agreed with the recommendation and that it would begin collecting relevant data to measure the economic impact that programs have had on the State.

- b. MSF had not fully implemented a management information system to track and analyze information related to the 21st Century Jobs Trust Fund programs. As a result, MSF could neither demonstrate nor document that it had evaluated these programs. Our review noted:
 - (1) MSF had not consistently documented progress report and site visit activity within the Salesforce data system for the 2006 and 2008 Business Plan Competitions. Specifically, MSF had not input 4 (10%) of the 40 progress reports into Salesforce. Also, MSF had not documented within Salesforce 9 (39%) of 23 site visits conducted by MSF staff. Although we specifically requested that MSF provide the progress reports and site visit documentation, MSF could not produce documentation for the 4 missing progress reports and the 9 site visits.
 - (2) MSF staff did not document all their COEE monitoring activity within the Salesforce data system. MSF staff had documented COEE activity in several locations, including computer internal hard drives and paper copies.

RECOMMENDATION

We recommend that MSF improve its processes to assess the effectiveness of the programs administered under the 21st Century Jobs Trust Fund.

AGENCY PRELIMINARY RESPONSE

MSF agrees with the finding. MSF informed us that it will improve its processes to assess the effectiveness of 21st Century Jobs Trust Fund programs through the following processes:

- MSF will compare jobs projected to actual jobs created; capital investment projected to actual capital investment; and expected funds leveraged to actual funds leveraged from external sources.
- MSF will collect additional data as recommended by the audit to measure the effectiveness of business incubators.
- MSF will also comply with the recommendation that all material information should be input into Salesforce. All progress reports, site visit reports, and disbursement requests will be captured in Salesforce.

MSF'S COMPLIANCE WITH SELECTED REPORTING REQUIREMENTS OF THE *MICHIGAN COMPILED LAWS*

COMMENT

Background: Of the 10 programs included within the scope of this audit (see description of programs), 8 programs were subject to statutory reporting requirements.

Section 125.2088n(5) of the *Michigan Compiled Laws* requires that MSF annually report to the Governor, the clerk of the House of Representatives, the secretary of the Senate, and the chairpersons of the Senate and House of Representatives standing committees on appropriations regarding the entities that received funding, including the amount and the type of funding; the number of new patents, copyrights, or trademarks applied for and issued; the number of new start-up businesses; the number of new jobs and projected new job growth; amounts of other funds leveraged; the money or other revenue or property returned to the investment fund; the total number of new licensing agreements by institution; the number of new licensing agreements entered into with Michigan-based firms; and products commercialized.

Section 125.2089d of the *Michigan Compiled Laws* requires that MSF submit an annual report on tourism promotion efforts to the Legislature, including the return on investment; the amount spent per market; the amount spent out of the State; when promotions occurred; the types of media purchased; and the types of tourism promoted, specifically cultural, vacation, recreational, leisure, hunting-related, or agriculture-related.

Audit Objective: To assess MSF's compliance with selected reporting requirements of the *Michigan Compiled Laws* for the 21st Century Jobs Trust Fund programs.

Audit Conclusion: We concluded that MSF was in partial compliance with selected reporting requirements of the *Michigan Compiled Laws* for the 21st Century Jobs Trust Fund programs. Our audit disclosed one reportable condition related to reporting requirements (Finding 3).

FINDING

3. Reporting Requirements

MSF did not consistently report program information for the 21st Century Jobs Trust Fund programs that was correct and contained the significant disclosures necessary to fully understand the reported information. Improved reporting procedures would help ensure that the Legislature had reliable data upon which to evaluate program results.

Section 125.2088n(5) of the *Michigan Compiled Laws* requires that MSF submit an annual report to the Legislature detailing the activities of the 21st Century Jobs Trust Fund. Also, Section 125.2089d of the *Michigan Compiled Laws* requires that MSF submit an annual report on tourism promotion efforts and business development efforts to the Legislature.

Of the 10 programs that we reviewed, MSF was required to report annually to the Legislature on 8 of the programs. Our review of the 21st Century Jobs Trust Fund Program annual report, the Michigan Economic Development Corporation annual

activities report, and the Michigan Promotion Program annual report for fiscal years 2010-11 and 2011-12 for the 8 programs disclosed:

- a. MSF did not verify self-reported data received from 21st Century Jobs Trust Fund program recipients.

Recipients who received 21st Century Jobs Trust Fund program funding self-reported on goals and objectives met, including jobs secured, dollars leveraged, and capital investments resulting from the funds received. MSF could not provide any documentation or support demonstrating that MSF verified the reported information to ensure that the data was correctly reported in the legislative report. As a result, the annual report data may have negatively impacted the Legislature's ability to correctly evaluate program results. Specifically, we noted:

- (1) MSF did not adequately disclose current events affecting jobs reported for selected recipients. Without providing disclosure of pertinent changing conditions, MSF and the Legislature could not properly evaluate the effectiveness of COEE.

MSF required recipients who received 21st Century Jobs Trust Fund program funding to submit annual programming activity as of September 30. MSF compiled the submitted data for the 21st Century Jobs Trust Fund legislative report due April 1 of the following year. We determined that one of the COEE recipients, whose grant was complete as of September 30, 2012, reported job totals as of September 30. However, the job totals were no longer a reflection of the true condition of the company as of April 1, 2013. MSF did not include a footnote in its 2012 annual legislative report stating that the recipient went into bankruptcy in October 2012 and was sold to another supplier in January 2013.

The recipient reported total jobs that were 12% higher than what was projected in the recipient's original proposal. This job total contributed to MSF reporting to the Legislature that all COEE recipients met 75% of the COEE projected job totals for the 8 completed grants. However, we

determined that the completed grants, excluding the bankrupt company, met only 19% of the original jobs projection.

- (2) The "initial funds leveraged" dollar amounts reported by MSF changed in the 2012 annual report from the 2011 annual report. The 2011 and 2012 annual report footnotes for the 2006 and 2008 Business Plan Competitions stated that "initial funds leveraged" amounts were taken from the original proposals submitted to MSF by the entities that received funds. We noted that the "initial funds leveraged" changed from \$175 million in the 2011 annual report to \$227 million in the 2012 annual report. This reflected a 30% increase. Because the amounts are taken from original proposals submitted in 2006 and 2008, the amounts should not have changed. MSF informed us that the additional \$52 million was new funds leveraged after the initial proposal and should have been reported as "new funds leveraged" in the 2012 annual report.

We noted a similar condition in our prior audit. In response to that audit, MSF stated that it agreed with the recommendation and would review, and modify as appropriate, the disclosures in the annual report.

- b. MSF did not report any Accelerator Fund Program data in the fiscal year 2010-11 21st Century Jobs Trust Fund Program Annual Report to the Legislature. We noted that there was Accelerator Fund Program activity during fiscal year 2010-11 that should have been reported, including the list of entities that received funding, the total funding received, the type of funding, the number of jobs created in Michigan, and the amount of funds leveraged.

MSF informed us that its lack of reporting of Accelerator Fund Program data was an oversight.

- c. MSF did not disclose in the fiscal year 2011-12 21st Century Jobs Trust Fund Program Annual Report to the Legislature that total funds leveraged and jobs created were self-reported by program recipients and not verified by MSF.

We noted a similar condition in our prior audit. In response to that audit, MSF stated that it agreed with the recommendation and would review, and modify as appropriate, the disclosures in the annual report.

- d. MSF did not include all required information in the fiscal year 2010-11 and 2011-12 Michigan Promotion Program Report to the Legislature. We noted:
- (1) MSF did not identify the amounts spent on tourism promotion efforts by market. Although MSF reported marketing efforts by gross rating points, MSF could not provide the amount expended per market.
 - (2) MSF did not identify the amounts spent for tourism promotion efforts by types of media purchased and types of tourism promoted, specifically cultural, vacation, recreational, leisure, and agriculture-related. MSF identified that it had activity in these types of tourism; however, MSF could not provide the amounts expended by type.

MSF informed us that its lack of inclusion of all required information in the fiscal year 2010-11 and 2011-12 Michigan Promotion Program reports to the Legislature was an oversight.

RECOMMENDATION

We recommend that MSF consistently report program information for the 21st Century Jobs Trust Fund programs that is correct and contains the significant disclosures necessary to understand the reported information.

AGENCY PRELIMINARY RESPONSE

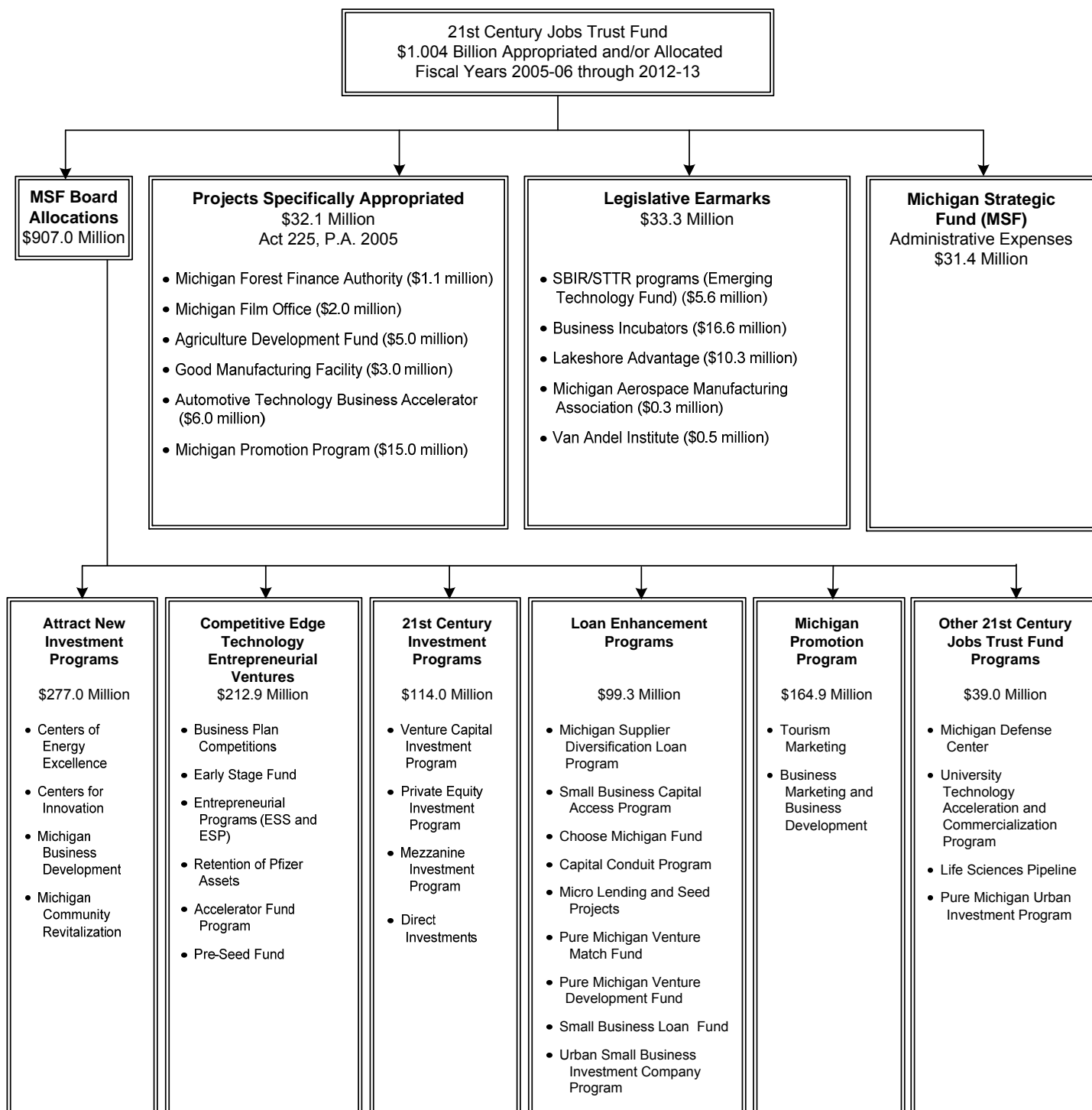
MSF agrees with the finding. MSF informed us that it will assess the materiality of subsequent known events in the period between the close of the fiscal year and the date of reporting to the Legislature for that fiscal year. If MSF determines that a subsequent event is material, MSF will report the event. In addition, MSF informed us that it will take steps to consistently report accurate program information in the reporting to the Legislature through the following processes:

- MSF will establish a procedure to conduct a sampling of self-reported data by companies to confirm the accuracy of the reporting.
- MSF will take steps to ensure that certain carry-forward data reported in the prior year's annual report is consistently reported the following year.

- MSF will take steps to ensure that there is no missing data in the annual reports.
- MSF will take steps to ensure that all statutory requirements for reporting are met.

SUPPLEMENTAL INFORMATION

21st CENTURY JOBS TRUST FUND PROGRAMS
Overview of Programs and Appropriations
As of March 31, 2013



Note: The detail of actual activities of the programs can be found in Exhibits 2 through 7.

Source: The Office of the Auditor General prepared this exhibit based on unaudited accounting records obtained from MSF.

21st CENTURY JOBS TRUST FUND PROGRAMS
 Summary of Funds Appropriated and/or Allocated and Expended and Invested by Program
As of March 31, 2013

| 21st Century Jobs Trust Fund Programs | 21st Century Jobs Trust Fund Appropriations | Jobs for Michigan Investment Fund Allocations |
|---|---|---|
| Attract New Investment Programs | | |
| Centers of Energy Excellence Phase I (1) | \$ 43,000,000 | \$ |
| Centers of Energy Excellence Phase II (1) | 24,000,000 | |
| Centers for Innovation | 10,000,000 | |
| Michigan Business Development Program (MBDP) | 160,000,000 | |
| Michigan Community Revitalization Program (MCRP) | 40,000,000 | |
| Subtotal Attract New Investment Programs | <u>\$ 277,000,000</u> | <u>\$ 0</u> |
| Competitive Edge Technology Entrepreneurial Ventures | | |
| Business Plan Competitions (1) | \$ 139,313,448 | \$ |
| Early Stage Fund (1) | 18,442,000 | |
| Entrepreneurial Support Services (1) | 12,000,000 | |
| Entrepreneurial Services Provider | 5,250,000 | |
| Retention of Pfizer Assets | 11,076,661 | |
| Accelerator Fund Program (1) | 8,000,000 | 4,000,000 |
| Pre-Seed Fund | 14,800,000 | |
| Subtotal Competitive Edge Technology Entrepreneurial Ventures | <u>\$ 208,882,109</u> | <u>\$ 4,000,000</u> |
| 21st Century Investment Programs | | |
| Investment Fund Partnership | \$ 114,000,000 | \$ |
| Subtotal 21st Century Investment Programs | <u>\$ 114,000,000</u> | <u>\$ 0</u> |
| Loan Enhancement Programs | | |
| Michigan Supplier Diversification Loan Program | \$ 23,300,000 | \$ 8,000,000 |
| Small Business Capital Access Program | 3,500,000 | 500,000 |
| Choose Michigan Fund | 9,000,000 | |
| Capital Conduit Program | | 30,000,000 |
| Micro Lending and Seed Projects | | 2,000,000 |
| Pure Michigan Venture Match Fund | | 8,000,000 |
| Pure Michigan Venture Development Fund | | 9,000,000 |
| Small Business Loan Fund | | 1,000,000 |
| Urban Small Business Investment Company Program | | 5,000,000 |
| Subtotal Loan Enhancement Programs | <u>\$ 35,800,000</u> | <u>\$ 63,500,000</u> |
| Michigan Promotion Program | | |
| Tourism Marketing (1) | \$ 107,500,000 | \$ 4,282,500 |
| Business Marketing and Business Development (1) | 51,725,000 | 1,417,500 |
| Subtotal Michigan Promotion Program | <u>\$ 159,225,000</u> | <u>\$ 5,700,000</u> |
| Other 21st Century Jobs Trust Fund Programs | | |
| Michigan Defense Center (formerly Defense Contract Coordination Center) (1) | \$ 14,766,000 | \$ |
| University Technology Acceleration and Commercialization Program (1) | 12,800,000 | |
| Life Sciences Pipeline | 1,400,000 | |
| Pure Michigan Urban Investment Program | | 10,000,000 |
| Subtotal Other 21st Century Jobs Trust Fund Programs | <u>\$ 28,966,000</u> | <u>\$ 10,000,000</u> |

This exhibit continued on next page.

UNAUDITED
Exhibit 2

| Total Appropriated and/or Allocated | Total Expended and Invested | Percent Expended and Invested of Total Appropriated and/or Allocated |
|--|--------------------------------|---|
| \$ 43,000,000 | \$ 43,000,000 | 100.00% |
| 24,000,000 | 20,660,001 | 86.08% |
| 10,000,000 | 2,500,000 | 25.00% |
| 160,000,000 | 11,084,616 | 6.93% |
| 40,000,000 | 0 | 0.00% |
| <u>\$ 277,000,000</u> | <u>\$ 77,244,617</u> | 27.89% |
| | | |
| \$ 139,313,448 | \$ 134,415,363 | 96.48% |
| 18,442,000 | 8,350,000 | 45.28% |
| 12,000,000 | 8,742,866 | 72.86% |
| 5,250,000 | 896,621 | 17.08% |
| 11,076,661 | 10,025,000 | 90.51% |
| 12,000,000 | 4,683,551 | 39.03% |
| 14,800,000 | 14,800,000 | 100.00% |
| <u>\$ 212,882,109</u> | <u>\$ 181,913,401</u> | 85.69% |
| | | |
| <u>\$ 114,000,000</u> | <u>\$ 82,464,662</u> | 72.34% |
| <u>\$ 114,000,000</u> | <u>\$ 82,464,662</u> | 72.34% |
| | | |
| \$ 31,300,000 | \$ 31,300,000 | 100.00% |
| 4,000,000 | 3,576,948 | 89.42% |
| 9,000,000 | 9,000,000 | 100.00% |
| 30,000,000 | 1,118,315 | 3.73% |
| 2,000,000 | 0 | 0.00% |
| 8,000,000 | 2,151,394 | 26.89% |
| 9,000,000 | 0 | 0.00% |
| 1,000,000 | 0 | 0.00% |
| 5,000,000 | 0 | 0.00% |
| <u>\$ 99,300,000</u> | <u>\$ 47,146,658</u> | 47.48% |
| | | |
| \$ 111,782,500 | \$ 86,564,189 | 77.44% |
| 53,142,500 | 49,213,697 | 92.61% |
| <u>\$ 164,925,000</u> | <u>\$ 135,777,886</u> | 82.33% |
| | | |
| \$ 14,766,000 | \$ 12,076,106 | 81.78% |
| 12,800,000 | 4,207,500 | 32.87% |
| 1,400,000 | 1,400,000 | 100.00% |
| 10,000,000 | 0 | 0.00% |
| <u>\$ 38,966,000</u> | <u>\$ 17,683,606</u> | 45.38% |

21st CENTURY JOBS TRUST FUND PROGRAMS
Summary of Funds Appropriated and/or Allocated and Expended and Invested by Program
As of March 31, 2013
(Continued)

| 21st Century Jobs Trust Fund Programs | 21st Century Jobs Trust Fund Appropriations | Jobs for Michigan Investment Fund Allocations |
|---|---|---|
| Projects Specifically Appropriated | | |
| Michigan Forest Finance Authority | \$ 1,050,000 | \$ |
| Michigan Film Office | 2,000,000 | |
| Agriculture Development Fund | 5,000,000 | |
| Good Manufacturing Facility | 3,000,000 | |
| Automotive Technology Business Accelerator | 6,000,000 | |
| Michigan Promotion Program | 15,000,000 | |
| Subtotal Projects Specifically Appropriated | <u>\$ 32,050,000</u> | <u>\$ 0</u> |
| Legislative Earmarks | | |
| SBIR/STTR programs (Emerging Technology Fund) (2) | \$ 5,600,000 | \$ |
| Business Incubators (1) | 15,342,000 | 1,286,579 |
| Lakeshore Advantage - Life Sciences Technology (Holland facility) (1) | 10,348,339 | |
| Michigan Aerospace Manufacturers Association | 250,000 | |
| Van Andel Institute - Tuberos Sclerosis Complex Research | 500,000 | |
| Subtotal Legislative Earmarks | <u>\$ 32,040,339</u> | <u>\$ 1,286,579</u> |
| Administrative Expenses | | |
| Michigan Strategic Fund Administrative Expenses | \$ 31,380,000 | \$ |
| Subtotal Administrative Expenses | <u>\$ 31,380,000</u> | <u>\$ 0</u> |
| Total Appropriations and Allocations | <u>\$ 919,343,448</u> | <u>\$ 84,486,579</u> |

Unallocated

Total 21st Century Jobs Trust Fund

(1) Programs reviewed within the scope of this audit (see description of programs)

(2) SBIR/STTR - Small Business Innovative Research and Small Business Technology Transfer

Source: The Office of the Auditor General prepared this exhibit based on unaudited accounting records obtained from the Michigan Strategic Fund.

UNAUDITED
Exhibit 2

| Total Appropriated and/or Allocated | Total Expended and Invested | Percent Expended and Invested of Total Appropriated and/or Allocated |
|--|--------------------------------|---|
| \$ 1,050,000 | \$ 1,049,964 | 100.00% |
| 2,000,000 | 1,705,329 | 85.27% |
| 5,000,000 | 5,000,000 | 100.00% |
| 3,000,000 | 2,650,000 | 88.33% |
| 6,000,000 | 6,000,000 | 100.00% |
| 15,000,000 | 14,997,549 | 99.98% |
| <u>\$ 32,050,000</u> | <u>\$ 31,402,842</u> | 97.98% |
| | | |
| \$ 5,600,000 | \$ 5,600,000 | 100.00% |
| 16,628,579 | 5,236,239 | 31.49% |
| 10,348,339 | 7,848,339 | 75.84% |
| 250,000 | 250,000 | 100.00% |
| 500,000 | 250,000 | 50.00% |
| <u>\$ 33,326,918</u> | <u>\$ 19,184,578</u> | 57.56% |
| | | |
| \$ 31,380,000 | \$ 26,949,557 | 85.88% |
| <u>\$ 31,380,000</u> | <u>\$ 26,949,557</u> | 85.88% |
| | | |
| \$ 1,003,830,027 | \$ 620,278,596 | 61.79% |
| | | |
| \$ 156,552 | \$ 0 | |
| | | |
| <u>\$ 1,003,986,579</u> | <u>\$ 619,767,807</u> | 61.73% |

21st CENTURY JOBS TRUST FUND PROGRAMS
Summary of Attract New Investment Programs
As of March 31, 2013

| Attract New Investment Programs | Number of Awards | Total Award Amount | Projected Direct New Jobs To Be Created | Eligible Federal Match (1) |
|--|------------------|-----------------------|---|----------------------------|
| Centers of Energy Excellence Phase I (3) | 6 | \$ 43,000,000 | 995 | \$ 414,050,902 |
| Centers of Energy Excellence Phase II (3) | 6 | 24,000,000 | 751 | 20,500,000 |
| Centers for Innovation | 1 | 5,000,000 | 14 | 5,000,000 |
| Michigan Business Development Program (MBDP) (4) | 73 | 82,412,230 | 11,014 | |
| Michigan Community Revitalization Program (MCRP) (5) | 23 | 38,162,494 | 821 | |
| Totals | <u>109</u> | <u>\$ 192,574,724</u> | <u>13,595</u> | <u>\$ 439,550,902</u> |

- (1) Phase I of the Centers of Energy Excellence did not require a 1 to 1 federal match. The law was amended and Phase II does require a 1 to 1 federal match.
- (2) Direct jobs created taken from individual grantees' self-reported data.
- (3) Added by Act 175, P.A. 2008, to promote the development, acceleration, and sustainability of energy excellence sectors in the State, the funds from the Centers of Energy Excellence are used to match foundation, international investments, and federal funding received by grantees. As of March 31, 2013, total allocations were \$67.0 million, with 12 grants totaling \$67.0 million awarded and \$60.7 million expended. The remaining award funding will be paid in incremental amounts as milestone goals are achieved for each grant.
- (4) Added by Act 250, P.A. 2011, to provide grants, loans, and other economic assistance to qualified businesses that make qualified investments or create qualified new jobs in Michigan, with preference given to qualified businesses that need additional assistance for deal-closing and for second stage gap financing.
- (5) Added by Act 252, P.A. 2011, to promote community revitalization. The program's aim is to accelerate private investment in areas of historical disinvestment; contribute to Michigan's reinvention as a vital, job generating state; foster redevelopment of functionally obsolete or historic properties; reduce blight; support the rehabilitation of historic resources; and protect the natural resources of this State. Private investment is the primary focus of this program.

N/A = Not applicable.

Source: The Office of the Auditor General prepared this exhibit based on unaudited accounting records obtained from the Michigan Strategic Fund.

UNAUDITED
Exhibit 3

| <u>Number of Awards Fully Expended</u> | <u>Award Amount Fully Expended</u> | <u>Direct Jobs Created for Fully Expended Awards (2)</u> |
|--|--|--|
| 6 | \$ 43,000,000 | 501 |
| 3 | \$ 12,000,000 | 45 |
| 0 | N/A | N/A |
| 0 | N/A | N/A |
| 0 | N/A | N/A |
| <u>9</u> | <u>\$ 55,000,000</u> | <u>546</u> |

21st CENTURY JOBS TRUST FUND PROGRAMS
Summary of Competitive Edge Technology Entrepreneurial Ventures Programs
by Program, Award Type, and Sector
As of March 31, 2013

| By Competitive Edge Technology Entrepreneurial Ventures Program | Number of Awards | Total Award Amount | Percent of Total Awards |
|---|------------------|-----------------------|-------------------------|
| Business Plan Competitions | 100 | \$ 139,313,448 | 65.44% |
| Early Stage Fund | 2 | 18,442,000 | 8.66% |
| Entrepreneurial Support Services | 8 | 12,000,000 | 5.64% |
| Entrepreneurial Services Provider | 9 | 5,250,000 | 2.47% |
| Retention of Pfizer Assets | 44 | 11,076,661 | 5.20% |
| Accelerator Fund Program | 2 | 12,000,000 | 5.64% |
| Pre-Seed Fund | 2 | 14,800,000 | 6.95% |
| Total | <u>167</u> | <u>\$ 212,882,109</u> | <u>100.00%</u> |

| By Award Type | Number of Awards | Total Award Amount | Percent of Total Awards |
|-------------------|------------------|-----------------------|-------------------------|
| Grants | 82 | \$ 118,619,335 | 55.72% |
| Convertible loans | 31 | 53,763,760 | 25.26% |
| Straight loans | 54 | 40,499,014 | 19.02% |
| Total | <u>167</u> | <u>\$ 212,882,109</u> | <u>100.00%</u> |

| By Competitive Edge Technology Sector | Number of Awards | Total Award Amount | Percent of Total Awards |
|--|------------------|-----------------------|-------------------------|
| Advanced automotive, manufacturing, and materials technology | 25 | \$ 30,620,051 | 14.38% |
| Alternative energy technology | 8 | 13,908,831 | 6.53% |
| Homeland security and defense technology | 11 | 15,573,808 | 7.32% |
| Life sciences technology | 71 | 65,983,395 | 31.00% |
| Infrastructure grants | 52 | 86,796,024 | 40.77% |
| Total | <u>167</u> | <u>\$ 212,882,109</u> | <u>100.00%</u> |

Note: The Strategic Economic Investment and Commercialization (SEIC) Board established a competitive process to award grants and loans to organizations that research or commercialize products, processes, or services for the four competitive edge technology sectors of life sciences technology; advanced automotive, manufacturing, and materials technology; homeland security and defense technology; or alternative energy technology and for infrastructure grants related to those technology sectors. The SEIC Board has issued five requests for proposals since the programs' inception in 2006. Executive Order No. 2010-8 abolished the SEIC Board and transferred all the powers and duties of the SEIC Board to the Michigan Strategic Fund Board. As of March 31, 2013, 167 grants and loans totaling \$212.9 million had been awarded. Of the \$212.9 million awarded, \$181.9 million had been expended. The remaining award funding will be paid in incremental amounts as milestone goals are achieved for each proposal.

N/A = Not applicable.

Source: The Office of the Auditor General prepared this exhibit based on unaudited accounting records obtained from the Michigan Strategic Fund.

UNAUDITED
Exhibit 4

| Projected Direct New Jobs To Be Created | Number of Awards Fully Expended | Award Amount Fully Expended | Jobs Created in Fully Expended Awards |
|---|------------------------------------|--------------------------------|---|
| 3,335 | 77 | \$ 90,435,056 | 893 |
| 283 | 0 | N/A | N/A |
| 751 | 0 | N/A | N/A |
| 195 | 0 | N/A | N/A |
| 143 | 37 | 9,550,000 | 96 |
| Unknown | 0 | N/A | N/A |
| 582 | 2 | 14,800,000 | 593 |
| <u>5,289</u> | <u>116</u> | <u>\$ 114,785,056</u> | <u>1,582</u> |

| Number of Loans in Repayment Status | Number of Loans Converted to Equity | Amount of Awards Converted to Equity to Date |
|--|--|--|
| N/A | N/A | N/A |
| 0 | 31 | \$ 53,763,760 |
| 54 | N/A | N/A |
| <u>54</u> | <u>31</u> | <u>\$ 53,763,760</u> |

21st CENTURY JOBS TRUST FUND PROGRAMS
Summary of 21st Century Investment Programs (1)
As of March 31, 2013

| | <u>Competitive Edge Technology (2)</u> | <u>Amount Approved for Investment (Maximum)</u> | <u>Amount Invested</u> |
|---|---|---|----------------------------|
| <u>Venture Capital Investment Program</u> | | | |
| Arsenal Venture Partners II | Defense | \$ 5,000,000 | \$ 551,153 |
| Arboretum Ventures II, LP | Life sciences | 7,500,000 | 5,466,635 |
| Arboretum Ventures III, LP | Life sciences | 10,000,000 | 3,809,500 |
| Early Stage Partners II | Information technology, life sciences, and alternative energy/clean technology | 6,000,000 | 4,684,668 |
| Nth Power Fund IV, LP | Alternative energy | 10,000,000 | 7,489,254 |
| MK Capital II, LP | Information technology | 4,500,000 | 2,992,500 |
| RPM Ventures II | Software and information technology | 6,000,000 | 3,935,000 |
| Venture Investors Early Stage Fund IV, LP | Life sciences and advanced automotive, manufacturing, and materials | 10,850,000 | 10,002,217 |
| <u>Private Equity Investment Program</u> | | | |
| Quad Partners II, LP | | 10,000,000 | 8,785,509 |
| Relativity Fund, LP | | 10,000,000 | 5,953,883 |
| Pegasus Fund V | | 10,000,000 | 6,565,508 |
| <u>Mezzanine Investment Program</u> | | | |
| Maranon Mezzanine | | 7,260,000 | 7,260,000 |
| Midwest Mezzanine IV | | 10,000,000 | 9,109,258 |
| Credit Suisse/MMF Investment Co., LLC | | 240,000 | 238,631 |
| <u>Direct Investments</u> | | | |
| Microposite, Inc. | | 1,650,000 | 1,567,293 |
| Subtotal | | \$ 109,000,000 | \$ 78,411,009 |
| Management fees | | | 4,053,653 |
| Total (3) | | <u>\$ 109,000,000</u> | <u>\$ 82,464,662</u> |

(1) The purpose of the 21st Century Investment Programs, administered by the Michigan Strategic Fund (MSF) Board, is to strengthen and diversify Michigan's economy by investing in funds as a method to create jobs and provide financial assistance for the creation of new businesses or industries. A principal function of the programs is to expand the availability of venture capital, private equity, and mezzanine funds and direct investment.

MSF contracted with DLJ Fund Partners II, LP (DLJ), a wholly-owned subsidiary of Credit Suisse Group, to review investment proposals, make recommendations, manage the investment programs, and report on investment activities to the MSF Board. As of March 31, 2013, DLJ had evaluated numerous investment fund proposals and recommended 15 investment funds, which were approved by the MSF Board for investment.

(2) Section 125.2088f(1)(g) of the *Michigan Compiled Laws* requires that 80% of funds invested in the venture capital investment program shall focus on competitive edge technologies; however, this does not apply to the private equity and mezzanine investments. Of the \$59.9 million approved for investment, more than 80% is focused on competitive edge technologies.

(3) The MSF Board has allocated funding up to \$114.0 million for investments and management fees. As of March 31, 2013, the MSF Board had approved investments of \$109.0 million and invested \$78.4 million and expended \$4.1 million in management fees for a total of \$82.5 million invested and expended.

Source: The Office of the Auditor General prepared this exhibit based on the 21st Century Jobs Trust Fund Program Annual Report, MSF Board meeting minutes, and unaudited accounting records.

21st CENTURY JOBS TRUST FUND PROGRAMS
Summary of Loan Enhancement Programs (1)
As of March 31, 2013

| | | |
|---|-----------|--------------------|
| Michigan Supplier Diversification Loan Program | | |
| Number of loans outstanding | | 62 |
| Total loan amount (2) | \$ | 86,671,470 |
| MSF share of loans | \$ | 31,300,000 |
| Small Business Capital Access Program: | | |
| Number of participating banks | | 39 |
| Amount placed in reserve at participating banks (3) | \$ | 7,148,791 |
| Resulting number of loans | | 1,614 |
| MSF investment in loans | \$ | 3,576,948 |
| Choose Michigan Fund | | |
| Number of loans outstanding | | 2 |
| Total loan amount | \$ | 9,000,000 |
| Michigan Film and Digital Media Investment Loan Program | | |
| No loans made to date | | |
| Choose Michigan Film and Digital Media Loan Fund | | |
| No loans made to date | | |
| Capital Conduit Program | | |
| Number of loans outstanding | | 2 |
| Total loan amount | \$ | 30,000,000 |
| Micro Lending and Seed Projects | | |
| No loans made to date | | |
| Pure Michigan Venture Match Fund | | |
| Number of loans outstanding | | 6 |
| Total loan amount | \$ | 2,262,500 |
| Pure Michigan Venture Development Fund | | |
| No loans made to date | | |
| Small Business Loan Fund | | |
| No loans made to date | | |
| Urban Small Business Investment Company Program | | |
| No loans made to date | | |
| Total Loans | | 1,686 |
| Total MSF Share of Loans (4) | \$ | 76,139,448 |
| Total Value of Loans (5) | \$ | 135,082,761 |

(1) The 21st Century Jobs Trust Fund programs, administered by the Michigan Strategic Fund (MSF) Board, provide funding sources for qualified businesses through 11 loan programs. The Michigan Supplier Diversification Fund houses both the Collateral Support and Loan Participation loan enhancement programs. The programs provide a loan enhancement mechanism to financial institutions located in the State that provide commercial loans to qualified businesses. The Small Business Capital Access Program uses public resources to generate private bank financing, providing small Michigan businesses with access to capital that might not otherwise be available. The Choose Michigan Fund Program invests in loans from the Jobs for Michigan Investment Fund to qualified businesses to promote and enhance significant job creation or retention within the State. The Michigan Film and Digital Media Investment Loan Program and the Choose Michigan Film and Digital Media Loan Fund may invest in loans from the Jobs for Michigan Investment Fund to eligible production companies or film and digital media private equity funds. The balance of the programs are designed to provide capital to encourage private investment in companies in Michigan.

(2) This is the total value of the loan given by the participating bank; MSF's share of the loan is listed separately.

(3) Amount placed in reserve includes funds from the 21st Century Jobs Trust Fund, the Legacy Program, and the matching contributions of participating lenders and small business borrowers.

(4) This amount includes MSF investment in projects in the form of collateral support, loan participation, straight loans, and convertible loans.

(5) This amount includes the private investment in the Michigan Supplier Diversification Loan Program of \$55.4 million, private investment in the Small Business Capital Access Program of \$3.6 million, and the total MSF share of loans of \$76.1 million.

Source: The Office of the Auditor General prepared this exhibit based on unaudited records obtained from MSF.

21st CENTURY JOBS TRUST FUND PROGRAMS
Summary of Michigan Promotion Program, Other 21st Century Jobs Trust Fund Programs,
Legislative Earmarks, Projects Specifically Appropriated, and Administrative Expenses (1)
As of March 31, 2013

| | Fiscal Year | | | | Total |
|--|----------------------------|---------------|---------------|---------------|----------------|
| | 2005-06 through 2009-10 | 2010-11 | 2011-12 | 2012-13 | |
| Michigan Promotion Program | | | | | |
| Tourism Marketing | | | | | |
| Amount Allocated | \$ 41,782,500 | \$ 20,000,000 | \$ 25,000,000 | \$ 25,000,000 | \$ 111,782,500 |
| Amount Expended (2) | 41,780,049 | 20,000,000 | 23,018,044 | 1,763,645 | 86,561,738 |
| Unexpended | \$ 2,451 | \$ 0 | \$ 1,981,956 | \$ 23,236,355 | \$ 25,220,762 |
| Business Marketing and Business Development | | | | | |
| Amount Allocated | \$ 41,892,500 | \$ 3,750,000 | \$ 3,750,000 | \$ 3,750,000 | \$ 53,142,500 |
| Amount Expended (2) | 41,863,794 | 3,399,398 | 3,578,331 | 372,174 | 49,213,697 |
| Unexpended | \$ 28,706 | \$ 350,602 | \$ 171,669 | \$ 3,377,826 | \$ 3,928,803 |
| Other 21st Century Jobs Trust Fund Programs | | | | | |
| Michigan Defense Center | | | | | |
| Amount Appropriated | \$ 12,000,000 | \$ 1,500,000 | \$ | \$ 1,266,000 | \$ 14,766,000 |
| Amount Expended (2) | 11,056,301 | 1,019,805 | | 0 | 12,076,106 |
| Unexpended | \$ 943,699 | \$ 480,195 | \$ | \$ 1,266,000 | \$ 2,689,894 |
| University Technology Acceleration and Commercialization Program | | | | | |
| Amount Appropriated | \$ | \$ 6,800,000 | \$ 6,000,000 | \$ | \$ 12,800,000 |
| Amount Expended (2) | | 4,207,500 | 0 | | 4,207,500 |
| Unexpended | \$ | \$ 2,592,500 | \$ 6,000,000 | \$ | \$ 8,592,500 |
| Life Sciences Pipeline | | | | | |
| Amount Appropriated | \$ 1,400,000 | \$ | \$ | \$ | \$ 1,400,000 |
| Amount Expended (2) | 1,400,000 | | | | 1,400,000 |
| Unexpended | \$ 0 | \$ | \$ | \$ | \$ 0 |
| Pure Michigan Urban Investment Program | | | | | |
| Amount Allocated | \$ | \$ | \$ 10,000,000 | \$ | \$ 10,000,000 |
| Amount Expended (2) | | | 0 | | 0 |
| Unexpended | \$ | \$ | \$ 10,000,000 | \$ | \$ 10,000,000 |
| Legislative Earmarks | | | | | |
| SBIR/STTR programs (Emerging Technology Fund) (3) | | | | | |
| Amount Appropriated | \$ 4,200,000 | \$ 1,400,000 | \$ | \$ | \$ 5,600,000 |
| Amount Expended (2) | 4,200,000 | 1,400,000 | | | 5,600,000 |
| Unexpended | \$ 0 | \$ 0 | \$ | \$ | \$ 0 |
| Business Incubators | | | | | |
| Amount Appropriated | \$ 1,286,579 | \$ 1,300,000 | \$ 6,000,000 | \$ 8,042,000 | \$ 16,628,579 |
| Amount Expended (2) | 1,286,579 | 1,199,636 | 2,750,024 | 0 | 5,236,239 |
| Unexpended | \$ 0 | \$ 100,364 | \$ 3,249,976 | \$ 8,042,000 | \$ 11,392,340 |
| Lakeshore Advantage | | | | | |
| Amount Appropriated | \$ 7,348,339 | \$ 3,000,000 | \$ | \$ | \$ 10,348,339 |
| Amount Expended (2) | 4,848,339 | 3,000,000 | | | 7,848,339 |
| Unexpended | \$ 2,500,000 | \$ 0 | \$ | \$ | \$ 2,500,000 |
| Michigan Aerospace Manufacturing Association | | | | | |
| Amount Appropriated | \$ | \$ 250,000 | \$ | \$ | \$ 250,000 |
| Amount Expended (2) | | 250,000 | | | 250,000 |
| Unexpended | \$ | \$ 0 | \$ | \$ | \$ 0 |
| Van Andel Institute -Tuberous Sclerosis Complex Research | | | | | |
| Amount Appropriated | \$ | \$ | \$ | \$ 500,000 | \$ 500,000 |
| Amount Expended (2) | | | | 250,000 | 250,000 |
| Unexpended | \$ | \$ | \$ | \$ 250,000 | \$ 250,000 |

This exhibit continued on next page.

21st CENTURY JOBS TRUST FUND PROGRAMS
Summary of Michigan Promotion Program, Other 21st Century Jobs Trust Fund Programs,
Legislative Earmarks, Projects Specifically Appropriated, and Administrative Expenses (1)
As of March 31, 2013
(Continued)

| | Fiscal Year | | | | Total |
|---|----------------------------|-----------------|---------------------|---------------------|---------------------|
| | 2005-06 through 2009-10 | 2010-11 | 2011-12 | 2012-13 | |
| Projects Specifically Appropriated | | | | | |
| Amount Appropriated | \$ 32,050,000 | \$ | \$ | \$ | \$ 32,050,000 |
| Amount Expended (2) | 31,755,293 | | | | 31,755,293 |
| Unexpended | <u>\$ 294,707</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> | <u>\$ 294,707</u> |
| Administrative Expenses | | | | | |
| Amount Allocated | \$ 22,380,000 | \$ 3,000,000 | \$ 3,000,000 | \$ 3,000,000 | \$ 31,380,000 |
| Amount Expended (2) | 22,356,959 | 2,996,422 | 707,308 | 888,868 | 26,949,557 |
| Unexpended | <u>\$ 23,041</u> | <u>\$ 3,578</u> | <u>\$ 2,292,692</u> | <u>\$ 2,111,132</u> | <u>\$ 4,430,443</u> |

- (1) Other 21st Century Jobs Trust Fund programs funded through statute and annual appropriations include provisions for administration of up to 4% of the annual appropriation; business marketing and development of up to 5% of the annual appropriation; a Michigan Defense Center to assist Michigan companies secure more federal defense and homeland security contracts; Small Business and Technology Development Centers for the SBIR/STTR grant or loan matching programs; Business Incubators to foster the development and growth of new, small entrepreneurial companies; and a Pure Michigan Urban Investment Program. This exhibit details a portion of the \$300.6 million appropriation for projects and the \$231.3 million expended as of March 31, 2013.
- (2) The amount reported as expended is reported with the year appropriated but not necessarily the actual year expended.
- (3) SBIR/STTR - Small Business Innovative Research and Small Business Technology Transfer.

Source: The Office of the Auditor General prepared this exhibit based on unaudited accounting records obtained from the Michigan Strategic Fund.

GLOSSARY

Glossary of Acronyms and Terms

advanced automotive,
manufacturing, and
materials technology

Any technology that involves one or more of the following:

- (1) Materials with engineered properties created through the development of specialized process and synthesis technology.
- (2) Nanotechnology, including materials, devices, or systems at the atomic, molecular, or macromolecular level, with a scale measured in nanometers.
- (3) Microelectromechanical systems, including devices or systems integrating microelectronics with mechanical parts and a scale measured in micrometers.
- (4) Improvements to vehicle safety, vehicle performance, vehicle production, or environmental impact, including, but not limited to, vehicle equipment and component parts.
- (5) A new technology, device, or system that enhances or improves the manufacturing process of wood, timber, or agricultural-based products.
- (6) Any technology that involves an alternative energy vehicle or its components, as defined in Section 207.822 of the *Michigan Compiled Laws*.
- (7) Advanced computing or electronic device technology related to advanced automotive, manufacturing, and materials technology.

- (8) Design, engineering, testing, or diagnostics related to advanced automotive, manufacturing, and materials technology.
- (9) Product research and development related to advanced automotive, manufacturing, and materials technology.

alternative energy
technology

Applied research or commercialization of new or next generation technology in one or more of the following:

- (1) Alternative energy technology, as defined in Section 207.822 of the *Michigan Compiled Laws*.
- (2) Devices or systems designed and used solely for the purpose of generating energy from agricultural crops, residue and waste generated from the production and processing of agricultural products, animal wastes, or food processing wastes.
- (3) A new technology, product, or system that permits the utilization of biomass for the production of specialty, commodity, or foundational chemicals or of novel or economical commodity materials through the application of biotechnology that minimizes, complements, or replaces reliance on petroleum for the production. Alternative energy technology also includes a new technology, product, or system that utilizes wind energy.
- (4) Advanced computing or electronic device technology related to alternative energy technology.
- (5) Design, engineering, testing, or diagnostics related to alternative energy technology.
- (6) Product research and development related to alternative energy technology.

| | |
|---------------------|--|
| applied research | Translational research conducted with the objective of attaining a specific benefit or to solve a practical problem or other research activity that seeks to utilize, synthesize, or apply existing knowledge, information, or resources to the resolution of a specified problem, question, or issue, with high potential for commercial application to create jobs in Michigan. |
| basic research | Any original investigation for the advancement of scientific or technological knowledge that will enhance the research capacity of Michigan in a way that increases the ability to attract or develop companies, jobs, researchers, and students in Michigan. |
| business incubators | Organizations that exist to foster the development and growth of new, small entrepreneurial companies during the vulnerable start-up phase. Incubators seek to enhance a community's business climate to create jobs, grow the local economy, and sometimes advance a particular industry within the geographic region. They provide client companies with business support services such as office space, access to marketing materials or consulting, connections to sources of financial investment, and mentoring/networking within the geographic business community. |
| CET | Competitive Edge Technology. |
| COEE | Centers of Energy Excellence. |
| commercialization | The transition from research to the actions necessary to achieve market entry and general market competitiveness of new innovative technologies, processes, and products and the services that support, assist, equip, finance, or promote a person or an entity with that transition. |

| | |
|--|---|
| competitive edge technology | Technology that includes one or more of the following: (1) life sciences technology, (2) advanced automotive, manufacturing, and materials technology, (3) homeland security and defense technology, and (4) alternative energy technology. |
| DLJ | DLJ Fund Partners II, LP. |
| effectiveness | Success in achieving mission and goals. |
| ESP | Entrepreneurial Services Provider. |
| ESS | Entrepreneurial Support Services. |
| homeland security and defense technology | <p>Technology that assists in the assessment of threats or damage to the general population and critical infrastructure; protection of, defense against, or mitigation of the effects of foreign or domestic threats, disasters, or attacks; or support for crisis or response management, including, but not limited to, one or more of the following:</p> <ol style="list-style-type: none"> (1) Sensors, systems, processes, or equipment for communications, identification and authentication, screening, surveillance, tracking, and data analysis. (2) Advanced computing or electronic device technology related to homeland security and defense technology. (3) Aviation technology, including, but not limited to, avionics, airframe design, sensors, early warning systems, and services related to homeland security and defense technology. |

- (4) Design, engineering, testing, or diagnostics related to homeland security and defense technology.
- (5) Product research and development related to homeland security and defense technology.

internal control

The plan, policies, methods, and procedures adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It includes the systems for measuring, reporting, and monitoring program performance. Internal control serves as a defense in safeguarding assets and in preventing and detecting errors; fraud; violations of laws, regulations, and provisions of contracts and grant agreements; or abuse.

life sciences
technology

Any technology derived from life sciences intended to improve human health or the overall quality of human life, including, but not limited to, systems, processes, or equipment for drug or gene therapies, biosensors, testing, medical devices or instrumentation with a therapeutic or diagnostic value, a pharmaceutical or other product that requires U.S. Food and Drug Administration approval or registration prior to its introduction in the marketplace and is a drug or medical device as defined by the federal Food, Drug, and Cosmetic Act, or one or more of the following:

- (1) Advanced computing or electronic device technology related to life sciences technology.
- (2) Design, engineering, testing, or diagnostics related to life sciences technology or the commercial manufacturing of life sciences technology.
- (3) Product research and development related to life sciences technology.

| | |
|----------------------|---|
| mezzanine fund | A type of investment fund that is primarily engaged in a hybrid of debt and equity financing that is typically used to finance the expansion of existing companies. It is generally used as an intermediate stage financing, preceding a company's initial public offering, and is considered less risky than start-up financing. |
| MSF | Michigan Strategic Fund. |
| outcome | An actual impact of a program or an entity. |
| output | A product or a service produced by a program or an entity. |
| performance audit | An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate correction action, and contribute to public accountability. |
| performance standard | A desired level of output or outcome. |
| private equity fund | A type of investment fund that buys majority interest in companies to restructure their capital, management, and organization. Usually, the companies are privately held for two to five years. |
| PTAC | Procurement Technical Assistance Center. |
| 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.

Salesforce An on-demand customer relationship management tool. It is used to connect all organizations and their opportunities in one location.

SBIR/STTR Small Business Innovative Research and Small Business Technology Transfer.

SEIC Board Strategic Economic Investment and Commercialization Board.

university technology transfer Innovative methods to accelerate the creation of start-up companies affiliated with institutions of higher education or the transfer of competitive edge technology research from an institution of higher education to a qualified business in Michigan.

UTAC University Technology Acceleration and Commercialization.

venture capital fund A type of investment fund that invests in high-risk companies or small companies specializing in new technologies, often in return for an equity position in the firm.

