



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

Audit report information can be accessed at:

<http://audgen.michigan.gov>



Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit

Report Number:
271-0410-10

21st Century Jobs Trust Fund Programs

*Michigan Strategic Fund and
Strategic Economic Investment and
Commercialization Board*

Released:
October 2010

The Michigan Strategic Fund Act (Act 270, P.A. 1984, as amended) creates programs to make investments and to award grants and loans for the purposes of diversifying Michigan's economy, helping to create jobs, and providing for economic development. These programs include, but are not limited to, the 21st Century Investments, Competitive Edge Technology grants and loans, Loan Enhancement Programs, Michigan Life Sciences Pipeline Program, Centers of Energy Excellence Program, and other miscellaneous programs and projects. Section 125.2088n of the Michigan Compiled Laws requires a periodic performance audit of these programs.

Audit Objective:

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

Audit Conclusion:

We concluded that MSF's and the SEIC Board's processes for making investments and awarding grants, loans, and contracts through the 21st Century Jobs Trust Fund programs were effective. However, we noted one reportable condition (Finding 1).

Reportable Condition:

MSF did not sufficiently document its review of eligibility requirements for the Centers of Energy Excellence (COEE) Program (Finding 1).

~ ~ ~ ~ ~

Audit Objective:

To assess the effectiveness of MSF's processes for monitoring compliance with investment, grant, loan, and contract requirements.

Audit Conclusion:

We concluded that MSF's processes for monitoring compliance with investment, grant, loan, and contract requirements were moderately effective. We noted one reportable condition (Finding 2).

Reportable Condition:

MSF did not always ensure that recipients demonstrated adequate progress in achieving stated milestones prior to making contract payments. In addition, MSF did not sufficiently document the information reviewed and the basis for approval of the recipients' progress reports. (Finding 2)

~ ~ ~ ~ ~

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 3).

Reportable Condition:

MSF should improve its processes to assess the effectiveness of four of the programs administered under the 21st Century Jobs Trust Fund (Finding 3).

~ ~ ~ ~ ~

Audit Objective:

To assess MSF's and the SEIC Board's compliance with selected sections of the *Michigan Compiled Laws* for the 21st Century Jobs Trust Fund programs.

Audit Conclusion:

We concluded that MSF and the SEIC Board were in compliance with selected sections of the *Michigan Compiled Laws* for the 21st Century Jobs Trust Fund programs. However, we noted one reportable condition (Finding 4).

Reportable Condition:

MSF needs to improve its reporting procedures to ensure that data reported for the 21st Century Jobs Trust Fund programs is correct and contains the significant disclosures necessary to understand the program data presented (Finding 4).

~ ~ ~ ~ ~

Agency Responses:

Our audit report contains 4 findings and 5 corresponding recommendations. MSF's preliminary responses indicated that it agrees with all of the recommendations.

~ ~ ~ ~ ~

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>



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

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

Scott M. Strong, C.P.A., C.I.A.
Deputy Auditor General



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

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

October 1, 2010

Mr. D. Gregory Main, President
Michigan Strategic Fund
300 N. Washington Square
Lansing, Michigan
and
Mr. Michael J. Jandernoa, Chairman
Strategic Economic Investment and Commercialization Board
Bridge Street Partners, LLC
40 Pearl Street NW
Suite 1040
Grand Rapids, Michigan

Dear Mr. Main and Mr. Jandernoa:

This is our report on the performance audit of the 21st Century Jobs Trust Fund Programs administered by the Michigan Strategic Fund (MSF) and the Strategic Economic Investment and Commercialization Board.

This report contains our report summary; description of programs; audit objectives, scope, and methodology and agency responses; comments, findings, recommendations, and agency preliminary responses; 8 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 MSF's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

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

AUDITOR GENERAL

TABLE OF CONTENTS

21st CENTURY JOBS TRUST FUND PROGRAMS MICHIGAN STRATEGIC FUND AND STRATEGIC ECONOMIC INVESTMENT AND COMMERCIALIZATION BOARD

	<u>Page</u>
INTRODUCTION	
Report Summary	1
Report Letter	3
Description of Programs	7
Audit Objectives, Scope, and Methodology and Agency Responses	11
COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES	
Effectiveness of MSF's and the SEIC Board's Processes for Making Investments and Awarding Grants, Loans, and Contracts	15
1. Awarding Process	15
Effectiveness of MSF's Processes for Monitoring Compliance With Investment, Grant, Loan, and Contract Requirements	16
2. Adequate Progress Prior to Payment	17
Effectiveness of MSF's Efforts to Evaluate Economic Development Outcomes	20
3. Assessment of Program Effectiveness	20
MSF's and the SEIC Board's Compliance with Selected Sections of the <i>Michigan Compiled Laws</i>	23
4. Program Reporting	24

SUPPLEMENTAL INFORMATION

Exhibit 1 - Overview of Programs and Appropriations	28
Exhibit 2 - Summary of Funds Allocated and Expended and Invested by Program	29
Exhibit 3 - Overview of Capital Lifecycle	30
Exhibit 4 - 21st Century Investments	31
Exhibit 5 - Summary of Competitive Edge Technology (CET) by Organization Type, Sector, and Activities and Services	32
Exhibit 6 - Summary of Loan Enhancement Programs	33
Exhibit 7 - Summary of Centers of Energy Excellence (COEE) Grants	34
Exhibit 8 - Summary of Other 21st Century Jobs Trust Fund Programs	35

GLOSSARY

Glossary of Acronyms and Terms	37
--------------------------------	----

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.

Exhibits 1 and 2, presented as supplemental information, provide an overview of these programs and a summary of the funds allocated and expended and invested by program from the 21st Century Jobs Trust Fund.

Programs

The following MSF programs, funded by the 21st Century Jobs Trust Fund, were included in the scope of this audit. MSF disbursed a total of \$232.7 million from July 1, 2007 through June 30, 2010. The majority was disbursed related to these 13 programs:

- 21st Century Investments
- Competitive Edge Technology (CET)
- Retention of Pfizer Assets - Company Formation and Growth Fund (CFGF)
- Loan Enhancement Programs - Michigan Supplier Diversification Fund
- Small Business Capital Access Program (CAP)
- Choose Michigan Fund Program
- Michigan Life Sciences Pipeline Program
- Centers of Energy Excellence (COEE) Program

* See glossary at end of report for definition.

- Business Development and Business Marketing
- Defense Contract Coordination Center (DC3) Program
- Business Incubator Program
- Good Manufacturing Facility
- Automotive Technology Business Accelerator (ATBA)

21st Century Investments

The purpose of the 21st Century Investments is to strengthen and diversify Michigan's economy by investing in venture capital*, private equity*, and mezzanine* funds as a method to create jobs and provide financial assistance for the creation of new businesses or industries. As part of the 21st Century Investments, the MSF Board allocated \$114.0 million to be invested in venture capital, private equity, and mezzanine funds.

As of June 30, 2010, the MSF Board had approved \$104.5 million in investments in 14 different investment funds and had invested \$38.0 million of the \$104.5 million. Exhibit 4, presented as supplemental information, provides details regarding the amounts approved for investment and the amounts invested.

Competitive Edge Technology (CET)

The purpose of the CET program is to encourage the development of competitive edge technologies to create jobs in the State. The 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 proposal since the program's inception in 2006.

In 2006, the SEIC Board awarded grants and loans 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. In 2008, the SEIC Board awarded grants and loans 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.

* See glossary at end of report for definition.

In 2009, the SEIC Board awarded a grant to a pre-seed fund to capitalize a single fund that invests in pre-seed and start-up stage competitive edge technology companies that require capital to transition from research to the earliest stages of the commercialization process. In 2010, the SEIC Board issued a request for proposal for an accelerator fund to capitalize a fund to invest 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 technology sectors. The accelerator fund proposals are expected to be evaluated and awarded during 2010.

In addition, the MSF Board awarded loans for the Company Formation and Growth Fund (CFGF) created to assist in the retention of the assets of Pfizer Incorporated toward the life sciences technologies in Michigan when Pfizer Incorporated left Michigan.

As of June 30, 2010, 138 grants and loans totaling \$170.2 million had been awarded and \$150.5 million of the \$170.2 million had been expended. Exhibit 5, presented as supplemental information, provides summary information of the grants and loans.

Loan Enhancement Programs

The purpose of the Loan Enhancement Programs is to provide funding sources for qualified businesses through 5 loan programs. The Michigan Supplier Diversification Fund provides a loan guarantee mechanism to financial institutions located in the State that provide commercial loans to qualified businesses, public authorities, and local units of governments. The Small Business Capital Access Program (CAP) uses public resources to generate private bank financing to provide small Michigan businesses 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 plan to invest in loans from the Jobs for Michigan Investment Fund to eligible production companies or film and digital media private equity funds. Exhibit 6, presented as supplemental information, provides detail regarding the 1,340 loans totaling \$36.1 million either secured or made through 3 of the 5 loan programs as of June 30, 2010. As of that date, there had been no loans made under the 2 Michigan film programs.

Michigan Life Sciences Pipeline Program

The purpose of the Michigan Life Sciences Pipeline Program was to link life science researchers and businesses with vendors of related products and services. In July 2006, MSF contracted with the two associations to develop and manage the Michigan Life Sciences Pipeline Program. The contract ends on September 30, 2010. As of June 30, 2010, there were over 650 organizations with registered members on the Pipeline. The MSF Board allocated and has expended \$1.4 million of funding to the Michigan Life Sciences Pipeline Program as of June 30, 2010.

Centers of Energy Excellence (COEE) Program

The purpose of the COEE Program was to promote the development, acceleration, and sustainability of energy excellence sectors in Michigan. The funds from the COEE Program are used to match federal funding received by grantees. As of June 30, 2010, 10 grants, totaling \$60.5 million, had been awarded of the \$64.0 million allocated to the program by the MSF Board. MSF has distributed \$25.6 million to 6 of the 10 grantees and will distribute additional funding in incremental amounts as milestone goals are achieved for each grant. Exhibit 7, presented as supplemental information, provides summary information of the grants.

Other 21st Century Jobs Trust Fund Programs

Other significant programs and funding that were provided for under the 21st Century Jobs Trust Fund programs through statute and yearly appropriations include funding for business development and business marketing; the Defense Contract Coordination Center (DC3) Program for Procurement Technical Assistance Centers (PTACs) and contracted consultants to assist Michigan companies in securing more federal defense and homeland security procurement contracts; Small Business and Technology Development Centers for the Small Business Innovative Research or Small Business Technology Transfer grant or loan matching programs; and the Business Incubator Program to foster the development and growth of new, small entrepreneurial companies during the start-up phase. In addition, Act 225, P.A. 2005, provided appropriations for specific projects including Good Manufacturing Facility and Automotive Technology Business Accelerator (ATBA). Exhibit 8, presented as supplemental information, details the \$111.6 million appropriation for these projects and the \$94.3 million expended as of June 30, 2010.

Audit Objectives, Scope, and Methodology and Agency Responses

Audit Objectives

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

1. To assess the effectiveness* of MSF's and the SEIC Board's processes for making investments and awarding grants, loans, and contracts through the 21st Century Jobs Trust Fund programs.
2. To assess the effectiveness of MSF's processes for monitoring compliance with investment, 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 and the SEIC Board's compliance with selected sections of the *Michigan Compiled Laws* for the 21st Century Jobs Trust Fund programs.

Audit Scope

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 March through August 2010, generally covered the period July 1, 2007 through June 30, 2010.

As part of our audit, we compiled supplemental information about the 21st Century Jobs Trust Fund programs based on information provided by MSF. Our audit was not

* See glossary at end of report for definition.

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. We selected 13 programs to include in our audit scope. Our preliminary review included interviewing staff; reviewing applicable laws, rules, regulations, policies, procedures, manuals, contracts, loan and grant agreements, and other information; analyzing available records, data, and statistics; and obtaining an understanding of the programs' internal control* and operational activities.

To accomplish our first objective, we reviewed a random sample of grants, loans, and contracts for 8 of the 13 programs that were awarded during our audit period to determine whether the awards, investments, and contractual services were made in accordance with applicable statutes, rules, appropriations acts, and procedures. We examined the MSF and SEIC Boards' meeting minutes and resolutions, procurement practices, requests for proposal, evaluation of proposals, conflict of interest procedures and disclosure statements, and other information that we considered necessary.

To accomplish our second objective, we reviewed MSF's monitoring process for 11 of the 13 programs and randomly sampled grants, loans, and contracts. We also completed on-site visits or requested submission of documentation for 5 of the 11 programs and reviewed files and supporting documentation at grant and contract recipient locations.

To accomplish our third objective, we reviewed MSF's files and reports to determine MSF's evaluation efforts regarding the effectiveness of 11 of the 13 21st Century Jobs Trust Fund programs. We also reviewed the reasonableness of their performance indicators and the accuracy of the selected data. We conducted research to identify comparable performance standards used in evaluating economic growth programs.

To accomplish our fourth objective, we reviewed a sample of grants, loans, and contracts from 10 of the 13 programs to determine whether the awards, investments, and contractual services were made in accordance with applicable statutes. Also, we

* See glossary at end of report for definition.

compared information included with MSF's annual reports for 8 of the 13 programs to the reporting requirements within the *Michigan Compiled Laws*. On a sample basis, we compared the information in the detailed reports to program supporting documentation for completeness and accuracy.

When selecting activities or programs for audit, we use an approach based on assessment of risk and opportunity for improvement. Accordingly, we focus our audit efforts on activities or programs having the greatest probability for needing improvement as identified through a preliminary review. Our limited audit resources are used, by design, to identify where and how improvements can be made. Consequently, we prepare our performance audit reports on an exception basis.

Agency Responses

Our audit report contains 4 findings and 5 corresponding recommendations. MSF's preliminary responses indicated that it agrees with all 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 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 formal response to our audit findings and recommendations within 60 days after release of the audit report.

COMMENTS, FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES

EFFECTIVENESS OF MSF'S AND THE SEIC BOARD'S PROCESSES FOR MAKING INVESTMENTS AND 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 (SEIC) Board's processes for making investments and awarding grants, loans, and contracts through the 21st Century Jobs Trust Fund programs.

Audit Conclusion: We concluded that MSF's and the SEIC Board's processes for making investments and awarding grants, loans, and contracts through the 21st Century Jobs Trust Fund programs were effective. However, our assessment disclosed one reportable condition* related to the awarding process (Finding 1).

FINDING

1. **Awarding Process**

MSF did not sufficiently document its review of eligibility requirements for the Centers of Energy Excellence (COEE) Program. As a result, the MSF Board could not ensure that some awards were made in compliance with statutory requirements related to eligibility.

Eligibility requirements included in Sections 125.2088q(2)(a) - 125.2088q(2)(d) of the *Michigan Compiled Laws* allow grants to be awarded for the COEE Program for the following purposes: (a) to provide up to a 1-for-1 match for federal funding of up to 50% of the total project costs, (b) to supplement in-kind contributions provided by a person or entity other than the State, (c) to accelerate the commercialization of an innovative energy technology or process that will be ready to market within 3 years of the effective date of the agreement, and (d) to fund activities of the center, including, but not limited to, workforce development and technology demonstration.

MSF and the SEIC Board have developed award procedures to ensure compliance with statutory requirements related to eligibility requirements. However, we sampled 8 of 27 proposals and noted that MSF did not document its review of eligibility requirements in any of the 8 proposals reviewed.

* See glossary at end of report for definition.

RECOMMENDATION

We recommend that MSF sufficiently document its review of eligibility requirements for the COEE Program.

AGENCY PRELIMINARY RESPONSE

MSF agrees with the recommendation. MSF informed us that it evaluated the eligibility of each proposal but did not clearly document its conclusion that the proposals met eligibility requirements. MSF informed us that it will develop and implement a standard checklist to more clearly document the eligibility of all applicants in the future.

EFFECTIVENESS OF MSF'S PROCESSES FOR MONITORING COMPLIANCE WITH INVESTMENT, GRANT, LOAN, AND CONTRACT REQUIREMENTS

COMMENT

Background: Of the 13 programs included within the scope of our audit, 11 programs have various requirements for progress reports, site visits, and milestone achievement. Our assessments of the effectiveness of MSF's processes for monitoring grants, loans, and contracts were based on the results of our audit procedures applied to the 11 programs overall. We determined that:

- 10 of the 11 programs with 166 recipients required approximately 760 progress reports.
- 7 of the 11 programs with 153 recipients required approximately 340 site visits.
- 9 of the 11 programs with 165 recipients had approximately 1,275 milestone achievements required to be met in their contracts.

Audit Objective: To assess the effectiveness of MSF's processes for monitoring compliance with investment, grant, loan, and contract requirements.

Audit Conclusion: We concluded that MSF's processes for monitoring compliance with investment, grant, loan, and contract requirements were

moderately effective. Our assessment disclosed one reportable condition related to ensuring adequate progress prior to payment (Finding 2).

FINDING

2. Adequate Progress Prior to Payment

MSF did not always ensure that recipients demonstrated adequate progress in achieving stated milestones prior to making contract payments. In addition, MSF did not sufficiently document the information reviewed and the basis for approval of the recipients' progress reports. MSF's disbursements to recipients who have not demonstrated sufficient progress in achieving stated milestones and contract objectives increase the risk that MSF disbursed funds for a contract that may not meet the desired economic development goals.

MSF contracts require that the recipient be in material compliance with the contract and demonstrate adequate progress in achieving stated milestones for progress payments and that the recipient achieve all stated milestones prior to final payment. Although MSF has procedures to review progress reports and conducts site visits and other procedures prior to making progress payments and final payments, it did not always follow these procedures. In addition, MSF procedures did not require staff to review documentation supporting expenses reported by recipients in their progress reports.

We selected a sample of recipients from the 10 programs that required progress reports. For the 10 programs, MSF disbursed a total of \$155.6 million from July 1, 2007 through June 30, 2010. We reviewed submitted progress reports, conducted site visits, or requested submission of documentation to validate the progress toward meeting milestones. We noted the following exceptions in the Good Manufacturing Facility, Competitive Edge Technology (CET), Defense Contract Coordination Center (DC3), and COEE Programs:

- a. MSF made payments without the recipient demonstrating adequate progress toward meeting stated milestones. MSF made payments based on information presented in recipient-supplied progress reports or without the receipt of progress reports. We selected 50 of 164 awards for the 10 programs and reviewed 137 (62%) of 220 progress reports submitted for the

50 awards selected. The disbursements related to the 137 progress reports selected totaled \$80.3 million. We noted:

- (1) MSF made 2 payments on the Good Manufacturing Facility contract when the progress reports did not demonstrate adequate progress toward stated milestones. These 2 payments totaled \$1.7 million.
 - (2) MSF made 6 payments totaling \$428,722 to six CET recipients prior to receiving the six related progress reports.
- b. MSF did not always sufficiently document the information reviewed and the basis for approval of the progress reports. As a result, MSF could not support that it had validated that the recipients had achieved milestones as stated in progress reports. In addition, MSF should assist recipients in identifying information to collect to support progress reports.

MSF conducted annual site visits and interim meetings to review recipient progress. However, MSF did not provide guidance on the type of information to be reviewed, the procedures necessary to validate milestones, and the documentation to support the results of its review.

We conducted on-site visits or sent e-mail inquiries to 28 recipients for the COEE, CET, DC3, Choose Michigan, and Business Incubator Programs and reviewed documentation to support the achievement of milestones reported by the recipients in their progress reports. We determined that 9 (32%) of the 28 recipients could not provide sufficient documentation to support 20 (8%) of the 245 reported milestone achievements.

Insufficient recipient documentation may have resulted from the lack of MSF's guidance to recipients regarding acceptable supporting documentation. For example, we noted that recipients did not always have sufficient documentation regarding the training, counseling, and technical assistance encounters with clients of the DC3 Program. In the CET Program, recipients did not always maintain sufficient detail records that supported summary totals related to the number of investments, loans, clients, and amount of funds leveraged.

- c. MSF did not validate expenses reported in progress reports submitted by 21st Century Jobs Trust Fund recipients. Nine of the 10 programs are required to submit expense information in progress reports. Although contract progress payments are not reimbursements for direct expenses incurred by the recipient, validating reported expenses provides MSF with additional evidence that recipients have successfully completed the contract milestones and other requirements.

RECOMMENDATIONS

We recommend that MSF ensure that recipients demonstrate adequate progress in achieving stated milestones prior to making contract payments.

We also recommend that MSF sufficiently document the information reviewed and the basis for approval of the recipients' progress reports.

AGENCY PRELIMINARY RESPONSE

MSF agrees with the recommendations. MSF informed us that it will require recipients to demonstrate adequate progress toward meeting stated milestones prior to making payment. MSF also informed us that the 6 payments at issue were disbursed during the transition from hard copy progress reporting to the electronic Awards Management System. The Awards Management System utilizes various approval and sign-off features to ensure that a payment does not get disbursed to a recipient prior to submission of a progress report. MSF believes that the use of an electronic monitoring system will ensure that this issue will not occur again.

MSF informed us that it will require validation of progress and milestone achievement in the progress report. In addition, MSF informed us that it will provide guidance with the progress reports so companies are aware of what documentation is expected to be retained and provided to program staff in order to support milestone achievement. For standard reporting items, the progress report will list examples of documentation that will be sufficient to support that the milestone was completed. For nonstandard or industry-specific milestones, MSF will work with the company to determine industry standards for verifying completion of those milestones.

MSF also informed us that it will validate all reported expenses in the future.

EFFECTIVENESS OF MSF'S EFFORTS TO EVALUATE ECONOMIC DEVELOPMENT OUTCOMES

COMMENT

Background: MSF designed the 21st Century Jobs Trust Fund programs to provide for measurable milestones in contracts, loans, and grants. MSF designed these milestones to allow it to monitor the progress of the recipients in meeting the goals and objectives of each contract, loan, and grant. The milestones are specific to the 13 programs and the individual recipients of the loans, grants, 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 late stages within a program. Exhibit 3, presented as supplemental information, provides a capital lifecycle to demonstrate the growth stages for new companies.

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 assessment disclosed one reportable condition related to assessment of program effectiveness (Finding 3).

FINDING

3. Assessment of Program Effectiveness

MSF should improve its processes to assess the effectiveness of four of the programs administered under the 21st Century Jobs Trust Fund. Without improved processes, MSF could not determine the extent to which these four programs were effective in meeting the goals and objectives of the programs.

Program effectiveness should be periodically evaluated to provide management with information that will allow it to make necessary decisions and changes to meet the yearly 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.

Of the 13 contracts and programs we reviewed, we determined that 6 contracts or programs either were too early in the program phase to assess their effectiveness or were one-time contracts that were assessed when the contracts were closed. MSF has developed goals and measurable objectives for its programs. MSF has also collected a variety of outputs related to some of the programs. However, a review of MSF's efforts to evaluate the effectiveness of the remaining 7 programs noted:

- a. MSF did not collect the necessary output and outcome performance data to evaluate the overall program effectiveness for the DC3 Program. The DC3 Program assists companies in securing more federal defense and homeland security procurement contracts through the use of contractual employees and Procurement Technical Assistance Centers (PTACs). While MSF collects data for the PTAC portion of the DC3 Program, MSF did not collect data to determine the amount of defense contracts and related jobs generated by its contractual employees.
- b. MSF did not collect outcome performance data and evaluate the effectiveness of the CET and Company Formation and Growth Fund (CFGF) Programs.

The CET and CFGF program goals were to create jobs and provide economic benefit to the State. MSF collected output performance data for the individual grants and loans, such as jobs created, patents, copyrights, trademarks, number of new start-up businesses, amounts of other funds leveraged, new licensing agreements, and products commercialized. The CET and CFGF program outputs should result in the outcome of increasing economic benefits to the State.

Because MSF did not collect outcome performance data, it could not quantify 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).

An evaluation of the amounts of the CET and CFGF grants and loans compared to the increases in income, sales, and business tax (outcomes) would assist in the assessment of the programs' effectiveness.

- c. MSF did not use relevant performance outcomes in its evaluation of the Business Incubator Program. National performance standard measures of effectiveness for business incubators are increases in revenue, 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 is collecting outputs including number of clients served, occupancy rates, programming provided, number of graduates, and entrepreneurial events. However, none of these outputs collected by MSF will allow it to measure the outcomes of the Program related to increases in revenue, employment numbers, and additional investments.

RECOMMENDATION

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

AGENCY PRELIMINARY RESPONSE

MSF agrees with the recommendation but partially disagrees with part c. of the finding. MSF informed us that it will begin collecting data regarding the number of defense contracts and the number of jobs generated by its contractual employees. MSF also informed us that it will begin collecting available tax data from all new awardees receiving grants or loans through the CET and CFGF programs to measure the economic impact these programs have had on the State.

MSF partially disagrees with part c. of the finding. MSF informed us that it does collect relevant performance outcomes in its evaluation of the Business Incubator Program. MSF believes that the number of clients served, occupancy rates, programming provided, number of graduates, and entrepreneurial events are all relevant indicators of program effectiveness for business incubators. MSF

informed us that it will, however, collect additional data consistent with the national performance standards of effectiveness for business incubators in the future.

MSF'S AND THE SEIC BOARD'S COMPLIANCE WITH SELECTED SECTIONS OF THE *MICHIGAN COMPILED LAWS*

COMMENT

Background: Sections 125.2088d, 125.2088e, 125.2088f, 125.2088g, 125.2088k, 125.2088o, 125.2088p, and 125.2088q of the *Michigan Compiled Laws* establish the various 21st Century Jobs Trust Fund programs and provide the goals, objectives, and eligibility criteria for those individual programs.

Section 125.2088n(5) of the *Michigan Compiled Laws* requires MSF and the SEIC Board to 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 125.2088n(6) of the *Michigan Compiled Laws* requires MSF to submit an annual report on the 21st Century Jobs Trust Fund program investments made by the MSF Board regarding the entities that received funding, including the amount received and the type of funding; the amount of qualified venture capital fund investments, qualified mezzanine fund investments, and qualified private equity fund investments under management in the State, including year-to-year growth; the value of Loan Enhancement Program investments, qualified private equity fund investments, qualified mezzanine fund investments, and qualified venture capital investments in qualified businesses, including year-to-year growth; the amount of money received by or returned to the investment fund; the loan enhancement activity of the MSF Board; the amount of money in each loan reserve fund established under the Small Business Capital Access Program (CAP); and any recommendations for needed changes and any other

information the MSF Board believes would be of interest to the Governor, the Legislature, and the public.

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

Audit Conclusion: We concluded that MSF and the SEIC Board were in compliance with selected sections of the *Michigan Compiled Laws* for the 21st Century Jobs Trust Fund programs. However, our assessment disclosed one reportable condition related to program reporting (Finding 4).

FINDING

4. Program Reporting

MSF needs to improve its reporting procedures to ensure that data reported for the 21st Century Jobs Trust Fund programs is correct and contains the significant disclosures necessary to understand the program data presented. Improved reporting procedures would help ensure that the Legislature has understandable data upon which to evaluate program results.

Section 125.2088n 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.

We reviewed the 13 contracts and programs and determined that MSF was required to report annually to the Legislature on 8 of the programs. We reviewed the 21st Century Jobs Trust Fund Program Annual Report and the Michigan Economic Development Corporation (MEDC) Annual Activities Report for fiscal years 2006-07, 2007-08, and 2008-09 for the 8 programs. We noted:

- a. MSF did not consistently calculate the number of projected jobs created for the PTACs in the DC3 Program in the fiscal year 2007-08 and 2008-09 MEDC activities reports to the Legislature. We determined that the number of projected jobs created was based on a formula provided by the federal government which expected that for every \$50,000 in contracts awarded, a new job is estimated to be created or retained. We determined that this

formula was not used consistently for all of the PTACs reported. We recalculated the number of projected jobs created using the formula and determined that MSF understated projected jobs created by 306 (2% of the reported 14,911) in fiscal year 2007-08 and by 235 (2% of the reported 12,685) in fiscal year 2008-09.

- b. MSF should provide disclosures necessary to understand the information presented for the CET, CFGF, and DC3 Programs and CAP. As a result, the annual report data may have limited the Legislature's ability to correctly evaluate the program results. We identified the following improvements:
- (1) MSF should disclose in the annual report which data items are self-reported data, such as new funds leveraged, patents, jobs created, and products commercialized by recipients in the CET and CFGF Programs.
 - (2) MSF should disclose in the activities report that the State's portion of the total value of contracts and projected jobs for the PTACs in the DC3 Program. The PTACs received funding from federal, State, and local sources. However, MSF reports the total value of contracts and projected jobs for the PTACs. For example, the percentage of State grants to the PTACs' total budget was 45% in fiscal year 2008-09 for the 5 PTACs sampled and reviewed. Although MSF reported the total of \$267 million in contracts awarded to the clients of the 5 PTACs, the State's share based on a percentage allocation would be \$123 million.
 - (3) MSF should disclose that the number of jobs created and jobs retained for CAP in the annual report were estimates from the loan applications and not actual jobs created or retained.

RECOMMENDATION

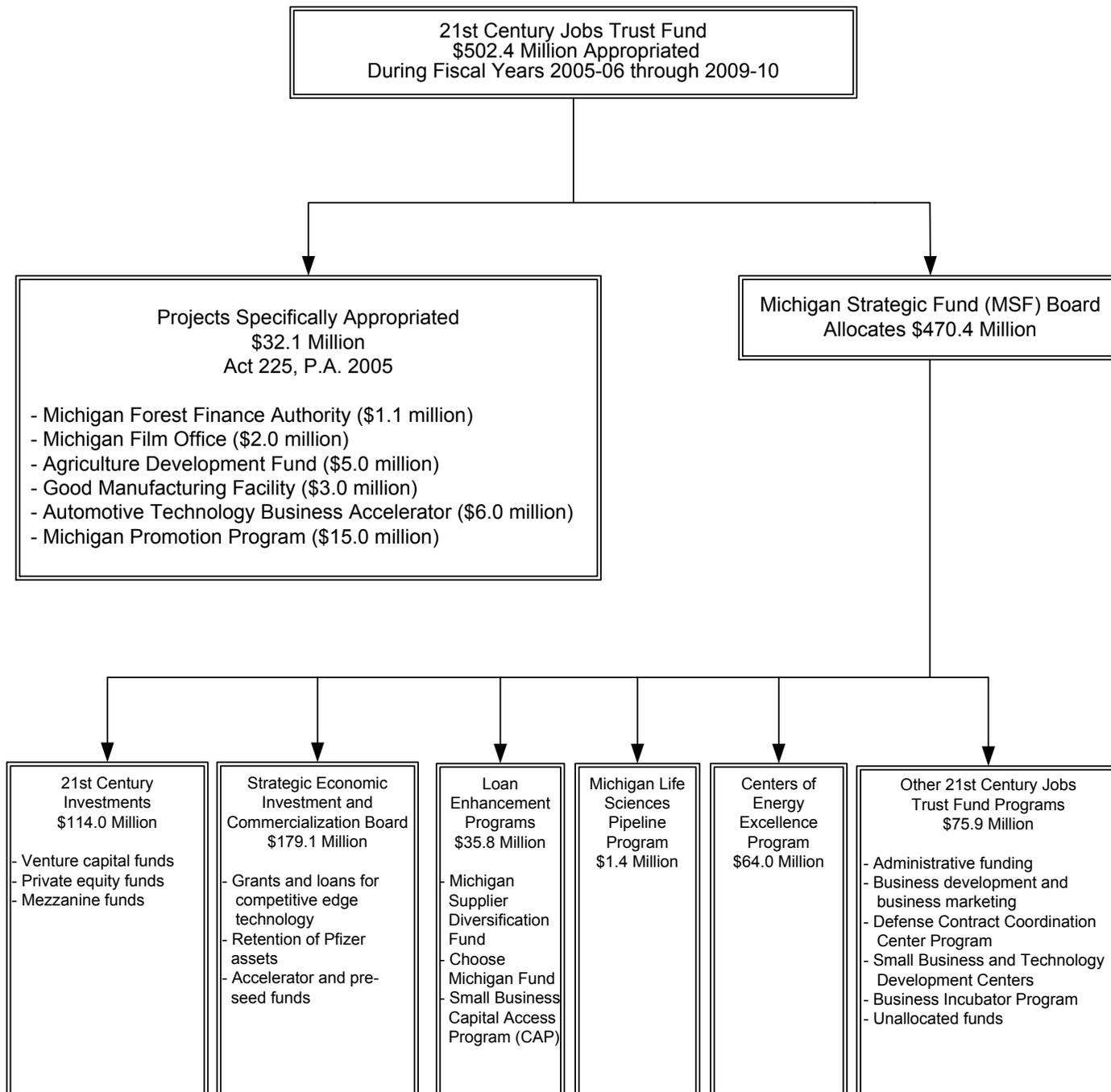
We recommend that MSF improve its reporting procedures to ensure that data reported for the 21st Century Jobs Trust Fund programs is correct and contains the significant disclosures necessary to understand the program data presented.

AGENCY PRELIMINARY RESPONSE

MSF agrees with the recommendation and informed us that it will consistently calculate the number of projected jobs created by the PTACs and will review, and modify as appropriate, the disclosures in the annual report.

SUPPLEMENTAL INFORMATION

21st CENTURY JOBS TRUST FUND PROGRAMS
 Overview of Programs and Appropriations
 As of June 30, 2010



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

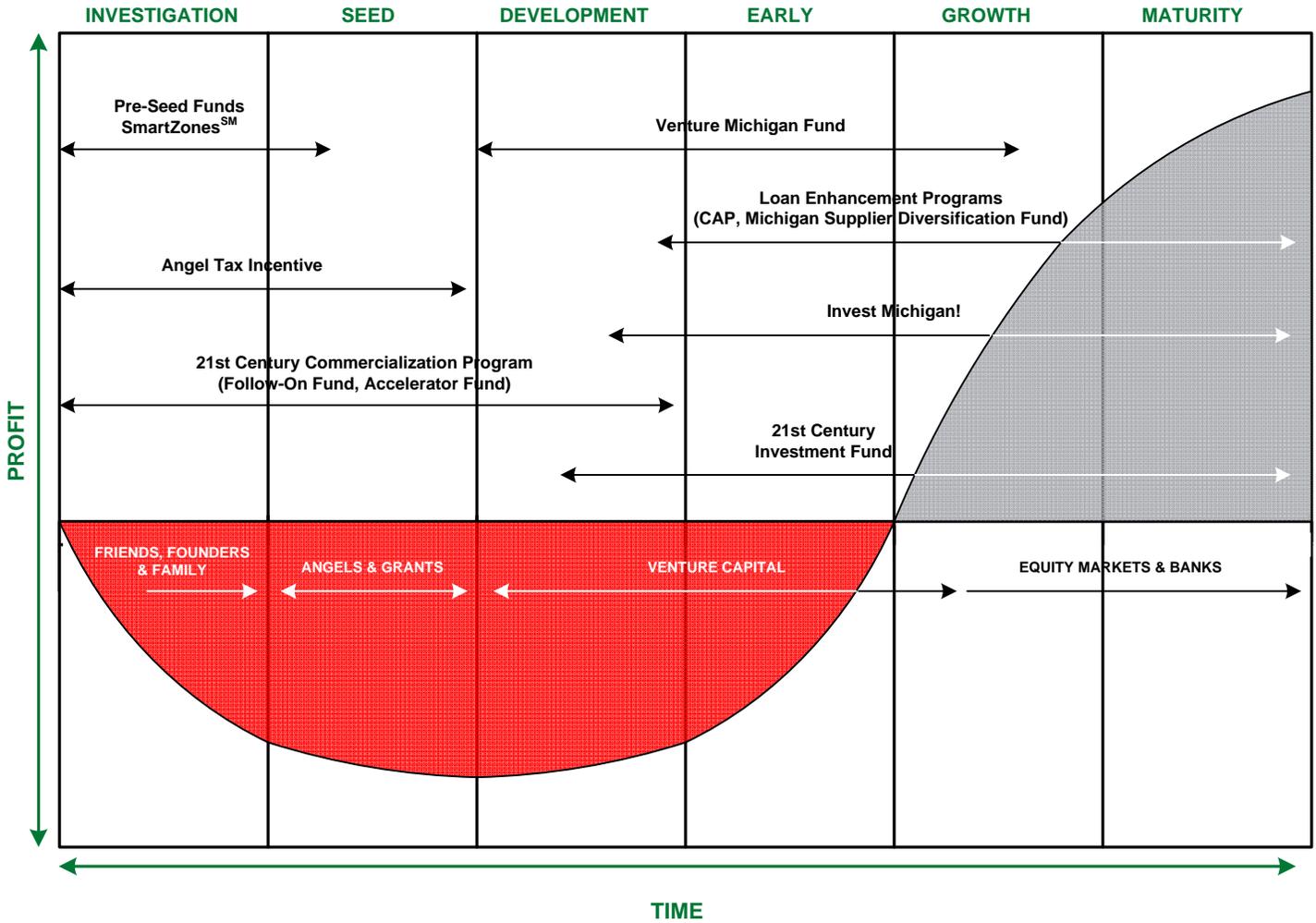
21st CENTURY JOBS TRUST FUND PROGRAMS
Summary of Funds Allocated and Expended and Invested by Program
As of June 30, 2010

<u>Program</u>	<u>Total Allocated</u>	<u>Total Expended and Invested</u>	<u>Percent Expended and Invested of Total Allocated</u>
21st Century Investments	\$ 114,000,000	\$ 42,070,335	36.9%
Competitive Edge Technology	179,113,787	150,519,495	84.0%
Loan Enhancement Programs	35,800,000	13,582,030	37.9%
Michigan Life Sciences Pipeline Program	1,400,000	1,387,970	99.1%
Centers of Energy Excellence Program	64,000,000	25,600,000	40.0%
Other 21st Century Jobs Trust Fund Programs	75,911,000	60,787,208	80.1%
Projects specifically appropriated	32,050,000	30,530,183	95.3%
Unallocated funds	125,213		0.0%
Total	\$ 502,400,000	\$ 324,477,221	64.6%

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

21st CENTURY JOBS TRUST FUND PROGRAMS
 Overview of Capital Lifecycle

The Capital Lifecycle



Note: SmartZonesSM, Angel Tax Incentive, and Invest Michigan! are other programs offered by the Michigan Economic Development Corporation and the Michigan Department of Treasury.

Source: Michigan Strategic Fund 21st Century Jobs Trust Fund Programs personnel.

21st CENTURY JOBS TRUST FUND PROGRAMS
21st Century Investments (1)
As of June 30, 2010

	Competitive Edge Technology (2)	Amount Approved for Investment (Maximum) (3)	Amount Invested (3)
<u>Venture Capital Investments</u>			
Arsenal Venture Partners II	Defense	\$ 5,000,000	\$
Arboretum Ventures II, LP	Life sciences	7,500,000	3,460,000
Early Stage Partners II	IT, life sciences, alternative energy/clean technology	6,000,000	3,160,000
Nth Power Fund IV, LP	Alternative energy	10,000,000	5,580,000
RPM Ventures II	Software, IT	6,000,000	2,100,000
Triathlon Medical Ventures II	Life sciences, Healthcare	10,000,000	
Venture Investors Early Stage Fund IV, LP	Life sciences and advanced automotive, manufacturing, and materials	10,850,000	5,940,000
 <u>Private Equity Investments</u>			
Quad Partners II, LP		10,000,000	4,710,000
Relativity Fund, LP		10,000,000	2,620,000
Pegasus Fund V		10,000,000	
 <u>Mezzanine Investments</u>			
Maranon Mezzanine		7,260,000	1,610,000
Midwest Mezzanine IV		10,000,000	7,090,000
Credit Suisse/MMF Investment Co., LLC		240,000	50,000
 <u>Direct Investments</u>			
Microposite, Inc.		1,650,000	1,650,000
 Total (4)		<u>\$ 104,500,000</u>	<u>\$ 37,970,000</u>

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

MSF contracted with DLJ Fund Partners II, LP (DLJ), a wholly-owned subsidiary of the Credit Suisse Group, to review investment proposals, make recommendations, manage the investment programs, and report on investment activities for the venture capital, private equity, and mezzanine investments to the MSF Board. As of June 30, 2010, DLJ had evaluated numerous investment fund proposals and recommended 13 investment funds, which were approved by the MSF Board for investment.

(2) Section 125.2088f(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 \$55.4 million approved for investment, \$44.4 million (80%) focuses on competitive edge technologies.

(3) The "Amount Approved for Investment (Maximum)" and the "Amount Invested" represent the amounts for the full general partnership of the 21st Century Investments. MSF's share in the general partnership is 95% and the share of the investment manager, Credit Suisse Group, in the general partnership is 5%.

(4) The MSF Board has allocated funding up to \$114.0 million for investments and management fees. As of June 30, 2010, the MSF Board had approved investments of \$104.5 million and invested \$38.0 million and expended \$4.5 million in management fees for a total of \$42.5 million invested and expended.

Source: The Office of the Auditor General prepared this exhibit from the 21st Century Jobs Trust Fund Program 2008-09 Annual Report, MSF Board meeting minutes, and unaudited accounting records obtained from MSF.

21st CENTURY JOBS TRUST FUND PROGRAMS
Summary of Competitive Edge Technology (CET)
by Organization Type, Sector, and Activities and Services
As of June 30, 2010

	Number of Awards	Total Awards	Percent of Total Awards
<u>All Grants and Loans</u>			
Grants	50	\$ 75,750,475	44.5%
Convertible loans	31	53,763,760	31.6%
Straight loans	57	40,719,014	23.9%
 Total	 138	 \$ 170,233,249	 100.0%
<u>By Organization Type</u>			
Michigan institution of higher education	31	\$ 35,690,465	21.0%
Michigan-based for-profit company	89	95,610,359	56.2%
Michigan-based nonprofit corporation	10	25,624,841	15.1%
Michigan-based nonprofit research institution	8	13,307,584	7.8%
 Total	 138	 \$ 170,233,249	 100.0%
<u>By Competitive Edge Technology Sector</u>			
Advanced automotive, manufacturing, and materials technology	27	\$ 30,720,051	18.0%
Alternative energy technology	8	13,908,831	8.2%
Homeland security and defense technology	11	15,573,808	9.1%
Life sciences technology	72	66,103,395	38.8%
Infrastructure	20	43,927,164	25.8%
 Total	 138	 \$ 170,233,249	 100.0%
<u>By Activities and Services</u>			
Applied research activities	39	\$ 49,261,984	28.9%
Basic research activities	7	5,069,077	3.0%
Commercialization activities	37	64,655,024	38.0%
Company Formation and Growth Fund	35	7,320,000	4.3%
Incubator	3	1,656,676	1.0%
Pre-seed fund	2	14,800,000	8.7%
Service provider	15	27,470,488	16.1%
 Total	 138	 \$ 170,233,249	 100.0%

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 proposal since the CET program's inception in 2006. As of June 30, 2010, 138 grants and loans totaling \$170.2 million had been awarded. Of the \$170.2 million awarded, \$150.5 million had been expended. The remaining award funding will be paid in incremental amounts as milestone goals are achieved for each proposal.

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

21st CENTURY JOBS TRUST FUND PROGRAMS
Summary of Loan Enhancement Programs (1)
As of June 30, 2010

Michigan Supplier Diversification Fund		
Number of loans outstanding		13
Total loan amount (2)	\$	21,101,000
MSF share of loan	\$	9,601,100
Small Business Capital Access Program (CAP):		
Number of participating banks		68
Amount placed in reserve at participating banks (3)	\$	6,015,367
Resulting number of loans		1325
MSF investment in loans	\$	3,007,683
Choose Michigan Fund Program		
Number of loans approved		2
Total loan commitments	\$	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		

(1) The Loan Enhancement Programs, administered by the Michigan Strategic Fund (MSF) Board, provide funding sources for qualified businesses through 5 loan programs. The Michigan Supplier Diversification Fund provides a loan guarantee mechanism to financial institutions located in the State that provide commercial loans to qualified businesses, public authorities, and local units of governments. CAP uses public resources to generate private bank financing to provide small Michigan businesses 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 plan to invest in loans from the Jobs for Michigan Investment Fund to eligible production companies or film and digital media private equity funds.

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

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

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 Centers of Energy Excellence (COEE) Grants (1)
As of June 30, 2010

<u>Grant Recipient</u>	<u>Energy Excellence Focus</u>	<u>Award Amount</u>	<u>Projected Direct New Jobs</u>	<u>Eligible Federal Match (2)</u>	<u>Total Estimated Project Investment</u>
Sakti3 (3)	Lithium ion battery	\$ 3,000,000	125	\$	\$ 60,500,000
Mascoma Corporation (3)	Cellulosic ethanol	20,000,000	50	27,500,000	251,000,000
Swedish Biogas International (3)	Waste to energy/fuel	4,000,000	40	4,000,000	8,000,000
American Process Inc. (3)	Cellulosic ethanol	4,000,000	10	18,000,000	22,500,000
A123 Systems (3)	Lithium ion battery	10,000,000	360	279,575,000	25,000,000
Working Bugs, LLC (3)	Biochemicals	2,000,000	20	1,200,000	4,000,000
Dow Chemical	Wind energy	5,000,000	7	5,000,000	20,000,000
Adaptive Materials	Fuel cells	3,000,000	11	3,000,000	6,000,000
Astraeus Wind Energy	Wind energy	6,000,000	20	7,000,000	16,000,000
Energetx Composites	Wind energy	3,500,000	230	3,500,000	10,500,000
Totals		\$ 60,500,000	873	\$ 348,775,000	\$ 423,500,000

(1) 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 COEE Program are used to match foundation, international investments, and federal funding received by grantees. As of June 30, 2010, total allocations were \$64.0 million, with 10 grants totaling \$60.5 million awarded and \$25.6 million expended. The remaining award funding will be paid in incremental amounts as milestone goals are achieved for each grant.

(2) Phase I of the COEE Program did not require a 1-for-1 federal match. The law was amended and Phase II does require a 1-for-1 federal match.

(3) These awards were given under Phase I.

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

21st CENTURY JOBS TRUST FUND PROGRAMS
Summary of Other 21st Century Jobs Trust Fund Programs (1)
As of June 30, 2010

	Appropriated Fiscal Year			
	2005-06	2007-08	2008-09	2009-10
Administrative Funding				
Amount appropriated	\$ 15,760,000	\$ 3,000,000	\$ 2,480,000	\$ 1,140,000
Amount expended (2)	10,525,485	3,000,000	2,517,275	1,064,462
Unexpended	<u>\$ 5,234,515</u>	<u>\$ 0</u>	<u>\$ (37,275)</u>	<u>\$ 75,538</u>
Business Development and Business Marketing				
Amount appropriated	\$ 19,700,000	\$ 9,450,000	\$ 3,100,000	\$ 1,425,000
Amount expended (2)	19,700,000	9,450,000	3,127,580	933,294
Unexpended	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (27,580)</u>	<u>\$ 491,706</u>
Defense Contract Coordination Center (DC3) Program				
Amount appropriated	\$ 10,000,000	\$	\$	\$ 2,031,000
Amount expended (2)	7,521,481			1,352
Unexpended	<u>\$ 2,478,519</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,029,648</u>
Small Business and Technology Development Centers				
Amount appropriated		\$ 1,400,000	\$ 1,400,000	\$ 1,400,000
Amount expended (2)		1,400,000	1,011,279	0
Unexpended		<u>\$ 0</u>	<u>\$ 388,721</u>	<u>\$ 1,400,000</u>
Business Incubator Program				
Amount appropriated (3)			\$ 1,250,000	\$ 950,000
Amount expended (2)			535,000	0
Unexpended			<u>\$ 715,000</u>	<u>\$ 950,000</u>
Good Manufacturing Facility				
Amount appropriated	\$ 3,000,000			
Amount expended (2)	2,650,000			
Unexpended	<u>\$ 350,000</u>			
Automotive Technology Business Accelerator (ATBA)				
Amount appropriated	\$ 6,000,000			
Amount expended (2)	6,000,000			
Unexpended	<u>\$ 0</u>			

(1) Other 21st Century Jobs Trust Fund programs funded through statute and yearly appropriations include funding for: administration, up to 4% of yearly appropriation; business development and marketing targeting persons or entities outside of the State of up to 5% of yearly appropriation; the Defense Contract Coordination Center Program for Procurement Technical Assistance Centers (PTACs) and contracted consultants to assist Michigan companies in securing more federal defense and homeland security contracts; Small Business and Technology Development Centers for the Small Business Innovative Research or Small Business Technology Transfer grant or loan matching programs; and the Business Incubator Program to foster the development and growth of new, small entrepreneurial companies during the start-up phase. This exhibit details a portion of the \$111.6 million appropriation for projects and the \$94.3 million expended as of June 30, 2010.

(2) The amount reported as expended is reported with the year appropriated but not necessarily the actual year expended.

(3) Although \$950,000 was appropriated by the Legislature, the Business Incubator Program is to be funded by the net income of the Jobs for Michigan Investment Fund. The Jobs for Michigan Investment Fund had only \$36,579 in net income for use in fiscal year 2009-10.

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.
CAP	Small Business Capital Access Program.
CET	Competitive Edge Technology.
CFGF	Company Formation and Growth Fund.
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.
DC3	Defense Contract Coordination Center.
DLJ	DLJ Fund Partners II, LP.
effectiveness	Success in achieving mission and goals.

homeland security and defense technology

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:

- (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.

MEDC

Michigan Economic Development Corporation.

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.

performance audit

An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve program operations, to facilitate decision making by parties responsible for overseeing or initiating corrective action, and to improve public accountability.

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, 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 objectives of the audit; 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.
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.
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.

