FINANCIAL RELATED AUDIT
OF THE

USE OF TRANSPORTATION-RELATED FUNDING

October 1, 1999 through September 30, 2000

07-629-02

EXECUTIVE DIGEST

USE OF TRANSPORTATION-RELATED FUNDING

INTRODUCTION

This report contains the results of our financial related audit* of the Use of Transportation-Related Funding for the period October 1, 1999 through September 30, 2000.

AUDIT PURPOSE

This financial related audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Financial related audits are conducted at various intervals to provide for enhanced financial reporting of significant State programs and/or activities and to complement the annual audit of the State's financial statements.

Also, this audit is mandated by Section 306, Act 136, P.A. 1999, which was approved by the Governor on July 27, 1999. This section mandates that the Auditor General conduct an audit of fiscal year 1999-2000 charges to transportation funds by State agencies. The report shall include recommendations and conclusions, including a list of services charged to the transportation funds, the appropriateness of the charges, and the cost allocation methodologies.

This audit report addresses State agencies' charges to the transportation funds as submitted on their annual reports of transportation-related funding used pursuant to Section 505, Act 136, P.A. 1999, and charges and

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

operating transfers among transportation funds. The Michigan Transportation Fund made $901,701,721 in grant payments in fiscal year 1999-2000 to the counties, cities, and villages for highway purposes, which were not included in the scope of this audit.

BACKGROUND

Act 136, P.A. 1999, requires State agencies that receive transportation-related funding for providing tax and fee collection and other services for transportation funds to contract with the Michigan Department of Transportation (MDOT). The contracts must include estimated costs to be recovered from transportation funds, a description of the services financed by transportation funds, and cost allocation methods and rationale for the portion of costs allocated to transportation funds. These agencies are also required to annually report the amount of funding contracted for, expended, and returned to the transportation funds.

MDOT accounted for $924,782,670 in operating transfers among transportation funds and other State agencies accounted for $66,468,937 of the $991,251,607 in total transportation-related funding expended during fiscal year 1999-2000 (see the summary of annual reports of transportation-related funding used and the summary of charges and operating transfers among transportation funds, presented as supplemental information).

AUDIT OBJECTIVES AND CONCLUSIONS

Audit Objective: To determine the adequacy of the cost allocation methodologies used to identify transportation-related costs and the appropriateness of charges to transportation funds.

Conclusion: Of the 10 agencies that received transportation-related funding, 7 agencies (the Departments of State, Management and Budget, Civil Service, Environmental Quality, Natural Resources,

and Treasury and the Office of the Auditor General) had complied with the appropriations acts by applying adequate cost allocation methodologies to identify transportation-related costs. However, our audit disclosed a reportable condition* involving the other 3 agencies (the Departments of State Police, Attorney General, and Transportation) regarding cost allocation methodologies (Finding 1). Our recently issued performance audit report entitled "Services Provided to Local Road Agencies" (59-132-01), issued in November 2001, also provides more detailed information related to Finding 1 of this report.

Audit Objective: To determine whether unused transportation funds' appropriations were returned to the appropriate transportation funds.

Conclusion: All the agencies had returned their unused transportation funds' appropriations for fiscal year 1999-2000 to the appropriate transportation funds.

Audit Objective: To determine compliance with contractual and reporting requirements for transportation-related funding as prescribed by the appropriations acts.

Conclusion: All State agencies reviewed had executed the required contracts with MDOT for fiscal year 1999-2000. However, our audit disclosed reportable conditions regarding annual contracts and proper reporting (Findings 2 and 3).

AUDIT SCOPE

Our audit scope was to examine the financial and other records supporting transportation-related costs and charges to transportation funds for the period

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

October 1, 1999 through September 30, 2000. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances, except that we were not independent in our audit of the Office of the Auditor General.

In connection with our audit, we compiled supplemental information about the agencies' use of transportation-related funding based on information provided by the agencies and MDOT. Our audit was not directed toward expressing an opinion on the supplemental information and, accordingly, we express no opinion on it.

AGENCY RESPONSES AND PRIOR AUDIT FOLLOW-UP

Our audit report includes 3 findings and 4 corresponding recommendations. The State Budget Office responded that it would consider the recommendations.

Two of the 3 prior audit recommendations were repeated in this report. The third recommendation was no longer applicable.

February 27, 2002

The Honorable Harry Gast, Chairperson
Senate Appropriations Committee
Michigan Senate
and
The Honorable Marc Shulman, Chairperson
House Appropriations Committee
Michigan House of Representatives
State Capitol
Lansing, Michigan

Dear Senator Gast and Representative Shulman:

This is the financial related audit of the Use of Transportation-Related Funding by the Departments of State, Management and Budget, State Police, Civil Service, Attorney General, Environmental Quality, Natural Resources (including Mackinac Island State Park Commission), Treasury, and Transportation and the Office of the Auditor General for the period October 1, 1999 through September 30, 2000, as required by Section 306, Act 136, P.A. 1999.

This report contains our executive digest; description of funding requirements; audit objectives, audit scope, and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; detailed review comments by agency, a summary of annual reports of transportation-related funding used, and a summary of charges and operating transfers among transportation funds, 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 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 by the departments reviewed during this audit.

Sincerely,

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

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Description of Funding Requirements

Act 136, P.A. 1999, requires State agencies that receive transportation-related funding for providing tax and fee collection and other services for transportation funds to contract with the Michigan Department of Transportation. The contracts must include estimated costs to be recovered from transportation funds, a description of the services financed by transportation funds, and cost allocation methods and rationale for the portion of costs allocated to transportation funds. These agencies are also required to annually report the amount of funding contracted for, expended, and returned to the transportation funds.

In fiscal year 1999-2000, the following State agencies reported the use of transportation-related funding: the Departments of State, Management and Budget, State Police, Civil Service, Attorney General, Environmental Quality, Natural Resources, and Treasury and the Office of the Auditor General. These agencies accounted for $66,468,937 of the $991,251,607 in total transportation-related funding expended and the Michigan Department of Transportation accounted for $924,782,670 in operating transfers among transportation funds during fiscal year 1999-2000 (see the summary of annual reports of transportation-related funding used and the summary of charges and operating transfers among transportation funds, presented as supplemental information).

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

Audit Objectives

Our financial related audit of the Use of Transportation-Related Funding had the following objectives:

1. To determine the adequacy of the cost allocation methodologies used to identify transportation-related costs and the appropriateness of charges to transportation funds.

2. To determine whether unused transportation funds' appropriations were returned to the appropriate transportation funds.

3. To determine compliance with contractual and reporting requirements for transportation-related funding as prescribed by the appropriations acts.

Audit Scope

Our audit scope was to examine the financial and other records supporting transportation-related costs and charges to transportation funds for the period October 1, 1999 through September 30, 2000. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances, except that we were not independent in our audit of the Office of the Auditor General.

In connection with our audit, we compiled supplemental information about the agencies' use of transportation-related funding based on information provided by the agencies and the Michigan Department of Transportation. Our audit was not directed toward expressing an opinion on the supplemental information and, accordingly, we express no opinion on it.

Agency Responses and Prior Audit Follow-Up

Our audit report includes 3 findings and 4 corresponding recommendations. The State Budget Office responded that it would consider 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 Department of Management and Budget Administrative Guide procedure 1280.02 require the Department of Management and Budget to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

Two of the 3 prior audit recommendations were repeated in this report. The third recommendation was no longer applicable.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

COST ALLOCATION METHODOLOGIES AND TRANSPORTATION FUNDS' CHARGES

COMMENT

Audit Objective: To determine the adequacy of the cost allocation methodologies used to identify transportation-related costs and the appropriateness of charges to transportation funds.

Conclusion: Of the 10 agencies that received transportation-related funding, 7 agencies (the Departments of State, Management and Budget [DMB], Civil Service [DCS], Environmental Quality [DEQ], Natural Resources, and Treasury and the Office of the Auditor General [OAG]) had complied with the appropriations acts by applying adequate cost allocation methodologies to identify transportation-related costs. However, our audit disclosed a reportable condition involving the other 3 agencies (the Departments of State Police [MSP], Attorney General, and Transportation [MDOT]) regarding cost allocation methodologies. Our recently issued performance audit report entitled "Services Provided to Local Road Agencies" (59-132-01), issued in November 2001, also provides more detailed information related to Finding 1 of this report.

FINDING

1. Cost Allocation Methodologies

DMB, in conjunction with MDOT, had not established an effective process to ensure that State agencies followed appropriate cost allocation methodologies. Also, DMB had not developed a process to settle overcharges and undercharges from prior fiscal years.

DMB is required by Section 18.1141 of the *Michigan Compiled Laws* to plan, prepare, and execute a comprehensive State budget pursuant to the State Constitution. DMB prepares the executive budget request, which is the basis for legislative appropriations. The executive budget request is based on information submitted by the departments.

We reviewed the adequacy of the cost allocation methodologies used and the appropriateness of the charges to the transportation funds for 10 agencies (see the detailed review comments by agency, presented as supplemental information.) Our review noted:

a. MSP's contract with MDOT specified a cost allocation methodology based on an equal division of the traffic accident records program costs among MSP, MDOT, and the Department of State. However, the costs were not allocated equally, resulting in an undercharge to the State Trunkline Fund and an overcharge to the General Fund of $20,629.

b. The Department of Attorney General billed MDOT based on the appropriations act amounts rather than on the source of services provided. This resulted in an overcharge to the Michigan Transportation Fund of $1,584,908 and an undercharge to the State Trunkline Fund and the Comprehensive Transportation Fund of $1,509,998 and $74,910, respectively.

c. Our recently issued performance audit report entitled "Services Provided to Local Road Agencies" (59-132-01), issued in November 2001, indicated that MDOT had not completed a cost allocation study that identifies all costs associated with activities directed at counties, cities, and villages (local units of government) and identifies methods for the equitable allocation of all costs to the local units of government and the State Trunkline Fund. This report is available upon request or from our web site at www.state.mi.us/audgen.

d. Because the appropriations act provided only a limited amount of funding from the transportation funds, two State agencies did not bill MDOT for all actual costs (underallocated costs). The Department of State had underallocated costs of $39,788,857, and the OAG had underallocated costs of $22,400. These underallocations resulted in the General Fund covering more of the costs of these programs that are benefiting the transportation funds. DMB has not established a process to account for these underallocations in future budget requests.

e. During our prior year audit, we found that MSP and the Department of Treasury had overcharged MDOT $149,988 and $1,071,740, respectively. Neither of these two State agencies made any adjustment to their charges during fiscal year 1999-2000 to adjust for these prior year overcharges.

We again noted that DMB had not developed a process to adjust departments' executive budget requests or supplemental appropriations to account for overallocations and underallocations. Overallocations or underallocations occur when agencies charge transportation funds incorrectly because of errors in their allocation process, lack of appropriation authorization, or delays in obtaining accurate data.

RECOMMENDATIONS

WE AGAIN RECOMMEND THAT DMB, IN CONJUNCTION WITH MDOT, ESTABLISH AN EFFECTIVE PROCESS TO ENSURE THAT STATE AGENCIES FOLLOW APPROPRIATE COST ALLOCATION METHODOLOGIES.

WE ALSO AGAIN RECOMMEND THAT DMB DEVELOP A PROCESS TO SETTLE OVERCHARGES AND UNDERCHARGES FROM PRIOR FISCAL YEARS.

AGENCY PRELIMINARY RESPONSE

The State Budget Office responded that it would consider the recommendations.

UNUSED TRANSPORTATION FUNDS' APPROPRIATIONS

COMMENT

Audit Objective: To determine whether unused transportation funds' appropriations were returned to the appropriate transportation funds.

Conclusion: All the agencies had returned their unused transportation funds' appropriations for fiscal year 1999-2000 to the appropriate transportation funds (for amounts returned, see the detailed review comments by agency, presented as supplemental information).

We commend the agencies on their proper return of unused fiscal year 1999-2000 transportation funds' appropriations. We have no findings or recommendations for this audit objective.

CONTRACTUAL AND REPORTING REQUIREMENTS

COMMENT

Audit Objective: To determine compliance with contractual and reporting requirements for transportation-related funding as prescribed by the appropriations acts.

Conclusion: All State agencies reviewed had executed the required contracts with MDOT for fiscal year 1999-2000. However, our audit disclosed reportable conditions regarding annual contracts and proper reporting.

FINDING

2. Annual Contracts

DMB, MDOT, and State agencies need to update contracts for services provided to transportation funds.

Sections 505(2) and 505(3), Act 136, P.A. 1999, provide that State agencies and MDOT will develop annual contracts for services to be charged and identify the related cost allocation methodology used to allocate administrative costs to the transportation funds.

During our review of the 9 State agencies that had contracts for charges to transportation funds, we discovered that 5 of these agencies (DMB, DCS, Department of Attorney General, DEQ, and Department of Treasury,) were billing transportation funds for services not identified in the annual contracts. We also noted that three other agencies (the Michigan Strategic Fund and the Departments of Consumer and Industry Services and Community Health) that did not have an annual contract with MDOT were billing the transportation funds for services. These additional charges from the 8 agencies totaled $6,178,218.

We sampled $3,180,986 (51%) of $6,178,218 additional charges to transportation funds and determined that the costs were appropriately charged to the various transportation funds. Although we recognize that State agencies cannot anticipate every service that may come up during the year and some are minor miscellaneous costs, many of the additional charges were routine, reoccurring, and of a dollar value to warrant inclusion in the annual contracts. Generally, we found that these additional charges were paid by using expenditure credit or revenue debit

transactions and not by an operating transfer through appropriated interdepartmental grants.

To include the costs of services provided to MDOT in the appropriations act request, DMB needs to periodically **consider all costs incurred by the transportation funds.**

RECOMMENDATION

We recommend that DMB, MDOT, and State agencies update contracts for services provided to transportation funds.

AGENCY PRELIMINARY RESPONSE

The State Budget Office responded that it would consider the recommendation.

FINDING

3. Proper Reporting

DMB did not develop detailed procedures for State agencies to ensure proper and consistent annual reporting of charges to transportation funds.

Section 505(4), Act 136, P.A. 1999, requires that each State agency submit a written report to the State budget director and the Auditor General stating, by spending authorization account, the amount of estimated funds contracted with MDOT, the amount of funds expended, and the amount of funds returned to the transportation funds. In the current and prior years, most of the State agencies had reported on the appropriated interdepartmental grants from MDOT. State agencies can, however, charge transportation funds and receive reimbursement for costs for items not included in the contracts by recording expenditure credits or revenue debits as indicated in Finding 2.

We selected 23 transactions totaling $3,180,986 that were reimbursed by expenditure credit or revenue debit. While most of the charges were not included in the annual reports, we did determine that these expenditures were appropriately charged to the transportation funds. These charges included, but were not limited to, operating welcome centers, renewing appraisal licenses, providing transportation to needy families, purchasing land, and providing training to MDOT personnel.

In our review of the annual reports submitted by the 9 State agencies and our testing of expenditure credits and revenue debits, we noted the following inconsistencies:

a. DCS did not prepare an annual report specifying the amount of funds contracted, expended, or lapsed to the transportation funds. Instead, DCS submitted its appropriation/fiscal analysis report identifying the 1% charge of salaries for all departments Statewide. We do not feel that this report meets the intent of Section 505(4), Act 136, P.A. 1999. However, our review of DCS detailed costs supported the charges to the transportation funds.

b. Six agencies did not include charges totaling $969,725 on their annual reports that were reimbursed via expenditure credit and revenue debit. However, DEQ and the Department of Natural Resources included most of those charges on their annual reports. The six agencies and their corresponding charges were:

Agency	Comprehensive Transportation Fund	State Aeronautics Fund	State Trunkline Fund	Total
DMB	$ 1,030	$ 1,152	$ 357,954	$ 360,136
MSP		80,207	240,111	320,318
DCS	6,978	968	187,032	194,979
Department of Treasury		1,314	39,153	40,468
Department of Attorney General			27,880	27,880
Department of State			25,944	25,944
Total	$ 8,008	$ 83,641	$ 878,074	$ 969,725

c. Five agencies did not prepare an annual report for DMB and the OAG; however, they charged MDOT funds $4,293,058 million for services provided:

Agency	Comprehensive Transportation Fund	State Aeronautics Fund	State Trunkline Fund	Total
Michigan Strategic Fund	$	$ 1,103	$ 3,792,957	$ 3,794,060
Michigan Department of Career Development	407,800			407,800
Department of Consumer and Industry Services	90	130	34,461	34,681
Department of Corrections			31,517	31,517
Department of Community Health	25,000			25,000
Total	$ 432,890	$ 1,233	$ 3,858,935	$ 4,293,058

For DMB and the Legislature to gain usable information when preparing the budget, State agencies need to consistently and completely prepare accurate reports. DMB needs to provide procedures to ensure that State agencies are properly reporting the use of transportation-related funding.

RECOMMENDATION

We recommend that DMB develop detailed procedures for State agencies to ensure proper and consistent annual reporting of charges to transportation funds.

AGENCY PRELIMINARY RESPONSE

The State Budget Office responded that it would consider the recommendation.

SUPPLEMENTAL INFORMATION

DEPARTMENT OF STATE

Annual Report of Transportation-Related Funding Used

Fiscal Year Ended September 30, 2000

Services and Other Charges to the Transportation Funds	Contract Amount	Expended	Returned
Michigan Transportation Fund			
Collection of taxes, fees, and other services			
Executive direction	$ 483,700	$ 481,375	$ 2,325
Department services	15,686,500*	15,494,683*	191,817
Regulatory services	2,004,800	1,867,180	137,620
Customer delivery services	35,936,600*	26,196,826*	9,739,774
Departmentwide	2,719,200	2,610,285	108,915
Total	$ 56,830,800	$ 46,650,349	$ 10,180,451

* This money was appropriated but a portion was neither expended nor returned. It was carried forward as a work project. Any funds appropriated as a work project and not expended within 36 months after fiscal year 1999-2000 year-end must be returned to the Michigan Transportation Fund.

Appropriateness of Charges and Cost Allocation Methodology

The preceding table represents amounts reported by the Department of State pursuant to Section 505, Act 136, P.A. 1999. The Department of State's charges to the Michigan Transportation Fund (MTF) were used to finance the collection of transportation taxes, fees, and other transportation-related services. The Department of State collected $812,347,000 of revenue credited to MTF in fiscal year 1999-2000.

The Department of State's charges against MTF for the collection of transportation taxes, fees, and other transportation-related services were based on MTF's share of funding (funding ratio) of the appropriated expenditures.

The Department of State contracted with an outside firm to conduct time-and-effort cost studies. For fiscal year 1999-2000, the firm determined that the Department of State should have charged MTF $86,252,153 for the services provided. We reviewed the firm's supporting documentation and concluded that the documentation supports the firm's position. However, the Department of State did not charge MTF for the total expenditures allocable to MTF because that would have exceeded the appropriated amounts. Section 110, Act 124, P.A. 1999, established that funding from MTF should

not exceed $56,830,800. The Department of State obtained $46,463,296. Consequently, there was an underallocation of charges of $39,788,857.

Unreported Miscellaneous Charges

The Department of State charged the State Trunkline Fund for miscellaneous expenses of approximately $26,000 that were for services not anticipated or covered in the contract. These charges were for items such as the purchase of a vehicle code book, a Michigan historical marker, archaeological site file processing, and the cataloging of highway project archaeological collections. We reviewed a sample of these charges to the transportation funds and determined that they were appropriate. Also, we noted that the archaeological item we reviewed for the Department of State was supported by a signed contract, but the expenditures were not included in the annual report. (See Recommendation 2 regarding updates to contracts and Recommendation 3 regarding detailed procedures for reporting charges to transportation funds.)

DEPARTMENT OF MANAGEMENT AND BUDGET

Annual Report of Transportation-Related Funding Used

Fiscal Year Ended September 30, 2000

Services and Other Charges to the Transportation Funds	Contract Amount	Expended	Returned
Comprehensive Transportation Fund			
Central services	$ 38,600	$ 38,600	$ 0
MAIN user charges	67,000	67,000	0
Michigan Transportation Fund			
MAIN user charges	1,615,100	1,615,100	0
State Aeronautics Fund			
Central services	18,200	18,200	0
MAIN user charges	32,100	32,100	0
State Trunkline Fund			
Central services	768,100	768,100	0
MAIN user charges	1,325,800	1,325,800	0
Building occupancy charges	4,582,300	4,527,567	54,733
Total	$ 8,447,200	$ 8,392,467	$ 54,733

Appropriateness of Charges and Cost Allocation Methodology

The preceding table represents amounts reported by the Department of Management and Budget (DMB) pursuant to Section 505, Act 136, P.A. 1999. DMB charged the transportation funds for central services, such as payroll, central audit, fixed assets accounting, space leasing services, mail and freight, purchasing, employer services, budgeting, contract management, the Michigan Administrative Information Network's (MAIN's) development and operation costs, and operating costs of buildings used by transportation programs.

For these charges, DMB uses the Statewide Cost Allocation Plan* to allocate expenditures to the transportation funds. This method allocates costs based on estimated expenditures and adjusts future allocations for the differences between estimates and actual expenditures. We conclude that the charges and the cost allocation methodology were reasonable.

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

Unreported Miscellaneous Charges

DMB charged the transportation funds for miscellaneous expenses of approximately $360,000 that were for services not anticipated or covered in the contract. These charges were for items such as consultant billing, year 2000 and mainframe services, and department-assigned parking spaces. We reviewed a sample of these charges to the transportation funds and determined that they were appropriate. (See Recommendation 2 regarding updates to contracts and Recommendation 3 regarding detailed procedures for reporting charges to transportation funds.)

MICHIGAN DEPARTMENT OF STATE POLICE
Annual Report of Transportation-Related Funding Used
Fiscal Year Ended September 30, 2000

Services and Other Charges to the Transportation Funds	Contract Amount	Expended	Returned
State Trunkline Fund			
Motor Carrier Division	$ 5,989,400	$ 5,421,766	$ 567,634
Central Records Division	316,300	291,005	25,295
Total	$ 6,305,700	$ 5,712,771	$ 592,929

Appropriateness of Charges and Cost Allocation Methodology

The preceding table represents amounts reported by the Michigan Department of State Police (MSP) pursuant to Section 505, Act 136, P.A. 1999. MSP charged the transportation funds for the cost of services provided to the Michigan Department of Transportation (MDOT) by MSP's Motor Carrier Division and MSP's Central Records Division.

The Motor Carrier Division charged $5,421,766 for enforcing State Trunkline Fund regulations as well as other motor carrier regulations financed with motor carrier fees. This transportation-related funding was used to support 123 full-time equated employees who administered and enforced the Motor Carrier Division's programs and regulations. The Motor Carrier Division performed enforcement activities related to traffic safety, commercial vehicle regulations, and other activities performed through weigh stations and road patrol. The Motor Carrier Division had a statistically based cost allocation methodology in place. We conclude that the charges and the cost allocation methodology for the Motor Carrier Division were reasonable.

The Central Records Division charged $291,005 for the salary and wage, retirement, insurance and other related costs of personnel who directly supported the processing of traffic accident records. Also, the Central Records Division provided software, mainframe processing, data keying equipment, and related services to maintain the traffic accident records database. MSP's contract with MDOT states that costs of the traffic accident records program will be allocated equally among the three State departments (MSP, MDOT, and the Department of State) that received and used data that it produced. However, the costs were not allocated equally, resulting in an undercharge to the State Trunkline Fund of $20,629. We conclude that, although the

charges for the Central Records Division were reasonable, the cost allocation methodology was not followed appropriately (see Finding 1).

Unreported Miscellaneous Charges

MSP charged the transportation funds for miscellaneous expenses of approximately $320,000 that were for services not anticipated or covered in the contract. These charges were for items such as jet fuel, accident photos, and additional patrols of construction zones. We reviewed a sample of these charges to the transportation funds and determined that they were appropriate. Also, we noted that the additional patrols of construction zones that we reviewed were supported by signed contracts, but the expenditures were not included in the annual report. (See Recommendation 2 regarding updates to contracts and Recommendation 3 regarding detailed procedures for reporting charges to transportation funds.)

DEPARTMENT OF CIVIL SERVICE

Annual Report of Transportation-Related Funding Used

Fiscal Year Ended September 30, 2000

Services and Other Charges to the Transportation Funds	Contract Amount	Expended	Returned
Comprehensive Transportation Fund			
Constitutionally required 1% funding	$ 92,389	$ 92,389	$ 0
State Aeronautics Fund			
Constitutionally required 1% funding	48,588	48,588	0
State Trunkline Fund			
Constitutionally required 1% funding	1,751,462	1,751,462	0
Total	$ 1,892,439	$ 1,892,439	$ 0

Appropriateness of Charges and Cost Allocation Methodology

The preceding table represents amounts reported by the Department of Civil Service (DCS) pursuant to Section 505, Act 136, P.A. 1999. DCS charged the transportation funds $1,892,439 for the constitutionally required 1% of the aggregate payroll associated with the transportation funds.

The primary funding for the operations of DCS is provided under Article XI of the State Constitution. Article XI, Section 5 of the State Constitution states: ". . . the legislature shall appropriate to the [civil service] commission for the ensuing fiscal year a sum not less than one percent of the aggregate payroll of the classified service for the preceding fiscal year . . . ."

Transportation-related funding was appropriated to DCS based on the executive budget request prepared by the Office of Budget Development and General Government, Department of Management and Budget, in conjunction with DCS's Budget and Financial Services.

For fiscal year 1999-2000, DCS charges to transportation funds for the constitutionally required 1% were based on actual fiscal year 1998-99 salary and fringe benefit expenditures charged to the transportation funds. We conclude that the charges and the cost allocation methodology were reasonable.

Unreported Miscellaneous Charges

The Michigan Department of Transportation incurred approximately $195,000 for training expenses provided by DCS. According to past financial budget and reporting practices, these services and related charges are not covered in the contract. (See Recommendation 2 regarding updates to contracts and Recommendation 3 regarding detailed procedures for reporting charges to transportation funds.)

DEPARTMENT OF ATTORNEY GENERAL

Annual Report of Transportation-Related Funding Used

Fiscal Year Ended September 30, 2000

Services and Other Charges to the Transportation Funds	Contract Amount	Expended	Returned
Michigan Transportation Fund			
Legal services	$ 2,475,200	$ 1,584,908	$ 890,292
State Aeronautics Fund			
Legal services	114,900	68,654	46,246
Total	$ 2,590,100	$ 1,653,562	$ 936,538

Appropriateness of Charges and Cost Allocation Methodology

The preceding table represents amounts reported by the Department of Attorney General pursuant to Section 505, Act 136, P.A. 1999. The Department of Attorney General's charges of $1,653,562 consisted of salary, retirement, and insurance costs of attorneys and staff assigned to work on legal issues relating to the transportation funds. These positions provided legal services exclusively to transportation programs and were assigned to the Highway Negligence and the Transportation Divisions.

The charges shown in the table for the State Aeronautics Fund were allocated according to the percentage of time that the attorney or staff member worked on legal issues relating to that fund. Although the remaining charges to the Michigan Transportation Fund were allocated based on the percentage of time that the attorney or staff member worked on legal transportation issues, they were billed based on the transportation funds' appropriations rather than on the source of the services provided. This resulted in an overcharge to the Michigan Transportation Fund of $1,584,908 and an undercharge to the State Trunkline Fund and the Comprehensive Transportation Fund of $1,509,998 and $74,910, respectively, as noted in Finding 1.

Unreported Miscellaneous Charges

The Department of Attorney General charged the transportation funds for miscellaneous expenses of approximately $28,000 that were for services not anticipated or covered in the contract. These charges were for items such as building occupancy charges and employee travel. We reviewed a sample of these charges to the transportation funds and determined that they were appropriate. (See Recommendation 2 regarding updates to contracts and Recommendation 3 regarding detailed procedures for reporting charges to transportation funds.)

DEPARTMENT OF ENVIRONMENTAL QUALITY
Annual Report of Transportation-Related Funding Used
Fiscal Year Ended September 30, 2000

Services and Other Charges to the Transportation Funds	Contract Amount	Expended	Returned
Michigan Transportation Fund			
Permits for transportation projects	$ 813,000	$ 813,000	$ 0
State Aeronautics Fund			
Permits for transportation projects	40,000	5,050	34,950
Total	$ 853,000	$ 818,050	$ 34,950

Appropriateness of Charges and Cost Allocation Methodology

The preceding table represents amounts reported by the Department of Environmental Quality (DEQ) pursuant to Section 505, Act 136, P.A. 1999. The DEQ Land and Water Management Division charged and received $818,050 from the Michigan Department of Transportation (MDOT) to pay for the salaries, wages, and fringe benefits of 11 full-time equated employees who worked exclusively on reviewing environmental permits for transportation projects.

Although DEQ was not appropriated an interdepartmental grant from the State Aeronautics Fund, these charges were included in the contract and approved and paid by MDOT. MDOT reimbursed DEQ via expenditure credit for portions of full-time equated employees who worked on reviewing environmental permits for State Aeronautics Fund projects.

For the charges shown in the table, DEQ used a time-and-effort system for allocating the payroll costs to the Michigan Transportation Fund and the State Aeronautics Fund, which identified individuals and projects charged. We conclude that the charges and the cost allocation methodology used were reasonable.

Unreported Miscellaneous Charges

DEQ charged the State Trunkline Fund for additional miscellaneous expenses of approximately $38,000 that were for services not anticipated or covered in the contract. These charges were for items such as renewal tank registrations, the annual payment

to the Great Lakes Commission, and the annual water supply payment. We reviewed a sample of these charges to the transportation funds and determined that they were appropriate. (See Recommendation 2 regarding updates to contracts and Recommendation 3 regarding detailed procedures for reporting charges to transportation funds.)

DEPARTMENT OF NATURAL RESOURCES
AND MACKINAC ISLAND STATE PARK COMMISSION
Annual Report of Transportation-Related Funding Used
Fiscal Year Ended September 30, 2000

Services and Other Charges to the Transportation Funds	Contract Amount	Expended	Returned
State Aeronautics Fund			
Airport maintenance - MISPC	$ 35,000	$ 35,000	$ 0
State Trunkline Fund			
Land purchase	100,000	100,000	0
Maintenance services - MISPC	0 *	47,299	0
Transportation Related Trust Funds - Federal			
Land purchase	600,000	600,000	0
Total	$ 735,000	$ 782,299	$ 0

*No dollar amount was specified in the contract.

Appropriateness of Charges and Cost Allocation Methodology

The preceding table represents amounts reported by the Department of Natural Resources (DNR) and the Mackinac Island State Park Commission (MISPC) pursuant to Section 505, Act 136, P.A. 1999.

DNR charged the State Trunkline Fund $100,000 for a maintenance garage facility that the Michigan Department of Transportation purchased from DNR and $600,000 for the purchase of nonmotorized trails as a part of a grant that the Michigan Department of Transportation receives from the federal government.

The MISPC provides maintenance services for State trunkline highways and the local airport. MISPC charged transportation funds $82,299 for these services.

Unreported Miscellaneous Charges

DNR charged the transportation funds for miscellaneous expenses of approximately $90,000. These charges were for items such as right of way, use of State-owned aircraft, and travel. (See Recommendation 2 regarding updates to contracts and Recommendation 3 regarding detailed procedures for reporting charges to transportation funds.)

OFFICE OF THE AUDITOR GENERAL
Annual Report of Transportation-Related Funding Used
Fiscal Year Ended September 30, 2000

Services and Other Charges to the Transportation Funds	Contract Amount	Expended	Returned
Comprehensive Transportation Fund			
Audit services	$ 38,900	$ 38,900	$ 0
Michigan Transportation Fund			
Audit services	101,800	101,800	0
State Aeronautics Fund			
Audit services	15,400	15,400	0
State Trunkline Fund			
Audit services	381,100	316,200	64,900
Total	$ 537,200	$ 472,300	$ 64,900

Appropriateness of Charges and Cost Allocation Methodology

The preceding table represents amounts reported by the Office of the Auditor General (OAG) pursuant to Section 505, Act 136, P.A. 1999. The OAG's charges of $472,300 to the transportation funds consisted of salaries, fringe benefits, supplies, materials, and travel costs for conducting audits of transportation programs and funds.

The OAG maintains a time-and-effort reporting system to account for audits conducted. The time-and-effort reporting system is the basis for allocating costs by audit, program, and fund. Most audit charges are based on average actual audit hours and hourly audit costs. Programs and funds audited annually are charged by the average audit hours; programs and funds not audited annually are charged proportionally. Changes in the average actual hours and the hourly audit costs are used to adjust future requests for transportation-related funding. In fiscal year 1999-2000, the OAG methodology calculated a rate of approximately $65 per hour. Because of appropriation limits, the OAG's total calculated costs for audit services provided to transportation funds for fiscal year 1999-2000 were $22,400 more than the $472,300 charged to transportation funds. We conclude that the charges and the cost allocation methodology were reasonable.

DEPARTMENT OF TREASURY

Annual Report of Transportation-Related Funding Used

Fiscal Year Ended September 30, 2000

Services and Other Charges to the Transportation Funds	Contract Amount	Expended	Returned
Comprehensive Transportation Fund			
Investment services	$ 8,900	$ 8,900	$ 0
State Aeronautics Fund			
Investment services	4,600	4,600	0
Collection of aviation fuel taxes	56,900	56,900	0
State Trunkline Fund			
Investment services	24,300	24,300	0
Total	$ 94,700	$ 94,700	$ 0

Appropriateness of Charges and Cost Allocation Methodology

The preceding table represents amounts reported by the Department of Treasury pursuant to Section 505, Act 136, P.A. 1999. The Department of Treasury charged the transportation funds $56,900 for collecting aviation fuel tax revenues on behalf of the State Aeronautics Fund and $37,800 for investment services conducted on behalf of the transportation funds.

The Department of Treasury collected $7,732,000 of revenue on behalf of the State Aeronautics Fund for fiscal year 1999-2000. The Department of Treasury's charges of $56,900 were based on the proportionate share of collection costs of the State Aeronautics Fund revenue to total tax revenue. The Department of Treasury's charge of $37,800 for investment services was based on the transportation funds' proportionate share of the Department of Treasury's cost of investing activities. The Department of Treasury conducts similar services for other State special revenue funds and the charge method used for the transportation funds was consistent with the method used for State special revenue funds. We conclude that the charges and the cost allocation methodology were reasonable.

Unreported Miscellaneous Charges

The Department of Treasury charged the transportation funds for miscellaneous expenses of approximately $40,000 that were for services not anticipated or covered in the contract. These charges were for items such as mailing payroll warrants and printing manual warrants. We reviewed a sample of these charges to the transportation funds and determined that they were appropriate. (See Recommendation 2 regarding updates to contracts and Recommendation 3 regarding detailed procedures for reporting charges to transportation funds.)

Michigan Transportation Fund Expenditures and Operating Transfers Out to Other Transportation Funds

Michigan Department of Transportation (MDOT) expenditures and operating transfers to other transportation funds from the Michigan Transportation Fund for fiscal year 1999-2000 were:

Receiving Fund	Appropriations and Authorizations	Operating Transfers Out	Lapsed
Comprehensive Transportation Fund:			
10% Comprehensive Transportation Purposes	$157,028,670	$156,854,407	$174,263
Railroad Safety and Tariffs Program	1,629,200	1,197,614	431,586
State Trunkline Fund:			
39.1% State Trunkline Purposes	628,323,130	627,709,921	613,209
Critical Bridge Program	5,000,000	5,000,000	
Critical Bridge Debt Service	3,000,000	2,384,336	615,664
Economic Development Fund (EDF)	36,775,000	36,775,000	
Targeted Industries (EDF)	3,500,000	3,500,000	
Debt Service	43,000,000	43,000,000	
Local Road Program	33,000,000	33,000,000	
Office of Information Management	34,100	33,548	552
Rail Grade Crossing Program	3,000,000	3,000,000	
Executive Direction	33,700	33,700	
Bureau of Transportation Planning	5,755,200	5,750,768	4,432
Highways for Engineering	2,682,200	2,389,153	293,047
Bureau of Finance and Administration	1,048,100	1,048,100	
Total	$923,809,300	$921,676,547	$2,132,753

Cost Allocation Methodology and Transportation Fund Charges

Comprehensive Transportation Fund:

10% Comprehensive Transportation Purposes

Section 247.660 of the *Michigan Compiled Laws* (Act 51, P.A. 1951, as amended) requires that up to 10% of the revenues deposited in the State Treasury to the credit of the Michigan Transportation Fund (MTF) be transferred to the Comprehensive Transportation Fund. The use of the revenues is prioritized by statute. In fiscal year 1999-2000, $156,854,407 was paid to the Comprehensive Transportation Fund consistent with the statute.

Railroad Safety and Tariffs Program

To reimburse the Comprehensive Transportation Fund for MTF's share in the costs of the administration of Transportation Safety and Tariffs, Bureau of Urban and Public Transportation, $1,197,614 was paid.

State Trunkline Fund:

39.1% State Trunkline Purposes

Section 247.660 of the *Michigan Compiled Laws* (Act 51, P.A. 1951, as amended) requires that, after up to 10% of MTF revenues have been credited to the Comprehensive Transportation Fund and several other statutorially required distributions, 39.1% of the remaining funds must be distributed to the State Trunkline Fund for State trunkline purposes.

Critical Bridge Program

Section 247.661b of the *Michigan Compiled Laws* (Act 51, P.A. 1951, as amended) requires the annual transfer of $5,000,000 to the Critical Bridge Program from MTF. The money appropriated and interest accruing to MTF is administered by MDOT according to promulgated rules. The Program provides financial assistance to local and county road commissions for the improvement or reconstruction of existing bridges or for the construction of replacement bridges. In fiscal year 1999-2000, $5,000,000 was appropriated to the Critical Bridge Program.

Critical Bridge Debt Service

Section 247.660(b) of the *Michigan Compiled Laws* (Act 51, P.A. 1951, as amended) requires the annual transfer from MTF of not less than $3,000,000 to the Critical Bridge Fund for the payment of principal, interest, and redemption on any notes or bonds issued by the State Transportation Commission under Section 247.661b. In fiscal year 1999-2000, $3,000,000 was appropriated, but MDOT paid the debt service requirement of $2,384,336 and lapsed $615,664.

Economic Development Fund and Targeted Industries

Section 247.660 of the *Michigan Compiled Laws* (Act 51, P.A. 1951, as amended) requires the payment of $36,775,000 to the State Trunkline Fund for subsequent deposit in MDOT's Economic Development Fund. In fiscal year 1999-2000, the full amount was paid consistent with the statute.

In addition, this section requires, beginning October 1, 1997, that $3,500,000 be appropriated from MTF to the State Trunkline Fund for subsequent deposit in MDOT's Economic Development Fund, to be used for economic development road projects in any of the following targeted industries: agriculture or food processing, tourism, forestry, high technology research, manufacturing, mining, and office centers of not less than 50,000 square feet. In fiscal year 1999-2000, the full amount was paid consistent with the statute.

Debt Service

Section 247.660 of the *Michigan Compiled Laws* (Act 51, P.A. 1951, as amended) requires the payment of $43,000,000 to the State Trunkline Fund for debt service costs on State of Michigan projects. In fiscal year 1999-2000, the full amount was paid consistent with the statute.

Local Road Program

Section 247.660 of the *Michigan Compiled Laws* (Act 51, P.A. 1951, as amended) requires that, beginning October 1, 1995, a grant of not less than $33,000,000 be made to the State Trunkline Fund, which shall then be made to the Local Road Program. These funds received shall then be distributed 64.2% to county road commissions and 35.8% to cities and villages. In fiscal year 1999-2000, the full amount was paid consistent with the statute.

Office of Information Management

To cover MTF's share of computer equipment/software costs, $34,100 was appropriated and $33,548 was paid to the State Trunkline Fund.

Rail Grade Crossing Program

Section 247.660 of the *Michigan Compiled Laws* (Act 51, P.A. 1951, as amended) provides that not more than $3,000,000 shall be appropriated for improvements in rail grade crossings. Accordingly, $3,000,000 was appropriated from MTF and paid to the State Trunkline Fund.

Executive Direction

To cover MTF's share of workers' compensation costs, $33,700 was appropriated and paid to the State Trunkline Fund.

Bureau of Transportation Planning

To reimburse the State Trunkline Fund for MTF's share in the costs of the Bureau of Transportation Planning, $5,755,200 was appropriated and $5,750,768 was paid.

Highways for Engineering

To reimburse the State Trunkline Fund for the full cost of local contracts and project management of the Engineering Services Division, Bureau of Highways, $2,682,200 was appropriated and $2,389,153 was paid.

Bureau of Finance and Administration

To reimburse the State Trunkline Fund for MTF's share of the costs of the Bureau of Finance and Administration, $1,048,100 was appropriated and paid.

State Trunkline Fund Charges to the Comprehensive Transportation and State Aeronautics Funds

State Trunkline Fund charges to the Comprehensive Transportation Fund were as follows:

Fund/Purpose	Appropriated Funding	Allocated Charges	Returned Appropriations	Overallocated (Underallocated) Charges
Comprehensive Transportation Fund:				
Administration and Data Center	$1,086,200	$1,070,961	$ 15,239	$ 0
Planning	1,679,500	1,169,214	510,286	0
Total	$2,765,700	$2,240,175	$525,525	$ 0

State Trunkline Fund charges to the State Aeronautics Fund were as follows:

Fund/Purpose	Appropriated Funding	Allocated Charges	Returned Appropriations	Overallocated (Underallocated) Charges
State Aeronautics Fund:				
Administration and Data Center	$631,900	$629,428	$ 2,472	$ 0
Planning	267,000	236,520	30,480	0
Total	$898,900	$865,948	$32,952	$ 0

Cost Allocation Methodology and Transportation Fund Charges

The administration and data center charges and the planning charges consisted of the Comprehensive Transportation and State Aeronautics Funds' allocated portion of these costs to the State Trunkline Fund. We determined that these costs were appropriate.

Our recently issued performance audit report entitled "Services Provided to Local Road Agencies" (59-132-01), issued in November 2001, indicated that MDOT had not completed a cost allocation study that identifies all costs associated with activities directed at counties, cities, and villages and identifies methods for the equitable allocation of all costs to the local units of government and the State Trunkline Fund. This report is available upon request or from our web site at www.state.mi.us/audgen and affects the Office of Information Management, Executive Direction, Bureau of Transportation Planning, Highways for Engineering, and Bureau of Finance and Administration line items.

TRANSPORTATION FUNDS
Summary of Annual Reports of Transportation-Related Funding Used
Fiscal Year Ended September 30, 2000

	Charges Paid By					
Receiving Agency	Comprehensive Transportation Fund	Michigan Transportation Fund	State Aeronautics Fund	State Trunkline Fund	Transportation Related Trust Funds	Agency Total
Department of State	$	$ 46,650,349	$	$	$	$ 46,650,349
Department of Management and Budget	105,600	1,615,100	50,300	6,621,467		8,392,467
Michigan Department of State Police				5,712,771		5,712,771
Department of Civil Service	92,389		48,588	1,751,462		1,892,439
Department of Attorney General		1,584,908	68,654			1,653,562
Department of Environmental Quality		813,000	5,050			818,050
Department of Natural Resources and Mackinac Island State Park Commission			35,000	147,299	600,000	782,299
Office of the Auditor General	38,900	101,800	15,400	316,200		472,300
Department of Treasury	8,900		61,500	24,300		94,700
Total for Nontransportation Agencies	$ 245,789	$ 50,765,157	$ 284,492	$ 14,573,499	$ 600,000	$ 66,468,937

TRANSPORTATION FUNDS
Summary of Charges and Operating Transfers Among Transportation Funds
Fiscal Year Ended September 30, 2000

Receiving Agency	Transfers From: Comprehensive Transportation Fund	Michigan Transportation Fund	State Aeronautics Fund	State Trunkline Fund	Agency Total
Michigan Department of Transportation:					
Comprehensive Transportation Fund:					
10% Comprehensive Transportation Purposes	$	$ 156,854,407	$	$	$ 156,854,407
Railroad Safety and Tariffs Program		1,197,614			1,197,614
State Trunkline Fund:					
39.1% State Trunkline Purposes		627,709,921			627,709,921
Critical Bridge Program		5,000,000			5,000,000
Critical Bridge Debt Service		2,384,336			2,384,336
Economic Development Fund (EDF)		36,775,000			36,775,000
Targeted Industries (EDF)		3,500,000			3,500,000
Debt Service		43,000,000			43,000,000
Local Road Program		33,000,000			33,000,000
Office of Information Management		33,548			33,548
Rail Grade Crossing Program		3,000,000			3,000,000
Executive Direction		33,700			33,700
Bureau of Transportation Planning		5,750,768			5,750,768
Highways for Engineering		2,389,153			2,389,153
Bureau of Finance and Administration		1,048,100			1,048,100
Administration and Data Center	1,070,961		629,428		1,700,389
Planning	1,169,214		236,520		1,405,734
Total for Michigan Department of Transportation	$ 2,240,175	$ 921,676,547	$ 865,948	$ 0	$ 924,782,670

Glossary of Acronyms and Terms

DCS	Department of Civil Service.
DEQ	Department of Environmental Quality.
DMB	Department of Management and Budget.
DNR	Department of Natural Resources.
financial related audit	An audit that is designed to provide reasonable assurance that (1) financial information is presented in accordance with established or stated criteria, (2) the entity has adhered to specific financial compliance requirements, or (3) the entity's internal control over financial reporting is suitably designed and implemented to achieve the control objectives.
MAIN	Michigan Administrative Information Network.
MDOT	Michigan Department of Transportation.
MISPC	Mackinac Island State Park Commission.
MSP	Michigan Department of State Police.
MTF	Michigan Transportation Fund.
OAG	Office of the Auditor General.
reportable condition	A matter coming to the auditor's attention relating to a deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules and/or statements.
Statewide Cost Allocation Plan	The official cost allocation methodology accepted by federal grantor agencies for the State's negotiated indirect cost rate.