PERFORMANCE AUDIT
OF

# SERVICES PROVIDED TO LOCAL ROAD AGENCIES

MICHIGAN DEPARTMENT OF TRANSPORTATION

November 2001

59-132-01

EXECUTIVE DIGEST

# SERVICES PROVIDED TO LOCAL ROAD AGENCIES

**INTRODUCTION**

This report, issued in November 2001, contains the results of our performance audit* of Services Provided to Local Road Agencies, Michigan Department of Transportation (MDOT).

**AUDIT PURPOSE**

This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Section 306, Act 271, P.A. 2000, mandated that the Auditor General conduct a one-time performance audit of the services provided to local road agencies by MDOT and supported by the Michigan Transportation Fund (MTF).

**BACKGROUND**

MDOT was organized under Act 380, P.A. 1965 (specifically, Sections 16.450 - 16.458 of the *Michigan Compiled Laws*). MDOT is governed by the State Transportation Commission, whose six members are appointed by the Governor with the advice and consent of the Senate, and by a director, who is also appointed by the Governor with the advice and consent of the Senate. The Commission is responsible for establishing MDOT policies, and the director is responsible for administering MDOT and implementing the policies established by the Commission. MDOT's mission* is to provide the people of

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

Michigan with the highest quality transportation services for economic benefit and improved quality of life.

MDOT, which is financed through the MTF, consists of six bureaus: Transportation Planning, Highway Technical Services, Finance and Administration, Urban and Public Transportation, Highway Operations, and Aeronautics. MDOT provides administrative support to the MTF. Also, each bureau, in conjunction with MDOT's overall responsibilities for maintaining a coordinated Statewide transportation system, performs activities that benefit counties, cities, and villages (local units of government).

The MTF is the receiving fund for several tax revenues that are dedicated for highway purposes. The revenues collected are distributed each year to the State Trunkline Fund (39.1%), counties (39.1%), and cities and villages (21.8%), after the deduction of amounts for certain statutory and appropriated purposes, including MDOT's calculated cost of the services that it provides to the local units of government. In fiscal year 1999-2000, $10.8 million was transferred from the MTF to the State Trunkline Fund for reimbursement of costs related to services provided to the local units of government.

## AUDIT OBJECTIVE AND CONCLUSION

**Audit Objective:** To examine the basis for charges to the MTF and to determine if the charges were documented and were for activities directed at local units of government.

**Conclusion: We have described the basis for the charges to the MTF in the summaries of charges, presented as supplemental information in this report. We determined that the amount that MDOT charged to the MTF was documented and was for activities directed at local units of government.** However, our

audit disclosed a reportable condition* regarding the completion of a cost allocation study (Finding 1).

**AUDIT SCOPE AND METHODOLOGY**

Our audit scope was to examine the Michigan Department of Transportation's records supporting its charges to the Michigan Transportation Fund. 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.

We prepared supplemental information based on the State's accounting records that provides an overview of the process MDOT uses for determining the costs to charge to the MTF.

Our methodology included examination of MDOT records and activities for the period October 1, 1999 through September 30, 2000.

We reviewed MDOT's appropriated and actual charges for services provided on behalf of the local road agencies. Also, we verified that the services or products charged were actually delivered. In addition, we reviewed documentation of construction bids let, projects closed, map certifications, local road agency project applications, local public agency reviews, and purchase orders and receiving reports.

We examined MDOT's processes for allocating costs to the local road agencies and calculated State and local participation in the costs.

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

**AGENCY RESPONSE**

Our audit report includes one finding and recommendation. MDOT's preliminary response indicated that it concurs with the recommendation.

November 15, 2001

Mr. Barton W. LaBelle, Chairperson
State Transportation Commission
and
Mr. Gregory J. Rosine, Director
Michigan Department of Transportation
Transportation Building
Lansing, Michigan

Dear Mr. LaBelle and Mr. Rosine:

This is our report on the performance audit of Services Provided to Local Road Agencies, Michigan Department of Transportation.

This report contains our executive digest; description of agency; audit objective, scope, and methodology and agency responses; comment, finding, recommendation, and agency preliminary response; summaries of the charges to the Michigan Transportation Fund for services provided to local units of government, presented as supplemental information; and a glossary of acronyms and terms.

The agency preliminary response was taken from the agency's response subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

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

Sincerely,

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

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## Description of Agency

The Michigan Department of Transportation (MDOT) was organized under Act 380, P.A. 1965 (specifically, Sections 16.450 - 16.458 of the *Michigan Compiled Laws*). MDOT is governed by the State Transportation Commission, whose six members are appointed by the Governor with the advice and consent of the Senate, and by a director, who is also appointed by the Governor with the advice and consent of the Senate. The Commission is responsible for establishing MDOT policies, and the director is responsible for administering MDOT and implementing the policies established by the Commission. MDOT's mission is to provide the people of Michigan with the highest quality transportation services for economic benefit and improved quality of life.

MDOT, which is financed through the Michigan Transportation Fund (MTF), consists of six bureaus: Transportation Planning, Highway Technical Services, Finance and Administration, Urban and Public Transportation, Highway Operations, and Aeronautics. MDOT provides administrative support to the MTF. Also, each bureau, in conjunction with MDOT's overall responsibilities for maintaining a coordinated Statewide transportation system, performs activities that benefit counties, cities, and villages (local units of government). Some of these activities are very general, such as the recovery of costs related to transportation planning responsibilities. Others are very specific, such as the time spent preparing bids and monitoring projects for the local unit of government construction projects. The costs recovered are a result of MDOT fulfilling responsibilities as the recipient of federal revenues, fulfilling responsibilities assigned under Act 51, P.A. 1951, as amended, and performing activities directed at local units of government.

The MTF is the receiving fund for several tax revenues that are dedicated for highway purposes. The revenues collected are distributed each year to the State Trunkline Fund (39.1%), counties (39.1%), and cities and villages (21.8%), after the deduction of amounts for certain statutory and appropriated purposes, including MDOT's calculated cost of the services that it provides to the local units of government. In fiscal year 1999-2000, $10.8 million was transferred from the MTF to the State Trunkline Fund for reimbursement of costs related to services provided to the local units of government.

## Audit Objective, Scope, and Methodology and Agency Responses

Audit Objective

The objective of our performance audit of Services Provided to Local Road Agencies, Michigan Department of Transportation (MDOT), was to examine the basis for charges to the Michigan Transportation Fund and to determine if the charges were documented and were for activities directed at local units of government.

Audit Scope

Our audit scope was to examine the Michigan Department of Transportation's records supporting its charges to the Michigan Transportation Fund. 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.

We prepared supplemental information based on the State's accounting records that provides an overview of the process MDOT uses for determining the costs to charge to the Michigan Transportation Fund.

Audit Methodology

Our audit procedures, performed between January and August 2001, included examination of MDOT records and activities for the period October 1, 1999 through September 30, 2000.

To accomplish our objective, our methodology included reviewing applicable laws, regulations, policies, and procedures. We also reviewed MDOT's cost allocation methodologies of services provided to local road agencies. In addition, we verified service statistics and interviewed MDOT staff.

We reviewed MDOT's appropriated and actual charges for services provided on behalf of the local road agencies. Also, we verified that the services or products charged were actually delivered. In addition, we reviewed documentation of construction bids let, projects closed, map certifications, local road agency project applications, local public agency reviews, and purchase orders and receiving reports.

We examined MDOT's processes for allocating costs to the local road agencies and calculated the State and local participation in the costs.

Agency Responses

Our audit report includes one finding and recommendation. MDOT's preliminary response indicated that it concurs with the recommendation.

The agency preliminary response that follows the 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 MDOT to develop a formal response to our audit finding and recommendation within 60 days after release of the audit report.

# COMMENT, FINDING, RECOMMENDATION, AND AGENCY PRELIMINARY RESPONSE

## BASIS FOR CHARGES AND DOCUMENTATION

### COMMENT

**Audit Objective:** To examine the basis for charges to the Michigan Transportation Fund (MTF) and to determine if the charges were documented and were for activities directed at local units of government.

**Conclusion: We have described the basis for the charges to the MTF in the summaries of charges, presented as supplemental information in this report. We determined that the amount that the Michigan Department of Transportation (MDOT) charged to the MTF was documented and was for activities directed at local units of government.** However, our audit disclosed a reportable condition regarding the completion of a cost allocation study.

### FINDING

**1. Cost Allocation Study**

MDOT has 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.

The MTF is the receiving fund for the tax revenues dedicated for transportation purposes. Section 247.660 of the *Michigan Compiled Laws* provides for the distribution of the revenues collected after deductions required by statute, tax revenue collection costs, and enforcement costs of the tax acts. Also, the annual appropriations acts provide for a deduction for the cost of services that MDOT provides to the local units of government. The net revenues remaining are then distributed to the State Trunkline Fund (39.1%), counties (39.1%) and cities and villages (21.8%). Because the costs are deducted to arrive at the amount of revenue to distribute, each participant in the distribution bears a proportional share of the costs.

In the supplemental information provided later in this report, we summarize the costs charged by MDOT for the fiscal year ended September 30, 2000, describe the method used by MDOT to arrive at the amounts charged, and provide our conclusion regarding whether the costs charged were reasonable in relation to the level of activities directed at the local units of government. MDOT included costs that ranged from general Statewide planning costs to specific costs for the purchase of equipment for employees who work on activities directed at local units of government. MDOT also included costs of activities related to MDOT's responsibilities for administering Act 51, P.A. 1951, as amended, and for ensuring compliance with federal program requirements. Our overall conclusion is that MDOT's costs were generally consistent with the level of activity provided to the local units of government. However, we did identify the following areas which indicate that MDOT should complete a cost allocation study:

a. MDOT did not always charge amounts to the MTF that reflect the actual costs incurred in providing the service.

   In our review of the costs charged by the Bureau of Transportation Planning (BTP), we noted that the costs recovered were based on the allocation of salaries, wages, and fringe benefits of BTP's administrators and their direct support staff, as well as the cost of BTP's managers, support staff, travel, contractual services, supplies, and materials. BTP also charged MTF for the 20% financial match of the federal State Planning and Research Grant.

   BTP stated that recovery of some level of costs associated with planning was warranted because of the benefit to the local units of government from BTP's responsibility for maintaining the State's and local units' eligibility for federal funds as well as the assistance provided to the local units of government in coordinating the Statewide transportation needs. However, BTP had not documented how the costs charged correlated with the services provided to the local units of government. MDOT informed us that the charges were based on an informal agreement with the local units of government.

   Subsequent to our audit period, BTP began using a management information system to account for the direct time spent by BTP staff when working on local activities.

b. MDOT had not documented why costs associated with its Act 51 oversight responsibilities should be charged to local units of government.

For example, Act 51, P.A. 1951, as amended, requires MDOT to annually certify the local unit road mileage. MDOT charges the MTF for the costs it incurs in the certification of the local unit road mileage. MDOT stated that it believes that the local units should share in these costs because the local unit road mileage must be certified in order for the local units to be eligible to receive a distribution of the road funding. In addition, MDOT pointed out that the State Trunkline Fund also participates in these costs. However, the local units incur costs in preparing documentation for the annual certification. The local units' costs are not shared.

c. MDOT had not quantified all costs associated with providing services to the local units of government. During our audit, MDOT identified computer systems upgrades for the revenue distributions and general overhead as two examples of costs that it incurs in providing services to the local units that were not being charged to the local units of government.

d. MDOT had not documented if the method used to recover the costs of services provided to the local units resulted in an equitable allocation of the costs to the State Trunkline Fund, the counties, and the cities and villages.

In charging the costs to the MTF, each participant's share of the total revenue is reduced in proportion to the participant's statutory share of the revenue. In fiscal year 1999-2000, the MTF charge of $10.8 million reduced the revenue distributed to the State Trunkline Fund by $4.2 million, to the counties by $4.2 million, and to the cities and villages by $2.4 million. This allocation may not reflect the actual level of services provided to the participants in the formula.

For example, because the costs charged are for the costs of services provided to the local units of government, it does not appear that the State Trunkline Fund revenue should be reduced. In addition, we identified other costs that may be more appropriately charged as direct project costs. We also noted that when identifying the actual costs of services provided to local units of government, MDOT does not identify whether a county or a city or village benefited from the service.

MDOT informed us that the use of the MTF to recover these costs is currently the only method it has available.

MDOT has received an appropriation to charge the MTF for the costs of services provided to the local units of government for over 28 years. During those 28 years, the types of activities charged and the method used to recover these costs has not changed. The completion of a cost allocation study would provide MDOT with an informed and documented basis for identifying the costs of services provided to local units of government. In addition, the completed cost allocation study would assist MDOT in developing cost recovery methods that ensure an equitable allocation of these costs.

## RECOMMENDATION

We recommend that MDOT complete a cost allocation study that identifies all costs associated with activities directed at 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.

## AGENCY PRELIMINARY RESPONSE

MDOT concurs with this recommendation and will initiate a cost allocation study to confirm all costs that MDOT performs for local agencies no later than September 30, 2002. The study will include an analysis of the cost effectiveness of the charges, including the methods proposed to charge the costs, whether they be on a direct basis, an allocation, or some other method. MDOT will then use this study as a basis to identify and document methods to allocate these costs to the local units of government and the State Trunkline Fund.

MDOT agrees that the State Trunkline Fund has been overcharged by approximately $4.2 million; however, based on the current statute and appropriations bills, MDOT has only been able to recover these costs through charges to the MTF before the formula distributions. Legislation currently does not allow for MDOT to charge the individual funds, which would provide for a more equitable distribution of the charges. MDOT will also utilize the results of the study as a basis to seek legislative changes to provide for charges to the individual funds as deemed appropriate.

# SUPPLEMENTAL INFORMATION

MICHIGAN DEPARTMENT OF TRANSPORTATION
Summary of Administrative and Service Charges to the Michigan Transportation Fund
Fiscal Year Ended September 30, 2000

| | | |
|---|---|---|
| Bureau of Transportation Planning: | | |
| Bureau of Transportation Planning | $ | 2,380,400 |
| State Planning and Research Grant | | 2,886,000 |
| Regional transportation planning agencies | | 484,368 |
| Total Bureau of Transportation Planning | $ | 5,750,768 |
| | | |
| Bureau of Highway Technical Services - Local Agency Program Unit | $ | 2,233,553 |
| | | |
| Bureau of Finance and Administration: | | |
| Financial Operations Division | $ | 629,800 |
| Financial Services Division | | 296,800 |
| Technological Services Division | | 121,500 |
| Transportation Economic Development Fund | | 305,294 |
| Workers' compensation | | 33,700 |
| Computer hardware and software | | 33,548 |
| Total Bureau of Finance and Administration | $ | 1,420,642 |
| | | |
| Bureau of Urban and Public Transportation: | | |
| Rail Safety Section | $ | 1,056,469 |
| Local Grade Crossing Unit | | 141,145 |
| Total Bureau of Urban and Public Transportation | $ | 1,197,614 |
| | | |
| Bureau of Highway Operations - Regional offices | $ | 155,600 |
| | | |
| Total Administrative and Service Charges to the Michigan Transportation Fund | $ | 10,758,177 |

## BUREAU OF TRANSPORTATION PLANNING

Summary of Charges

Fiscal Year 1999-2000

### Overview

The gross charges to the Michigan Transportation Fund (MTF) for the services provided to local units of government by the Bureau of Transportation Planning (BTP) and the regional transportation planning agencies were $5,750,768. The allocation of these costs to the State Trunkline Fund and the local units of government is shown below:

| | Allocation of Costs of Service Providers | | | |
|---|---|---|---|---|
| Service Providers | State Trunkline Fund (39.1%) | Counties (39.1%) | Cities and Villages (21.8%) | Total |
| Bureau of Transportation Planning | $ 930,736 | $ 930,736 | $ 518,928 | $2,380,400 |
| State Planning and Research Grant | 1,128,426 | 1,128,426 | 629,148 | 2,886,000 |
| Regional transportation planning agencies | 189,388 | 189,388 | 105,592 | 484,368 |
| Total | $ 2,248,550 | $ 2,248,550 | $ 1,253,668 | $5,750,768 |

### Description of Activities

BTP reviews federal policies, monitors the performance of Michigan's transportation system, and performs data collection and planning activities to ensure that Michigan and local units of government continue to qualify for federal aid. BTP sets transportation priorities and develops policies and plans to meet long-range transportation needs. Also, BTP works closely with local government and urban planning organizations in developing the Statewide Transportation Improvement Program (STIP) and long-range planning goals. In addition, BTP contracts with 13 regional transportation planning agencies to perform some of the planning activities related to local units of government.

### Cost Allocation Process

a. Bureau of Transportation Planning

BTP informed us that the charges to the MTF were based on an informal agreement between the Michigan Department of Transportation (MDOT) and representatives from the counties, cities, and villages. According to BTP, at the time of the agreement, it was difficult to track the hours spent by the more than 200 staff who worked on planning activities. Therefore, BTP and representatives from the local units of government agreed that the allocation of salaries and fringe

benefits of BTP's administrators and their direct support staff would represent the cost of the planning activities directed toward the local units of government. For the fiscal year ended September 30, 2000, BTP computed the amount of the charge to the MTF based on the salaries of the deputy director, assistant deputy director, policy administrator, 2 division directors, 6 section managers, 3 unit managers, and 8 staff members. BTP also included an estimated amount for travel and contractual services, supplies, and materials and $100,000 for the Transportation Enhancement Program.

MDOT could not provide us with documentation of how the amounts charged to the MTF supported the actual level of service provided to the local units of government. However, for the fiscal year ended September 30, 2001, BTP began using a management information system that tracked the time and costs that BTP incurred when working on local projects. In our review of reports from this system, we determined that the costs charged were consistent with the level of local project activity.

b. State Planning and Research Grant

The State Planning and Research Grant received from the Federal Highway Administration is used in general for planning and survey work, including planning of future highway programs and local public transportation systems and planning of the financing of such programs and systems. MDOT charges the MTF $2,886,000 for the required 20% financial match for the grant. MDOT stated that the charge was made because MDOT felt that the local units had a stake in the overall planning process to remain eligible for federal aid. Because of the formula method used in the distribution of the MTF, the State Trunkline Fund was charged 39.1% of the match ($1,128,426) and the local units were charged 60.9% ($1,757,574).

However, for the fiscal year ended September 30, 2001, BTP began using a management information system that tracked the time and costs that BTP incurred when working on local projects. In our review of the fiscal year 2000-01 actual data, we noted that approximately 60% of the activity was spent on State Trunkline Fund projects. Assuming that the projects' mix was the same as in the prior year, the local units of government may have been overcharged for their portion of the grant by 20.9% or $603,174.

c. Regional Transportation Planning Agencies

The regional transportation planning agencies are self-standing organizations composed of representatives of local government within the geographic region. They were created in the late 1970's to assist in the Statewide planning process. A set amount of $488,000 is appropriated each year for the agencies, and MDOT contracts with the agencies for assistance in the planning process.

The agencies' work plan is set by BTP. Each agency submits billings on a monthly, bimonthly, or quarterly basis. The billings are based on the actual time spent on the local projects. We reviewed the billing reports and determined that the charges were for activities directed at local units of government.

Conclusion

After considering the effect of the charge to the State Trunkline Fund for the activities directed at local units of government, we conclude that the amount of the charge in total was consistent with the level of activity directed at the local units of government.

However, to comply with Act 51, P.A. 1951, as amended, BTP should continue developing a method to ensure that the costs charged to the local units reflect the actual cost of providing the data gathering and planning activities.

Bureau of Highway Technical Services
Summary of Charges
Fiscal Year 1999-2000

## Overview

The gross charges to the Michigan Transportation Fund (MTF) for the services provided to local units of government by the Local Agency Program Unit (LAP), Design Division, Bureau of Highway Technical Services, were $2,233,553. The allocation of these costs to the State Trunkline Fund and the local units of government is shown below:

| | Allocation of Costs of Service Provider | | | |
|---|---|---|---|---|
| Service Provider | State Trunkline Fund (39.1%) | Counties (39.1%) | Cities and Villages (21.8%) | Total |
| Local Agency Program Unit | $ 873,319 | $ 873,319 | $ 486,915 | $ 2,233,553 |

## Description of Activities

LAP provides oversight for county, city, and village road and bridge construction projects that receive federal and/or State funding. This oversight responsibility, required by Title 23, Part 630 of the *Code of Federal Regulations*, designates the Michigan Department of Transportation as the State highway authority that the Federal Highway Administration (FHWA) coordinates with for all federally funded construction projects. LAP secures federal funding for local projects by submitting a written request to FHWA that includes all pre-authorization requirements and estimated project costs and sources of funding. LAP is also involved in the environmental clearance process of the construction projects.

## Cost Allocation Process

LAP charged the MTF $2,233,553 for salaries, wages, and fringe benefits of LAP staff who worked on local projects and for travel, contractual services, supplies, and materials. Employees track their time spent on local projects by using coding on their time sheets. We reviewed detailed expenditure transaction reports of the charges to the MTF and program files to verify program statistics of local agency projects authorized to proceed.

## Conclusion

After considering the effect of the charge to the State Trunkline Fund for the activities directed at local units of government, we conclude that the amount of the charge in total was consistent with the level of activity directed at the local units of government.

However, LAP should identify and evaluate the types of costs being recovered so that an appropriate recovery method can be developed. Some of the costs may best be recovered as direct project charges.

Bureau of Finance and Administration
Summary of Charges
Fiscal Year 1999-2000

## Overview

The gross charges to the Michigan Transportation Fund (MTF) for the services provided to local units of government by the Bureau of Finance and Administration were $1,420,642. The allocation of these costs to the State Trunkline Fund and the local units of government is shown below:

| | Allocation of Costs | | | |
|---|---|---|---|---|
| Service Providers/Other Administrative Costs | State Trunkline Fund (39.1%) | Counties (39.1%) | Cities and Villages (21.8%) | Total |
| Financial Operations Division | $ 246,252 | $ 246,252 | $ 137,296 | $ 629,800 |
| Financial Services Division | 116,049 | 116,049 | 64,702 | 296,800 |
| Technological Services Division | 47,507 | 47,507 | 26,486 | 121,500 |
| Transportation Economic Development Fund | 119,370 | 119,370 | 66,554 | 305,294 |
| Workers' compensation | 13,177 | 13,177 | 7,346 | 33,700 |
| Computer hardware and software | 13,117 | 13,117 | 7,314 | 33,548 |
| Total | $ 555,472 | $ 555,472 | $ 309,698 | $1,420,642 |

a. Financial Operations Division

(1) Description of Activities

The Financial Operations Division (FOD) activities include obligating federal, State, and local funds for local projects; reviewing project funding, reviewing local agency agreements, and finalizing project costs; and establishing, maintaining, and controlling projects in the billing systems. Also, FOD prepares and submits the final accounting of projects to federal and local road agencies and prepares year-end accruals and reports. In addition, FOD responds to local agency audit confirmation requests and to other inquiries regarding project costs, eligibility and participation, and discrepancies.

During fiscal year 1999-2000, FOD charged $629,800 of payroll costs to the MTF for services provided to local road agencies.

(2) Cost Allocation Process

FOD performed an informal time and effort study to determine the amount of time its employees worked on activities related to the MTF and local projects. The results of this study were used to allocate payroll costs to the MTF. We interviewed 7 employees to determine what percent of their time they believed that they worked on the MTF or local project accounting. Responses from 6 of the 7 employees supported or exceeded the time used to allocate payroll costs. One employee indicated a percent of time that was substantially less than the percent of time used to allocate the payroll costs. However, in our review, we identified two other employees who performed activities related to the MTF or local projects whose time was not charged to the MTF.

(3) Conclusion

After considering the effect of the charge to the State Trunkline Fund for the activities directed at local units of government, we conclude that the amount of the charge in total did not exceed the level of activity directed at the local units of government.

However, FOD should identify and evaluate the types of costs being recovered so that an appropriate recovery method can be developed. Some of the costs may best be recovered as direct project costs.

b. Financial Services Division

(1) Description of Activities

The Financial Services Division (FSD) manages many aspects of the contracting process for the Michigan Department of Transportation (MDOT) and local road agencies. FSD prequalifies contractors to work on construction, maintenance, and demolition projects. In addition, FSD prequalifies consultants and specialists for various services, such as road design, cultural resource studies, and construction inspection and testing. FSD coordinates the printing and internal distribution of project proposals and addenda for construction projects. FSD receives and reviews bids and awards construction projects forwarded to it for bid letting. Also, FSD oversees the purchasing of commodities, general services, and professional services.

(2) Cost Allocation Process

FSD charged $296,800 of payroll costs to the MTF for services provided to local road agencies. FSD does not track staff time spent on local projects;

instead, the amount charged is based on the percentage of local bids let to total bids let. The percentage is based on the bid-letting activity for the two prior fiscal years. During fiscal year 1999-2000, FSD charged 39% of FSD employee salaries to MTF. The actual percentage of local bids let in fiscal year 1999-2000 was approximately 42%.

(3) Conclusion

After considering the effect of the charge to the State Trunkline Fund for the activities directed at local units of government, we conclude that the amount of the charge in total did not exceed the level of activity directed at the local units of government.

However, FSD should develop a method to capture and recover the actual costs associated with activities directed at local units of government. In addition, FSD should evaluate the types of costs being recovered so that an appropriate recovery process can be developed.

c. Technological Services Division

(1) Description of Activities

The Departmental Services Section (DSS) of the Technological Services Division provides annual map certifications for local road agencies. Map certifications indicate the miles of State trunkline highways, county primary and local roads, and city and village major local streets transferred to and from State, county, city, or village jurisdiction.

During fiscal year 1999-2000, DSS completed 530 annual certifications, 78 annexations, and 104 map changes. The annual certifications consisted of 14,463 local road miles and 5,945 other road miles, with 57.02 local road mile changes and 27.41 other road mile changes.

(2) Cost Allocation Process

DSS charged the MTF $121,500 for salaries of 2 full-time equivalent positions and 3 other staff who perform work on mapping projects for the local road agencies. We reviewed DSS's log of annual mapping certification and other mapping changes and documentation to support DSS's charges to MTF.

Our review disclosed that 1 of the 2 full-time positions was vacant; however, the budgeted cost of the salary of the vacant position was still charged to MTF.

DSS informed us that because the work load and program requirements did not decrease and other employees in DSS performed the duties of the vacant position, the budgeted cost of the salary was charged to MTF.

We also noted from our review of an internal report which tracked mapping hours for the occupied full-time position that the hours reported did not support charging the full-time position to the MTF. We were informed that the report reflected only computer time spent on mapping and did not include time spent planning, assisting customers, and plotting.

(3) Conclusion

After considering the effect of the charge to the State Trunkline Fund for the activities directed at local units of government, we conclude that the amount of the charge in total did not exceed the level of activity directed at the local units of government.

However, the Technological Services Division should identify and evaluate the types of costs being recovered so that an appropriate recovery method can be used. The costs recovered appear to be primarily related to the performance of duties required by Act 51, P.A. 1951, as amended.

d. Other Administrative Costs

The Bureau of Finance and Administration also charged the MTF for other administrative costs related to the Transportation Economic Development Fund, workers' compensation, and computer hardware and software:

(1) Transportation Economic Development Fund

Section 247.903(6) of the *Michigan Compiled Laws* provides for the appropriation of up to 1% of the money appropriated to the Transportation Economic Development Fund to be used for the administration of the Fund. The amounts appropriated for administration are taken from the statutory grant to the Fund. The Fund provides grants primarily to local units of government for road projects related to economic growth. We conclude that the administrative charges to the MTF were consistent with statutory requirements.

(2) Workers' Compensation

MDOT informed us that it conducted a study which determined that 1% of MDOT employees worked on MTF-related activities. Consequently, MDOT allocated 1% of its workers' compensation expense to the MTF. While MDOT could not provide us with documentation of the original study, it did update the study during our audit. The updated study indicated that 2.6% of MDOT employees were funded by the MTF. We conclude that the costs were in support of activities directed at local units of government.

However, MDOT should reconsider how the workers' compensation costs are allocated to the MTF. Because the State is self-insured for workers' compensation, there is not a charge or cost per employee. Instead, workers' compensation costs are based on actual costs. Accordingly, allocating the costs based on claims history data may be a more accurate allocation method.

(3) Computer Hardware and Software

The MTF funds that are used for information technology go directly to the MTF staff to support their business needs. We obtained a list of hardware and software charges to the MTF. We reviewed the significant invoices, totaling more than 80% of the purchases, and confirmed that the computer hardware and software were purchased. We were informed that the hardware and software purchases were made for 100% MTF-funded staff. We conclude that the costs were in support of activities directed at local units of government.

BUREAU OF URBAN AND PUBLIC TRANSPORTATION

Summary of Charges

Fiscal Year 1999-2000

## Overview

The gross charges to the Michigan Transportation Fund (MTF) for the services provided to local units of government by the Bureau of Urban and Public Transportation (UPTRAN) were $1,197,614. The allocation of these costs to the State Trunkline Fund and the local units of government is shown below:

| | Allocation of Costs of Service Providers | | | |
|---|---|---|---|---|
| Service Providers | State Trunkline Fund (39.1%) | Counties (39.1%) | Cities and Villages (21.8%) | Total |
| Rail Safety Section | $ 413,079 | $ 413,079 | $ 230,311 | $ 1,056,469 |
| Local Grade Crossing Unit | 55,188 | 55,188 | 30,769 | 141,145 |
| Total | $ 468,267 | $ 468,267 | $ 261,080 | $ 1,197,614 |

## Description of Activities

UPTRAN is responsible for implementing and administering public transportation and regulatory programs. Public transportation programs include operating and capital support for urban and non-urban local bus companies, specialized services, rail freight, rail intercity bus service, and ferry service. Regulatory programs include the licensing of limousine and intercity bus companies and the regulation of rail grade crossing safety.

a. Rail Safety Section

The Rail Safety Section regulates the safety of railroad at-grade crossings in compliance with State and federal statutes and is responsible for determining the best combination of warning devices for each public grade crossing in the State. The Michigan Department of Transportation assesses the safety at crossings using diagnostic study teams or on-site inspections. The teams issue reports and recommendations that indicate the corrective action to be taken. The teams also issue work orders indicating the type of work to be performed, including the specific details. After these orders are issued, the Section is responsible for monitoring and enforcing the orders. The Section monitors the quality of the work and enforces other applicable requirements. In addition, the Section processes payments related to the work orders, performs final inspections of the crossings, and compiles the documentation of the completed project.

On-site inspections of every rail crossing in the State are completed every two years. The Rail Safety Section completed 2,538 on-site inspections during fiscal year 1999-2000. During these inspections, employees visit the crossing and complete an inventory of the safety and warning devices and other items located at the crossing. The Section maintains descriptive data related to each crossing, such as the number of tracks at the crossing and the length of the crossing. At these routine inspections, the Section notifies local agencies and the railroads of devices and conditions at public grade crossings that need corrective action.

b. Local Grade Crossing Unit

The Local Grade Crossing Unit administers the local grade crossing program that provides the State and federal funding resources for capital construction projects at approximately 5,535 public grade crossings in Michigan. The funds available through this program frequently pay the entire cost of the railroad crossing safety improvements of local roads. During fiscal year 1999-2000, the Unit authorized and obtained funding for 71 local grade crossing projects.

The Local Grade Crossing Unit's responsibilities include reviewing the work project applications submitted by local road agencies and the railroads for federal and State funding eligibility, securing funding for the projects, and monitoring and accounting for the projects.

Cost Allocation Process

Both the Rail Safety Section and the Local Grade Crossing Unit allocated the costs of their services based on the percentage of time that staff spent working on local projects. The Section and Unit staff charge their time to specific organization codes within the State's time entry system that allows them to track time spent on local projects. They also allocate costs of travel, equipment, contractual services, supplies, and materials related to local projects. We reviewed reports of expenditures and determined that charges to the MTF were for activities directed at local units of government.

Conclusion

After considering the effect of the charge to the State Trunkline Fund for the activities directed at local units of government, we conclude that the amount of the charge in total did not exceed the level of activity directed at local units of government.

However, both the Rail Safety Section and Local Grade Crossing Unit should identify and evaluate the types of costs being recovered so that an appropriate recovery method can be developed.

Bureau of Highway Operations
Summary of Charges
Fiscal Year 1999-2000

## Overview

The gross charges to the Michigan Transportation Fund (MTF) for the services provided to local units of government by the Bureau of Highway Operations (BHO) were $155,600. The allocation of these costs to the State Trunkline Fund and the local units of government is shown below:

| | Allocation of Costs of Service Provider | | | |
|---|---|---|---|---|
| Service Provider | State Trunkline Fund (39.1%) | Counties (39.1%) | Cities and Villages (21.8%) | Total |
| Regional offices | $ 60,840 | $ 60,840 | $ 33,920 | $ 155,600 |

## Description of Activities

BHO is responsible for managing bridge construction projects, maintaining existing roads and structures, and performing various liaison and coordination activities with local agencies. BHO is made up of seven regional offices and 25 transportation service centers. The seven regional offices allocate costs to the MTF for the services provided to the local road agencies.

## Cost Allocation Process

The regional offices charged MTF $155,600 to offset some of the cost of salaries and wages, insurances, and fringe benefits of staff who provided technical assistance, training, and reviews of local agencies. The Michigan Department of Transportation (MDOT) stated that the local agency activities performed cannot be tied to specific positions in the regions. There are more than 1,500 positions in BHO regions and to track the percentage of time that each position spent on local agency activities would not be cost effective. As a result, based on the limited information provided to us by MDOT, we could not determine if the charges were for activities directed at local units of government.

Amounts charged to MTF by regional office were as follows:

| Region | Charges |
|---|---|
| Superior | $ 18,700 |
| North | 18,700 |
| Grand | 12,500 |
| Bay | 23,300 |
| Southwest | 23,300 |
| University | 23,300 |
| Metro | 35,800 |
| Total | $155,600 |

## Glossary of Acronyms and Terms

| | |
|---|---|
| **BHO** | Bureau of Highway Operations. |
| **BTP** | Bureau of Transportation Planning. |
| **DSS** | Departmental Services Section. |
| **FHWA** | Federal Highway Administration. |
| **FOD** | Financial Operations Division. |
| **FSD** | Financial Services Division. |
| **LAP** | Local Agency Program Unit. |
| **MDOT** | Michigan Department of Transportation. |
| **mission** | The agency's main purpose or the reason that the agency was established. |
| **MTF** | Michigan Transportation 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 public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action. |
| **reportable condition** | A matter coming to the auditor's attention that, in the auditor's judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner. |
| **UPTRAN** | Bureau of Urban and Public Transportation. |