



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



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

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

– Article IV, Section 53 of the Michigan Constitution

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Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit

Report Number:
591-0105-06

Use of Transportation-Related Funding

Released:
December 2006

Act 361, P.A. 2004, and Act 162, P.A. 2003, require State agencies that receive transportation-related funding for providing tax and fee collection and other services applicable to transportation funds to contract with the Michigan Department of Transportation (MDOT). These agencies are also required to annually report the amount of funding contracted with MDOT, funds expended, funds returned, and unreimbursed costs incurred but not billed to the transportation funds. The Office of the Auditor General is required to report on the use of transportation-related funding.

Audit Objective:

To determine the appropriateness of selected State agencies' charges to transportation funds.

Audit Conclusion:

We determined that the charges to transportation funds were generally appropriate for 3 of 5 selected State agencies for fiscal years 2004-05 and 2003-04. However, our audit disclosed a reportable condition regarding cost allocation methodologies for 2 State agencies (Finding 1).

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Audit Objective:

To determine compliance with selected State agencies' contractual and reporting requirements for transportation-related funding.

Audit Conclusion:

We determined that the selected State agencies generally complied with contractual and reporting requirements for

transportation-related funding. Our report does not include any reportable conditions related to this audit objective.

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Audit Objective:

To report the services charged to transportation funds, the cost allocation methodologies used in determining the level of funding, and unreimbursed costs.

Audit Conclusion:

We reported the services charged to transportation funds, the cost allocation methodologies used in determining the level of funding, and the unreimbursed costs as supplemental information in the audit report. Our report does not include any reportable conditions related to this audit objective.

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Agency Response:

Our audit report includes 1 finding and 2 corresponding recommendations. The Department of Treasury, Michigan Department of State Police, and MDOT responded that they agreed with the recommendations.

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Background:

MDOT's annual appropriations act provides transportation-related funding to several State agencies and requires the Office of the Auditor General to audit and report on the use of this funding. Through fiscal year 2002-03, these audits were conducted on an annual basis. In accordance with Section 306, Act 361, P.A. 2004, the audits for fiscal years 2003-04 and 2004-05 and thereafter will be conducted on a biennial basis.

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



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THOMAS H. MCTAVISH, C.P.A.
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December 29, 2006

The Honorable Shirley M. Johnson, Chair
Senate Appropriations Committee
Michigan Senate
and
The Honorable Scott Hummel, Chair
House Appropriations Committee
Michigan House of Representatives
State Capitol
Lansing, Michigan

Dear Senator Johnson and Representative Hummel:

This is our report on the performance audit of the Use of Transportation-Related Funding for the period October 1, 2003 through September 30, 2005, as required by Section 306, Act 361, P.A. 2004.

This report contains our report summary; description of funding requirements; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, finding, recommendations, and agency preliminary response; detailed review by State agency and summary schedules of expenditures, services provided, and cost allocation methodologies, presented as supplemental information; and a glossary of acronyms and terms.

Our comments, finding, and recommendations are organized by audit objective. The agency preliminary response was taken from the agencies' responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agencies develop a formal response within 60 days after release of the audit report.

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

AUDITOR GENERAL

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Description of Funding Requirements

Act 361, P.A. 2004, and Act 162, P.A. 2003 (the annual appropriations acts for the Michigan Department of Transportation [MDOT] for fiscal years 2004-05 and 2003-04, respectively) require State agencies that receive transportation-related funding for providing tax and fee collection and other services applicable to transportation funds to contract with MDOT. The contracts must include estimated costs to be recovered from transportation funds, a description of the services financed by transportation funds, and detailed cost allocation methods that are appropriate to the type of services being provided and the activities financed with transportation funds.

Section 504(3) of MDOT's annual appropriations act requires these agencies to annually report the amount of funding contracted with MDOT, funds expended, and funds returned. Act 361, P.A. 2004, also requires agencies to report unreimbursed costs incurred but not billed to the transportation funds.

MDOT's annual appropriations act requires the Office of the Auditor General to audit and report on the use of transportation-related funding. Through fiscal year 2002-03, these audits were conducted on an annual basis. In accordance with Section 306, Act 361, P.A. 2004, the audits for fiscal years 2003-04 and 2004-05 and thereafter will be conducted on a biennial basis.

The Legislature appropriated transportation-related funding of \$43.4 million and \$41.8 million for fiscal years 2004-05 and 2003-04, respectively, with interdepartmental grants to the following 9 State agencies: the Department of State; the Department of Management and Budget; the Department of Treasury; the Michigan Department of State Police; the Department of Civil Service; the Department of Attorney General; the Department of Environmental Quality; the Department of History, Arts and Libraries; and the Office of the Auditor General.

The Legislature also appropriated \$26.8 million and \$26.1 million for fiscal years 2004-05 and 2003-04, respectively, for information technology services, which were provided primarily by the Department of Information Technology. In addition, the Legislature appropriated \$4.3 million for fiscal year 2004-05 for welcome center operations, which were provided primarily by the Michigan Economic Development Corporation.

MDOT funded contractual transportation-related charges of \$70.1 million and \$68.2 million for these 11 State agencies for fiscal years 2004-05 and 2003-04, respectively. In addition, State agencies charged MDOT for miscellaneous transportation-related charges that were not specifically included in contracts, such as user charges, training, fees, services, and internal service fund charges. MDOT funded miscellaneous transportation-related charges of \$17.1 million and \$19.3 million for State agencies for fiscal years 2004-05 and 2003-04, respectively. MDOT funded contractual and miscellaneous transportation-related expenditures of \$87.3 million and \$87.5 million for fiscal years 2004-05 and 2003-04, respectively (see Exhibits 6 and 7, presented as supplemental information).

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

Audit Objectives

Our performance audit* of the Use of Transportation-Related Funding had the following objectives:

1. To determine the appropriateness of selected State agencies' charges to transportation funds.
2. To determine compliance with selected State agencies' contractual and reporting requirements for transportation-related funding.
3. To report the services charged to transportation funds, the cost allocation methodologies used in determining the level of funding, and unreimbursed costs.

Audit Scope

Our audit was required by Section 306, Act 361, P.A. 2004. Our audit scope was to examine the records supporting transportation-related charges to transportation funds. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States except that we were not independent in regard to the Office of the Auditor General. Accordingly, our audit included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

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

* See glossary at end of report for definition.

Audit Methodology

Our audit procedures, conducted from December 2005 through April 2006, included examination of records and activities for the period October 1, 2003 through September 30, 2005.

Based on a risk analysis, we selected five State agencies (the Departments of Information Technology, State, Management and Budget, Treasury, and State Police) to review. To determine the appropriateness of selected State agencies' charges to transportation funds, we reviewed the five selected State agencies' material charges for transportation-related expenditures. In addition, we examined the selected State agencies' processes for allocating transportation-related costs to MDOT.

To determine compliance with selected State agencies' contractual and reporting requirements for transportation-related funding, we reviewed the five selected State agencies' contracts and annual reports to verify whether they included all of the information required by Sections 504(2) and 504(3) of both Act 361, P.A. 2004, and Act 162, P.A. 2003.

To report the services charged to transportation funds, the cost allocation methodologies used in determining the level of funding, and unreimbursed costs, we obtained information from MDOT, State agencies, and MAIN accounting records. We verified the State agencies' total transportation-related expenditures to the MAIN accounting records. We reported the transportation-related costs and unreimbursed costs of State agencies by transportation fund as supplemental information (see Exhibits 6 through 8). We also reported the services provided and the cost allocation methodologies of each State agency as supplemental information (see Exhibit 9).

Agency Responses and Prior Audit Follow-Up

Our audit report includes 1 finding and 2 corresponding recommendations. The Department of Treasury, Michigan Department of State Police, and MDOT responded that they agreed with the recommendations.

The agency preliminary response that follows the recommendations in our report was taken from the agencies' 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 audited agencies to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

We released our prior performance audit of the Use of Transportation-Related Funding (#0762905) in February 2005. Within the scope of this audit, we followed up all 3 prior audit recommendations. MDOT and the State agencies complied with the 3 prior audit recommendations.

COMMENTS, FINDING, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSE

CHARGES TO TRANSPORTATION FUNDS

COMMENT

Audit Objective: To determine the appropriateness of selected State agencies' charges to transportation funds.

Conclusion: We determined that the charges to transportation funds were generally appropriate for 3 of 5 selected State agencies for fiscal years 2004-05 and 2003-04. However, our audit disclosed a reportable condition* regarding cost allocation methodologies for 2 State agencies (Finding 1).

FINDING

1. Cost Allocation Methodologies

The Department of Treasury and Michigan Department of State Police (MSP) had not implemented cost allocation methodologies that accurately identified and equitably allocated costs for transportation-related activities that were charged to transportation funds. In addition, the Michigan Department of Transportation (MDOT) needs to improve its review and approval of the cost allocation methodologies developed by State agencies to help ensure that costs for transportation-related activities are accurately identified and equitably allocated to transportation funds. As a result, MDOT could not ensure that payments made to these State agencies were based on actual transportation-related costs.

MDOT's appropriations acts for fiscal years 2004-05 and 2003-04 require that the annual contracts between MDOT and the various State agencies receiving transportation-related funding shall include detailed cost allocation methods that are appropriate to the type of services being provided and the activities financed with transportation funds. Section 247.660(1) of the *Michigan Compiled Laws* (a section of Act 51, P.A. 1951) requires that funds appropriated for necessary expenses shall be based upon established cost allocation methodologies that reflect actual costs.

* See glossary at end of report for definition.

We reviewed the cost allocation methodologies used to charge the transportation funds for five State agencies (see the detailed review by State agency in Exhibits 1 through 5, presented as supplemental information). Our review noted:

- a. The Department of Treasury did not allocate expenditures to the Michigan Transportation Fund (MTF) and the State Aeronautics Fund (SAF) based on the level of activity necessary to administer and enforce the Motor Fuel Tax Act (Sections 207.1001 - 207.1170 of the *Michigan Compiled Laws*). The Department appropriately identified the actual costs it incurred related to its tax collection responsibilities, which included all of the taxes collected by the Department. However, the Department allocated these expenditures to MTF and SAF based on the percentage of transportation-related tax collections to total tax collections. As a result, the Department did not use an equitable basis to allocate costs of \$6,756,178 and \$6,364,000 to MTF and \$46,719 and \$41,312 to SAF for fiscal years 2004-05 and 2003-04, respectively. Charges to MTF and SAF should be based on the proportion of the Department's costs that relate to administering and enforcing the Motor Fuel Tax Act.
- b. MSP could not provide documentation that costs related to its Criminal Justice Information Center (CJIC), human resources, and information technology services were allocated to the State Trunkline Fund (STF) based on an identification and equitable allocation of the actual costs incurred. MSP informed us that its charges for CJIC, human resources, and information technology services were allocated based on appropriations and cost allocation methodologies that had not been updated to reflect current costs or the level of services currently being provided. As a result, MSP could not document that it equitably allocated costs of \$410,700 and \$370,100 to STF for fiscal years 2004-05 and 2003-04, respectively. MSP charges to STF should be based on a documented methodology using current information on the costs and level of services being provided.

RECOMMENDATIONS

We recommend that the Department of Treasury and MSP implement cost allocation methodologies that accurately identify and equitably allocate costs for transportation-related activities that are charged to transportation funds.

We also recommend that MDOT improve its review and approval of the cost allocation methodologies developed by State agencies to help ensure that costs for transportation-related activities are accurately identified and equitably allocated to transportation funds.

AGENCY PRELIMINARY RESPONSE

With regard to the first recommendation, the Department of Treasury agreed that, although it was using a previously audited cost allocation methodology, charges to MTF and SAF should be based on the proportion of the Department's costs that relate to administering and enforcing the Motor Fuel Tax Act. The Department also agreed to review the process related to the allocation of these expenditures.

MSP agreed with the first recommendation. MSP will review and update the cost allocation methodologies for transportation-related activities that are charged to transportation funds.

MDOT agreed with the second recommendation. MDOT recognizes that cost allocation methodologies can be improved and will work closer with other departments to better ensure that costs for transportation-related activities are accurately identified and equitably allocated to transportation funds. MDOT will review cost allocation methodologies for transportation-related activities prior to signing memorandums of understanding beginning with fiscal year 2006-07 whenever possible. Changes in cost allocation methodologies may not be completely implemented until fiscal year 2007-08 memorandums of understanding.

CONTRACTUAL AND REPORTING REQUIREMENTS

COMMENT

Audit Objective: To determine compliance with selected State agencies' contractual and reporting requirements for transportation-related funding.

Conclusion: We determined that the selected State agencies generally complied with contractual and reporting requirements for transportation-related funding. Our report does not include any reportable conditions related to this audit objective.

SERVICES CHARGED, COST ALLOCATION METHODOLOGIES, AND UNREIMBURSED COSTS

COMMENT

Audit Objective: To report the services charged to transportation funds, the cost allocation methodologies used in determining the level of funding, and unreimbursed costs.

Conclusion: We reported the services charged to transportation funds, the cost allocation methodologies used in determining the level of funding, and the unreimbursed costs as supplemental information in this audit report. Our report does not include any reportable conditions related to this audit objective.

SUPPLEMENTAL INFORMATION

Description of Supplemental Information

Section 1 - Detailed Review by State Agency (Exhibits 1 through 5)

We compiled Exhibits 1 through 5 from information contained in the Michigan Administrative Information Network (MAIN) for the fiscal years ended September 30, 2005 and September 30, 2004, the Michigan Department of Transportation's (MDOT's) records related to State agencies' use of transportation-related funding, and State agencies' records. Each detailed review by State agency includes the following information:

- **Interdepartmental Contracts:** This section represents State agencies' expenditures and encumbrances charged to transportation funds. State agencies contracted with MDOT for the use of transportation funds appropriated in Sections 103, 106, and 107 of both Act 361, P.A. 2004, and Act 162, P.A. 2003.
- **Miscellaneous Charges:** This section represents the transportation-related expenditures that were not specifically appropriated to State agencies in Act 361, P.A. 2004, and Act 162, P.A. 2003, but were charges funded by transportation funds.
- **Unreimbursed Expenditures:** This section includes unreimbursed transportation-related costs incurred but not billed to transportation funds.

Section 2 - Summary Schedules of Expenditures, Services Provided, and Cost Allocation Methodologies (Exhibits 6 through 9)

- **Summary of State Agencies' Use of Transportation-Related Funding:** This supplemental information summarizes total transportation-related spending by State agency and by transportation fund for the fiscal years ended September 30, 2005 and September 30, 2004 (Exhibits 6 and 7).
- **Summary of Unreimbursed Transportation-Related Expenditures by State Agency:** This supplemental information summarizes unreimbursed transportation-related costs incurred but not billed to transportation funds for the fiscal years ended September 30, 2005 and September 30, 2004 (Exhibit 8).

- Summary of Types of Services Provided and Cost Allocation Methodologies: This supplemental information describes the types of services provided by the State agencies and the cost allocation methodologies used by the State agencies to allocate transportation-related costs during the fiscal years ended September 30, 2005 and September 30, 2004 (Exhibit 9).

USE OF TRANSPORTATION-RELATED FUNDING

Department of Information Technology

Fiscal Years Ended September 30

	<u>2005</u>	<u>2004</u>
EXPENDITURES AND ENCUMBRANCES		
<u>Interdepartmental Contracts</u>		
Blue Water Bridge Fund		
Information technology services and contracts	\$ 28,811	\$ 13,244
Comprehensive Transportation Fund		
Information technology services and contracts	60,621	133,638
Economic Development Fund		
Information technology services and contracts	2,745	2,972
State Aeronautics Fund		
Information technology services and contracts	82,311	121,458
State Trunkline Fund		
Information technology services and contracts	<u>24,027,079</u>	<u>23,599,563</u>
Total Interdepartmental Contracts	<u>\$ 24,201,566</u>	<u>\$ 23,870,874</u>
<u>Miscellaneous Charges</u>		
Comprehensive Transportation Fund		
Information technology services and contracts	\$ 77,736	\$ 309,044
Economic Development Fund		
Information technology services and contracts	4,492	5,439
State Aeronautics Fund		
Information technology services and contracts	38,325	29,250
State Trunkline Fund		
Information technology services and contracts	<u>5,442,771</u>	<u>6,659,900</u>
Total Miscellaneous Charges	<u>\$ 5,563,324</u>	<u>\$ 7,003,634</u>
TOTAL EXPENDED OR ENCUMBERED	<u>\$ 29,764,891</u>	<u>\$ 30,874,508</u>
UNREIMBURSED EXPENDITURES		
TOTAL UNREIMBURSED EXPENDITURES	<u>\$ 0</u>	<u>\$ 0</u>

Appropriateness of Charges

- **Interdepartmental Contracts**

The Legislature appropriated information technology services from transportation funds of approximately \$26.8 million and \$26.1 million for fiscal years 2004-05 and 2003-04, respectively. Information technology services are primarily provided by the Department of Information Technology (DIT). DIT incurred transportation-related costs of approximately \$24.2 million and \$23.9 million in fiscal years 2004-05 and 2003-04, respectively, for administering and implementing information technology services.

DIT charged the Michigan Department of Transportation (MDOT) actual costs associated with the delivery of information technology services, including project management services, technical services, Center for Geographic Information services, information technology procurement, telecommunications services, and other direct agency services. DIT allocated charges to MDOT for desktop services based on the number of computers. DIT also allocated enterprise portal costs to MDOT based on the number of Web site pages accessed. In addition, DIT allocated enterprise administration expenditures to MDOT based on projected information technology direct costs. Further, DIT allocated the costs to facilitate and fund information technology standards, policy development, and strategic planning to MDOT based on a percentage of prior year expenditures. We determined that DIT's charges for information technology services were appropriate.

- **Miscellaneous Charges**

DIT charged approximately \$5.6 million and \$7.0 million in fiscal years 2004-05 and 2003-04, respectively, for direct agency charges and payroll costs for projects for specific programs.

- **Unreimbursed Expenditures**

DIT did not report any unreimbursed expenditures for fiscal years 2004-05 and 2003-04.

USE OF TRANSPORTATION-RELATED FUNDING

Department of State

Fiscal Years Ended September 30

	<u>2005</u>	<u>2004</u>
EXPENDITURES AND ENCUMBRANCES		
<u>Interdepartmental Contracts</u>		
Michigan Transportation Fund		
Collection of transportation taxes and fees	\$ 20,000,000	\$ 20,000,000
Total Interdepartmental Contracts	<u>\$ 20,000,000</u>	<u>\$ 20,000,000</u>
<u>Miscellaneous Charges</u>		
Comprehensive Transportation Fund		
Vehicle codebooks and service charges	\$	\$ 20
State Aeronautics Fund		
Service charges	18	
State Trunkline Fund		
Vehicle codebooks and service charges	10	476
Total Miscellaneous Charges	<u>\$ 28</u>	<u>\$ 496</u>
TOTAL EXPENDED OR ENCUMBERED	<u>\$ 20,000,028</u>	<u>\$ 20,000,496</u>
 UNREIMBURSED EXPENDITURES		
Collection of transportation taxes and fees	<u>\$ 370,031</u>	<u>\$ 8,269,299</u>
TOTAL UNREIMBURSED EXPENDITURES	<u>\$ 370,031</u>	<u>\$ 8,269,299</u>

Appropriateness of Charges

- **Interdepartmental Contracts**

The Legislature appropriated interdepartmental grants from transportation funds of \$20.0 million to the Department of State for each of fiscal years 2004-05 and 2003-04. Section 247.660(1) of the *Michigan Compiled Laws* limits total appropriations to the Department of State, relating to its interdepartmental contract with the Michigan Department of Transportation (MDOT), to \$20.0 million per fiscal year. The Department of State charged transportation-related costs to the Michigan Transportation Fund (MTF) of \$20.0 million for each of fiscal years 2004-05 and 2003-04 for administering and enforcing the collection of transportation taxes and fees identified in the Michigan Vehicle Code (Sections 257.801 - 257.810 of the *Michigan Compiled Laws*).

Beginning in fiscal year 2003-04, the Department has two sources of funding for transportation-related costs: its interdepartmental contract with MDOT, which is funded from MTF, and the Transportation Administration Collection Fund, which is funded from service fees.

Annually, the Department retains an independent consulting firm to conduct a cost allocation review to determine actual transportation-related costs from time-and-effort cost studies. The cost allocation review is an after-the-fact analysis used to support the costs charged to MTF and to establish future funding levels.

We determined that Department of State costs charged to MTF for administering and enforcing the collection of transportation taxes and fees for fiscal years 2004-05 and 2003-04 were for appropriate charges.

- **Miscellaneous Charges**

Miscellaneous charges included costs for vehicle codebooks and service charges.

- **Unreimbursed Expenditures**

The Department's cost allocation review disclosed unreimbursed costs of approximately \$0.4 million and \$8.3 million for administering and enforcing the collection of transportation taxes and fees for fiscal years 2004-05 and 2003-04, respectively.

USE OF TRANSPORTATION-RELATED FUNDING

Department of Management and Budget

Fiscal Years Ended September 30

	<u>2005</u>	<u>2004</u>
EXPENDITURES AND ENCUMBRANCES		
<u>Interdepartmental Contracts</u>		
Comprehensive Transportation Fund		
Central support services	\$ 60,500	\$ 65,800
MAIN user charges	45,000	52,500
Michigan Transportation Fund		
MAIN user charges	224,500	199,900
State Aeronautics Fund		
Central support services	34,400	39,400
MAIN user charges	25,600	31,400
State Trunkline Fund		
Central support services	1,240,800	1,434,000
MAIN user charges	924,900	1,144,300
Total Interdepartmental Contracts	<u>\$ 2,555,700</u>	<u>\$ 2,967,300</u>
<u>Miscellaneous Charges</u>		
Blue Water Bridge Fund		
Office Services Revolving Fund	\$	\$ 11
Risk Management Fund	7,728	39
Combined Comprehensive Transportation Bond Proceeds Fund		
Office Services Revolving Fund		15
Combined State Trunkline Bond Proceeds Fund		
Motor Transport Fund		17,448
Office Services Revolving Fund		10,271
Comprehensive Transportation Fund		
Motor Transport Fund	616,965	588,440
Office Services Revolving Fund	14,655	25,238
Other fees and services	5,134	
Risk Management Fund	9,408	9,460
State Aeronautics Fund		
Motor Transport Fund	36,238	35,850
Office Services Revolving Fund	74,054	81,135
Other fees and services	877	8,726
Risk Management Fund	180	7,108

	2005	2004
EXPENDITURES AND ENCUMBRANCES		
State Trunkline Fund		
Building occupancy charges	\$ 3,883,641	\$ 3,855,141
Motor Transport Fund	2,316,286	3,396,956
Office Services Revolving Fund	1,145,435	1,082,160
Other fees and services	119,856	87,686
Risk Management Fund	584,318	531,555
Transportation Related Trust Funds		
Motor Transport Fund		939
Office Services Revolving Fund		13,981
Total Miscellaneous Charges	<u>\$ 8,814,775</u>	<u>\$ 9,752,159</u>
TOTAL EXPENDED OR ENCUMBERED	<u>\$ 11,370,475</u>	<u>\$ 12,719,459</u>
UNREIMBURSED EXPENDITURES		
Blue Water Bridge Fund		
Central support services	\$ 15,976	\$ 15,695
MAIN user charges	24,567	24,774
Combined State Trunkline Bond Proceeds Fund		
Central support services	40,513	34,937
MAIN user charges	62,301	55,149
Comprehensive Transportation Fund		
MAIN user charges	42,184	36,963
Michigan Transportation Fund		
MAIN user charges		89,862
State Aeronautics Fund		
Central support services	870	
MAIN user charges	28,636	23,864
State Trunkline Fund		
Building occupancy charges	598,269	129,730
Central support services	131,801	
MAIN user charges	1,185,757	814,566
Transportation Related Trust Funds		
Central support services	2,499	3,392
MAIN user charges	<u>3,837</u>	<u>5,357</u>
TOTAL UNREIMBURSED EXPENDITURES	<u>\$ 2,137,210</u>	<u>\$ 1,234,289</u>

Appropriateness of Charges

- **Interdepartmental Contracts**

The Legislature appropriated interdepartmental grants from transportation funds of approximately \$2.8 million and \$3.0 million to the Department of Management and Budget (DMB) for fiscal years 2004-05 and 2003-04, respectively. DMB incurred transportation-related costs of approximately \$2.6 million and \$3.0 million for fiscal years 2004-05 and 2003-04, respectively, for central support services and Michigan Administration Information Network (MAIN) support services. Support services included financial management, real estate, mail and delivery, purchasing, State employer services, budgetary services, and MAIN development. DMB used the most recent Statewide Cost Allocation Plan (SWCAP) to allocate estimated costs for support services to the transportation funds. We determined that DMB costs for support services charged to transportation funds were for appropriate charges.

- **Miscellaneous Charges**

DMB charged building occupancy costs of approximately \$3.9 million for each of fiscal years 2004-05 and 2003-04 to the State Trunkline Fund for all buildings occupied by Michigan Department of Transportation personnel. Building occupancy costs are allocated through SWCAP based on estimated costs per square foot. We determined that DMB costs for building occupancy charged to transportation funds were for appropriate charges.

DMB charged actual costs of approximately \$4.8 million and \$5.8 million to the transportation funds for services provided by internal service funds for fiscal years 2004-05 and 2003-04, respectively. The Office Services Revolving Fund provides services such as printing, reproduction, mailing, microfilm, distribution of surplus property, and materials management. The Motor Transport Fund provides vehicle and travel services. The Risk Management Fund accounts for certain centralized risk management functions. DMB charged actual expenditures of approximately \$126,000 and \$96,000 for other fees and services, including project supervision, parking, and facility management, for fiscal years 2004-05 and 2003-04, respectively.

- **Unreimbursed Expenditures**

A comparison of actual SWCAP costs to amounts charged to transportation funds disclosed unreimbursed expenditures for DMB central support services, MAIN support services, and building occupancy costs of approximately \$2.1 million and \$1.2 million for fiscal years 2004-05 and 2003-04, respectively.

USE OF TRANSPORTATION-RELATED FUNDING
 Department of Treasury
Fiscal Years Ended September 30

	<u>2005</u>	<u>2004</u>
EXPENDITURES AND ENCUMBRANCES		
<u>Interdepartmental Contracts</u>		
Comprehensive Transportation Fund		
Investment services	\$ 1,700	\$ 4,300
Michigan Transportation Fund		
Collection and audit activities of motor fuel taxes	6,756,178	6,364,000
Information technology services	421,100	336,000
State Aeronautics Fund		
Collection and audit activities of aviation fuel taxes	46,719	41,312
Investment services	3,900	3,400
State Trunkline Fund		
Investment services	29,100	29,100
Total Interdepartmental Contracts	<u>\$ 7,258,697</u>	<u>\$ 6,778,112</u>
<u>Miscellaneous Charges</u>		
Blue Water Bridge Fund		
Investment services	\$ 2,500	\$ 2,500
Combined Comprehensive Transportation Bond Proceeds Fund		
Investment services	12,100	5,000
Combined State Trunkline Bond Proceeds Fund		
Investment services	22,200	37,100
Michigan Transportation Fund		
Wire transfer fees	1,260	
State Aeronautics Fund		
Subscription fees	480	480
State Trunkline Fund		
Manual warrants fees	282	
Subscription fees		5,186
Investment services		100
Transportation Related Trust Funds		
Investment services	2,400	1,000
Total Miscellaneous Charges	<u>\$ 41,222</u>	<u>\$ 51,366</u>
TOTAL EXPENDED OR ENCUMBERED	<u>\$ 7,299,919</u>	<u>\$ 6,829,478</u>

UNREIMBURSED EXPENDITURES

Michigan Transportation Fund

Collection and audit activities of motor fuel taxes	\$	\$	31,988
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State Trunkline Fund

Investment services		34,800	1,900
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TOTAL UNREIMBURSED EXPENDITURES	\$	34,800	\$ 33,888
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Appropriateness of Charges

- **Interdepartmental Contracts**

The Legislature appropriated interdepartmental grants from transportation funds of approximately \$7.9 million and \$6.8 million to the Department of Treasury for fiscal years 2004-05 and 2003-04, respectively. The Department of Treasury charged transportation-related costs of approximately \$7.3 million and \$6.8 million in fiscal years 2004-05 and 2003-04, respectively, for administering and enforcing the Motor Fuel Tax Act for the Michigan Department of Transportation (MDOT).

The Department identified the actual costs incurred in the collection and audit activities for all taxes collected by the Department, which included motor and aviation fuel taxes. The Department allocated these costs to the Michigan Transportation Fund (MTF) and the State Aeronautics Fund (SAF) based on the percentage of transportation-related tax collections to total tax collections. Charges to MTF and SAF should be based on the proportion of the Department's costs that relate to administering and enforcing the Motor Fuel Tax Act. We determined that the Department did not use an equitable basis to allocate costs of \$6,756,178 and \$6,364,000 to MTF and \$46,719 and \$41,312 to SAF for fiscal years 2004-05 and 2003-04, respectively (Finding 1).

Charges for investment services were allocated based on the percentage of transportation funds' investment balances to total investment balances applied to the cost of investing activities. We determined that the investment service charges were appropriate.

The Department charged actual costs for information technology services, which related to the motor fuel diesel simplification project.

- **Miscellaneous Charges**

The Department charged costs of \$41,222 and \$51,366 in fiscal years 2004-05 and 2003-04, respectively, for investment services and miscellaneous fees. Charges

for investment services were allocated based on the percentage of transportation funds' investment balances to total investment balances applied to the cost of investing activities. Fees were charged for other services.

- **Unreimbursed Expenditures**

The Department reported \$34,800 and \$1,900 in unreimbursed investment services for the State Trunkline Fund for fiscal years 2004-05 and 2003-04, respectively. In addition, the Department had unreimbursed costs of \$31,988 for MTF based on its cost allocation methodology for fiscal year 2003-04.

USE OF TRANSPORTATION-RELATED FUNDING
 Michigan Department of State Police
Fiscal Years Ended September 30

	2005	2004
EXPENDITURES AND ENCUMBRANCES		
<u>Interdepartmental Contracts</u>		
State Trunkline Fund		
Motor Carrier Division inspections and enforcement	\$ 5,696,596	\$ 5,196,501
CJIC traffic accident records database	347,500	336,900
Information technology services	33,200	33,200
Human resources	30,000	
Total Interdepartmental Contracts	\$ 6,107,296	\$ 5,566,601
 <u>Miscellaneous Charges</u>		
State Aeronautics Fund		
Aviation fuel	\$ 88,921	\$ 55,994
 State Trunkline Fund		
Construction work zone patrols	548,390	408,096
Training	12,200	934
Total Miscellaneous Charges	\$ 649,511	\$ 465,024
 TOTAL EXPENDED OR ENCUMBERED	\$ 6,756,807	\$ 6,031,625
 UNREIMBURSED EXPENDITURES		
State Trunkline Fund		
CJIC traffic accident records database	\$ 22,134	\$ 34,274
 TOTAL UNREIMBURSED EXPENDITURES	\$ 22,134	\$ 34,274

Appropriateness of Charges

- **Interdepartmental Contracts**

The Legislature appropriated interdepartmental grants from transportation funds of approximately \$7.2 million and \$6.9 million to the Michigan Department of State Police (MSP) for fiscal years 2004-05 and 2003-04, respectively. MSP charged transportation-related costs of approximately \$6.1 million and \$5.6 million in fiscal years 2004-05 and 2003-04, respectively, primarily for safety inspections and enforcement activities by the Motor Carrier Division.

MSP used its Officer Daily Automated System to identify the percentage of Motor Carrier Division officers' time spent on safety inspections and enforcement

activities. These percentages were applied to payroll and indirect costs to determine chargeable expenditures for time spent on safety inspections and enforcement activities. These expenditures were then allocated to the three allowable funding sources for these activities: transportation-related funding (through MSP's interdepartmental contract with the Michigan Department of Transportation), motor carrier fees, and a federal grant. We determined that MSP's expenditures for safety inspections and enforcement activities were appropriate charges to transportation-related funding.

MSP allocated a percentage of its costs for maintaining the traffic accident records database within the Criminal Justice Information Center (CJIC) to the State Trunkline Fund. MSP also allocated a portion of its costs for human resources and information technology services to the State Trunkline Fund. However, MSP's cost allocation methodologies had not been updated to reflect current costs or the level of services currently being provided (Finding 1).

- **Miscellaneous Charges**

MSP charged expenditures of \$649,511 and \$465,024 based on costs or established fees in fiscal years 2004-05 and 2003-04, respectively, for miscellaneous charges of fuel, construction zone work patrols, and training.

- **Unreimbursed Expenditures**

MSP had unreimbursed expenditures of \$22,134 and \$34,274 for maintaining the traffic accident record database within CJIC for fiscal years 2004-05 and 2003-04, respectively.

USE OF TRANSPORTATION-RELATED FUNDING
 Summary of State Agencies' Use of Transportation-Related Funding
Fiscal Year Ended September 30, 2005

Receiving State Agency	Charges Paid By Fund				
	Comprehensive Transportation	Michigan Transportation	State Aeronautics	State Trunkline	Blue Water Bridge
Department of Information Technology	\$ 138,357	\$	\$ 120,636	\$ 29,469,850	\$ 28,811
Department of State		20,000,000	18	10	
Department of Management and Budget	751,662	224,500	171,349	10,215,236	7,728
Department of Treasury	1,700	7,178,538	51,099	29,382	2,500
Michigan Department of State Police			88,921	6,667,886	
Michigan Economic Development Corporation				3,668,159	
Department of Civil Service	66,669		46,168	2,578,550	23,101
Department of Attorney General	137,000		94,648	2,199,228	
Department of Environmental Quality		956,749	22,456	145,795	
Office of the Auditor General	31,914	204,300	43,861	656,625	
Department of History, Arts and Libraries and Mackinac Island State Park Commission	5,900		38,551	444,326	
Department of Natural Resources			2,064	10,631	
Department of Corrections			2,400	506,102	825
Department of Labor and Economic Growth	25		250	32,798	75
Judiciary	950			4,075	
Department of Agriculture				1,790	
Total for State Agencies	\$ 1,134,178	\$ 28,564,087	\$ 682,422	\$ 56,630,445	\$ 63,040

Exhibit 6

Economic Development	Combined State Trunkline Bond Proceeds	Combined Comprehensive Transportation Bond Proceeds	Transportation Related Trust	Agency Total
\$ 7,237				\$ 29,764,891
				20,000,028
				11,370,475
	22,200	12,100	2,400	7,299,919
				6,756,807
				3,668,159
1,925				2,716,413
				2,430,877
				1,125,000
				936,700
			112,900	601,677
			40,197	52,893
				509,327
				33,148
				5,025
				1,790
<u>\$ 9,162</u>	<u>\$ 22,200</u>	<u>\$ 12,100</u>	<u>\$ 155,497</u>	<u>\$ 87,273,131</u>

USE OF TRANSPORTATION-RELATED FUNDING
Summary of State Agencies' Use of Transportation-Related Funding
Fiscal Year Ended September 30, 2004

Receiving State Agency	Charges Paid By Fund				
	Comprehensive Transportation	Michigan Transportation	State Aeronautics	State Trunkline	Blue Water Bridge
Department of Information Technology	\$ 442,682	\$	\$ 150,708	\$ 30,259,463	\$ 13,244
Department of State	20	20,000,000		476	
Department of Management and Budget	741,438	199,900	203,619	11,531,798	50
Department of Treasury	4,300	6,700,000	45,192	34,386	2,500
Michigan Department of State Police			55,994	5,975,631	
Michigan Economic Development Corporation				3,395,441	
Department of Civil Service	88,101		45,073	2,147,321	
Department of Attorney General	116,119		81,164	2,018,939	
Department of Environmental Quality	500	857,885	18,496	93,592	200
Office of the Auditor General	17,300	181,100	16,600	371,100	
Department of History, Arts and Libraries and Mackinac Island State Park Commission	5,900		96,252	358,522	
Department of Natural Resources	16,273		673	1,447	
Department of Corrections			2,400	312,798	
Department of Labor and Economic Growth	2,527		170	37,686	825
Judiciary				3,130	
Department of Agriculture				1,786	
Department of Military and Veterans Affairs				775	
Legislative Service Bureau				300	
Total for State Agencies	\$ 1,435,160	\$ 27,938,885	\$ 716,341	\$ 56,544,592	\$ 16,819

Exhibit 7

Economic Development	Combined State Trunkline Bond Proceeds	Combined Comprehensive Transportation Bond Proceeds	Transportation Related Trust	Agency Total
\$ 8,411	\$	\$	\$	\$ 30,874,508
				20,000,496
	27,719	15	14,920	12,719,459
	37,100	5,000	1,000	6,829,478
				6,031,625
				3,395,441
9,084				2,289,580
				2,216,223
	75			970,748
				586,100
				460,674
			772,000	790,392
				315,198
				41,208
				3,130
				1,786
				775
	409			708
<u>\$ 17,495</u>	<u>\$ 65,303</u>	<u>\$ 5,015</u>	<u>\$ 787,920</u>	<u>\$ 87,527,530</u>

USE OF TRANSPORTATION-RELATED FUNDING
 Summary of Unreimbursed Transportation-Related Expenditures by State Agency
Fiscal Years Ended September 30

<u>Receiving State Agency</u>	<u>2005</u>	<u>2004</u>
Department of State	\$ 370,031	\$ 8,269,299
Department of Management and Budget	2,137,210	1,234,289
Department of Treasury	34,800	33,888
Michigan Department of State Police	22,134	34,274
Department of Attorney General	16,882	23,257
Department of History, Arts and Libraries and Mackinac Island State Park Commission	<u>24,473</u>	<u> </u>
Total for State Agencies	<u>\$ 2,605,530</u>	<u>\$ 9,595,007</u>

USE OF TRANSPORTATION-RELATED FUNDING

Summary of Types of Services Provided and Cost Allocation Methodologies Fiscal Years Ended September 30, 2005 and September 30, 2004

Department of Information Technology

The Department of Information Technology (DIT) provided information technology services, including project management services, technical services, Center for Geographic Information services, information technology procurement, telecommunications services, and other direct agency services. DIT charged actual costs for these services.

DIT allocated charges to the Michigan Department of Transportation (MDOT) for desktop services based on the number of computers. DIT also allocated enterprise portal costs to MDOT based on the number of Web site pages accessed. In addition, DIT allocated enterprise administration expenditures to MDOT based on projected information technology direct costs. Further, DIT allocated the costs to facilitate and fund information technology standards, policy development, and strategic planning to MDOT based on a percentage of prior year expenditures.

Department of State

The Department of State collected and processed registrations and other taxes and fees and provided other transportation-related activities for the administration and enforcement of the Michigan Vehicle Code (Sections 257.801 - 257.810 of the *Michigan Compiled Laws*). The Department of State retains an independent consulting firm to conduct an annual cost allocation review to determine actual transportation-related costs from time-and-effort cost studies. The cost allocation review is an after-the-fact analysis used to support the costs charged to the Michigan Transportation Fund and to establish future funding levels.

In addition, the Department of State provided vehicle codebooks and other miscellaneous services to MDOT that were charged to transportation funds. The charges for the codebooks and other services were based on costs or established fees.

Department of Management and Budget

The Department of Management and Budget (DMB) provided central support services and Michigan Administration Information Network (MAIN) support services. Support

services included financial management, real estate, mail and delivery, purchasing, State employer services, budgetary services, and MAIN development. DMB used the most recent Statewide Cost Allocation Plan (SWCAP) to allocate estimated costs for support services to the transportation funds.

DMB also provided building occupancy services for all buildings occupied by MDOT personnel. Building occupancy costs are allocated through SWCAP based on estimated costs per square foot.

In addition, DMB provided services from internal service funds. These included printing, reproduction, mailing, and other services from the Office Services Revolving Fund; vehicle and travel services from the Motor Transport Fund; and centralized risk management functions from the Risk Management Fund. DMB charges were based on costs or established fees for these services.

Further, DMB provided other services, including project supervision, parking, and facility management. DMB charges were based on costs or established fees for these services.

Department of Treasury

The Department of Treasury provided collection and auditing of motor and aviation fuel taxes for the administration and enforcement of the Motor Fuel Tax Act. The Department of Treasury allocated the Motor Fuel Tax Act administration and enforcement costs to the Michigan Transportation Fund and the State Aeronautics Fund by applying the percentage of transportation-related tax collections divided by total tax collections to the total costs for administration and enforcement activities for all taxes.

The Department of Treasury also provided investment services. Investment services were allocated based on the percentage of transportation funds' investment balances to total investment balances applied to the cost of investing activities.

In addition, the Department of Treasury charged actual costs for information technology services, which related to the motor fuel diesel simplification project. Further, the Department of Treasury charged expenditures for miscellaneous fees.

Michigan Department of State Police

The Motor Carrier Division, Michigan Department of State Police (MSP), conducted safety inspections and enforcement activities for commercial vehicles.

MSP used its Officer Daily Automated System to identify the percentage of Motor Carrier Division officers' time spent on safety inspections and enforcement activities. These percentages were applied to payroll and indirect costs to determine chargeable expenditures for time spent on safety inspections and enforcement activities. These expenditures were then allocated to the three allowable funding sources for these activities: transportation related funding (through MSP's interdepartmental contract with MDOT), motor carrier fees, and a federal grant. We determined that MSP's expenditures for safety inspections and enforcement activities were appropriate charges to transportation-related funding.

MSP allocated a percentage of its costs for maintaining the traffic accident records database within the Criminal Justice Information Center to the State Trunkline Fund. MSP also allocated a portion of its costs for human resources and information technology services to the State Trunkline Fund. MSP charges for the Criminal Justice Information Center, human resources, and information technology services were allocated based upon appropriations and cost allocation methodologies that had not been updated to reflect current costs or the level of services currently being provided.

MSP also charged expenditures for fuel, construction zone work patrols, and training based on costs or established fees.

Michigan Economic Development Corporation

The Michigan Economic Development Corporation provided staffing, equipment, supplies, vendor services, utilities, and ground maintenance materials for the State welcome center operations. The Michigan Economic Development Corporation's charges were based on costs or established fees for these services.

Department of Civil Service

The Department of Civil Service (DCS) provided assistance and support for classified State employees. DCS allocated these costs based on the constitutionally required 1% of the aggregate payroll of the preceding year associated with the transportation funds.

DCS also charged user fees for its Human Resources Service Center, which is the central information source for personnel/human resource questions or transaction processing. User fees were allocated to departments based on anticipated departmental human resource savings.

In addition, DCS charged expenditures for training based on costs or established fees.

Department of Attorney General

The Department of Attorney General provided legal consultation, representation, and other services. These costs were allocated based on an annual time study of legal work performed.

Also, the Department of Attorney General charged and was reimbursed for travel costs.

Department of Environmental Quality

The Department of Environmental Quality provided permits and permit reviews, and coordinated environmental reviews and informal resolution of enforcement issues for transportation projects. These charges were allocated based on a time-and-effort system to allocate payroll costs related to transportation projects.

In addition, the Department of Environmental Quality provided various services to MDOT that were charged to transportation funds, including the testing of water samples, permits, and training. The charges for these services were based on costs or established fees.

Office of the Auditor General

The Office of the Auditor General conducted audits of transportation programs and funds. The Office of the Auditor General allocated charges based on a time-and-effort reporting system that identified the actual hours spent on transportation audits, adjusted for costs carried forward from the prior year.

Department of History, Arts and Libraries and Mackinac Island State Park Commission

The Department of History, Arts and Libraries (HAL) provided storage and retrieval of inactive records at the State Records Center. HAL used the most recent SWCAP to allocate estimated Records Center costs to the transportation funds.

In addition, HAL and the Mackinac Island State Park Commission (MISPC) managed various projects, including Moccasins to Main Street, Walker Tavern, transportation inventory, the Mackinac Island airport maintenance building, and the Mackinac Island airport. HAL and MISPC also provided services related to Mackinac Island maintenance, the Michigan History magazine, and records storage. HAL and MISPC charges were based on costs or established fees for these projects and services.

Department of Natural Resources

The Department of Natural Resources charged expenditures for land and land grants, aircraft usage, and conference center rental based on costs or established fees.

Department of Corrections

The Department of Corrections charged expenditures for roadside cleanup and for purchases from the Correctional Industries Revolving Fund based on costs or established fees.

Department of Labor and Economic Growth

The Department of Labor and Economic Growth charged expenditures for permits, licenses, inspections, plan reviews, and hearing transcripts based on costs or established fees.

Judiciary

The Judiciary charged expenditures for filing appeals to courts based on costs or established fees.

Department of Agriculture

The Department of Agriculture charged expenditures for licenses based on costs or established fees.

Department of Military and Veterans Affairs

The Department of Military and Veterans Affairs charged expenditures for training based on costs or established fees.

Legislative Service Bureau

The Legislative Service Bureau charged expenditures for copies based on costs or established fees.

GLOSSARY

Glossary of Acronyms and Terms

CJIC	Criminal Justice Information Center.
DCS	Department of Civil Service.
DIT	Department of Information Technology.
DMB	Department of Management and Budget.
HAL	Department of History, Arts and Libraries.
MDOT	Michigan Department of Transportation.
Michigan Administrative Information Network (MAIN)	The State's fully integrated automated administrative management system that supports the accounting, payroll, purchasing, contracting, budgeting, personnel, and revenue management activities and requirements. MAIN consists of four major components: MAIN Enterprise Information System (EIS); MAIN Financial Administration and Control System (FACS); MAIN Human Resource System (HRS); and MAIN Management Information Database (MIDB).
MISPC	Mackinac Island State Park Commission.
MSP	Michigan Department of State Police.
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 that, in the auditor's judgment, represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.

SAF State Aeronautics Fund.

Statewide Cost Allocation Plan (SWCAP) The official cost allocation methodology accepted by federal grantor agencies for the State's negotiated indirect cost rate.

