



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT

PERFORMANCE AUDIT
OF THE

USE OF TRANSPORTATION-RELATED FUNDING

October 2014



Doug A. Ringler, C.P.A., C.I.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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Performance Audit

Use of Transportation-Related Funding

Report Number:
591-0105-14

Released:
October 2014

Act 200, P.A. 2012, and Act 63, P.A. 2011, require State agencies that are appropriated funding from transportation funds for providing tax and fee collection and other services to contract with the Michigan Department of Transportation (MDOT). The Acts also require these agencies to annually report to MDOT the amount of funding contracted with MDOT, funds expended, funds returned, and unreimbursed costs incurred but not billed to the transportation funds. In addition, the Acts require the Office of the Auditor General to report on the use of transportation-related funding.

Audit Objective			Audit Conclusion
Objective 1: To determine the appropriateness of selected State agencies' charges to transportation funds.			Appropriate
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
Our audit report does not include any findings related to this audit objective.	Not applicable	Not applicable	Not applicable

Audit Objective			Audit Conclusion
Objective 2: To determine compliance with selected State agencies' contractual and reporting requirements for transportation-related funding.			Complied
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
Our audit report does not include any findings related to this audit objective.	Not applicable	Not applicable	Not applicable

Audit Objective		Audit Conclusion	
Objective 3: To report agencies' charges to transportation funds, agencies' unreimbursed costs, and agencies' cost allocation methodologies used in determining the level of funding.		Reported	
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
Our audit report does not include any findings related to this audit objective.	Not applicable	Not applicable	Not applicable

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>

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

Doug A. Ringler, C.P.A., C.I.A.
Auditor General

Laura J. Hirst, C.P.A.
Deputy Auditor General



OAG

Office of the Auditor General

201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • <http://audgen.michigan.gov>

Doug A. Ringler, C.P.A., C.I.A.
Auditor General

October 9, 2014

The Honorable Roger Kahn, Chair
Senate Appropriations Committee
Michigan Senate
and
The Honorable Joseph Haveman, Chair
House Appropriations Committee
Michigan House of Representatives
State Capitol
Lansing, Michigan

Dear Senator Kahn and Representative Haveman:

This is our report on the performance audit of the Use of Transportation-Related Funding for the period October 1, 2011 through September 30, 2013, as required by Article XVII Part 2, Section 306 of both Act 200, P.A. 2012, and Act 63, P.A. 2011.

This report contains our report summary; a description of funding requirements; our audit objectives, scope, and methodology and prior audit follow-up; comments; detailed reviews by selected State agency and summaries of charges to transportation funds, unreimbursed costs, and types of services provided and cost allocation methodologies; and a glossary of abbreviations and terms.

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

Sincerely,

Doug Ringler
Auditor General

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Description of Funding Requirements

Act 200, P.A. 2012, and Act 63, P.A. 2011 (the annual appropriations acts for the Michigan Department of Transportation [MDOT] for fiscal years 2012-13 and 2011-12, respectively) require State agencies that are appropriated funding from transportation funds for providing tax and fee collection and other services 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 methodologies that are appropriate to the types of services being provided and the activities financed with transportation funds. MDOT's annual appropriations act also requires these agencies to annually report to MDOT the amount of funding contracted with MDOT, funds expended, funds returned, and unreimbursed costs incurred but not billed to the transportation funds.

In addition, MDOT's annual appropriations act requires the Office of the Auditor General to conduct a biennial audit of charges to transportation funds by State departments and to prepare a report with recommendations and conclusions.

The Legislature appropriated transportation-related funding of \$46.3 million and \$51.7 million for fiscal years 2012-13 and 2011-12, respectively, with interdepartmental grants to the following eight State agencies: the Department of Technology, Management, and Budget; the Department of State; the Michigan Department of State Police; the Civil Service Commission; the Department of Treasury; the Department of Attorney General; the Department of Environmental Quality; and the Office of the Auditor General.

The Legislature also appropriated \$30.1 million and \$28.3 million for fiscal years 2012-13 and 2011-12 for information technology services and projects.

MDOT funded contractual and miscellaneous transportation-related charges of \$88.6 million and \$92.4 million for fiscal years 2012-13 and 2011-12, respectively (see Exhibits 5 and 6).

Audit Objectives, Scope, and Methodology 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 agencies' charges to transportation funds, agencies' unreimbursed costs, and agencies' cost allocation methodologies used in determining the level of funding.

Audit Scope

Our audit was required by Article XVII, Part 2, Section 306 of both Act 200, P.A. 2012, and Act 63, P.A. 2011. Our audit scope was to examine the records supporting transportation-related charges to transportation funds. We identified transportation funds as those funds classified under Special Revenue Funds - Transportation Related and Capital Projects Funds that are considered transportation related in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*. Transportation funds include the State Aeronautics Fund, State Trunkline Fund (although the Blue Water Bridge Fund and the Economic Development Fund are subfunds of the State Trunkline Fund, we present transportation related charges to these two subfunds separately within this report), Michigan Transportation Fund, Comprehensive Transportation Fund, Combined State Trunkline Bond Proceeds Fund, Combined Comprehensive Transportation Bond Proceeds Fund, and Transportation Related Trust Funds. Our audit report includes all contractual and miscellaneous charges from State departments and agencies to these transportation funds. We conducted this performance audit in accordance with generally accepted government auditing standards except that we were not independent in regard to the Office of the Auditor General. Those standards

* See glossary at end of report for definition.

require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives. Our audit procedures, which included audit fieldwork, report preparation, and quality assurance, generally covered the period October 1, 2011 through September 30, 2013.

As part of our audit, we compiled and reported exhibits of State agencies' use of transportation-related funding based on information provided by the Michigan Administrative Information Network* (MAIN), the State agencies, and the Michigan Department of Transportation (MDOT).

Audit Methodology

Based on a risk analysis, we selected four State agencies (the Department of Technology, Management, and Budget; Department of State; Michigan Department of State Police; and Civil Service Commission) to review.

To accomplish our first objective, we:

- Reviewed the four selected State agencies' charges for transportation-related expenditures.
- Examined the selected State agencies' processes for allocating transportation-related costs to transportation funds.

To accomplish our second objective, we:

- Reviewed the four selected State agencies' contracts and annual reports to verify whether they included all information required by Article XVII, Part 2, Sections 306(1) and 306(2) of both Act 200, P.A. 2012, and Act 63, P.A. 2011.

To accomplish our third objective, we:

- Obtained and reviewed financial data and other information from State agency reports, annual contracts, appropriations acts, MDOT expenditure summaries, and MAIN accounting records.

* See glossary at end of report for definition.

- Reported the transportation-related costs and unreimbursed costs of State agencies by transportation fund (see Exhibits 5 through 7).
- Reported the types of services provided and the cost allocation methodologies of each State agency (see Exhibit 8).

We based our audit conclusions on our audit efforts as described in the preceding paragraphs.

Prior Audit Follow-Up

We released our prior performance audit of the Use of Transportation-Related Funding (591-0105-12) in December 2012. The Department of Treasury and MDOT complied with both of the prior audit recommendations.

COMMENTS

CHARGES TO TRANSPORTATION FUNDS

COMMENT

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

Audit Conclusion: We concluded that the charges to transportation funds for the selected State agencies were appropriate.

Factors leading to this conclusion included:

- Our review of supporting documentation for the amounts shown on the selected State agency spending reports did not disclose any significant errors.
- Our review did not identify errors in the selected State agency cost allocation plans.
- The Michigan Department of Transportation's (MDOT's) internal reconciliation and review processes help ensure that State agency charges to transportation funds are appropriate.
- Our audit report does not include any findings related to this audit objective.

Detailed Reviews by Selected State Agency (Exhibits 1 through 4)

We compiled Exhibits 1 through 4 from information contained in the Michigan Administrative Information Network (MAIN), State agencies' records, and MDOT's records related to State agencies' use of transportation-related funding for the fiscal years ended September 30, 2013 and September 30, 2012. Each detailed review by selected State agency includes the following information:

- **Interdepartmental Contract Charges:** This section represents State agencies' expenditures and encumbrances charged to transportation funds for services contracted between MDOT and State agencies and appropriated in Article XVII, Part 1, Sections 103 and 106 of both Act 200, P.A. 2012, and Act 63, P.A. 2011. In addition, this section includes State agencies' revenue transactions to fund the Civil Service Commission for transportation-funded employees.
- **Miscellaneous Charges:** This section represents the transportation-related expenditures charged to transportation funds that were not specifically appropriated to State agencies in Act 200, P.A. 2012, and Act 63, P.A. 2011.
- **Unreimbursed Costs:** This section includes underreimbursed transportation-related costs, which are costs that were incurred by a State agency but were not reimbursed by transportation revenue.

Department of Technology, Management, and Budget
Fiscal Years Ended September 30

	2013	2012
CHARGES TO TRANSPORTATION FUNDS		
<u>Interdepartmental Contract Charges</u>		
State Trunkline Fund		
Information technology services and projects	\$ 29,147,500	\$ 27,912,364
Central support services	1,372,600	1,228,900
MAIN user charges	918,700	753,400
State Aeronautics Fund		
Information technology services and projects	85,548	154,686
Central support services	37,700	35,700
MAIN user charges	25,300	21,800
Comprehensive Transportation Fund		
Information technology services and projects	145,583	199,919
Central support services	42,700	39,400
MAIN user charges	28,600	23,800
Blue Water Bridge Fund		
Information technology services and projects	82,033	49,800
Central support services	10,600	20,900
MAIN user charges	2,600	13,200
Economic Development Fund		
Information technology services and projects	6,567	37,200
Total interdepartmental contract charges	\$ 31,906,031	\$ 30,491,070
<u>Miscellaneous Charges</u>		
State Trunkline Fund		
Information technology services and projects	\$ 5,336,373	\$ 5,960,281
Building occupancy charges	5,737,544	5,581,625
Motor Transport Fund	1,380,835	1,240,207
Office Services Revolving Fund	397,453	456,710
Risk Management Fund	507,985	573,903
Other fees and services	291,698	227,756
State Aeronautics Fund		
Information technology services and projects	21,947	25,260
Motor Transport Fund	39,099	37,920
Office Services Revolving Fund	45,085	42,504
Risk Management Fund	30,408	32,038
Comprehensive Transportation Fund		
Information technology services and projects	78,914	22,941
Motor Transport Fund	55,433	29,696
Office Services Revolving Fund	14,306	10,275
Risk Management Fund	524	1,027
Other fees and services	8,520	1,224

This exhibit continued on next page.

Department of Technology, Management, and Budget
Fiscal Years Ended September 30
Continued

	<u>2013</u>	<u>2012</u>
Blue Water Bridge Fund		
Information technology services and projects	\$ 172,647	\$ 133,473
Risk Management Fund	3,870	5,617
Economic Development Fund		
Information technology services and projects	5,139	3,388
Total miscellaneous charges	<u>\$ 14,127,780</u>	<u>\$ 14,385,844</u>
TOTAL CHARGES	<u>\$ 46,033,811</u>	<u>\$ 44,876,913</u>
UNREIMBURSED COSTS		
State Trunkline Fund		
Building occupancy charges*	\$ (1,462,172)	\$ (2,155,093)
Central support services	(179,811)	(372,406)
MAIN user charges	(367,754)	(280,741)
State Aeronautics Fund		
Central support services		(1,155)
MAIN user charges	(2,794)	(2,001)
Comprehensive Transportation Fund		
Central support services	(7,425)	(15,458)
MAIN user charges	(12,936)	(11,628)
Blue Water Bridge Fund		
Central support services	(11,464)	(832)
MAIN user charges	(15,684)	(836)
Combined State Trunkline Bond Proceeds Fund		
Central support services	(9,694)	(9,936)
MAIN user charges	(8,034)	(6,416)
Combined Comprehensive Transportation Bond Proceeds Fund		
Central support services	(8)	(115)
MAIN user charges	(7)	(75)
Transportation Related Trust Funds		
Central support services	(1,066)	(880)
MAIN user charges	<u>(883)</u>	<u>(569)</u>
TOTAL UNREIMBURSED COSTS	<u>\$ (2,079,732)</u>	<u>\$ (2,858,141)</u>

* Unreimbursed costs for building occupancy charges are the difference between federally allowable expenditures and budgetary allowable expenditures.

Appropriateness of the Department of Technology, Management, and Budget's Charges

- **Interdepartmental Contract Charges**

The Legislature appropriated information technology (IT) services from transportation funds of \$30.1 million and \$29.2 million for fiscal years 2012-13 and 2011-12, respectively, to the Department of Technology, Management, and Budget (DTMB). DTMB incurred and encumbered transportation-related costs for administering and implementing IT services of \$29.5 million and \$28.4 million in fiscal years 2012-13 and 2011-12, respectively.

DTMB charged MDOT for various costs associated with the delivery of IT services using the cost allocation methodologies described below:

- Center for Shared Solutions (leadership, technical expertise, and policy) costs are allocated based on actual payroll hours at a specified rate for work performed during the invoice period. Charges for core infrastructure are based on a tiered percentage of DTMB-900 IT expenditures.
- Data center services (mainframe operations, centralized servers, data warehouses and exchange gateways, and disaster recovery) costs are allocated based on actual costs for specific functions or usage of service at a specified rate.
- Direct agency charges, such as IT equipment, software licenses and maintenance, and contractual services, are based on actual vendor invoice costs.
- DTMB-900 fee costs (standards, policy development, and strategic planning) are based on 0.5% of prior year agency expenditures.
- Administrative services and contract management costs are based on 1.4% of prior year agency expenditures.
- Michigan Cyber Security (computer security management) costs are based on actual payroll costs based on a time-and-effort reporting system and a share of agency specific security staff costs.

- Customer Services (maintaining the business relationships between DTMB and its agency customers) costs are actual payroll costs based on a time-and-effort reporting system.
- Michigan Business One Stop System (an on-line system that assists individuals who want to start, operate, or expand a business in Michigan) costs are a specified amount based on the volume of transactions, including business licenses, permits, registrations, and filings where fees are associated with the filing activity.
- Michigan Public Safety Communications System (Statewide radio communication for public safety) costs are actual payroll costs based on a time-and-effort reporting system.
- Michigan.gov (Internet and infrastructure services) costs are allocated based on a weighted blend of content count and number of page views.
- Office Automation (support desktop computing environment and other equipment) costs are charged to agencies on a per workstation basis at a monthly rate.
- Technical Services (servers and server support) costs are primarily based on usage of service at a specified rate.
- Telecommunications (voice and data services) costs are based on usage of service at a specified rate.

The Legislature also appropriated interdepartmental grants from transportation funds of \$1.5 million and \$1.5 million for central support services to DTMB for fiscal years 2012-13 and 2011-12, respectively. In addition to the appropriated interdepartmental grant amounts, the annual contract between DTMB and MDOT included \$1.0 million and \$0.9 million for Michigan Administrative Information Network (MAIN) user charges, which are appropriated Statewide, for fiscal years 2012-13 and 2011-12, respectively. DTMB incurred transportation-related costs of \$2.4 million and \$2.1 million for fiscal years 2012-13 and 2011-12, respectively, for central support services and MAIN user

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

We determined that DTMB costs for IT services, central support services, and MAIN user charges were appropriate charges to transportation funds.

- **Miscellaneous Charges**

DTMB charged \$5.6 million and \$6.1 million in fiscal years 2012-13 and 2011-12, respectively, for additional IT projects, services, and equipment that DTMB provided that were not included in the general operating services in the interdepartmental grant. These costs were charged using the same methodologies as the interdepartmental contract charges.

DTMB charged building occupancy costs of \$5.7 million and \$5.6 million for fiscal years 2012-13 and 2011-12, respectively, to the State Trunkline Fund for all buildings occupied by MDOT personnel. Building occupancy costs are allocated through SWCAP based on estimated costs per square foot.

DTMB charged actual costs of \$2.5 million and \$2.4 million to the transportation funds for services provided by internal service funds for fiscal years 2012-13 and 2011-12, respectively. The Motor Transport Fund provides vehicle and travel services. The Office Services Revolving Fund provides services such as printing, reproduction, mailing, microfilm, distribution of surplus property, and materials management. The Risk Management Fund accounts for certain centralized risk management functions. DTMB charged actual expenditures of \$300,218 and \$228,980 for other fees and services, including project supervision, parking, and facility management, for fiscal years 2012-13 and 2011-12, respectively.

We determined that DTMB's costs for additional IT projects, services, and equipment; building occupancy services; and services provided by internal service funds charged to transportation funds were for appropriate charges.

* See glossary at end of report for definition.

- **Unreimbursed Costs**

DTMB did not report any unreimbursed costs related to IT services for fiscal years 2012-13 and 2011-12. A comparison of actual SWCAP costs to amounts charged to transportation funds disclosed net underreimbursed costs for DTMB central support services, MAIN user charges, and building occupancy charges of \$2.1 million and \$2.9 million, respectively, for fiscal years 2012-13 and 2011-12.

Department of State
Fiscal Years Ended September 30

	2013	2012
CHARGES TO TRANSPORTATION FUNDS		
<u>Interdepartmental Contract Charges</u>		
Michigan Transportation Fund		
Collection of transportation taxes and fees	\$ 20,000,000	\$ 20,000,000
Total interdepartmental contract charges	\$ 20,000,000	\$ 20,000,000
<u>Miscellaneous Charges</u>		
State Trunkline Fund		
Title and application fees	\$ 61	\$ 83
Airfare fees	271	
Total miscellaneous charges	\$ 332	\$ 83
TOTAL CHARGES	\$ 20,000,332	\$ 20,000,083
UNREIMBURSED COSTS		
Collection of transportation taxes and fees	\$ (3,694,392)	\$ (6,608,581)
TOTAL UNREIMBURSED COSTS	\$ (3,694,392)	\$ (6,608,581)

Appropriateness of the Department of State's Charges

- **Interdepartmental Contract Charges**

The Legislature appropriated interdepartmental grants from the Michigan Transportation Fund (MTF) of \$20.0 million annually to the Department of State for fiscal years 2012-13 and 2011-12. The Department charged transportation-related costs to MTF of \$20.0 million for each of fiscal years 2012-13 and 2011-12 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*). Section 247.660(1) of the *Michigan Compiled Laws* limits total appropriations to the Department, relating to its interdepartmental contract with MDOT, to \$20.0 million per fiscal year.

The Department has two sources of funding for transportation-related costs: its interdepartmental contract with MDOT, which is funded from MTF, and transportation fees collected in the Transportation Administration Collection Fund (TACF). The transportation fees in TACF are collected under Section 257.810b of the *Michigan Compiled Laws* and, upon appropriation, are to be spent to pay the necessary expenses incurred by the Department in the administration and enforcement of collecting transportation taxes and fees. In addition, Department revenue from look-up and list fees collected in TACF can be used to pay the necessary expenses incurred by the Department in the administration and enforcement of collecting transportation taxes and fees.

The Department 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 MTF and to establish future funding levels.

We determined that the Department's costs charged to MTF for administering and enforcing the collection of transportation taxes and fees for fiscal years 2012-13 and 2011-12 were for appropriate charges.

- **Miscellaneous Charges**

Miscellaneous charges included fees for vehicle titles and notary applications. We determined that the miscellaneous charges were appropriate.

- **Unreimbursed Costs**

The Department's cost allocation review disclosed unreimbursed costs of \$3.7 million and \$6.6 million for administering and enforcing the collection of transportation taxes and fees for fiscal years 2012-13 and 2011-12, respectively. Unreimbursed costs are transportation-related costs that exceed the combined transportation revenue from MTF and the transportation fees from TACF.

Michigan Department of State Police
Fiscal Years Ended September 30

	2013	2012
CHARGES TO TRANSPORTATION FUNDS		
<u>Interdepartmental Contract Charges</u>		
State Trunkline Fund		
Commercial Vehicle Enforcement Division - Inspections and enforcement	\$ 8,725,179	\$ 8,928,567
Training Division - Traffic services	408,045	431,574
Criminal Justice Information Center - Traffic accident database	424,506	425,092
Support services	600	600
Information technology services and projects	191,890	111,137
Total interdepartmental contract charges	\$ 9,750,220	\$ 9,896,970
<u>Miscellaneous Charges</u>		
State Trunkline Fund		
Construction work zone patrols	\$ 90,019	\$ 79,551
Training	9,390	6,655
Aerial surveys	2,243	7,660
Fleet leasing	6,813	4,636
State Aeronautics Fund		
Aviation fuel and rental	194,505	140,672
Total miscellaneous charges	\$ 302,970	\$ 239,174
TOTAL CHARGES	\$10,053,190	\$10,136,144
 UNREIMBURSED COSTS		
TOTAL UNREIMBURSED COSTS	\$ 0	\$ 0

Appropriateness of the Michigan Department of State Police's Charges

- **Interdepartmental Contract Charges**

The Legislature appropriated interdepartmental grants from the State Trunkline Fund of \$11.2 million and \$10.6 million to the Michigan Department of State Police (MSP) for fiscal years 2012-13 and 2011-12, respectively. MSP charged transportation-related costs of \$9.8 million and \$9.9 million in fiscal years 2012-13 and 2011-12, respectively, primarily for safety inspections and enforcement activities for commercial vehicles by the Commercial Vehicle Enforcement Division.

MSP used its Automated Officer Daily System to allocate costs for commercial vehicle enforcement and to identify the percentage of motor carrier 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 for commercial vehicles. 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.

MSP allocated costs for traffic services activities by the Training Division as a percentage of staff funded by the State Trunkline Fund.

MSP allocated personnel and operating costs for the Criminal Justice Information Center to three primary user departments, including MDOT, based on each department's usage of traffic accident records data and proportionally shared costs for administrative functions.

MSP allocated DTMB direct agency charges in the same percentage as enforcement activities in the Commercial Vehicle Enforcement Division.

MSP allocated the support services expenditures for telecommunication services using the DTMB rate for full-time equated positions.

We determined that MSP's expenditures for safety inspections, enforcement activities, traffic services, the Criminal Justice Information Center, IT services, and support services were appropriate charges to transportation-related funding.

- **Miscellaneous Charges**

MSP charged expenditures of \$0.3 million and \$0.2 million based on costs or established fees for fiscal years 2012-13 and 2011-12, respectively, for miscellaneous charges for construction work zone patrols, training, aerial surveys, fleet leasing, and aviation fuel and rental. We determined that the miscellaneous charges were appropriate.

- **Unreimbursed Costs**

MSP did not report any unreimbursed costs for fiscal years 2012-13 and 2011-12.

Civil Service Commission
Fiscal Years Ended September 30

	2013	2012
CHARGES TO TRANSPORTATION FUNDS		
<u>Interdepartmental Contract Charges</u>		
State Trunkline Fund		
Civil service, collection, enforcement, and other	\$ 4,605,221	\$ 4,059,603
State Aeronautics Fund		
Civil service, collection, enforcement, and other	103,271	90,147
Comprehensive Transportation Fund		
Civil service, collection, enforcement, and other	153,216	131,972
Blue Water Bridge Fund		
Civil service, collection, enforcement, and other	73,236	67,866
Total interdepartmental contract charges	\$ 4,934,944	\$ 4,349,588
<u>Miscellaneous Charges</u>		
State Trunkline Fund		
Applicable salaries and wages	\$ 78,513	\$ 29,037
Flexible spending administration	7,470	25,738
Total miscellaneous charges	\$ 85,983	\$ 54,775
TOTAL CHARGES	\$ 5,020,927	\$ 4,404,363
UNREIMBURSED COSTS		
TOTAL UNREIMBURSED COSTS	\$ 0	\$ 0

Appropriateness of the Civil Service Commission's Charges

- **Interdepartmental Contract Charges**

The Legislature appropriated interdepartmental grants from transportation funds of \$6.0 million to the Civil Service Commission for fiscal years 2012-13 and 2011-12, respectively. The Commission charged transportation-related costs of \$4.9 million and \$4.3 million in fiscal years 2012-13 and 2011-12, respectively, primarily for Commission operations.

The Commission assesses 1.75% of the prior year's payroll to each State agency for its operations. If actual costs are lower for the year, the Commission refunds the difference to each agency.

- **Miscellaneous Charges**

The Commission charged expenditures of \$85,983 and \$54,775 based on costs or established fees for fiscal years 2012-13 and 2011-12, respectively, for miscellaneous charges for applicable salaries and wages and administrative costs for flexible spending accounts. We determined that the miscellaneous charges were appropriate.

- **Unreimbursed Costs**

The Commission did not report any unreimbursed costs for fiscal years 2012-13 and 2011-12.

CONTRACTUAL AND REPORTING REQUIREMENTS

COMMENT

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 complied with contractual and reporting requirements for transportation-related funding.

Factors leading to this conclusion include:

- Our review of the selected State agency memorandums of understanding with MDOT did not identify any significant noncompliance with contractual and/or reporting requirements.
- Our audit report does not include any findings related to this audit objective.

TRANSPORTATION FUND CHARGES, UNREIMBURSED COSTS, AND COST ALLOCATION METHODOLOGIES

COMMENT

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

Audit Conclusion: We reported the agencies' charges to transportation funds, agencies' unreimbursed costs, and agencies' cost allocation methodologies used in determining the level of funding in Exhibits 5 through 8.

Factor leading to this conclusion:

- Our audit report does not include any findings related to this audit objective.

Summaries of Charges to Transportation Funds, Unreimbursed Costs, and Types of Services Provided and Cost Allocation Methodologies (Exhibits 5 through 8)

We compiled Exhibits 5 through 8 from information contained in the Michigan Administrative Information Network (MAIN), State agencies' records, and MDOT's records related to State agencies' use of transportation-related funding for the fiscal years ended September 30, 2013 and September 30, 2012:

- Summary of State Agencies' Use of Transportation-Related Funding - These exhibits summarize total transportation-related charges by State agency and by transportation fund (Exhibits 5 and 6).
- Summary of Unreimbursed Transportation-Related Costs by State Agency - This exhibit summarizes underreimbursed transportation-related costs (Exhibit 7).
- Summary of Types of Services Provided and Cost Allocation Methodologies - This exhibit 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 (Exhibit 8).

Summary of State Agencies' Use of Transportation-Related Funding
Fiscal Year Ended September 30, 2013

Receiving State Agency	Charges Paid by Fund				
	State Trunkline	Michigan Transportation	State Aeronautics	Comprehensive Transportation	Blue Water Bridge
Department of Technology, Management, and Budget	\$ 45,090,688	\$	\$ 285,087	\$ 374,580	\$ 271,750
Department of State	332	20,000,000			
Michigan Department of State Police	9,858,685		194,505		
Civil Service Commission	4,691,204		103,271	153,216	73,236
Department of Treasury	124,490	2,502,000	16,331	5,500	9,000
Department of Attorney General	1,777,127		114,651	53,939	
Department of Environmental Quality	122,339	1,180,981			
Office of the Auditor General	368,272	139,618	44,720	21,563	
Department of Corrections	391,427		2,800		
Department of Natural Resources	34,862		61		
Executive Office	198,727				
Mackinac Island State Park Commission *	32,014		35,000		
Department of Licensing and Regulatory Affairs	46,076		180		2,859
Department of Military and Veterans Affairs			24,896		
Michigan Department of Education	17,331				
Judiciary	1,425				
Michigan Department of Agriculture and Rural Development	1,200				
Michigan Economic Development Corporation	218				
Total for State Agencies	<u>\$ 62,756,417</u>	<u>\$ 23,822,599</u>	<u>\$ 821,502</u>	<u>\$ 608,798</u>	<u>\$ 356,845</u>

* The authority, powers, duties, functions, and responsibilities of the Mackinac Island State Park Commission are administered within the Department of Natural Resources. The Commission is presented in the *State of Michigan Comprehensive Annual Financial Report* separately as a component unit; therefore, we reported the Commission as a separate agency for the purposes of our report.

Combined State Trunkline Bond Proceeds	Combined Comprehensive Transportation Bond Proceeds	Economic Development	Transportation Related Trust	State Agency Total
\$	\$	\$ 11,706	\$	\$ 46,033,811
				20,000,332
				10,053,190
				5,020,927
18,800	15,700			2,691,821
				1,945,717
				1,303,320
				574,173
				394,227
			191,318	226,241
				198,727
				67,014
	250			49,365
				24,896
				17,331
				1,425
				1,200
				218
<u>\$ 18,800</u>	<u>\$ 15,950</u>	<u>\$ 11,706</u>	<u>\$ 191,318</u>	<u>\$ 88,603,935</u>

Summary of State Agencies' Use of Transportation-Related Funding
Fiscal Year Ended September 30, 2012

Receiving State Agency	Charges Paid by Fund				
	State Trunkline	Michigan Transportation	State Aeronautics	Comprehensive Transportation	Blue Water Bridge
Department of Technology, Management, and Budget	\$ 43,935,146	\$	\$ 349,908	\$ 328,282	\$ 222,989
Department of State	83	20,000,000			
Michigan Department of State Police	9,995,472		140,672		
Civil Service Commission	4,114,378		90,147	131,972	67,866
Department of Treasury	131,790	7,740,799	44,269	7,600	5,000
Department of Attorney General	1,774,833		116,838	10,133	
Department of Environmental Quality	146,471	1,165,900	21,577		
Office of the Auditor General	474,600	204,300	19,600	25,200	
Department of Corrections	319,400		2,800		536
Department of Natural Resources	1,910		58		
Executive Office				18,634	
Mackinac Island State Park Commission *	43,519		35,000		
Department of Licensing and Regulatory Affairs	46,427			380	1,070
Michigan Department of Education	15,010				
Judiciary	2,357				
Michigan Department of Agriculture and Rural Development	825				
Michigan Economic Development Corporation	273,751				
Legislative Service Bureau					
Total for State Agencies	\$ 61,275,972	\$ 29,110,999	\$ 820,869	\$ 522,201	\$ 297,461

* The authority, powers, duties, functions, and responsibilities of the Mackinac Island State Park Commission are administered within the Department of Natural Resources. The Commission is presented in the *State of Michigan Comprehensive Annual Financial Report* separately as a component unit; therefore, we reported the Commission as a separate agency for the purposes of our report.

Exhibit 6

Combined State Trunkline Bond Proceeds	Combined Comprehensive Transportation Bond Proceeds	Economic Development	Transportation Related Trust	State Agency Total
\$	\$	\$ 40,588	\$	\$ 44,876,913
				20,000,083
				10,136,144
				4,404,363
35,500	16,500			7,981,458
				1,901,804
				1,333,948
				723,700
				322,736
			266,669	268,637
				18,634
				78,519
				47,877
				15,010
				2,357
				825
				273,751
372				372
<u>\$ 35,872</u>	<u>\$ 16,500</u>	<u>\$ 40,588</u>	<u>\$ 266,669</u>	<u>\$ 92,387,131</u>

Summary of Unreimbursed Transportation-Related Costs by State Agency
Fiscal Years Ended September 30

Receiving State Agency	2013	2012
Department of Technology, Management, and Budget	\$(2,079,732)	\$(2,858,141)
Department of State	(3,694,392)	(6,608,581)
Total for State agencies	\$(5,774,124)	\$(9,466,722)

Summary of Types of Services Provided and Cost Allocation Methodologies
Fiscal Years Ended September 30, 2013 and September 30, 2012

Department of Technology, Management, and Budget (DTMB)

DTMB charged the Michigan Department of Transportation (MDOT) for costs associated with the delivery of information technology (IT) services, central support services, Michigan Administrative Information Network (MAIN) user charges, building occupancy services, and multiple services from internal service funds. The cost allocation methodologies used for each are described below.

DTMB provided various IT services. Center for Shared Solutions (leadership, technical expertise, and policy) costs are allocated based on actual payroll hours at a specified rate. Data center services (mainframe operations, centralized servers, data warehouses and exchange gateways, and disaster recovery) are allocated based on actual costs for specific functions or usage of service at a specified rate. Direct agency charges, such as IT equipment, software, licenses and maintenance, and contractual services, are based on actual vendor invoice costs. DTMB-900 fee costs (standards, policy development, and strategic planning) are based on 0.5% of prior year agency expenditures. Administrative services and contract management costs are based on 1.4% of prior year agency expenditures. Michigan Cyber Security (computer security management) costs are based on actual payroll costs based on a time-and-effort reporting system and a share of agency specific security staff costs. Customer Services (maintaining the business relationships between DTMB and its agency customers) costs are actual payroll costs based on a time-and-effort reporting system. Michigan Business One Stop System costs are a specified amount based on the volume of transactions, including business licenses, permits, registrations, and filings where fees are associated with the filing activity. Michigan Public Safety Communications System (Statewide radio communication for public safety) costs are actual payroll costs based on a time-and-effort reporting system. Michigan.gov (Internet and infrastructure services) costs are allocated based on a weighted blend of content count and number of page views. Office Automation (support desktop computing environment and other equipment) costs are charged to agencies on a per workstation basis at a monthly rate. Technical Services (servers and server support) costs are primarily based on usage of service at a specified rate. Telecommunications (voice and data services) costs are based on usage of service at a specified rate.

Also, DTMB provided central support services and billed State agencies for MAIN user charges. Central support services included financial management, real estate, mail and delivery, purchasing, State employer services, and budgetary services. DTMB used the most recent Statewide Cost Allocation Plan (SWCAP) to allocate estimated costs for central support services and MAIN user charges to the transportation funds.

In addition, DTMB 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.

Further, DTMB provided services from internal service funds. Charges for these services are based on costs. These services included vehicle and travel services from the Motor Transport Fund; printing, reproduction, mailing, microfilm, distribution of surplus property, and materials management from the Office Services Revolving Fund; and certain centralized risk management functions from the Risk Management Fund.

DTMB provided other services for which charges were based on actual expenditures, including project supervision, parking, and facility management.

Department of State

The Department of State charged transportation-related costs to the Michigan Transportation Fund (MTF) 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*). The Department 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 MTF and to establish future funding levels.

Also, the Department charged fees for vehicle titles and notary applications to transportation funds.

Michigan Department of State Police (MSP)

MSP's Commercial Vehicle Enforcement Division conducted safety inspections and enforcement activities for commercial vehicles. MSP used its Automated Officer Daily System to allocate costs for commercial vehicle enforcement and to identify the percentage

of motor carrier 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 for commercial vehicles. These expenditures were then allocated to the three allowable funding sources for these activities: transportation-related funding (through MSP's interdepartmental contract with the MDOT), motor carrier fees, and a federal grant.

MSP allocated costs for traffic services activities by the Training Division as a percentage of staff funded by the State Trunkline Fund.

Also, MSP allocated personnel and operating costs for Criminal Justice Information Center to three primary user departments, including MDOT, based on each department's usage of traffic accident records data and proportionally shared costs for administrative functions. MSP allocated DTMB direct agency charges in the same percentage as enforcement activities in the Commercial Vehicle Enforcement Division.

In addition, MSP allocated the support services expenditures for telecommunication services using the DTMB rate for full-time equated positions.

Further, MSP charged for miscellaneous expenditures related to construction work zone patrols, training, aerial surveys, fleet leasing, and aviation fuel and rental.

Civil Service Commission

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

Also, the Commission charged expenditures for applicable salaries and wages and administrative costs for flexible spending accounts based on costs or established fees.

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 to MTF and the Aeronautics Code of the State of Michigan to the State Aeronautics Fund. In fiscal year

2012-13, the Department allocated the administration and enforcement costs as a percentage of actual costs to collect each of the transportation-related taxes to total costs for administration and enforcement activities for all taxes. In fiscal year 2011-12, the Department allocated the administration and enforcement costs as a percentage of transportation-related tax revenue collections applied to total costs for administration and enforcement activities of all taxes.

Also, the Department provided investment services. Investment services were allocated based on the transportation funds' investment balances and the investing activities.

In addition, the Department charged actual costs for IT services related to maintenance of the motor fuel compliance system and services related to the processing of motor fuel tax returns. Further, the Department charged costs for miscellaneous fees.

Department of Attorney General

The Department of Attorney General provided legal consultation, representation, and other services. The salaries, insurance, retirement costs, and computer support charges of the attorneys assigned to the Transportation Division were allocated to the transportation funds based on an annual time study of legal work performed.

In addition, the Department of Attorney General charged and was reimbursed travel costs for the Transportation Division attorneys.

Department of Environmental Quality

The Department of Environmental Quality was reimbursed for the cost of fees and for services related to providing, expediting, and coordinating environmental permits for construction, maintenance, or improvement of a public transportation facility or public airport. Salaries and fringe benefits for program staff were allocated based on a time-and-effort system for direct activities and a proportionate share for administrative activities. Travel, supplies, equipment, and training for program staff assigned to transportation projects were allocated based on actual costs. Overhead costs for district offices, civil service charges, terminal leave costs, and IT charges were allocated based on the proportion of program staff assigned to transportation projects.

Also, the Department of Environmental Quality provided various services to MDOT that were charged to transportation funds, including water and environmental testing, issuance of permits, rental fees, dues, and MDOT employee training and examinations. 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.

Department of Corrections

The Department of Corrections was reimbursed for MDOT purchases from the Correctional Industries Revolving Fund based on costs or established fees.

Department of Natural Resources

The Department of Natural Resources was reimbursed for expenditures for trail construction costs, land sales and grants, timber sales, easement considerations, State park improvements, historical site improvements, continuing education classes, and miscellaneous historical site museum purchases based on costs or established fees.

Executive Office

The Executive Office was reimbursed for applicable salaries and wages expenditures based on established rates.

Mackinac Island State Park Commission

The Mackinac Island State Park Commission was reimbursed for expenditures to manage various transportation projects, maintain Mackinac Island roads, and operate the Mackinac Island airport.

Department of Licensing and Regulatory Affairs

The Department of Licensing and Regulatory Affairs was reimbursed for services provided to MDOT for permits, licenses, inspections, plan reviews, and administrative hearings based on costs or established fees.

Department of Military and Veterans Affairs

The Department of Military and Veterans Affairs was reimbursed for expenditures for utilities, trash removal, janitorial, and pest control payments for a leased hanger and office building based on costs or established fees.

Michigan Department of Education

The Michigan Department of Education was reimbursed for services provided to MDOT for subrecipient monitoring activities based on costs or established fees.

Judiciary

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

Michigan Department of Agriculture and Rural Development

The Michigan Department of Agriculture and Rural Development was reimbursed for expenditures for commercial pest applicator certifications based on costs or established fees.

Michigan Economic Development Corporation

The Michigan Economic Development Corporation was reimbursed for expenditures related to the Road Construction Apprenticeship Readiness Training Program based on costs or established fees.

Legislative Service Bureau

The Legislative Service Bureau was reimbursed for expenditures for copies of Act 51, P.A. 1951, based on costs or established fees.

GLOSSARY

Glossary of Abbreviations and Terms

DTMB	Department of Technology, Management, and Budget.
IT	information technology.
material condition	A matter that, in the auditor's judgment, is more severe than a reportable condition and could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.
MDOT	Michigan Department of Transportation.
Michigan Administrative Information Network (MAIN)	The State's automated administrative management system that supports accounting, purchasing, and other financial management activities.
MSP	Michigan Department of State Police.
MTF	Michigan Transportation Fund.
performance audit	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.

reportable condition

A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the audit objectives; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.

**Statewide Cost
Allocation Plan
(SWCAP)**

The official cost allocation methodology accepted by federal grantor agencies for the State's negotiated indirect cost rate.

TACF

Transportation Administration Collection Fund.

