

# Office of the Auditor General

## Performance Audit Report

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# Office of Passenger Transportation

## Michigan Department of Transportation

January 2016

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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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# OAG

Office of the Auditor General

## Report Summary

### *Performance Audit*

### *Office of Passenger Transportation*

### *Michigan Department of Transportation*

**Report Number:**  
**591-0180-15**

**Released:**  
**January 2016**

The Office of Passenger Transportation (OPT) administers the Michigan Department of Transportation's (MDOT's) passenger transportation programs, including local and intercity bus and for-hire passenger regulation. OPT distributes State operating grants to public transportation providers following the requirements of Sections 247.651 - 247.675 of the *Michigan Compiled Laws* (Act 51, P.A. 1951). In addition, OPT distributes federal grants and the associated State match to eligible transportation providers for other operating assistance and capital projects and regulates motor buses and limousines.

| Audit Objective   |                    |                      | Conclusion                  |
|---|--------------------|----------------------|-----------------------------|
| Objective #1: To assess the effectiveness of OPT's efforts to appropriately distribute grants to transportation providers.  |                    |                      | Effective                   |
| Findings Related to This Audit Objective  | Material Condition | Reportable Condition | Agency Preliminary Response |
| OPT should improve its documentation to support adjustments made to public transportation providers' audited expenses. OPT did not maintain sufficient documentation to support \$4.4 million in adjustments for 2 of 5 transportation providers ( <u>Finding #1</u> ). |                    | X                    | Agrees                      |

| Audit Objective  |                    |                      | Conclusion                  |
|--|--------------------|----------------------|-----------------------------|
| Objective #2: To assess the effectiveness of OPT's efforts to appropriately monitor grants to transportation providers.  |                    |                      | Effective                   |
| Findings Related to This Audit Objective   | Material Condition | Reportable Condition | Agency Preliminary Response |
| OPT did not always conduct and document timely follow-up of transportation providers' corrective actions related to OPT's findings. Eight (53%) of 15 compliance reviews and 6 (40%) of 15 maintenance reviews were not followed up in a timely manner. Corrective actions for the 8 compliance reviews ranged from 54 to 327 days late and for the 6 maintenance reviews from 118 to 314 days late ( <u>Finding #2</u> ). |                    | X                    | Agrees                      |

| <b>Findings Related to This Audit Objective<br/>(Continued)</b>   | <b>Material<br/>Condition</b> | <b>Reportable<br/>Condition</b> | <b>Agency<br/>Preliminary<br/>Response</b> |
|---|-------------------------------|---------------------------------|--|
| OPT did not document its periodic reviews of public transportation providers' cost allocation plans (CAPs) for a third of our sampled CAPs ( <u>Finding #3</u> ). |                               | X                               | Agrees                                     |

| <b>Audit Objective</b>   |                               |                                 | <b>Conclusion</b>                          |
|--|-------------------------------|---------------------------------|--|
| Objective #3: To assess the effectiveness of OPT's efforts to regulate motor bus and limousine carriers.   |                               |                                 | Effective                                  |
| <b>Findings Related to This Audit Objective</b>  | <b>Material<br/>Condition</b> | <b>Reportable<br/>Condition</b> | <b>Agency<br/>Preliminary<br/>Response</b> |
| OPT did not consistently enforce increased annual renewal fees for motor bus and limousine vehicles with late safety inspections. Increased fees were not assessed for 23% of sampled vehicles with late safety inspections ( <u>Finding #4</u> ). |                               | X                               | Agrees                                     |
| <b>Observations Related to This Audit Objective</b>  | <b>Material<br/>Condition</b> | <b>Reportable<br/>Condition</b> | <b>Agency<br/>Preliminary<br/>Response</b> |
| Regulation of transportation network companies (TNCs) is an emerging issue nationwide, and several bills regarding TNC regulation are currently pending in Michigan ( <u>Observation #1</u> ).   | 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: [www.audgen.michigan.gov](http://www.audgen.michigan.gov)

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# OAG

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**Doug A. Ringler, CPA, CIA**  
Auditor General

January 11, 2016

Mr. Todd Wyett, Chair  
State Transportation Commission  
and  
Kirk T. Steudle, PE, Director  
Michigan Department of Transportation  
Murray Van Wagoner Transportation Building  
Lansing, Michigan

Dear Mr. Wyett and Mr. Steudle:

I am pleased to provide this performance audit report on the Office of Passenger Transportation, Michigan Department of Transportation.

We organize our findings and observations by audit objective. Your agency provided preliminary responses to the recommendations at the end of our fieldwork. The *Michigan Compiled Laws* and administrative procedures require an audited agency to develop a plan to comply with the recommendations and submit it within 60 days of the date above to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

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

Sincerely,

A handwritten signature in black ink that reads "Doug Ringler". The signature is written in a cursive, flowing style.

Doug Ringler  
Auditor General



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# AUDIT OBJECTIVES, CONCLUSIONS, FINDINGS, AND OBSERVATIONS

# DISTRIBUTING GRANTS TO TRANSPORTATION PROVIDERS

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## BACKGROUND

The Office of Passenger Transportation (OPT) distributes federal and State assistance to over 135 public transportation providers and private nonprofit transportation providers. OPT calculates and distributes State operating grants for the 80 public transportation providers funded through the Comprehensive Transportation Fund (CTF) and determines eligibility and distributes federal grants to qualified transportation providers for other operating assistance and capital projects.

Each year, OPT calculates an initial State operating grant allocation that will be shared by the 80 public transportation providers based on each provider's total eligible budgeted expenses. OPT provides each provider its share through monthly distributions. After the close of each year, Public Act 51 of 1951 requires that providers obtain audits of their financial transactions and accounts related to the grant distributions. After the audits for all 80 providers are completed and submitted to OPT, OPT reviews the audits and calculates a final revised grant allocation for each provider based on the provider's total actual audited expense amounts. Because the 80 transportation providers share in the total State operating grant allocation, any change from the budgeted to actual audited expense amounts will have an impact on the final amount shared and distributed to each of the providers.

During fiscal year 2014, OPT distributed \$167 million in State operating grants to public transportation providers and \$62 million in other State and federal grants to eligible transportation providers.

## AUDIT OBJECTIVE

To assess the effectiveness\* of OPT's efforts to appropriately distribute grants to transportation providers.

## CONCLUSION

Effective.

## FACTORS IMPACTING CONCLUSION

- OPT's accurate calculation and appropriate distribution of initial State operating grants to all 80 public transportation providers during fiscal years 2013 and 2014. State operating grants accounted for 71% of OPT's grant activity during these fiscal years.

\* See glossary at end of report for definition.

- OPT's use of certified public accountant audited expense information to calculate the final distributions of State operating grants.
- OPT's timely distribution of grants for all 12 federal grant projects we reviewed.
- The favorable responses we received from over 90% of the respondents to our survey of transportation providers regarding the timeliness of OPT's grant application processing and the fairness of grant amounts that OPT distributed.
- Reportable condition\* related to OPT's documentation of adjustments to transportation providers' audited expense amounts that it used to calculate the final State operating grant distribution amounts for fiscal year 2012.

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

## **FINDING #1**

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**Improved documentation is needed for adjustments to audited expenses.**

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OPT should improve its documentation to support adjustments made to public transportation providers' audited expenses to help ensure the accuracy of State operating grant distributions.

Public Act 51 of 1951 and the Department of Treasury and Michigan Department of Transportation's (MDOT's) Audit Guide for Transportation Authorities require audits of the financial transactions and accounts related to distributions made from the CTF to an eligible authority. OPT reviews each public transportation provider's audited eligible expenses and adjusts the audited amounts for items that it determines were not reported in accordance with OPT's Revenue and Expense Manual or audited in accordance with the Audit Guide for Transportation Authorities as a part of OPT's final distribution process.

We judgmentally selected 15 of the 80 transportation providers who received State operating grant distributions for fiscal year 2012 and determined that OPT adjusted the audited eligible expenses for 5 (33%) of the 15. OPT did not maintain sufficient documentation to support the adjusted amounts for 2 of the 5. Adjustments made to the fiscal year 2012 audited eligible expenses for these 5 providers totaled \$9.9 million, and insufficiently documented adjustments totaled \$4.4 million. Eligible expenses for the 15 providers we selected for review totaled \$362.7 million.

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OPT insufficiently documented adjustments totaling \$4.4 million.

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OPT informed us that it had not always emphasized the need to fully document adjustments because it worked directly with the providers and relied on the providers' statements of concurrence regarding the accuracy of the adjusted amounts. As a result, OPT did not always obtain corroborating documentation, such as payment receipts, invoices, general ledger detail, and/or account statements, to support adjustments or maintain an audit trail for OPT-calculated adjustments. It is important for OPT to adequately support adjustments to audited expense amounts because each adjustment impacts the final amount distributed to each of the 80 transportation providers.

## **RECOMMENDATION**

We recommend that OPT improve its documentation to support adjustments made to public transportation providers' audited expenses.

## **AGENCY PRELIMINARY RESPONSE**

MDOT provided us with the following response:

*MDOT agrees that it could improve its documentation efforts. However, based on MDOT's understanding of the testing methodology, the exceptions noted in the finding extrapolate to \$5.7 million (1.2%) of the \$471.7 million of applicable expenses. While MDOT is satisfied that 98.8% of program expenditures are documented in accordance with auditor*

*expectations, MDOT will consider whether MDOT and the affected public transportation providers can cost-effectively address the remaining 1.2%.*

*In regard to MDOT's current documentation efforts, to mitigate the risks that MDOT would make an inaccurate adjustment, MDOT receives a concurrence with all adjustments from each affected public transportation provider. MDOT made those concurrences available to the Office of the Auditor General (OAG) auditors. While MDOT believes that the concurrences augment MDOT's ability to ensure accurate adjustments, MDOT recognizes that the OAG might not deem such concurrences to be sufficient documentation.*

# MONITORING GRANTS TO TRANSPORTATION PROVIDERS

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## BACKGROUND

OPT provides oversight of transportation providers for State and federal operating and capital assistance projects to ensure that the funds are used in accordance with the intent of the project and in compliance with applicable State and federal laws and regulations. OPT accomplishes this through compliance and maintenance reviews of the providers who receive federal assistance passed through OPT, reviews of providers' cost allocation plans (CAPs), and reviews and follow-up of providers' external audit reports. In addition, OPT provides assistance to transportation providers with program planning, budget development, and contract administration.

## AUDIT OBJECTIVE

To assess the effectiveness of OPT's efforts to appropriately monitor grants to transportation providers.

## CONCLUSION

Effective.

## FACTORS IMPACTING CONCLUSION

- 95% of compliance reviews occurred in a timely manner within the three-year review cycle schedule.
- 94% of maintenance reviews occurred in a timely manner within the three-year review cycle schedule.
- OPT's procedures for reviewing transportation providers' adherence to their approved CAPs.
- OPT's procedures for obtaining and reviewing transportation providers' external audit reports.
- The favorable responses we received from nearly 90% of the respondents to our survey of transportation providers regarding the level of guidance OPT provided.
- Reportable conditions related to OPT's:
  - Follow-up of compliance and maintenance review findings.
  - Documentation of CAP reviews.

## FINDING #2

**Timely follow-up is needed to ensure that transportation providers implement prompt and appropriate corrective actions.**

OPT did not always conduct and document timely follow-up of transportation providers' corrective actions to address findings that OPT noted during compliance and maintenance reviews. Timely follow-up would help OPT ensure that transportation providers implement prompt and appropriate actions to correct known compliance and maintenance deficiencies with operations, facilities, and/or equipment.

Section 247.660b of the *Michigan Compiled Laws* requires OPT to investigate the conditions of public transportation providers and requires public transportation providers to comply fully with federal requirements. The Federal Transit Administration (FTA), U.S. Department of Transportation, requires OPT to monitor the activities of the providers who receive federal assistance passed through OPT. OPT has adopted the FTA's triennial review schedule for conducting compliance and maintenance reviews. OPT notifies transportation providers of compliance and maintenance review findings that require corrective action and establishes a due date for the corrective action to take place upon completion of the reviews.

We determined that OPT required transportation providers to take corrective action for 68 compliance reviews and 64 maintenance reviews that OPT conducted during its most recent compliance and maintenance review cycle. We randomly selected and reviewed OPT's records for 15 of the compliance reviews and 15 of the maintenance reviews. We noted:

Deficiencies were not addressed by transportation providers in over 25% of the corrective action plans sampled.

- a. OPT did not document that it conducted timely follow-up for 8 (53%) of the 15 compliance reviews. These providers did not implement required corrective actions for time periods ranging from 54 to 327 days after the due date established by OPT. At the time of our testing, 4 (27%) of the transportation providers had not implemented any corrective action to address the deficiencies that OPT noted in the compliance reviews.
- b. OPT did not document that it conducted timely follow-up for 6 (40%) of the 15 maintenance reviews. These providers did not implement required corrective actions for time periods ranging from 118 to 314 days after the due date established by OPT. At the time of our testing, 4 (27%) of the transportation providers had not implemented any corrective action to address the deficiencies that OPT noted in the maintenance reviews.

OPT informed us that it may have conducted some follow-up with these providers through verbal communication and not documented the communications.

**RECOMMENDATION**

We recommend that OPT conduct and document timely follow-up of transportation providers' corrective actions to address findings that OPT noted during compliance and maintenance reviews.

**AGENCY  
PRELIMINARY  
RESPONSE**

MDOT provided us with the following response:

*MDOT agrees that it did not always conduct and document timely follow-ups of transportation providers' corrective actions for deficiencies identified during compliance and maintenance reviews. MDOT will endeavor to improve its efforts to document its communications with transportation providers to help ensure that the providers correct known compliance and maintenance deficiencies. Also, MDOT will explore its options to compel transportation providers to more-timely remediate noted deficiencies.*

*After the OAG brought the issue to MDOT's attention, as of January 1, 2016, 6 of the 8 transit agencies had a corrective action plan to address compliance deficiencies. One agency had corrected all but a single compliance deficiency, and one agency was still in need of a corrective action plan. Also, as of January 1, 2016, 4 of the 6 transit agencies had corrective action plans to address maintenance deficiencies.*

## FINDING #3

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### Improved documentation of CAP reviews is needed.

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OPT did not always document its periodic reviews of public transportation providers' cost allocation plans (CAPs) to strengthen OPT's assurance that public providers' CAPs are complete and accurate.

*Michigan Administrative Code R 247.4107(1)* requires public transportation providers who allocate costs between more than one program or governmental unit to submit to OPT, for approval, a CAP that explains all allocation methodologies. The *Code* also requires a provider to submit an amended CAP to OPT within 60 days after any changes occur in the conditions in the original CAP. OPT policy requires review of CAPs by the OPT project manager and transit agency (public transportation provider) at the time of the provider's triennial compliance review or, for all public transportation providers, every three years or more often as necessary.

We examined OPT's documentation for its periodic CAP reviews for 12 rural public transportation providers and 22 urban and ferry public transportation providers. We noted:

- a. OPT did not complete a CAP review checklist for 4 (33%) of the 12 randomly sampled rural public transportation providers' triennial compliance reviews. OPT developed its CAP review checklist to assist the project manager in determining the propriety of CAPs and whether additional CAPs were necessary. OPT used the checklist to document its performance of a CAP review as a part of its triennial compliance review process for rural transportation providers.
- b. OPT did not document its periodic review of CAPs for any of the 22 urban and ferry public transportation providers during our audit period because OPT did not utilize its CAP review checklist for these providers or maintain other documentation to demonstrate that OPT periodically reviewed the CAPs for these 22 public transportation providers.

OPT informed us that there was a misunderstanding regarding the need for project managers to complete the CAP checklists for the rural public transportation providers if the project manager thought there were no CAP changes for the provider. OPT also informed us that although it did not document its performance of a periodic CAP review for the 22 urban and ferry public transportation providers, it monitored these providers' operating assistance reports for indicators that an additional CAP may be necessary. In addition, OPT informed us that it relied on its project managers' knowledge of each transportation provider to ensure that each provider had all necessary CAPs in place.

**RECOMMENDATION**

We recommend that OPT document its periodic reviews of public transportation providers' CAPs.

**AGENCY  
PRELIMINARY  
RESPONSE**

MDOT provided us with the following response:

*MDOT agrees that it did not always document its review for required CAPs during its triennial reviews. MDOT has begun to take steps to ensure that it documents its reviews of required CAPs. Specifically, MDOT has reemphasized to its staff the requirements to complete a checklist for all required reviews of CAPs.*

## REGULATING MOTOR BUS AND LIMOUSINE CARRIERS

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### BACKGROUND

OPT regulates motor bus\* and limousine\* for-hire passenger carriers operating in Michigan through the issuance of certificates of authority in accordance with the Motor Bus Transportation Act (Public Act 432 of 1982) and the Limousine Transportation Act (Public Act 271 of 1990).

As of June 2, 2015, OPT's records indicated that 7,205 authorized motor bus and limousine vehicles operated in Michigan.

### AUDIT OBJECTIVE

To assess the effectiveness of OPT's efforts to regulate motor bus and limousine carriers.

### CONCLUSION

Effective.

### FACTORS IMPACTING CONCLUSION

- Random sampling of selected motor bus and limousine carriers' certificate of authorization and renewal files concluded that OPT properly authorized the carriers, and all files included documentation of required safety inspections and liability insurance coverage.
- OPT collected the appropriate fees for 98% of the motor bus and limousine carriers' certificate of authorization files that we reviewed.
- Reportable condition regarding OPT's inconsistent assessment of required increased renewal fees for carriers that did not meet annual safety inspection requirements in a timely manner.

\* See glossary at end of report for definition.

## **FINDING #4**

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**Regular enforcement of a higher annual renewal fee would help discourage late safety inspections.**

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OPT did not assess the required increased annual renewal fee for 23% of the vehicles we reviewed with late annual safety inspections.

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OPT did not consistently enforce increased annual renewal fees for motor bus and limousine vehicles that did not meet the annual safety inspection provision in a timely manner. Enforcing the higher fees may help discourage late safety inspections.

The Motor Bus Transportation Act (Public Act 432 of 1982) and the Limousine Transportation Act (Public Act 271 of 1990) require for-hire motor bus and limousine vehicles to annually pass a safety inspection and set forth a \$25 and \$50 annual renewal fee, respectively, for meeting annual safety inspection requirements. In addition, the Acts require a \$500 annual renewal fee for each motor bus or limousine that does not meet the inspection requirement in a timely manner.

We identified 1,173 motor bus and limousine vehicles with potentially late safety inspections during our audit period. We randomly sampled 65 of the vehicles and determined that 40 (62%) had late annual safety inspections. OPT did not assess the \$500 annual renewal fee for 9 (23%) of the vehicles. We estimate that, during the audit period, OPT may not have assessed the appropriate increased annual renewal fee for approximately 170 vehicles with delinquent annual safety inspections.

OPT informed us that it had followed informal policies and sometimes waived the increased renewal fee; however, the statutes do not provide for safety inspection extensions and require the increased renewal fees when annual safety inspections are late.

## **RECOMMENDATION**

We recommend that OPT consistently enforce increased annual renewal fees for motor bus and limousine vehicles that do not meet the annual safety inspection provision.

## **AGENCY PRELIMINARY RESPONSE**

MDOT provided us with the following response:

*MDOT agrees with the recommendation and a new process was implemented November 1, 2015. Specifically, to consistently identify where increased annual renewal fees are needed, MDOT now has its Bus and Limousine Information System add the increased annual renewal fee, on the first day of a month, to all vehicles with late safety inspections from the prior month.*

## **OBSERVATION #1**

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**Regulation of TNCs is an emerging issue nationwide, and several bills regarding TNC regulation are currently pending in Michigan.**

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MDOT has notified Uber and Lyft that the companies need to comply with the requirements of Michigan's Limousine Transportation Act.

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The Michigan Legislature has introduced several bills regarding the State's regulation of transportation network companies (TNCs). The introduced bills remained pending with the Legislature at the conclusion of our audit fieldwork in October 2015.

Pending Senate Bill No. 184 of 2015 defines a TNC as "a person operating in this state that uses a digital network to connect riders to transportation network company drivers for the purpose of providing transportation." Pending House Bill No. 4637 of 2015 defines a TNC as "a person operating in this state that uses a digital network to connect transportation network company riders to transportation network company drivers who provide prearranged rides." Both definitions say that TNC does not include a taxi service, transportation service arranged through a transportation broker, ridesharing arrangement, or transportation service using fixed routes at regular intervals. Familiar examples of TNCs would include companies such as Uber and Lyft.

Michigan's Limousine Transportation Act (Public Act 271 of 1990) regulates persons who transport passengers by limousine in Michigan. MDOT notified Uber in December 2013 and Lyft in May 2014 that the companies were involved with transportation activities that required compliance with Public Act 271 of 1990. MDOT informed both companies that compliance would include obtaining a certificate of authority from MDOT to perform regulated intrastate transportation and filing annual motor vehicle safety inspections with MDOT. At the conclusion of our audit fieldwork, neither company had come into compliance with Public Act 271 of 1990.

## **AGENCY DESCRIPTION**

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OPT administers MDOT's passenger transportation programs, including local and intercity bus and for-hire passenger regulation.

In fiscal year 2015, OPT expended \$237.1 million; of this amount, OPT was appropriated and distributed \$167.4 million (71%) in State operating grants.

As of September 30, 2015, OPT had 34 full-time equated employees.

## AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

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### AUDIT SCOPE

To examine the program and other records of OPT. We conducted this performance audit\* in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered the period October 1, 2012 through May 31, 2015.

### METHODOLOGY

We conducted a preliminary survey to gain an understanding of OPT's activities and to establish our audit objectives and methodology. During our preliminary survey, we:

- Interviewed OPT management and staff to obtain an overall understanding of OPT's operations, activities, and internal control\*.
- Reviewed applicable laws for State operating grants in Public Act 51 of 1951, for motor buses in Public Act 432 of 1982, and for limousines in Public Act 271 of 1990 and reviewed *Michigan Administrative Code* R 247.4101 - 247.4307 for the CTF.
- Examined OPT's policies and procedures.
- Reviewed selected OPT grant files.
- Examined selected OPT motor bus and limousine motor carrier files.
- Obtained and reviewed reports of examinations conducted by the U.S. Department of Transportation's FTA on its procurement system review of MDOT's OPT and its state management review. These reviews were conducted during 2013 and 2014, respectively.
- Obtained an understanding of pending legislation regarding TNCs (see Observation\* #1).

\* See glossary at end of report for definition.

## **OBJECTIVE #1**

To assess the effectiveness of OPT's efforts to appropriately distribute grants to transportation providers.

To accomplish this objective, we:

- Reviewed OPT's calculations and distributions of initial State operating grants to the 80 public transportation providers for fiscal years 2013 and 2014 to determine the accuracy of the calculations and distributions.
- Compared amounts from 15 judgmentally selected audited financial statements of public transportation providers with OPT's fiscal year 2012 calculation of the final State operating grant distribution to determine the accuracy of the amounts OPT used in its calculation.
- Reviewed 12 randomly selected grant projects from 123 recipients to determine the timeliness of grant utilization.
- Surveyed 137 transportation providers and obtained 65 and 45 responses regarding the timeliness and fairness, respectively, of OPT's grant decisions.

## **OBJECTIVE #2**

To assess the effectiveness of OPT's efforts to appropriately monitor grants to transportation providers.

To accomplish this objective, we:

- Reviewed OPT's compliance and maintenance review records for the most recent triennial review period to verify that OPT conducted reviews of the 110 applicable transportation providers within the established three-year schedule.
- Analyzed OPT's procedures for its periodic reviews of transportation providers' CAPs and reviewed compliance and maintenance review files for 12 of 58 rural public transportation providers for documentation of CAP reviews.
- Evaluated OPT's procedures for monitoring transportation providers' external audit reports. We obtained OPT's internal tracking logs for the receipt of the transportation providers' audit reports. We randomly selected 8 transportation providers to verify that their audit reports were issued as required, within 180 days of the transportation providers' fiscal year-end. We also ensured that OPT had obtained concurrence from the transportation provider on the audited amounts used to calculate the final State operating grants.

- Obtained and reviewed 63 responses from the 137 surveyed transportation providers regarding the level of guidance OPT provided them for grant projects.
- Reviewed 15 of 68 compliance review files and 15 of 64 maintenance review files with findings to determine if OPT conducted timely follow-up of the transportation providers' corrective actions.

**OBJECTIVE #3**

To assess the effectiveness of OPT's efforts to regulate motor bus and limousine carriers.

To accomplish this objective, we:

- Tested a random sample of 50 of 1,214 motor bus and limousine carriers' certificate of authorization and renewal files authorized as of May 31, 2015 to determine if the carriers were properly authorized. Our tests included reviewing the files for documentation supporting that the carriers had required safety inspections and insurance coverage and paid proper fee amounts.
- Observed OPT conduct a motor bus safety inspection during July 2015.
- Isolated a population of 1,173 motor bus and limousine carriers with potentially late annual safety inspections during the audit period and randomly sampled 65. We projected the results of our test to the population of vehicles with a potentially late inspection.

**CONCLUSIONS**

We base our conclusions on our audit efforts and the resulting material conditions\* and reportable conditions.

When selecting activities or programs for audit, we direct our efforts based on risk and opportunities to improve State government operations. Consequently, we prepare our performance audit reports on an exception basis.

**AGENCY RESPONSES**

Our audit report contains 4 findings and 4 corresponding recommendations. MDOT's preliminary response indicates that it agrees with all of the recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion at the end of our audit

\* See glossary at end of report for definition.

fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require an audited agency to develop a plan to comply with the recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

**PRIOR AUDIT  
FOLLOW-UP**

We released our prior performance audit of the Bureau of Passenger Transportation, Michigan Department of Transportation (591-0180-07), in February 2009. MDOT complied with all 4 of the prior audit recommendations.

## **GLOSSARY OF ABBREVIATIONS AND TERMS**

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|                    |   |
|--------------------|---|
| CAP                | cost allocation plan.   |
| CTF                | Comprehensive Transportation Fund.  |
| effectiveness      | Success in achieving mission and goals.   |
| FTA                | Federal Transit Administration.   |
| internal control   | The plan, policies, methods, and procedures adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes the systems for measuring, reporting, and monitoring program performance. Internal control serves as a defense in safeguarding assets and in preventing and detecting errors; fraud; violations of laws, regulations, and provisions of contracts and grant agreements; or abuse. |
| limousine          | Motor vehicle used in the transportation of passengers with a seating capacity of 15 or less.   |
| 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.  |
| motor bus          | Motor vehicle used in the transportation of passengers with a seating capacity greater than 15.   |
| observation        | A commentary that highlights certain details or events that may be of interest to users of the report. An observation differs from an audit finding in that it may not include the attributes (condition, effect, criteria, cause, and recommendation) that are presented in an audit finding.  |
| OAG                | Office of the Auditor General.  |

OPT Office of Passenger Transportation.

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.

TNC transportation network company.







