

FINANCIAL RELATED AUDIT
OF THE
USE OF TRANSPORTATION-RELATED FUNDING

October 1, 1995 through September 30, 1996

EXECUTIVE DIGEST

USE OF TRANSPORTATION-RELATED FUNDING

INTRODUCTION

This special report contains the results of our financial related audit* of the Use of Transportation-Related Funding for the period October 1, 1995 through September 30, 1996.

AUDIT PURPOSE

This financial related audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Financial related audits are conducted at various intervals to permit the Auditor General to express an opinion on the State's financial statements. This audit is also mandated by Section 309, Act 133, P.A. 1995, which was approved on July 9, 1995.

BACKGROUND

Appropriations acts require departments that receive transportation-related funding for providing tax collection and other services for transportation funds to contract with the Michigan Department of Transportation. The contracts must include estimated costs to be recovered from transportation funds, a description of the services financed by transportation funds, and cost allocation methods and rationale for the portion of costs allocated to transportation funds. Departments are also required to annually report the amount of funding received, expended, and returned to the transportation funds.

* See glossary on page 42 for definition.

In fiscal year 1995-96, 10 nontransportation agencies accounted for \$104,831,372 of the \$1,389,901,501 in transportation-related funding expended during fiscal year 1995-96 (see the summary of grants presented as supplemental information).

**AUDIT OBJECTIVES
AND CONCLUSIONS**

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

Conclusion: Of the 11 agencies reviewed, 8 (the Departments of State, State Police, Management and Budget, Attorney General, Environmental Quality, Natural Resources, and Transportation and the Office of the Auditor General) had complied with the appropriations acts by applying adequate cost allocation methodologies to identify transportation-related costs. The other 3 agencies (the Departments of Treasury, Civil Service, and Consumer and Industry Services) had not employed or updated time and effort cost allocation methodologies and could not substantiate the appropriateness of their cost allocation methodologies used during fiscal year 1995-96. The agencies' charges were based on appropriation funding ratios rather than time and effort spent on transportation-related activities. The charges were consistent with the amounts appropriated; however, the agencies did not have specific support for their charges allocated to the transportation funds. (Finding 1)

Audit Objective: To determine that unused transportation fund appropriations were returned to the appropriate transportation fund.

Conclusion: All the agencies reviewed had returned their unused transportation fund appropriations for fiscal year 1995-96 to the appropriate transportation funds.

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

Conclusion: All 10 nontransportation agencies reviewed had executed the required contracts with the Michigan Department of Transportation for fiscal year 1995-96. However, 2 agencies (the Department of Natural Resources and the Office of the Auditor General) did not submit the required annual report to the Department of Management and Budget and to the Office of the Auditor General and 2 agencies (the Departments of State Police and Consumer and Industry Services) did not submit their reports until we requested them during our audit. Also, 2 agencies (the Departments of Civil Service and Consumer and Industry Services) did not submit contractually required cost allocation methodologies to the Michigan Department of Transportation. (Finding 2)

AUDIT SCOPE

Our audit scope was to examine the financial and other records supporting transportation-related costs and charges to transportation funds for the period October 1, 1995 through September 30, 1996. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances, except that we were not independent in our audit of the Office of the Auditor General.

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

**PRIOR AUDIT
FOLLOW-UP**

The audited agencies complied with 1 of our 4 prior audit recommendations. We are repeating the other 3 recommendations in this report.

The Honorable Harry Gast, Chairman
Senate Appropriations Committee
Michigan State Senate
and
The Honorable Morris W. Hood, Jr., Chairman
House Appropriations Committee
Michigan House of Representatives
State Capitol
Lansing, Michigan

Dear Senator Gast and Representative Hood:

This is our special report on the financial related audit of the Use of Transportation-Related Funding by the Departments of State, State Police, Treasury, Management and Budget, Civil Service, Attorney General, Environmental Quality, Consumer and Industry Services, Natural Resources, and Transportation and the Office of the Auditor General for the period October 1, 1995 through September 30, 1996, as required by Section 309, Act 133, P.A. 1995.

This report contains our executive digest; description of funding requirements; audit objectives, audit scope, and prior audit follow-up; comments, findings, and recommendations; detailed review comments relating to the various agencies and a summary of grants, presented as supplemental information; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective.

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

Sincerely,

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

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Description of Funding Requirements

Appropriations acts require departments that receive transportation-related funding for providing tax collection and other services for transportation funds to contract with the Michigan Department of Transportation. The contracts must include estimated costs to be recovered from transportation funds, a description of the services financed by transportation funds, and cost allocation methods and rationale for the portion of costs allocated to transportation funds. Departments are also required to annually report the amount of funding received, expended, and returned to the transportation funds.

In fiscal year 1995-96, transportation-related funding was provided to 10 nontransportation agencies (the Departments of State, State Police, Treasury, Management and Budget, Civil Service, Attorney General, Environmental Quality, Consumer and Industry Services, and Natural Resources and the Office of the Auditor General). These agencies accounted for \$104,831,372 of the \$1,389,901,501 in transportation-related funding expended during fiscal year 1995-96 (see the summary of grants presented as supplemental information).

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

Audit Objectives

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

1. To determine the adequacy of the cost allocation methodologies used to identify transportation-related costs and the appropriateness of charges to transportation funds.
2. To determine that unused transportation fund appropriations were returned to the appropriate transportation fund.
3. To determine compliance with contractual and reporting requirements for transportation-related funding as prescribed by the appropriations acts.

Audit Scope

Our audit scope was to examine the financial and other records supporting transportation-related costs and charges to transportation funds for the period October 1, 1995 through September 30, 1996. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances, except that we were not independent in our audit of the Office of the Auditor General.

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

Prior Audit Follow-Up

The audited agencies complied with 1 of our 4 prior audit recommendations. We are repeating the other 3 recommendations in this report.

COMMENTS, FINDINGS, AND RECOMMENDATIONS

COST ALLOCATION METHODOLOGIES AND TRANSPORTATION FUND CHARGES

COMMENT

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

Conclusion: Of the 11 agencies reviewed, 8 had complied with the appropriations acts by applying adequate cost allocation methodologies to identify transportation-related costs. The other 3 agencies had not employed or updated time and effort cost allocation methodologies and could not substantiate the appropriateness of their cost allocation methodologies used during fiscal year 1995-96. The agencies' charges were based on appropriation funding ratios rather than the time and effort spent on transportation-related activities. The charges were consistent with the amounts appropriated; however, the agencies did not have specific support for their charges allocated to transportation funds.

FINDING

1. Cost Allocation Methodologies

The Department of Management and Budget (DMB), in conjunction with the Michigan Department of Transportation, had not established an effective process to ensure that the nontransportation agencies were providing and following updated cost allocation plans. Also, DMB had not developed a process to settle overcharges and undercharges occurring in prior fiscal years.

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

Section 505, Act 133, P.A. 1995 (a section of the fiscal year 1995-96 appropriations act for the Michigan Department of Transportation), presumes the use of a time and effort cost allocation methodology for the costs allocated to transportation funds.

We reviewed the adequacy of the cost allocation methodologies used and the appropriateness of charges to transportation funds for 11 agencies (see the detailed review comments, by agency, presented as supplemental information). The Department of Consumer and Industry Services had received transportation-related funding in fiscal year 1995-96 and had not employed time and effort cost allocation methodologies to identify transportation-related costs. Also, the Department of Treasury's contract with the Michigan Department of Transportation specified a cost allocation methodology different from the allocation methodology that was used. In addition, the methodology developed by DMB to allocate the Department of Civil Service's costs had not been updated since fiscal year 1991-92.

We identified the same situation in our prior audit. DMB has worked with the Department of Civil Service in developing and updating cost allocation methods for implementation in fiscal year 1996-97 (see supplemental information). However, DMB did not work with the Michigan Department of Transportation to establish an effective process for other departments to properly allocate the cost of transportation-related activities. We again noted that DMB had not developed a process to adjust departments' executive budget requests or supplemental appropriations to account for overallocations and underallocations.

RECOMMENDATIONS

WE AGAIN RECOMMEND THAT DMB, IN CONJUNCTION WITH THE MICHIGAN DEPARTMENT OF TRANSPORTATION, ESTABLISH AN EFFECTIVE PROCESS TO ENSURE THAT NONTRANSPORTATION AGENCIES PROVIDE AND FOLLOW UPDATED COST ALLOCATION PLANS.

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

UNUSED TRANSPORTATION FUND APPROPRIATIONS

COMMENT

Audit Objective: To determine that unused transportation fund appropriations were returned to the appropriate transportation fund.

Conclusion: All the agencies reviewed had returned their unused transportation fund appropriations for fiscal year 1995-96 to the appropriate transportation fund (for the amounts returned, see the detailed review comments, by agency, presented as supplemental information).

We commend the agencies on their proper return of unused fiscal year 1995-96 transportation fund appropriations. We have no findings or recommendations for this audit objective.

CONTRACTUAL AND REPORTING REQUIREMENTS

COMMENT

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

Conclusion: All 10 nontransportation agencies reviewed had executed the required contracts with the Michigan Department of Transportation for fiscal year 1995-96. However, 2 agencies did not submit the required annual report to DMB and to the Office of the Auditor General (OAG) and 2 agencies did not submit their reports until we requested them during our audit. Also, 2 agencies did not submit contractually required cost allocation methodologies to the Michigan Department of Transportation.

FINDING

2. Appropriations Act Requirements

Some of the agencies reviewed did not fully comply with the annual appropriations act requirements for transportation-related funding.

Contractual and reporting requirements for fiscal year 1995-96 funding were prescribed by Section 505, Act 133, P.A. 1995.

Our review to determine compliance with these requirements disclosed:

- a. Two agencies (the Department of Natural Resources and the OAG) did not submit the required annual report to DMB and to the OAG. In addition, two agencies (the Departments of State Police and Consumer and Industry Services) did not submit their annual reports until we requested the reports for our audit, five months after the due date. The annual appropriations acts require the nontransportation agencies to annually submit (by April 1st) written reports which include the amount of funds contracted with the Michigan Department of Transportation and the amount of funds expended and returned to the transportation funds.
- b. Two agencies (the Departments of Civil Service and Consumer and Industry Services) did not submit the required cost allocation methodologies to the Michigan Department of Transportation. The contracts between the Michigan Department of Transportation and State agencies require each agency to submit cost allocation methodologies. The contracts require the methodologies to include the rationale for the portion of costs allocated to transportation funds, if the spending authorization accounts also included financing for nontransportation services.

The contractual and reporting requirements contained in annual appropriations acts are intended to help ensure that State agencies use transportation-related funding for transportation purposes. Also, these reporting requirements provide DMB with information for the budget process.

We reported on item b. of this finding in our prior audit report; however, the two agencies have not submitted their cost allocation methodologies to the Michigan Department of Transportation.

RECOMMENDATIONS

To fully comply with annual appropriations act requirements for transportation-related funding:

- (a) We recommend that the Department of Natural Resources and the OAG submit the required annual report to DMB and to the OAG.

We also recommend that the Departments of State Police and Consumer and Industry Services submit their reports on a timely basis, as required by appropriations acts.

- (b) WE AGAIN RECOMMEND THAT THE DEPARTMENTS OF CIVIL SERVICE AND CONSUMER AND INDUSTRY SERVICES SUBMIT THEIR COST ALLOCATION METHODOLOGIES FOR COSTS ALLOCATED TO TRANSPORTATION FUNDS TO THE MICHIGAN DEPARTMENT OF TRANSPORTATION AS REQUIRED.

SUPPLEMENTAL INFORMATION

DEPARTMENT OF STATE

The disposition of the Department of State's transportation-related funding for fiscal year 1995-96 was as follows:

Fund	Appropriated Charges	Allocated Charges	Returned Appropriations	Overallocated (Underallocated) Charges
Michigan Transportation	\$ 81,646,500	\$ 79,364,505	\$ 2,281,995	\$ (130,152)

The Department of State's expenditure ratios per appropriation unit were as follows:

Appropriation Unit	Allocated Charges	Percentage of Unit's Expenditures
Executive Direction	\$ 11,277,034	58.55%
Field Services	34,467,670	65.20%
Central Records	18,660,494	72.33%
Traffic Safety	2,306,388	24.81%
Consumer Protection	1,753,075	21.75%
Data Processing	6,946,028	57.76%
Departmentwide	3,953,816	53.17%
Total	<u>\$ 79,364,505</u>	

Cost Allocation Methodology and Transportation Fund Charges

The Department of State's fiscal year 1995-96 charges of \$79,364,505 against the Michigan Transportation Fund were based on the Fund's share of funding (funding ratio) of the appropriation units. The Departments of State, Management and Budget, and Transportation jointly contracted with an outside firm to determine the appropriateness of funding provided by the Michigan Transportation Fund for fiscal year 1995-96. The firm determined that the Department of State should have charged the Fund \$79,494,657. Consequently, there was an underallocation of allocated

charges of \$130,152. We reviewed the contracted firm's supporting documentation and concluded that the documentation supports the firm's position.

The Department of State's contract with the Michigan Department of Transportation indicated that funds would be used to finance the collection of transportation taxes, fees, and other transportation-related services. The contract also required the Department of State to provide the Michigan Department of Transportation with a cost allocation plan and rationale for the portion of costs allocated to transportation funds. The charges were consistent with the amounts appropriated. The Department of State collected approximately \$625,778,000 of revenue credited to the Michigan Transportation Fund in fiscal year 1995-96.

Unused Transportation Fund Appropriations

The Department of State returned the entire \$2,281,995 of unused Michigan Transportation Fund appropriations for fiscal year 1995-96. However, based on the underallocated charges noted in the contracted firm's report, the Department should not have returned \$130,152.

Disposition of Prior Year's Overallocation or Underallocation

Because the contracted firm's review determined that the Department of State's cost allocation methodology was reasonable, and resulted in an underallocation of charges for fiscal year 1995-96, the Department did not return the overallocated charges of \$6,875,334 for fiscal year 1994-95. Also, the Department did not adjust future requests for transportation-related funding to offset the differences between the charges and actual costs.

DEPARTMENT OF STATE POLICE

The disposition of the Michigan Department of State Police's (MSP's) transportation-related funding for fiscal year 1995-96 was as follows:

Fund	Appropriated Charges	Allocated Charges	Returned Appropriations	Overallocated (Underallocated) Charges
Michigan Transportation	\$ 618,200	\$ 570,714	\$ 47,485	\$
State Trunkline	5,962,000	5,907,733	54,267	
Total	\$ 6,580,200	\$ 6,478,448	\$ 101,752	\$ 0

MSP's expenditure ratios per appropriation unit were as follows:

Appropriation Unit	Allocated Charges	Percentage of Unit's Expenditures
Highway Safety Planning	\$ 504,965	3.39%
Uniform Services	65,750	0.05%
Motor Carrier Division	5,643,800	43.57%
Criminal Justice Data Center	263,933	2.50%
Total	\$ 6,478,448	

Cost Allocation Methodology and Transportation Fund Charges

MSP's contract with the Michigan Department of Transportation provided that the Michigan Transportation Fund would fund the State match of the Federal Highway Safety Grant. The MSP Office of Highway Safety Planning spent \$504,965 of the Fund's appropriations.

The MSP Uniform Services Bureau charged the Michigan Transportation Fund \$65,750 for providing security services at Michigan Department of Transportation facilities. In fiscal year 1994-95, MSP's contract with the Michigan Department of Transportation

was amended so that the contract provided for an adequate number of security officer full-time equated positions (FTE's) instead of 3.5 FTE's as funded in prior years.

The MSP Motor Carrier Division's charge of \$5,643,800 against the State Trunkline Fund was based upon the total level of funding provided by the Motor Carrier Enforcement line items which provided funding for enforcement and program administration. The Motor Carrier Division enforces not only State Trunkline Fund related regulations but also other motor carrier regulations financed with motor carrier fees.

The MSP Criminal Justice Data Center spent \$263,933 of State Trunkline Fund appropriations for fiscal year 1995-96. The Center provides software, mainframe processing, data keying equipment, and related services of maintaining staff for this funding as well as support of other programs. MSP's funding contract provides that the Michigan Department of Transportation will share costs with two other State departments that receive and use data produced by the Center. As a result, MSP returned unused funds of \$54,267.

Unused Transportation Fund Appropriations

MSP returned the entire \$101,752 of unused transportation fund appropriations for fiscal year 1995-96.

Disposition of Prior Year's Overallocation or Underallocation

MSP did not have an overallocation or an underallocation of charges for fiscal year 1994-95.

DEPARTMENT OF TREASURY

The disposition of the Department of Treasury's transportation-related funding for fiscal year 1995-96 was as follows:

Fund	Appropriated Charges	Allocated Charges	Returned Appropriations	Overallocated (Underallocated) Charges
Comprehensive Transportation	\$ 1,600	\$ 1,600	\$	\$
Michigan Transportation	6,335,500	6,151,795	183,705	1,592,232
State Aeronautics	58,700	55,762	2,938	25,397
State Trunkline	22,000	22,000		
Total	\$ 6,417,800	\$ 6,231,157	\$ 186,643	\$ 1,617,629

The Department of Treasury's expenditure ratios per appropriation unit were as follows:

Appropriation Unit	Allocated Charges	Percentage of Unit's Expenditures
Executive Direction	\$ 63,602	6.83%
Departmentwide	233,321	5.38%
Management Programs	1,572,994	6.86%
Tax Programs	4,311,539	7.55%
Investments	49,700	0.20%
Total	\$ 6,231,157	

Cost Allocation Methodology and Transportation Fund Charges

The Department of Treasury charged the transportation funds \$6,181,457 for collecting revenues credited to the transportation funds and \$49,700 for investment services conducted on behalf of the transportation funds.

The Department of Treasury's charge of \$6,181,457 was for collecting \$775,414,000 of revenues credited to the transportation funds for fiscal year 1995-96. The Department

based its charges on the transportation funds' share of funding (funding ratio) of the various appropriation units. Because it lacked the cost allocation procedures required by appropriations acts and the contract, the Department could not adequately support its charges against the transportation funds (see Finding 1). The charges were consistent with the amounts appropriated; however, the Department did not have specific support or adequate documentation for its charges allocated to the transportation funds.

The Department of Treasury's charge of \$49,700 for investment services was based on the transportation funds' proportionate share of investing activities' costs. The Department conducts similar services for other State special revenue funds and the charge method used for the transportation funds was consistent with the method used for State special revenue funds.

The Department of Treasury's contract with the Michigan Department of Transportation states that the Department of Treasury shall base its charges on the proportionate share of collection costs based on the ratio of transportation fund revenue to total tax revenue. The transportation funds' proportionate share of the Department of Treasury's collection costs of \$100,091,646 was \$4,563,828. As a result, the Department overallocated charges to the transportation funds by \$1,617,629 in fiscal year 1995-96.

Unused Transportation Fund Appropriations

The Department of Treasury returned the entire \$186,643 of unused transportation fund appropriations for fiscal year 1995-96. However, based on the overallocated charges noted in our audit, the Department should have returned an additional \$1,617,629.

Disposition of Prior Year's Overallocation or Underallocation

The Department of Treasury did not return the overallocated charges of \$1,236,896 for fiscal year 1994-95.

DEPARTMENT OF MANAGEMENT AND BUDGET

The disposition of the Department of Management and Budget's (DMB's) transportation-related funding for fiscal year 1995-96 was as follows:

Fund	Appropriated Charges	Allocated Charges	Returned Appropriations	Overallocated (Underallocated) Charges
Comprehensive Transportation	\$ 40,800	\$ 40,800	\$	\$ 8,803
Michigan Transportation	240,500	240,500		(9,241)
State Aeronautics	23,000	23,000		(12,995)
State Trunkline	4,952,000	4,952,000		(147,597)
Total	\$ 5,256,300	\$ 5,256,300	\$ 0	\$ (161,030)

DMB's expenditure ratios per appropriation unit were as follows:

Appropriation Unit	Allocated Charges	Percentage of Unit's Expenditures
Statewide Administrative Services	\$ 913,200	5.81%
Statewide Support Services	4,343,100	11.14%
Total	\$ 5,256,300	

Cost Allocation Methodology and Transportation Fund Charges

DMB charged the transportation funds for payroll, central audit, fixed assets accounting, space leasing services, mail and freight, purchasing, employer services, budgeting, contract management, and operating costs of buildings used by transportation programs.

DMB subsequently determined its transportation-related costs by using the Statewide Cost Allocation Plan* . This method allocates costs based on estimated expenditures and adjusts future allocations for differences between estimates and actual expenditures.

DMB's actual costs for services provided to transportation funds for fiscal year 1995-96 were \$161,030 more than the \$5,256,300 charged to transportation funds.

Unused Transportation Fund Appropriations

DMB did not have any unused transportation fund appropriations for fiscal year 1995-96.

Disposition of Prior Year's Overallocation or Underallocation

The fiscal year 1994-95 overallocation of \$240,862 will be used to adjust the fiscal year 1997-98 executive budget request for transportation-related funding.

* See glossary on page 42 for definition.

DEPARTMENT OF CIVIL SERVICE

The disposition of the Department of Civil Service's (DCS's) transportation-related funding for fiscal year 1995-96 was as follow:

Fund	Appropriated Charges	Allocated Charges	Returned Appropriations	Overallocated (Underallocated) Charges
Comprehensive Transportation	\$ 99,300	\$ 99,074	\$ 226	\$ 41,423
Michigan Transportation	668,000	666,477	1,523	278,976
State Aeronautics	49,700	49,587	113	20,883
State Trunkline	3,376,700	3,369,004	7,696	1,410,336
Total	\$ 4,193,700	\$ 4,184,141	\$ 9,559	\$ 1,751,618

DCS's expenditure ratio per appropriation unit was as follows:

Appropriation Unit	Allocated Charges	Percentage of Unit's Expenditures
Civil Service Commission	\$ 4,184,141	17.45%

Cost Allocation Methodology and Transportation Fund Charges

Article 11, Section 5 of the State Constitution states: ". . . the legislature shall appropriate to the [civil service] commission for the ensuing fiscal year a sum not less than one percent of the aggregate payroll of the classified service for the preceding fiscal year"

Transportation funds are appropriated to DCS based on the executive budget request prepared by DMB. DMB personnel informed us that DCS's budget request was based on the ratio of the actual fiscal year 1990-91 salary and fringe benefit expenditures of transportation funds compared to the Statewide aggregate payroll. The transportation funds' share of the 1% aggregate classified payroll is adjusted each fiscal year using this base year calculation. DMB informed us that documentation was no longer

available to support its 1991 base year calculation or the current funding level used for the transportation funds' share of the 1% aggregate payroll (see Finding 1).

DCS charges to transportation funds were based on amounts appropriated for operations and applied to actual fiscal year 1995-96 expenditures according to allocation methodologies developed by DMB. Our review disclosed that transportation funds accounted for 17.49% of the total amount appropriated for 1% financing of the Civil Service Commission for fiscal year 1995-96. We recalculated the amount of salary and fringe benefit expenditures financed by transportation funds for fiscal year 1995-96. We determined that the transportation funds' share of the 1% aggregate payroll was \$1,751,618 less than the \$4,184,141 charged by DCS.

At the end of our audit, DCS, in conjunction with DMB, was in the process of documenting its funding methodology used to calculate the transportation funds' share of the 1% aggregate classified payroll. Section 502, Act 364, P.A. 1996, requires DCS to assess each fund's share of the 1% on the basis of actual costs for the preceding fiscal year (fiscal year 1995-96). DCS plans to assess restricted sources and programs using data provided by the Michigan Administrative Information Network* (MAIN). This methodology, however, was not submitted as the cost allocation methodology required by the contract between DCS and the Michigan Department of Transportation (see Finding 1).

Unused Transportation Fund Appropriations

DCS returned the entire \$9,559 of unused transportation fund appropriations for fiscal year 1995-96.

Disposition of Prior Year's Overallocation or Underallocation

The fiscal year 1994-95 overallocation of \$1,804,905 was not returned to the Michigan Department of Transportation.

* See glossary on page 42 for definition.

DEPARTMENT OF ATTORNEY GENERAL

The disposition of the Department of Attorney General's transportation-related funding for fiscal year 1995-96 was as follows:

Fund	Appropriated Charges	Allocated Charges	Returned Appropriations	Overallocated (Underallocated) Charges
Comprehensive Transportation	\$ 121,000	\$ 98,008	\$ 22,992	\$
State Aeronautics	118,200	49,399	68,801	
State Trunkline	2,278,400	1,856,347	422,053	
Total	\$ 2,517,600	\$ 2,003,754	\$ 513,846	\$ 0

The Department of Attorney General's expenditure ratio per appropriation unit was as follows:

Appropriation Unit	Allocated Charges	Percentage of Unit's Expenditures
Attorney General Operations	\$ 2,003,754	4.83%

Cost Allocation Methodology and Transportation Fund Charges

The Department of Attorney General's charges of \$2,003,754 to the transportation funds consisted of salaries, insurance, and retirement costs for 21.5 attorney positions and 0.8 clerical position. These positions provided legal services exclusively to transportation programs, and costs were identified and accumulated in Department records.

The Department of Attorney General also bills the appropriate transportation fund for other expenditures, such as travel, services, and supplies, incurred on behalf of transportation programs. In fiscal year 1995-96, the Michigan Department of Transportation reimbursed the Department of Attorney General \$14,712 for billed costs from its transportation fund appropriations.

In addition, the Michigan Department of Transportation provides the Department of Attorney General with support staff and funding for special assistant attorneys general at the Michigan Department of Transportation offices. The cost of the support staff and special assistant attorneys general, which is funded by the State Trunkline Fund, was \$1,934,984 in fiscal year 1995-96.

Unused Transportation Fund Appropriations

The Department of Attorney General returned the entire \$513,846 of unused transportation fund appropriations for fiscal year 1995-96.

Disposition of Prior Year's Overallocation or Underallocation

The Department of Attorney General did not have an overallocation or an underallocation of charges for fiscal year 1994-95.

DEPARTMENT OF ENVIRONMENTAL QUALITY

The disposition of the Department of Environmental Quality's (DEQ's) transportation-related funding for fiscal year 1995-96 was as follows:

Fund	Appropriated Charges	Allocated Charges	Returned Appropriations	Overallocated (Underallocated) Charges
Michigan Transportation	\$ 755,500	\$ 755,500	\$ 0	\$ 0

DEQ's expenditure ratio per appropriation unit was as follows:

Appropriation Unit	Allocated Charges	Percentage of Unit's Expenditures
Land and Water Protection	\$ 515,300	27.48%
Field Project Assistance and Permitting	138,100	3.75%
Water Management	102,100	6.13%
Total	\$ 755,500	

Cost Allocation Methodology and Transportation Fund Charges

The DEQ Land and Water Management Division received \$755,500 from the Michigan Department of Transportation to pay for the salaries, wages, and fringe benefits for 11 employees who worked exclusively on acquiring permits for transportation projects. DEQ used a time and effort system for allocating overall costs to the Michigan Transportation Fund and identified individuals and projects charged. DEQ had total transportation-related expenditures of \$755,500.

Unused Transportation Fund Appropriations

DEQ used the entire \$755,500 transportation fund appropriations for fiscal year 1995-96.

Disposition of Prior Year's Overallocation or Underallocation

The fiscal year 1994-95 underallocation of \$20,467 was not obtained from the Michigan Department of Transportation.

OFFICE OF THE AUDITOR GENERAL

The disposition of the Office of the Auditor General's (OAG's) transportation-related funding for fiscal year 1995-96 was as follows:

Fund	Appropriated Charges	Allocated Charges	Returned Appropriations	Overallocated (Underallocated) Charges
Comprehensive Transportation	\$ 44,900	\$ 44,900	\$	\$
Michigan Transportation	171,400	171,400		
State Aeronautics	19,400	19,400		
State Trunkline	282,000	282,000		
Total	\$ 517,700	\$ 517,700	\$ 0	\$ 0

The OAG's expenditure ratio per appropriation unit was as follows:

Appropriation Unit	Allocated Charges	Percentage of Unit's Expenditures
Field Operations	\$ 517,700	4.13%

Cost Allocation Methodology and Transportation Fund Charges

The OAG's charges to the transportation funds consisted of salaries, fringe benefits, supplies, materials, and travel costs for conducting audits of transportation programs and funds.

The OAG maintains a time and effort reporting system to account for audits conducted. The time and effort reporting system is the basis for allocating costs by audit, program, and fund. Most audit charges are based on average actual audit hours and hourly audit costs. Programs and funds audited annually are charged by the average audit hours; programs and funds not audited annually are charged proportionally. Changes in the average actual hours and the hourly audit costs are used to adjust future requests for transportation-related funding.

Unused Transportation Fund Appropriations

The OAG did not have any unused transportation fund appropriations for fiscal year 1995-96.

Disposition of Prior Year's Overallocation or Underallocation

The OAG did not have an overallocation or an underallocation of charges in fiscal year 1994-95.

DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES

The disposition of the Department of Consumer and Industry Services' (DCIS's) transportation-related funding for fiscal year 1995-96 was as follows:

Fund	Appropriated Charges	Allocated Charges	Returned Appropriations	Overallocated (Underallocated) Charges
Comprehensive Transportation	\$ 9,700	\$ 9,700	\$	\$
State Aeronautics	9,700	9,700		
State Trunkline	9,700	9,700		
Total	\$ 29,100	\$ 29,100	\$ 0	\$ 0

DCIS's expenditure ratio per appropriation unit was as follows:

Appropriation Unit	Allocated Charges	Percentage of Unit's Expenditures
Outreach Office - Washington Office	\$ 29,100	7.25%

Cost Allocation Methodology and Transportation Fund Charges

DCIS charges to the transportation funds were based on amounts appropriated to the Washington Office. Although DCIS charges were consistent with amounts appropriated, DCIS had not developed a cost allocation methodology to support its charges to the transportation funds. DCIS could not provide detail to support the allocation of funds based on transportation-related projects and services performed by the Washington Office (see Finding 1).

DCIS expended the total \$29,100 appropriated for the Washington Office for fiscal year 1995-96. The Washington Office provides liaison service between State government and the executive branch of the federal government concerning transportation programs.

Unused Transportation Fund Appropriations

There were no unused funds for DCIS for fiscal year 1995-96.

Disposition of Prior Year's Overallocation or Underallocation

DCIS did not have any overallocation or underallocation of charges for fiscal year 1994-95.

DEPARTMENT OF NATURAL RESOURCES

The disposition of the Department of Natural Resources' (DNR's) transportation-related funding for fiscal year 1995-96 was as follows:

Fund	Appropriated Charges	Allocated Charges	Returned Appropriations	Overallocated (Underallocated) Charges
State Trunkline	\$ 35,900	\$ 10,767	\$ 25,133	\$ 0

DNR's expenditure ratio per appropriation unit was as follows:

Appropriation Unit	Allocated Charges	Percentage of Unit's Expenditures
Mackinac Island State Park	\$ 10,767	0.59%

Cost Allocation Methodology and Transportation Fund Charges

DNR used a time and effort system for allocating overall costs to the State Trunkline Fund and identified individuals and projects charged. In addition, DNR allocated charges for equipment rentals.

The Mackinac Island State Park was allocated \$35,900 under the State Trunkline Fund. Mackinac Island received \$10,767 under the trunkline appropriation.

In addition, DNR's Mackinac Island State Park Commission charged \$34,000 to the State Trunkline Fund for maintaining highway M-185 at Mackinac Island. DNR's charges of \$34,000 against the State Trunkline Fund were supported by costs incurred for maintaining M-185. The Mackinac Island State Park Commission prepared an interaccount bill, supported by payroll records and equipment rental charges, to identify and account for M-185 maintenance costs for fiscal year 1995-96.

Unused Transportation Fund Appropriations

DNR returned the entire \$25,133 of unused transportation fund appropriations for fiscal year 1995-96.

Disposition of Prior Year's Overallocation or Underallocation

DNR did not have any overallocations or underallocations for fiscal year 1994-95.

MICHIGAN DEPARTMENT OF TRANSPORTATION

EXPENDITURES FROM THE MICHIGAN TRANSPORTATION FUND

Michigan Department of Transportation expenditures from the Michigan Transportation Fund for fiscal year 1995-96 were:

Receiving Agency	Appropriations and Authorizations	Expended	Lapsed
Payments to County Road Commissions	\$ 422,722,000	\$ 421,406,052	\$ 1,315,948
Payments to Cities and Villages	241,198,800	239,485,035	1,713,765
Recreation Improvement Fund	13,589,200	13,588,810	390
Comprehensive Transportation Fund:			
10% Comprehensive Transportation Purposes	129,080,900	129,004,489	76,411
Railroad Safety and Tariffs	1,204,200	1,204,200	
State Trunkline Fund:			
Critical Bridge Program	8,000,000	6,570,205	1,429,795
Economic Development Fund	36,775,000	36,775,000	
39.1% State Trunkline Purposes	422,685,190	422,685,190	
Counties and Incorporated Cities and Villages:			
Rail Grade Crossing	3,000,000	3,000,000	
Executive Direction	33,200	33,200	
Bureau of Transportation Planning	4,788,400	4,787,748	652
Highways for Engineering	2,058,600	2,058,600	
Finance and Administration	469,400	469,400	
Total	\$ 1,285,604,890	\$ 1,281,067,929	\$ 4,536,961

Cost Allocation Methodology and Transportation Fund Charges

State Trunkline Purposes, County Road Commissions, and Cities and Villages

Section 247.660 of the *Michigan Compiled Laws* (Act 51, P.A. 1951, as amended) requires that, after 10% of Michigan Transportation Fund revenues have been credited to the Comprehensive Transportation Fund, the remaining funds must be distributed as follows: 39.1% for State trunkline purposes, 39.1% for county road commissions, and 21.8% for cities and villages. The distributions for county road commissions and cities and villages are paid directly from the Michigan Transportation Fund. In fiscal year 1995-96, the amounts paid were in accordance with the statute.

Recreation Improvement Fund

Section 324.71106 of the *Michigan Compiled Laws* (Act 58, P.A. 1995) requires the Department of Treasury to transfer to the recreation improvement fund 2% of the gasoline taxes collected less a deduction for collection costs and refunds. The recreation improvement fund is administered by the Department of Natural Resources. In fiscal year 1995-96, \$13,588,810 was paid to the recreation improvement fund consistent with the statute.

Comprehensive Transportation Fund:

10% Comprehensive Transportation Purposes

Section 247.660 of the *Michigan Compiled Laws* (Act 51, P.A. 1951, as amended) requires that 10% of the revenues deposited in the State Treasury to the credit of the Michigan Transportation Fund be transferred to the Comprehensive Transportation Fund. The use of the funds is prioritized by statute. In fiscal year 1995-96, \$129,004,489 was paid to the Comprehensive Transportation Fund consistent with the statute.

Railroad Safety and Tariffs

To reimburse the Comprehensive Transportation Fund for the Michigan Transportation Fund's share in the costs of the administration of Transportation Safety and Tariffs, Bureau of Finance and Administration, \$1,204,200 was appropriated and paid.

State Trunkline Fund:

Critical Bridge Program

Section 247.661b of the *Michigan Compiled Laws* (Act 51, P.A. 1951, as amended) requires the annual transfer of \$5,000,000 to the Critical Bridge Program from the Michigan Transportation Fund. The money appropriated and interest accruing to the Fund is administered by the Michigan Department of Transportation according to promulgated rules. The Program provides financial assistance to highway authorities for the improvement or reconstruction of existing bridges or for the construction of replacement bridges. In fiscal year 1995-96, \$6,570,205 was paid to the Critical Bridge Program.

Economic Development Fund

Section 247.660 of the *Michigan Compiled Laws* (Act 51, P.A. 1951, as amended) requires the payment of \$36,775,000 to the State Trunkline Fund for subsequent deposit in the Michigan Department of Transportation's Economic Development Fund. In fiscal year 1995-96, the full amount was paid consistent with the statute.

Operations Related to Counties and Incorporated Cities and Villages

The following Michigan Transportation Fund appropriations for fiscal year 1995-96 were to reimburse the State Trunkline Fund to cover the costs of the Michigan Department of Transportation operations directly related to counties and incorporated cities and villages. The Michigan Department of Transportation receives State Trunkline Fund appropriations to fund services provided through the Executive Program, the Metro-Regional Planning Programs, the Local Government Program, and cost-shared federal highway traffic safety projects in the Traffic and Safety Program:

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

Executive Direction - To cover the Michigan Transportation Fund's share of workers' compensation costs, \$33,200 was appropriated and paid to the State Trunkline Fund.

Bureau of Transportation Planning - To reimburse the State Trunkline Fund for the Michigan Transportation Fund's share in the costs of the Bureau of Transportation Planning, \$4,787,748 was appropriated and paid.

Highways for Engineering - To reimburse the State Trunkline Fund for the full costs of local contracts and project management of the Engineering Services Division, Bureau of Highways, \$2,058,600 was appropriated and paid.

Finance and Administration - To reimburse the State Trunkline Fund for the Michigan Transportation Fund's share in the costs of the Bureau of Finance and Administration, \$469,400 was appropriated and paid.

CHARGES TO THE COMPREHENSIVE TRANSPORTATION AND STATE AERONAUTICS FUNDS

The Michigan Department of Transportation charges to the Comprehensive Transportation and State Aeronautics Funds for the State Trunkline Fund for fiscal year 1995-96 were:

<u>Fund/Purpose</u>	<u>Appropriated Charges</u>	<u>Allocated Charges</u>	<u>Returned Appropriations</u>	<u>Overallocated Charges</u>
Comprehensive Transportation:				
Administration and Data Center	\$ 1,579,700	\$ 1,579,700	\$	\$
Planning	1,618,500	1,618,500		
State Aeronautics:				
Administration and Data Center	577,300	577,300		
Planning	226,700	226,700		
Total	<u>\$ 4,002,200</u>	<u>\$ 4,002,200</u>	<u>\$ 0</u>	<u>\$ 0</u>

Cost Allocation Methodology and Transportation Fund Charges

The administration and data center charges and the planning charges consisted of the Comprehensive Transportation and State Aeronautics Funds allocated portion of these costs to the State Trunkline Fund. If these amounts are not representative of the actual costs, budget requests submitted in subsequent years are modified to reflect the differences.

TRANSPORTATION RELATED SPECIAL REVENUE FUNDS

Summary of Grants

Fiscal Year Ended September 30, 1996

Receiving Agency	Grants Made From				Agency Total
	Comprehensive Transportation Fund	Michigan Transportation Fund	State Aeronautics Fund	State Trunkline Fund	
Department of State	\$	\$ 79,364,505	\$	\$	\$ 79,364,505
Michigan Department of State Police		570,714		5,907,733	6,478,447
Department of Treasury	1,600	6,151,795	55,762	22,000	6,231,157
Department of Management and Budget	40,800	240,500	23,000	4,952,000	5,256,300
Department of Civil Service	99,074	666,477	49,587	3,369,004	4,184,142
Department of Attorney General	98,008		49,399	1,856,347	2,003,754
Department of Environmental Quality		755,500			755,500
Office of the Auditor General	44,900	171,400	19,400	282,000	517,700
Department of Consumer and Industry Services	9,700		9,700	9,700	29,100
Department of Natural Resources				10,767	10,767
Total for Nontransportation Agencies	<u>\$ 294,082</u>	<u>\$ 87,920,891</u>	<u>\$ 206,848</u>	<u>\$ 16,409,551</u>	<u>\$ 104,831,372</u>
Michigan Department of Transportation:					
Payments to County Road Commissions	\$	\$ 421,406,052	\$	\$	\$ 421,406,052
Payments to Cities and Villages		239,485,035			239,485,035
Recreation Improvement Fund		13,588,810			13,588,810
Comprehensive Transportation Fund:					
10% Comprehensive Transportation Purposes		129,004,489			129,004,489
Railroad Safety and Tariffs		1,204,200			1,204,200
State Trunkline Fund:					
Critical Bridge Program		6,570,205			6,570,205
Economic Development Fund		36,775,000			36,775,000
39.1% State Trunkline Purposes		422,685,190			422,685,190
Rail Grade Crossing		3,000,000			3,000,000
Executive Direction		33,200			33,200
Bureau of Transportation Planning		4,787,748			4,787,748
Highways for Engineering		2,058,600			2,058,600
Finance and Administration		469,400			469,400
Administration and Data Center	1,579,700		577,300		2,157,000
Planning	1,618,500		226,700		1,845,200
Total for Michigan Department of Transportation	<u>\$ 3,198,200</u>	<u>\$ 1,281,067,929</u>	<u>\$ 804,000</u>	<u>\$ 0</u>	<u>\$ 1,285,070,129</u>
Grand Total	<u>\$ 3,492,282</u>	<u>\$ 1,368,988,820</u>	<u>\$ 1,010,848</u>	<u>\$ 16,409,551</u>	<u>\$ 1,389,901,501</u>

Glossary of Acronyms and Terms

DCIS	Department of Consumer and Industry Services.
DCS	Department of Civil Service.
DEQ	Department of Environmental Quality.
DMB	Department of Management and Budget.
DNR	Department of Natural Resources.
financial related audit	An audit that includes determining whether (1) financial information is presented in accordance with established or stated criteria, (2) the entity has adhered to specific financial compliance requirements, or (3) the entity's internal control structure over financial reporting and/or safeguarding assets is suitably designed and implemented to achieve the control objectives.
FTE	full-time equated position.
Michigan Administrative Information Network (MAIN)	A fully integrated automated financial management system for the State of Michigan.
MSP	Michigan Department of State Police.
OAG	Office of the Auditor General.
Statewide Cost Allocation Plan	The official cost allocation methodology accepted by federal grantor agencies for the State's negotiated indirect cost rate.