

EXECUTIVE DIGEST

ADMINISTRATION OF ACT 51, P.A. 1951, AS AMENDED

INTRODUCTION

This report contains the results of our performance audit* of the Administration of Act 51, P.A. 1951, as amended, by the Michigan Department of Transportation (MDOT) and the Department of Treasury.

AUDIT PURPOSE

This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General and was mandated by Act 341, P.A. 1996. Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency*.

BACKGROUND

The Michigan Transportation Fund is the depository for motor vehicle license revenue and gasoline tax revenue. After various statutory deductions and distributions, the revenue is distributed to the State (39.1%), to counties (39.1%), and to cities and villages (21.8%). The allocation to the local units* is based on mileage, population, and vehicle registrations.

Act 51, P.A. 1951, as amended (Sections 247.651 - 247.675 of the *Michigan Compiled Laws*), restricts the use of the funds to road maintenance, road construction, snow removal, and local road construction projects. Local units are required to report to MDOT, through the Act 51 report*,

how the funds have been expended. The unit in MDOT with primary responsibility for reviewing the reports was the Act 51 Unit.

Under Sections 141.421 - 141.437 and 224.26 - 224.32 of the *Michigan Compiled Laws*, the Department of Treasury is responsible for the establishment of accounting policies and procedures for local units of government. The Department is also responsible for ensuring that the local units receive an audit of their records. If a local unit fails to receive an audit, the Department will either perform the audit or contract with a public accounting firm to conduct the audit. Subsequent to our audit fieldwork, Act 79, P.A. 1997, an amendment to Act 51, P.A. 1951, assigned the Department the responsibility to conduct performance audits of the road funds of local units.

The total amount distributed from the Michigan Transportation Fund to local units in fiscal year 1996-97 was \$724.2 million.

**AUDIT OBJECTIVES
AND CONCLUSIONS**

Audit Objective: To assess the effectiveness and efficiency of the State's internal control structure* over the annual reporting and monitoring of the expenditure of Act 51 funds to ensure that the funds are expended in compliance with Act 51, P.A. 1951, as amended.

Conclusion: The internal control structure was generally effective and efficient; however, our assessment disclosed one material condition*:

- The Department of Treasury had not developed audit procedures and reporting requirements to help ensure that material Act 51 compliance requirements are audited (Finding 1).

Audit Objective: To determine if Act 51, P.A. 1951, as amended, provides a process that is effective and efficient in the allocation, distribution, and use of transportation dedicated funding.

Conclusion: The Act 51 process to allocate, distribute, and use transportation dedicated funds was generally effective and efficient; however, our assessment disclosed three material conditions:

- There was no Statewide process that identifies needs and prioritizes the use and allocation of road funds for primary roads and major streets that cross multiple jurisdictions (Finding 2).
- The State did not have a system in place to monitor local units' reported road fund balances to determine if the local units are effectively utilizing the road fund distributions (Finding 3).
- The Act 51 distribution formula for road funds did not include significant factors that have a bearing on the useful life of a road or a road's need for repair (Finding 4).

Our assessment also disclosed one reportable condition* regarding the distribution of road funds (Finding 5).

**AUDIT SCOPE AND
METHODOLOGY**

Our audit scope was to examine policies and other records of the Michigan Department of Transportation, the Department of Treasury, county road commissions, county boards of commissioners, cities, and villages. 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.

A summary of road fund balances for selected counties and a summary of street fund balances for selected cities and villages are included in this report as supplemental information. These summaries were prepared from the audited financial statements of the local units. Our audit was not directed toward expressing an opinion on this information and, accordingly, we express no opinion on it.

Our methodology included examining records and activities for the period October 1994 through May 1997.

To accomplish our objectives, we reviewed Act 51, P.A. 1951, as amended, to identify compliance issues and reporting requirements. We also reviewed Act 51 reports and tested local unit expenditures. In addition, we met with personnel from MDOT; the Department of Treasury; public accounting firms; and local units, which included the counties of Clare, Jackson, and Wayne; the cities of DeWitt, Gaylord, Grand Rapids, and Lansing; and the villages of Lakeview and Sanford.

AGENCY RESPONSES

Our audit report contains 3 findings and 3 corresponding recommendations directed to MDOT and 2 findings and 3 corresponding recommendations directed to the Department of Treasury. MDOT agreed with all of the recommendations directed to MDOT. The Department of Treasury did not agree with any of the recommendations directed to it.