

FINANCIAL RELATED AUDIT
OF THE
USE OF TRANSPORTATION-RELATED FUNDING

October 1, 1998 through September 30, 1999

EXECUTIVE DIGEST

USE OF TRANSPORTATION-RELATED FUNDING

INTRODUCTION

This report contains the results of our financial related audit* of the Use of Transportation-Related Funding for the period October 1, 1998 through September 30, 1999.

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 provide for enhanced financial reporting of significant State programs and/or activities and to complement the annual audit of the State's financial statements.

Also, this audit is mandated by Section 306, Act 309, P.A. 1998, which was approved on July 27, 1998. This section requires the Auditor General to conduct an audit of fiscal year 1998-99 charges to transportation funds by State agencies. The report shall include recommendations and conclusions, including a list of services charged to the transportation funds, the appropriateness of the charges, and the cost allocation methodologies.

This audit report addresses State agencies' charges to the transportation funds as submitted on their annual reports of transportation funds used pursuant to Section 505, Act

* See glossary at end of report for definition.

309, P.A. 1998, and charges and operating transfers among transportation funds. The Michigan Transportation Fund made \$879.6 million in grant payments in fiscal year 1998-99 to the counties, cities, and villages for highway purposes, which were not included in the scope of this audit.

BACKGROUND

Appropriations acts require State agencies that receive transportation-related funding for providing tax and fee 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. These agencies are also required to annually report the amount of funding contracted for, expended, and returned to the transportation funds.

The Michigan Department of Transportation accounted for \$902,738,999 in operating transfers among transportation funds and other State agencies accounted for \$61,695,232 of the \$964,434,231 in total transportation-related funding expended during fiscal year 1998-99 (see the summary of reported transportation funds used and the summary of charges and operating transfers among transportation funds, 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 10 agencies that received transportation funding, 8 agencies (the Departments of State, Management and Budget, Attorney General,

Civil Service, 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. However, our audit disclosed a reportable condition* involving the other 2 agencies (the Department of Treasury and the Michigan Department of State Police), which had not followed appropriate cost allocation methodologies (Finding 1).

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

Conclusion: All the agencies had returned their unused transportation fund appropriations for fiscal year 1998-99 to the appropriate transportation fund.

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

Conclusion: All State agencies reviewed had executed the required contracts with the Michigan Department of Transportation for fiscal year 1998-99. However, our audit disclosed a reportable condition regarding an appropriations act requirement (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, 1998 through September 30, 1999. 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

* See glossary at end of report for definition.

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 compiled supplemental information about the agencies' use of transportation-related funding based on information provided by the agencies and the Michigan Department of Transportation. 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 2 of the 5 prior audit recommendations. We are repeating the recommendations that were not complied with in this report.

June 5, 2001

The Honorable Harry Gast, Chairman
Senate Appropriations Committee
Michigan Senate
and

The Honorable Marc Shulman, Chairman
House Appropriations Committee
Michigan House of Representatives
State Capitol
Lansing, Michigan

Dear Senator Gast and Representative Shulman:

This is our special report on the financial related audit of the Use of Transportation-Related Funding by the Departments of State, Treasury, Management and Budget, State Police, Attorney General, Civil Service, Environmental Quality, Natural Resources, and Transportation and the Office of the Auditor General for the period October 1, 1998 through September 30, 1999, as required by Section 306, Act 309, P.A. 1998.

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, a summary of reported transportation funds used, and a summary of charges and operating transfers among transportation funds, 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.

AUDITOR GENERAL

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Description of Funding Requirements

Appropriations acts require State agencies that receive transportation-related funding for providing tax and fee 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. These agencies are also required to annually report the amount of funding contracted for, expended, and returned to the transportation funds.

In fiscal year 1998-99, transportation-related funding was provided to the following State agencies: the Departments of State, Treasury, Management and Budget, State Police, Attorney General, Civil Service, Environmental Quality, and Natural Resources and the Office of the Auditor General. These agencies accounted for \$61,695,232 of the \$964,434,231 in total transportation-related funding expended and the Michigan Department of Transportation accounted for \$902,738,999 in operating transfers among transportation funds during fiscal year 1998-99 (see the summary of reported transportation funds used and the summary of charges and operating transfers among transportation funds, 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 whether 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, 1998 through September 30, 1999. 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 compiled supplemental information about the agencies' use of transportation-related funding based on information provided by the agencies and the Michigan Department of Transportation. 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 2 of the 5 prior audit recommendations. We are repeating the recommendations that were not complied with 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 10 agencies that received transportation funding, 8 agencies (the Departments of State, Management and Budget [DMB], Attorney General, Civil Service, Environmental Quality, Natural Resources, and Transportation [MDOT] and the Office of the Auditor General) had complied with the appropriations acts by applying adequate cost allocation methodologies to identify transportation-related costs. However our audit disclosed a reportable condition involving the other 2 agencies (the Department of Treasury and the Michigan Department of State Police [MSP]), which had not followed appropriate cost allocation methodologies.

FINDING

1. Cost Allocation Methodologies

DMB, in conjunction with MDOT, had not established an effective process to ensure that the State agencies followed appropriate cost allocation methodologies. Also, DMB had not developed a process to settle overcharges and undercharges from 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 request is based on information submitted by the departments.

Section 505, Act 309 P.A. 1998 (a section of the fiscal year 1998-99 appropriations act for MDOT), requires 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 the transportation funds for 10 agencies (see the detailed review comments by agency presented as supplemental information). Our review noted that the Department of Treasury's contract with MDOT specified a cost allocation methodology based on time-and-effort spent on transportation-related activities. However, the Department of Treasury incorrectly used appropriation funding ratios to allocate costs that resulted in an overallocation of charges to the transportation funds of \$1,071,740.

Our review also noted that MSP made unsupported adjustments to charges from its Motor Carrier Division that resulted in an overallocation of charges to the transportation funds of \$149,988.

We identified the same situation for the Department of Treasury in our prior audit; however, DMB did not work with the Department of Treasury to change its methodology to a time-and-effort cost allocation. The Department of Treasury informed us that Michigan Transportation Fund funding for the Department of Treasury has been eliminated in subsequent fiscal periods. It also stated that the Legislature consistently supported Department of Treasury collection costs based on the ratio of appropriated transportation funding to total Department of Treasury appropriations.

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. Overallocations or underallocations occur when agencies charge and collect transportation funds incorrectly because of errors in their allocation process or delays in obtaining accurate data.

RECOMMENDATIONS

WE AGAIN RECOMMEND THAT DMB, IN CONJUNCTION WITH MDOT, ESTABLISH AN EFFECTIVE PROCESS TO ENSURE THAT THE STATE AGENCIES FOLLOW APPROPRIATE COST ALLOCATION METHODOLOGIES.

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

UNUSED TRANSPORTATION FUND APPROPRIATIONS

COMMENT

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

Conclusion: All the agencies had returned their unused transportation fund appropriations for fiscal year 1998-99 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 1998-99 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 the appropriations acts.

Conclusion: All State agencies reviewed had executed the required contracts with MDOT for fiscal year 1998-99. However, our audit disclosed a reportable condition regarding an appropriations act requirement.

FINDING

2. Appropriations Act Requirement

MSP did not determine the cost of maintaining the traffic accident records program based on respective use as required by the annual appropriations act.

Section 502, Act 293, P.A. 1998, required MSP, in conjunction with MDOT, the Department of State, and DMB, to determine the cost of maintaining the traffic accident records program, based on each department's respective use. However, MSP charged the three departments for one third of the cost of maintaining the traffic accident records program. MSP may have overcharged or undercharged

MDOT for the cost of maintaining the traffic accident records program. The amount is indeterminable because of the lack of cost data available from MSP.

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

RECOMMENDATION

WE AGAIN RECOMMEND THAT MSP DETERMINE THE COST OF MAINTAINING THE TRAFFIC ACCIDENT RECORDS PROGRAM BASED ON RESPECTIVE USE AS REQUIRED BY THE ANNUAL APPROPRIATIONS ACT.

SUPPLEMENTAL INFORMATION

DEPARTMENT OF STATE
Annual Report of Transportation Funds Used
Fiscal Year 1998-99

Services and Other Charges to the Transportation Funds	Contract Amount	Expended	Returned
Michigan Transportation Fund			
Collection of taxes, fees, and other services	\$ 46,604,600	\$ 36,778,512	\$ 9,826,088
Document management system	500,000*		
Total	<u>\$ 47,104,600</u>	<u>\$ 36,778,512</u>	<u>\$ 9,826,088</u>

* This money was appropriated but neither expended nor returned. It was carried forward as a work project. Any funds appropriated as a work project and not expended within 36 months after fiscal year 1998-99 year-end must be returned to the Michigan Transportation Fund.

Appropriateness of Charges and Cost Allocation Methodology

The preceding table represents amounts reported by the Department of State pursuant to Section 505, Act 309, P.A. 1998. The Department of State's charges to the Michigan Transportation Fund (MTF) were used to finance the collection of transportation taxes, fees, and other transportation-related services and the installation of the document management system. The Department of State collected approximately \$765,247,196 of revenue credited to MTF in fiscal year 1998-99.

The Department of State's charges against MTF for collection of transportation taxes, fees, and other transportation-related services were based on MTF's share of funding (funding ratio) of the appropriated expenditures. During fiscal year 1995-96, the Departments of State, Management and Budget, and Transportation jointly contracted with an outside firm to determine the appropriateness of the funding provided by MTF. The contracted firm performed a time-and-effort cost study that determined the amount of expenditures that should have been allocated to MTF and the adequacy of the funding provided by MTF. As determined by the original cost study results, the charges to MTF were supported by the expenditures allocated to MTF; however, the funding provided was insufficient by a small amount.

The Department of State retained the firm to conduct future time-and-effort cost studies. For fiscal year 1998-99, the firm determined that the Department of State should have

charged MTF \$85,517,890 for the services provided. We reviewed the firm's supporting documentation and concluded that the documentation supports the firm's position. However, the Department of State did not charge MTF for the total expenditures allocable to MTF because that would have violated provisions of the appropriations act.

Section 110, Act 310, P.A. 1998, established that funding from MTF should not exceed \$47,104,600, with not more than \$46,604,600 used for collection of transportation taxes, fees, and other transportation-related services and not more than \$500,000 for the document management work project. Also, because the Department of State obtained funds based on the appropriated funding ratio, it obtained only \$36,778,512 instead of the full funding amount available. Consequently, there was an underallocation of charges of \$48,739,378.

In addition, the Department of State collected the \$500,000 appropriated from MTF for the document management system work project but did not incur expenditures for the project during fiscal year 1998-99. The Department of State carried the funding forward to offset upcoming document management system work project expenditures. At the end of fiscal year 1998-99, the Department of State still had up to 36 months to expend the funding. Funds remaining subsequent to the 36-month time period should be returned to MTF. We conclude that the charges and the cost allocation methodologies were reasonable.

DEPARTMENT OF TREASURY
Annual Report of Transportation Funds Used
Fiscal Year 1998-99

Services and Other Charges to the Transportation Funds	Contract Amount	Expended	Returned
Comprehensive Transportation Fund			
Investment services	\$ 7,500	\$ 7,500	\$ 0
Michigan Transportation Fund			
Investment services	24,000		24,000
Collection of motor fuel taxes	6,875,900	6,819,571	56,329
State Aeronautics Fund			
Investment services	4,300		4,300
Collection of motor fuel taxes	54,400	53,879	521
State Trunkline Fund			
Investment services	18,800	18,800	0
Total	<u>\$ 6,984,900</u>	<u>\$ 6,899,750</u>	<u>\$ 85,150</u>

Appropriateness of Charges and Cost Allocation Methodology

The preceding table represents amounts reported by the Department of Treasury pursuant to Section 505, Act 309, P.A. 1998. The Department of Treasury charged the transportation funds \$6,873,450 for collecting motor fuel tax revenue on behalf of the transportation funds and \$54,600 for investment services conducted on behalf of the transportation funds. The transportation funds paid \$6,873,450 for collection of motor fuel taxes but paid only \$26,300 for investment services.

The Department of Treasury collected \$1,066,743,000 of revenue on behalf of the transportation funds for fiscal year 1998-99. The Department of Treasury's charges of \$6,873,450 for collection of the revenue were incorrectly based on the ratio of appropriated transportation funding to total Department of Treasury appropriations (see Finding 1).

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 of transportation fund revenue to total tax revenue. The transportation funds' proportionate share of the Department of Treasury's collection costs of \$111,118,068 was \$5,773,410. As a result, the Department of Treasury overcharged the transportation funds by \$1,100,040 in fiscal year 1998-99.

The Department of Treasury's charge of \$54,600 for investment services was based on the transportation funds' proportionate share of the Department of Treasury's cost of investing activities. The Department of Treasury 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. Our review of the payments from the transportation funds disclosed that only \$26,300 was paid for investment services, \$7,500 from the Comprehensive Transportation Fund and \$18,800 from the State Trunkline Fund. Neither the Michigan Transportation Fund nor the State Aeronautics Fund paid investment services charges. As a result, the Department of Treasury was underpaid by \$28,300 for investment services.

In total, the Department of Treasury was overpaid a net \$1,071,740, which consists of overpayment of \$1,100,040 for collection of motor fuel taxes and underpayment of \$28,300 for investment services.

DEPARTMENT OF MANAGEMENT AND BUDGET
 Annual Report of Transportation Funds Used
Fiscal Year 1998-99

Services and Other Charges to the Transportation Funds	Contract Amount	Expended	Returned
Comprehensive Transportation Fund			
Central services	\$ 19,500	\$ 19,500	\$ 0
Michigan Transportation Fund			
Central services	322,700	322,700	0
MAIN user charges	2,364,800	1,823,900	540,900
State Aeronautics Fund			
Central services	38,200	38,200	0
MAIN user charges	47,600	47,600	0
State Trunkline Fund			
Central services	396,600	396,600	0
Building occupancy charges	3,909,800	3,855,204	54,596
Total	<u>\$ 7,099,200</u>	<u>\$ 6,503,704</u>	<u>\$ 595,496</u>

Appropriateness of Charges and Cost Allocation Methodology

The preceding table represents amounts reported by the Department of Management and Budget (DMB) pursuant to Section 505, Act 309, P.A. 1998. DMB charged the transportation funds for central services, such as payroll, central audit, fixed assets accounting, space leasing services, mail and freight, purchasing, employer services, budgeting, contract management, the Michigan Administrative Information Network's (MAIN's) development and operation costs, and operating costs of buildings used by transportation programs.

For these charges, DMB uses the Statewide Cost Allocation Plan* to allocate expenditures to the transportation funds. This method allocates costs based on estimated expenditures and adjusts future allocations for the differences between estimated and actual expenditures. DMB did not charge the Comprehensive Transportation Fund or the State Trunkline Fund for MAIN charges during fiscal year 1998-99 because each fund overpaid its share of the MAIN charges in prior fiscal years.

DMB's total actual costs for services provided to transportation funds for fiscal year 1998-99 were \$942,342 more than the \$6,503,704 charged to transportation funds. We conclude that the charges and the cost allocation methodology were reasonable.

MICHIGAN DEPARTMENT OF STATE POLICE
 Annual Report of Transportation Funds Used
Fiscal Year 1998-99

<u>Services and Other Charges to the Transportation Funds</u>	<u>Contract Amount</u>	<u>Expended</u>	<u>Returned</u>
Michigan Transportation Fund			
Office of Highway Safety Planning	\$ 547,200	\$ 523,792	\$ 23,408
State Trunkline Fund			
Motor Carrier Division	5,785,100	5,407,029	378,071
Criminal Justice Data Center	302,400	293,275	9,125
Total	<u>\$ 6,634,700</u>	<u>\$ 6,224,096</u>	<u>\$ 410,604</u>

Appropriateness of Charges and Cost Allocation Methodology

The preceding table represents amounts reported by the Michigan Department of State Police (MSP) pursuant to Section 505, Act 309, P.A. 1998. MSP charged the transportation funds for the State match of the Federal Highway Safety Grant and for the cost of services provided to the Michigan Department of Transportation (MDOT) by MSP's Motor Carrier Division and MSP's Criminal Justice Data Center.

MSP's contract with MDOT provided that the Michigan Transportation Fund would fund the State match of the Federal Highway Safety Grant. MSP's Office of Highway Safety Planning spent \$523,792 of matching funds to support the personnel and activities related to the planning and administration portion of the Office of Highway Safety Planning operations. We determined that the charges and the cost allocation methodology for the matching funds were appropriate.

The Motor Carrier Division charged \$5,407,029 for enforcing State Trunkline Fund related regulations as well as other motor carrier regulations financed with motor carrier fees. These transportation funds were used to support 109 full-time equated employees who administered and enforced the Motor Carrier Division's programs and regulations. The Motor Carrier Division performed enforcement activities related to traffic safety, commercial vehicle regulations, and other activities performed through weigh stations and road patrol.

The Motor Carrier Division charges against the State Trunkline Fund were based on the total level of funding provided by the motor carrier enforcement budget, which provided funding for enforcement and program administration. The Motor Carrier Division had a proper cost allocation methodology in place. However, MSP did not have adequate support for fiscal year-end adjustments made. These adjustments resulted in an overallocation of charges to MDOT of \$149,988 (see Finding 1).

The Criminal Justice Data Center charged \$293,275 for the salary and wage, retirement, insurance, and longevity costs of 17 full-time equated employees who directly supported the processing of accident records. The Criminal Justice Data Center provides software, mainframe computer processing, data keying equipment, and related services to maintain the traffic accident records.

The Criminal Justice Data Center shared costs with two other State departments that received and used data that it produced. Section 502, Act 293, P.A. 1998, required MSP, in conjunction with MDOT and the Departments of State and Management and Budget, to determine the cost of maintaining the traffic accident records program, based on each department's respective use. However, MSP did not make this determination and instead used its original shared cost system in violation of Section 502, Act 293, P.A. 1998, which may have resulted in an undetermined amount of overallocation or underallocation of MDOT funds.

The Office of Highway Safety Planning returned unused funds of \$23,408 to the Michigan Transportation Fund, the Motor Carrier Division returned \$378,071 to the State Trunkline Fund, and the Criminal Justice Data Center returned \$9,125 to the State Trunkline Fund.

DEPARTMENT OF ATTORNEY GENERAL
 Annual Report of Transportation Funds Used
Fiscal Year 1998-99

Services and Other Charges to the Transportation Funds	Contract Amount	Expended	Returned
Comprehensive Transportation Fund			
Legal services	\$ 116,600	\$ 81,678	\$ 34,922
State Aeronautics Fund			
Legal services	109,800	66,298	43,502
State Trunkline Fund			
Legal services	2,246,400	1,616,484	629,916
Total	<u>\$ 2,472,800</u>	<u>\$ 1,764,460</u>	<u>\$ 708,340</u>

Appropriateness of Charges and Cost Allocation Methodology

The preceding table represents amounts reported by the Department of Attorney General pursuant to Section 505, Act 309, P.A. 1998. The Department of Attorney General's charges of \$1,764,460 consisted of salary, retirement, and insurance costs of attorneys and staff assigned to work on legal issues relating to the transportation funds. These positions provided legal services exclusively to transportation programs and were assigned to the Highway Negligence and the Transportation Divisions.

The charges shown in the table were assigned to the applicable transportation fund according to the percentage of time that the attorney or staff position worked on legal issues relating to that applicable fund. We conclude that the charges and the cost allocation methodology were reasonable.

DEPARTMENT OF CIVIL SERVICE
Annual Report of Transportation Funds Used
Fiscal Year 1998-99

Services and Other Charges to the Transportation Funds	Contract Amount	Expended	Returned
Comprehensive Transportation Fund			
Constitutionally required 1% funding	\$ 86,089	\$ 86,089	\$ 0
State Aeronautics Fund			
Constitutionally required 1% funding	45,363	45,363	0
State Trunkline Fund			
Constitutionally required 1% funding	1,625,759	1,625,759	0
Total	<u>\$ 1,757,211</u>	<u>\$ 1,757,211</u>	<u>\$ 0</u>

Appropriateness of Charges and Cost Allocation Methodology

The preceding table represents amounts reported by the Department of Civil Service (DCS) pursuant to Section 505, Act 309, P.A. 1998. DCS charged the transportation funds \$1,757,211 for the constitutionally required 1% of the aggregate payroll associated with the transportation funds.

The primary funding for the operations of DCS is provided under Article XI of the Constitution. Article XI, 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 were appropriated to DCS based on the executive budget request prepared by the Office of Budget Development and General Government, Department of Management and Budget, in conjunction with DCS's Budget and Financial Services.

For fiscal year 1998-99, DCS charges to transportation funds for the constitutionally required one percent were based on actual fiscal year 1997-98 salary and fringe benefit expenditures charged to the transportation funds. We conclude that the charges and the cost allocation methodology were reasonable.

DEPARTMENT OF ENVIRONMENTAL QUALITY
 Annual Report of Transportation Funds Used
Fiscal Year 1998-99

Services and Other Charges to the Transportation Funds	Contract Amount	Expended	Returned
Michigan Transportation Fund			
Permits for transportation projects	\$ 780,000	\$ 780,000	\$ 0
Total	<u>\$ 780,000</u>	<u>\$ 780,000</u>	<u>\$ 0</u>

Appropriateness of Charges and Cost Allocation Methodology

The preceding table represents amounts reported by the Department of Environmental Quality pursuant to Section 505, Act 309, P.A. 1998. The Land and Water Management Division, Department of Environmental Quality, charged and received \$780,000 from the Michigan Department of Transportation to pay for the salaries, wages, and fringe benefits of 11 full-time equated employees who worked exclusively on acquiring permits for transportation projects.

For the charges shown in the table, the Department of Environmental Quality used a time-and-effort system for allocating the payroll costs to the Michigan Transportation Fund, which identified individuals and projects charged. We conclude that the charges and the cost allocation methodology used were reasonable.

OFFICE OF THE AUDITOR GENERAL
 Annual Report of Transportation Funds Used
Fiscal Year 1998-99

Services and Other Charges to the Transportation Funds	Contract Amount	Expended	Returned
Comprehensive Transportation Fund			
Audit services	\$ 36,100	\$ 36,000	\$ 100
Michigan Transportation Fund			
Audit services	101,800	96,800	5,000
State Aeronautics Fund			
Audit services	15,400	15,300	100
State Trunkline Fund			
Audit services	341,000	339,400	1,600
Total	<u>\$ 494,300</u>	<u>\$ 487,500</u>	<u>\$ 6,800</u>

Appropriateness of Charges and Cost Allocation Methodology

The preceding table represents amounts reported by the Office of the Auditor General (OAG) pursuant to Section 505, Act 309, P.A. 1998. The OAG's charges of \$487,500 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. In fiscal year 1998-99, the OAG methodology calculated a rate of approximately \$60 per hour.

Although, this methodology was adhered to for the fiscal year 1998-99 allocation of expenditures to transportation funds, subsequent adjustments made to comply with the OAG's appropriations act's expenditure and funding levels resulted in \$1,740 less than the actual charges being allocated to the transportation funds. We conclude that the charges and the cost allocation methodology were reasonable.

DEPARTMENT OF NATURAL RESOURCES
 Annual Report of Transportation Funds Used
Fiscal Year 1998-99

<u>Services and Other Charges to the Transportation Funds</u>	<u>Contract Amount</u>	<u>Expended</u>	<u>Returned</u>
State Trunkline Fund			
Maintenance services	\$ 36,300	\$ 0	\$ 36,300
Total	<u>\$ 36,300</u>	<u>\$ 0</u>	<u>\$ 36,300</u>

Appropriateness of Charges and Cost Allocation Methodology

The preceding table represents amounts reported by the Department of Natural Resources pursuant to Section 505, Act 309, P.A. 1998. The Department of Natural Resources returned the contracted amount to the Michigan Department of Transportation (MDOT) because MDOT now contracts directly with the Mackinac Island State Park Commission for maintenance services for highway M-185 on Mackinac Island. The Mackinac Island State Park Commission contracted with MDOT for maintenance services and \$31,643 was paid from the State Trunkline Fund for these services.

MICHIGAN DEPARTMENT OF TRANSPORTATION

Michigan Transportation Fund Operating Transfers to Other Transportation Funds

Michigan Department of Transportation (MDOT) operating transfers to other transportation funds from the Michigan Transportation Fund (MTF) for fiscal year 1998-99 were:

<u>Receiving Fund</u>	<u>Appropriations and Authorizations</u>	<u>Operating Transfers Out</u>	<u>Lapsed</u>
Comprehensive Transportation Fund			
10% Comprehensive Transportation Purposes	\$ 153,047,200	\$ 153,046,853	\$ 347
Railroad Safety and Tariffs Program	1,426,700	1,219,786	206,914
State Trunkline Fund			
39.1% State Trunkline Purposes	612,708,504	612,708,293	211
Critical Bridge Program	5,000,000	5,000,000	0
Critical Bridge Debt Service	3,000,000	1,394,312	1,605,688
Economic Development Fund (EDF)	36,775,000	36,775,000	0
Target Industries (EDF)	3,500,000	3,500,000	0
Debt Service	43,000,000	43,000,000	0
Local Road Program	33,000,000	33,000,000	0
Rail Grade Crossing Program	3,000,000	3,000,000	0
Executive Direction	33,200	33,200	0
Bureau of Transportation Planning	4,320,300	4,268,029	52,271
Highways for Engineering	1,739,500	1,739,500	0
Finance and Administration	462,700	462,700	0
Administration and Data Center	23,900	1,536	22,364
Total	<u>\$ 901,037,004</u>	<u>\$ 899,149,209</u>	<u>\$ 1,887,795</u>

Cost Allocation Methodology and Transportation Fund Charges

Comprehensive Transportation Fund:

10% Comprehensive Transportation Purposes

Section 247.660 of the *Michigan Compiled Laws* (Act 51, P.A. 1951, as amended) requires that up to 10% of the revenues deposited in the State Treasury to the credit of MTF be transferred to the Comprehensive Transportation Fund. The use of the funds is prioritized by statute. In fiscal year 1998-99, \$153,046,853 was paid to the Comprehensive Transportation Fund consistent with the statute.

Railroad Safety and Tariffs Program

To reimburse the Comprehensive Transportation Fund for MTF's share in the costs of the administration of Transportation Safety and Tariffs, Bureau of Urban and Public Transportation, \$1,219,786 was paid.

State Trunkline Fund:

39.1% State Trunkline Purposes

Section 247.660 of the *Michigan Compiled Laws* (Act 51, P.A. 1951, as amended) requires that, after up to 10% of MTF revenues have been credited to the Comprehensive Transportation Fund, 39.1% of the remaining funds must be distributed to the State Trunkline Fund for State trunkline purposes.

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 MTF. The money appropriated and interest accruing to MTF is administered by MDOT according to promulgated rules. The Program provides financial assistance to local and county road commissions for the improvement or reconstruction of existing bridges or for the construction of replacement bridges. In fiscal year 1998-99, \$5,000,000 was appropriated to the Critical Bridge Program.

Critical Bridge Debt Service

Section 247.660(b) of the *Michigan Compiled Laws* (Act 51, P.A. 1951 as amended) requires the annual transfer from MTF of not less than \$3,000,000 to the Critical Bridge Fund for the payment of principal, interest, and redemption on any notes or bonds issued by the State Transportation Commission under Section 247.661b. In fiscal year 1998-99, \$3,000,000 was appropriated, but MDOT paid the debt service requirement of \$1,394,312 and lapsed \$1,605,688.

Economic Development Fund and Target Industries

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 MDOT's Economic Development Fund. In fiscal year 1998-99, the full amount was paid consistent with the statute.

In addition, this section requires, beginning October 1, 1997, that \$3,500,000 be appropriated from MTF to the State Trunkline Fund for subsequent deposit in

MDOT's Economic Development Fund to be used for economic development road projects in any of the following targeted industries: agriculture or food processing, tourism, forestry, high technology research, manufacturing, mining, and office centers of not less than 50,000 square feet. In fiscal year 1998-99, the full amount was paid consistent with the statute.

Debt Service

Section 247.660 of the *Michigan Compiled Laws* (Act 51, P.A. 1951, as amended) requires the payment of \$43,000,000 to the State Trunkline Fund for debt service costs on State of Michigan projects. In fiscal year 1998-99, the full amount was paid consistent with the statute.

Local Road Program

Section 247.660 of the *Michigan Compiled Laws* (Act 51, P.A. 1951, as amended) requires that, beginning October 1, 1995, a grant of not less than \$33,000,000 be made to the State Trunkline Fund, which shall then be made to the Local Road Program. These funds received shall then be distributed 64.2% to county road commissions and 35.8% to cities and villages. In fiscal year 1998-99, the full amount was paid consistent with the statute.

Rail Grade Crossing Program - 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 MTF and paid to the State Trunkline Fund.

Executive Direction - To cover MTF'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 MTF's share in the costs of the Bureau of Transportation Planning, \$4,320,300 was appropriated and \$4,268,029 was paid.

Highways for Engineering - To reimburse the State Trunkline Fund for the costs of local contracts and project management of the Engineering Services Division, Bureau of Highways, \$1,739,500 was appropriated and paid.

Finance and Administration - To reimburse the State Trunkline Fund for MTF's share in the costs of the Bureau of Finance and Administration, \$462,700 was appropriated and paid.

Administration and Data Center - To reimburse the State Trunkline Fund for computer hardware and software purchased for MTF funded services, \$23,900 was appropriated and \$1,536 was paid.

State Trunkline Fund Charges to the Comprehensive Transportation and State Aeronautics Funds

State Trunkline Fund charges to the Comprehensive Transportation Fund were as follows:

Fund/Purpose	Appropriated Funding	Allocated Charges	Returned Appropriations	Overallocated (Underallocated) Charges
Comprehensive Transportation Fund				
Administration and Data Center	\$ 1,232,300	\$ 1,193,644	\$ 38,656	\$ 0
Planning	1,631,000	1,413,704	217,296	0
Total	\$ 2,863,300	\$ 2,607,348	\$ 255,952	\$ 0

State Trunkline Fund charges to the State Aeronautics Fund were as follows:

Fund/Purpose	Appropriated Funding	Allocated Charges	Returned Appropriations	Overallocated (Underallocated) Charges
State Aeronautics Fund				
Administration and Data Center	\$ 808,600	\$ 807,580	\$ 1,020	\$ 0
Planning	228,400	174,862	53,538	0
Total	\$ 1,037,000	\$ 982,442	\$ 54,558	\$ 0

Cost Allocation Methodology and Transportation Fund Charges

The administrative 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 Reported Transportation Funds Used

Fiscal Year Ended September 30, 1999

Receiving Agency	Charges Paid By					Agency Total
	Comprehensive Transportation Fund	Michigan Transportation Fund	State Aeronautics Fund	State Trunkline Fund		
Department of State	\$	\$ 37,278,512 *	\$	\$	\$ 37,278,512 *	
Department of Treasury	7,500	6,819,571	53,879	18,800	6,899,750	
Department of Management and Budget	19,500	2,146,600	85,800	4,251,804	6,503,704	
Michigan Department of State Police		523,792		5,700,304	6,224,096	
Department of Attorney General	81,678		66,298	1,616,484	1,764,460	
Department of Civil Service	86,089		45,363	1,625,759	1,757,211	
Department of Environmental Quality		780,000			780,000	
Office of the Auditor General	36,000	96,800	15,300	339,400	487,500	
Total for Nontransportation Agencies	\$ 230,766	\$ 47,645,274	\$ 266,640	\$ 13,552,551	\$ 61,695,232	

* Includes \$500,000 of project funding carried forward (see page 16 for additional discussion).

TRANSPORTATION RELATED SPECIAL REVENUE FUNDS
 Summary of Charges and Operating Transfers Among Transportation Funds
Fiscal Year Ended September 30, 1999

Receiving Agency/Fund	Transfers From				Agency Total
	Comprehensive Transportation Fund	Michigan Transportation Fund	State Aeronautics Fund	State Trunkline Fund	
Michigan Department of Transportation					
Comprehensive Transportation Fund					
10% Comprehensive Transportation Purposes	\$	\$ 153,046,853	\$	\$	\$ 153,046,853
Railroad Safety and Tariffs Program		1,219,786			1,219,786
State Trunkline Fund					
39.1% State Trunkline Purposes		612,708,293			612,708,293
Critical Bridge Program		5,000,000			5,000,000
Critical Bridge Debt Service		1,394,312			1,394,312
Economic Development Fund (EDF)		36,775,000			36,775,000
Target Industries (EDF)		3,500,000			3,500,000
Debt Service		43,000,000			43,000,000
Local Road Program		33,000,000			33,000,000
Rail Grade Crossing Program		3,000,000			3,000,000
Executive Direction		33,200			33,200
Bureau of Transportation Planning		4,268,029			4,268,029
Highways for Engineering		1,739,500			1,739,500
Finance and Administration		462,700			462,700
Administration and Data Center Planning	1,193,644	1,536	807,580		2,002,760
	1,413,704		174,862		1,588,566
Total for Michigan Department of Transportation	\$ 2,607,348	\$ 899,149,209	\$ 982,442	\$ 0	\$ 902,738,999

Glossary of Acronyms and Terms

DCS	Department of Civil Service.
DMB	Department of Management and Budget.
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 over financial reporting and/or safeguarding assets is suitably designed and implemented to achieve the control objectives.
MDOT	Michigan Department of Transportation.
MSP	Michigan Department of State Police.
MTF	Michigan Transportation Fund.
OAG	Office of the Auditor General.
reportable condition	A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements/schedules.
Statewide Cost Allocation Plan	The official cost allocation methodology accepted by federal grantor agencies for the State's negotiated indirect cost rate.