



# MICHIGAN

OFFICE OF THE AUDITOR GENERAL

## AUDIT REPORT



THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

– Article IV, Section 53 of the Michigan Constitution

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Michigan  
Office of the Auditor General  
**REPORT SUMMARY**

*Performance Audit*

Report Number:  
591-0180-07

*Bureau of Passenger Transportation*

*Michigan Department of Transportation*

Released:  
February 2009

*The Bureau of Passenger Transportation (BPT) administers the Michigan Department of Transportation's (MDOT's) passenger transportation programs. BPT is responsible for the development and management of operating, capital, and technical assistance programs and projects for purposes of providing coordinated local public transit, marine, intercity bus, and passenger rail transportation services and facilities Statewide. One of BPT's goals is to provide for a comprehensive integrated passenger transportation system to meet the social, safety, and economic well-being of the State.*

**Audit Objective:**

To assess the effectiveness of BPT's efforts in monitoring the activities of public transportation providers as permitted or required by State and federal laws and regulations.

**Audit Conclusion:**

We concluded that BPT's efforts in monitoring the activities of public transportation providers as permitted or required by State and federal laws and regulations were moderately effective. We noted three reportable conditions (Findings 1 through 3).

**Reportable Conditions:**

BPT needs to strengthen its budget review process and its monitoring of actual expenditures made by public transportation providers so that unspent funds can be returned and redistributed by BPT on a more timely basis (Finding 1).

BPT did not conduct timely maintenance and compliance reviews of public transportation providers (Finding 2).

BPT did not have a process to verify that public transportation providers allocated expenditures in accordance with an approved cost allocation plan (Finding 3).

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**Audit Objective:**

To assess the effectiveness of BPT's efforts in establishing and monitoring its goals and objectives.

**Audit Conclusion:**

We concluded that BPT's efforts in establishing and monitoring its goals and objectives were moderately effective. We noted one reportable condition (Finding 4).

**Reportable Condition:**

BPT needs to improve its continuous quality improvement (CQI) processes by establishing performance indicators to measure the outputs and outcomes related to its goals and objectives (Finding 4).

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**Audit Objective:**

To assess the effectiveness and efficiency of BPT's efforts in distributing grant funds to public transportation providers and in leasing buses to intercity service providers.

**Audit Conclusion:**

We concluded that BPT's efforts in distributing grant funds to public transportation providers and in leasing buses to intercity service providers were effective and efficient. Our report does not include any reportable conditions related to this audit objective.

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**Agency Response:**

Our report contains 4 findings and 4 corresponding recommendations. MDOT's preliminary response indicated that it generally agreed with all of the recommendations.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



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February 19, 2009

Mr. Ted B. Wahby, Chair  
State Transportation Commission  
and  
Kirk T. Steudle, P.E., Director  
Michigan Department of Transportation  
Murray Van Wagoner Transportation Building  
Lansing, Michigan

Dear Mr. Wahby and Mr. Steudle:

This is our report on the performance audit of the Bureau of Passenger Transportation, Michigan Department of Transportation.

This report contains our report summary; description of agency; audit objectives, scope, and methodology and agency responses; comments, findings, recommendations, and agency preliminary responses; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

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

AUDITOR GENERAL



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## Description of Agency

The Michigan Department of Transportation (MDOT) was organized under Act 380, P.A. 1965 (Sections 16.450 - 16.458 of the *Michigan Compiled Laws*). MDOT is governed by the State Transportation Commission, which is composed of six members who are appointed by the Governor with the advice and consent of the Senate. The Commission is responsible for establishing policies. MDOT's director, who is appointed by the Governor, is responsible for organizing and administering MDOT and implementing the policies established by the Commission.

The Bureau of Passenger Transportation (BPT) administers MDOT's passenger transportation programs. BPT is responsible for the development and management of operating, capital, and technical assistance programs and projects for purposes of providing coordinated local public transit, marine, intercity bus, and passenger rail transportation services and facilities Statewide. One of BPT's goals\* is to provide for a comprehensive integrated passenger transportation system to meet the social, safety, and economic well-being of the State. To accomplish this, BPT works in cooperation with local and regional agencies, authorities, and companies (public transportation providers). BPT is also responsible for the licensing and regulation of intercity buses and limousines.

BPT's operations are primarily funded through the Comprehensive Transportation Fund (CTF). CTF was created by Section 10b, Act 297, P.A. 1976, and is restricted for public transportation purposes in accordance with Section 247.660b of the *Michigan Compiled Laws*. CTF receives State funding from two principal sources: the Michigan Transportation Fund and a portion of the sales tax levied on fuel and automotive products. BPT receives annual appropriations of funds for distribution to transportation programs in accordance with Section 247.660e of the *Michigan Compiled Laws*.

In fiscal year 2005-06, BPT was appropriated \$265.5 million. Of this amount, BPT distributed \$163.3 million in State operating assistance to 79 public transportation providers and an additional \$11.8 million in federal operating assistance to 59 of these 79 public transportation providers. Of the other 20 public transportation providers,

\* See glossary at end of report for definition.



19 providers received their federal operating assistance directly from the Federal Transit Administration and the other provider, which offers only marine transportation services, received only State operating assistance. The remaining appropriated funds were for capital projects and various other operating grant programs. BPT had 38 employees as of June 30, 2007.

## Audit Objectives, Scope, and Methodology and Agency Responses

### Audit Objectives

Our performance audit\* of the Bureau of Passenger Transportation (BPT), Michigan Department of Transportation (MDOT), had the following objectives:

1. To assess the effectiveness\* of BPT's efforts in monitoring the activities of public transportation providers as permitted or required by State and federal laws and regulations.
2. To assess the effectiveness of BPT's efforts in establishing and monitoring its goals and objectives\*.
3. To assess the effectiveness and efficiency\* of BPT's efforts in distributing grant funds to public transportation providers and in leasing buses to intercity service providers.

### Audit Scope

Our audit scope was to examine the program and other records of the Bureau of Passenger Transportation. 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. Our audit procedures, performed from May through October 2007, generally covered the period October 1, 2004 through June 30, 2007.

### Audit Methodology

We conducted a preliminary review of BPT operations to formulate a basis for defining the audit objectives and scope. To gain an understanding of BPT's activities and responsibilities, we interviewed BPT management and staff. Also, we reviewed federal regulations, State statutes, management reports, and BPT policies and procedures.

\* See glossary at end of report for definition.

To accomplish our first objective, we reviewed BPT's processes to monitor the activities of public transportation providers receiving grant funds. This included judgmentally selecting a sample of public transportation providers to determine BPT's process for monitoring the compliance of these providers. Also, for the State operating assistance, we reviewed the actual expenditures reported by the public transportation providers to determine BPT's process for monitoring the providers' financial activities. For the capital projects and various other operating grants, we judgmentally selected a sample of grants to determine BPT's process for monitoring the providers' financial activities.

To accomplish our second objective, we met with BPT's management to determine its process for establishing goals and objectives and to determine what tools BPT used to monitor these goals and objectives.

To accomplish our third objective, we analyzed the applications for State operating assistance and recalculated the grant distributions based on the requirements of Act 51, P.A. 1951. For the capital projects and various other operating grants, we judgmentally selected and tested a sample of grant applications to determine what processes and controls BPT staff used to evaluate the applications and determine grant distribution.

When selecting activities or programs for audit, we use an approach based on assessment of risk and opportunity for improvement. Accordingly, we focus our audit efforts on activities or programs having the greatest probability for needing improvement as identified through a preliminary review. Our limited audit resources are used, by design, to identify where and how improvements can be made. Consequently, we prepare our performance audit reports on an exception basis.

### Agency Responses

Our report contains 4 findings and 4 corresponding recommendations. MDOT's preliminary response indicated that it generally agreed with all of the recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require MDOT to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

COMMENTS, FINDINGS, RECOMMENDATIONS,  
AND AGENCY PRELIMINARY RESPONSES

## MONITORING OF ACTIVITIES

### COMMENT

**Background:** The Bureau of Passenger Transportation (BPT) provides assistance and oversight to public transportation providers on State and federal operating and capital assistance projects to ensure that the funds are used in accordance with the intent of the project and in compliance with all State and federal laws and regulations. BPT assists transportation providers with program planning, budget development, service development and delivery, and contract administration.

**Audit Objective:** To assess the effectiveness of BPT's efforts in monitoring the activities of public transportation providers as permitted or required by State and federal laws and regulations.

**Audit Conclusion:** We concluded that BPT's efforts in monitoring the activities of public transportation providers as permitted or required by State and federal laws and regulations were moderately effective. We noted three reportable conditions\* related to the monitoring of budgeted and actual expenditures, maintenance and compliance reviews, and cost allocation plans (Findings 1 through 3).

### FINDING

#### 1. Monitoring of Budgeted and Actual Expenditures

BPT needs to strengthen its budget review process and its monitoring of actual expenditures made by public transportation providers so that unspent funds can be returned and redistributed by BPT on a more timely basis. BPT's practices resulted in some providers receiving excess funding; some providers receiving less funding than they were entitled to; and delays of 20 to 27 months in identifying, recouping, and redistributing excess funds to other providers.

In accordance with Section 247.660e of the *Michigan Compiled Laws* (a section of Act 51, P.A. 1951), BPT distributed approximately \$161.7 million of State operating assistance annually to at least 79 public transportation providers during fiscal years 2002-03 through 2005-06. These providers received this funding to deliver local public transportation services.

\* See glossary at end of report for definition.

BPT annually reviews and approves each provider's budget request for State operating assistance. BPT required each provider to explain and justify any budget increase greater than 10% in fiscal year 2004-05 and greater than 15% in fiscal year 2005-06. Upon approving the budgets, BPT distributes funding to each provider on a monthly basis. BPT requires each provider to report actual expenditures on a quarterly basis, which BPT uses to compare the provider's actual expenditures with budgeted expenditures. Act 51, P.A. 1951, requires BPT to periodically adjust distributions to providers, which could be done when actual expenditures are less than the amount budgeted.

At the end of each fiscal year, BPT reconciles each provider's actual expenditures to budgeted expenditures. If BPT determines that the funding distributed to a provider exceeded actual expenditures, BPT initiates steps to recoup the excess unspent funds. These unspent funds are then redistributed to other public transportation providers.

Our review disclosed:

- a. BPT did not document the validity of budget increases (greater than 10% in fiscal year 2004-05 and greater than 15% in fiscal year 2005-06) for providers in 9 of the 48 instances in which increases occurred. In 5 of these 9 instances, the providers subsequently received funding distributions that exceeded actual expenditures and BPT had to initiate recoupment actions.
- b. BPT did not adjust distributions to providers on a quarterly basis when the providers' actual expenditures were less than budgeted expenditures. We reviewed the annual budgets and distributions for 10 providers that routinely received excess funding during fiscal year 2002-03 through fiscal year 2005-06 (2 of these providers had merged for fiscal year 2005-06). We noted that, on 27 of 39 occasions, BPT's annual distributions to these providers exceeded actual expenditures. The annual distributions to these providers ranged from approximately \$295,000 to \$8.4 million. Individually, these providers received excess funding ranging from approximately \$9,200 to \$2.0 million annually. Collectively, these providers received excess funding ranging from approximately \$1.7 million to \$3.8 million annually. BPT recouped or is in the process of recouping these payments for redistribution.

- c. BPT needs to complete the year-end reconciliations of providers' actual expenditures to budgeted expenditures on a more timely basis.

BPT's current practice allows its staff up to 9 months to complete the reconciliation process. Providers are required to report their actual expenditures within 40 days of the end of the fiscal year (approximately 1 1/2 months). However, BPT then allows its staff an additional 7 1/2 months to perform the reconciliations and to calculate the redistribution amounts.

BPT could complete the year-end reconciliation process more timely by monitoring providers' quarterly reports and following up on any differences as they occur rather than waiting for providers' annual reports to determine that funds were not expended. This would improve the timeliness of the recoupment and redistribution process.

- d. BPT did not timely recoup funds from the providers that received excess funding. After identifying those providers that had received excess funds during fiscal years 2003-04 and 2004-05, it took BPT an additional 18 and 11 months, respectively, to recoup and redistribute those funds to other providers.

BPT recoups excess funds from providers in two stages. BPT first recovers 50% of excess funds and redistributes those funds to other providers. BPT then recovers the remaining excess funds and redistributes those funds to other providers. For fiscal year 2003-04, BPT did not recover and redistribute the first half of these excess funds until December 1, 2005 (a total of 14 months after the end of the fiscal year). For fiscal year 2004-05, BPT did not recover the second half of these excess funds until December 12, 2006 (a total of 26 1/2 months after the end of the fiscal year).

### **RECOMMENDATION**

We recommend that BPT strengthen its budget review process and its monitoring of actual expenditures made by public transportation providers so that unspent funds can be returned and redistributed by BPT on a more timely basis.

### **AGENCY PRELIMINARY RESPONSE**

The Michigan Department of Transportation (MDOT) agreed with the recommendation that there are opportunities to strengthen BPT's budget review

process and monitoring of actual expenditures made by public transportation providers under the State operating assistance program that may result in unspent funds being returned and redistributed by BPT in shorter time frames.

However, MDOT added that it is important to understand the overall context of the process being evaluated. The State operating assistance program as defined in Act 51, P.A. 1951, requires MDOT to provide financial assistance to local public transportation providers as a percentage of each provider's eligible operating expenses for the fiscal year. Funds are paid out on a provisional basis in the same fiscal year that expenses are being incurred. The provisional payments are based on an estimated budget submitted prior to the start of the fiscal year. MDOT stated that its processes are aimed at ensuring that each provider receives the correct amount; however, because provisional payments are based on budget estimates, provisional payments to some providers will be greater than their actual eligible operating expenses during the fiscal year, whereas the provisional payments to other providers will be less than their actual eligible expenditures during the fiscal year. Reconciliation and redistribution of funds are inevitable. State operating assistance is a critical component of each provider's annual operating budget and cash flow. These funds support essential transit services. Because provisional payments to a provider are based on budgeted estimates, which could be significantly less than actual expenses during a fiscal year, these payments could result in service interruptions. MDOT stated that it leans toward maximizing the operational funds available to each provider, rather than minimizing funds. MDOT further stated that because it provides operating assistance to each provider year after year, there are built-in safeguards, with opportunity to recoup and redistribute the excess provisional payments.

MDOT agreed with part a. of the finding and informed us that corrective action will be implemented.

MDOT agreed with part b. of the finding that BPT missed some opportunities to adjust payments during the fiscal year. However, MDOT added that because the provisional payments are based on budget estimates generally developed by a provider based on historical experience and anticipated current year's cost, BPT does not believe that adequate information in regard to a current year's actual costs is available to begin reducing payment until the third quarter of the fiscal year. Therefore, while the audit report noted that there were 27 occasions in which



the annual distributions to providers exceeded actual expenditures, MDOT believes that, in 10 of these instances, the information available to MDOT at the third quarter would not have resulted in a reduction in the final payment to the provider. MDOT informed us that, in 3 other instances, it had reduced the final payment and the amount overpaid as of reconciliation was negligible and, in one instance, when total funds the agency received (both rural and urban funds) were taken into the consideration, the agency was not overpaid.

MDOT agreed with the underlying intent of part c. of the finding. BPT has a detailed procedure in place for the reconciliation process with the goal of completing the entire process within nine months after the close of the fiscal year. Within this nine months, the first 40 days will be spent waiting for the local year-end reports and the last 30 days will be used to issue MDOT's draft reconciliation for provider review and comment. This leaves approximately 26 weeks to complete the reconciliation process for 79 providers. MDOT stated that, for the accuracy of the reconciliation process, it is critical that the process include ongoing dialogue between MDOT and each local provider and analysis/reanalysis as a result of the dialogue. It can be very time-consuming for some providers; however, for the reconciliation process to be successful, thorough identification and resolution of all problems avoids large corrections during the audit closeout process and allows for earlier redistribution of funds. Based on the importance and value of this review and the need for there to be back-and-forth discussions and reanalysis, MDOT does not feel the 26-week time frame is unreasonable; however, MDOT will implement corrective action in attempts to shorten the review time. The nonfinancial information on the reconciled report will be reviewed by another staff person.

MDOT agreed with the underlying intent of part d. of the finding and informed us that corrective action will be implemented and that BPT develops a payback schedule for each local provider with the goal of having all funds paid back to MDOT within 12 months after the redistribution amounts have been determined. MDOT stated that this was not so for one of the years the auditors looked at because of unique circumstances and that redistribution for the fiscal year 2003-04 reconciliation was significantly longer than normal for two reasons: (1) the year-end redistribution was combined with two audit redistributions and (2) a single provider owed a larger amount back to MDOT under the audit redistributions and was given 18 months to complete the payback.

In addition, MDOT stated that in redistributing funds, BPT balances the needs of providers that have to pay funds back with the needs of the providers that are due funds. As funds are paid back, MDOT distributes the collected funds to the providers that are due funds, first when 50% of the funds have been collected and again when the remainder of the funds have been collected. MDOT also informed us that it avoided making multiple small payments to each local provider because many providers find it cumbersome to track and account for multiple checks from the State. While completion of the overall normal repayment process may not be shortened, BPT believes that there are opportunities to pay out more money to more providers earlier in the process.

## **FINDING**

### **2. Maintenance and Compliance Reviews**

BPT did not conduct timely maintenance and compliance reviews of public transportation providers. Without timely reviews, BPT cannot assess public transportation providers' ongoing compliance with State and federal requirements. Timely reviews would also help ensure that corrective actions, if necessary, are promptly initiated and completed by the public transportation providers.

BPT distributed \$163.3 million in State operating assistance to 79 public transportation providers and an additional \$11.8 million in federal operating assistance to 59 of these 79 public transportation providers during fiscal year 2005-06. Of the other 20 public transportation providers, 19 providers received their federal operating assistance directly from the Federal Transit Administration (FTA) and the other provider, which offers only marine transportation services, received only State operating assistance. Public transportation providers include local and regional agencies and authorities that provide transportation services to the public.

Section 247.660b of the *Michigan Compiled Laws* (a section of Act 51, P.A. 1951) requires BPT to investigate the conditions of public transportation providers and also requires each of the providers to comply fully with federal requirements. FTA monitors the activity of the 19 public transportation providers who receive funding directly from FTA by completing a review of the providers every three years to ensure compliance with federal requirements. FTA requires BPT to monitor the activities of the 59 providers who received both federal and State operating

assistance. BPT has adopted FTA's three-year review schedule to conduct and complete maintenance and compliance reviews of public transportation providers.

Our review disclosed:

- a. BPT was overdue on conducting maintenance reviews of 22 (37%) of the 59 public transportation providers. Maintenance reviews help ensure that public transportation providers meet the cleanliness, safety, and mechanical soundness requirements for the vehicles in their fleets. We noted that BPT was from 196 to 926 days late and averaged 532 days late in completing maintenance reviews of the 22 public transportation providers.
- b. BPT was overdue on conducting compliance reviews of 20 (34%) of the 59 public transportation providers. Compliance reviews help ensure that public transportation providers adhere to federal requirements, which include compliance with required drug and alcohol testing and compliance with vehicle and facility accessibility requirements for individuals with disabilities. We noted that BPT was from 75 to 1,019 days late and averaged 302 days late in completing compliance reviews of the 20 public transportation providers.

BPT informed us that it has been unable to complete the compliance and maintenance reviews on a three-year basis because of staffing shortages.

### **RECOMMENDATION**

We recommend that BPT conduct timely maintenance and compliance reviews of public transportation providers.

### **AGENCY PRELIMINARY RESPONSE**

MDOT agreed with the recommendation and informed us that it made this activity a high priority for BPT staff in 2008 and that it has a process in place to track BPT's progress in closing out the backlog and completing future reviews on schedule.

MDOT stated that a series of factors combined to create the current backlog situation:

- Three staff positions responsible for compliance reviews (as well as other activities) were lost in the forced staff reductions of fiscal year 2004-05.

- A fourth staff position responsible for compliance reviews (as well as other activities) was lost in the forced staff reductions of fiscal year 2005-06.
- The sole staff position responsible for maintenance reviews Statewide was lost in the forced staff reductions of fiscal year 2005-06. In addition, the supervisor and manager positions responsible for oversight of this activity were lost.

MDOT added that, in response to the significant loss of staff responsible for compliance reviews, geographic assignments were adjusted and the responsibilities of remaining staff were expanded. MDOT informed us that in response to loss of the staff positions, these functions were reassigned to remaining staff, supervisors, and managers. In addition, MDOT informed us that BPT reengineered its approach to these functions so that both reviews could be conducted with a single site visit; however, because the staff reductions and the disruptions caused by geographic reassignments were significant, BPT fell behind in this activity.

MDOT stated that 2 of the 5 staff positions noted above were restored in 2007 and that this activity has been made a high priority for staff in 2008. MDOT further stated that a process is now in place for tracking BPT's progress at the unit supervisor level, with additional oversight by the section manager and bureau administrator, and that the majority of the backlogged reviews were scheduled to be conducted by the end of calendar year 2008.

## **FINDING**

### 3. Cost Allocation Plans (CAPs)

BPT did not have a process to verify that public transportation providers allocated expenditures in accordance with an approved CAP. As a result, BPT could not ensure that expenditures allocated by providers were appropriate.

*Michigan Administrative Code* R 247.4107(1) requires providers who allocate costs among more than one program or governmental unit to submit to MDOT, for approval, a CAP that explains all allocation methodologies. The *Michigan Administrative Code* also requires each public transportation provider to have an annual financial and compliance audit to determine whether the actual CAP used by the provider was in compliance with the CAP approved by BPT. In addition,

BPT established an audit guide to notify the providers and the firms that conduct the annual financial and compliance audits of this requirement.

Our review disclosed that BPT routinely receives, reviews, and approves CAPs submitted by public transportation providers. However, we reviewed the financial and compliance audits of five providers that had approved CAPs with BPT and determined that the audit reports did not indicate whether or not the providers were in compliance with their approved CAP in four instances. We also noted that BPT had not developed any other alternative procedures to verify that public transportation providers were in compliance with their approved CAP.

### **RECOMMENDATION**

We recommend that BPT develop a process to verify that public transportation providers allocate expenditures in accordance with an approved CAP.

### **AGENCY PRELIMINARY RESPONSE**

MDOT agreed with the recommendation and informed us that such a process had been in development since early 2007 and was finalized on July 1, 2007. MDOT also informed us that the four instances of noncompliance cited in this finding were in audits performed prior to July 1, 2007.

MDOT added that, on July 1, 2007, it promulgated a revised Audit Guide for Transportation Authorities in Michigan and that page 13 of the revised audit guide provides guidance that requires: (1) all BPT approved CAPs used in the preparation of the financial statements to be identified by name, and (2) inclusion of a statement that the approved CAPs listed were used in the preparation of the annual audit.

MDOT stated that BPT has received all the 2007 annual audits that were required to be performed in accordance with the revised audit guide and that, with regards to noncompliance of the CAP requirements for the 2007 annual audits (the first year for the new requirements), a noncompliance letter was written to transit agency managers and their auditors, requesting full compliance by a specified date. BPT will follow Internal Division Instruction, IDI 70206, *Identification, Review, and Follow-up of Audit Findings*, to ensure compliance of the CAP requirements for 2008 and future years.

## CONTINUOUS QUALITY IMPROVEMENT

### COMMENT

**Audit Objective:** To assess the effectiveness of BPT's efforts in establishing and monitoring its goals and objectives.

**Audit Conclusion:** We concluded that BPT's efforts in establishing and monitoring its goals and objectives were moderately effective. We noted one reportable condition regarding continuous quality improvement (Finding 4).

### FINDING

#### 4. Continuous Quality Improvement (CQI)

BPT needs to improve its CQI processes by establishing performance indicators\* to measure the outputs\* and outcomes\* related to its goals and objectives.

BPT annually distributes State and federal funds to public transportation providers to deliver public transportation services to local citizens. An improved CQI process would help BPT ensure that it is effectively distributing and monitoring funding for public transportation services in compliance with State and federal requirements.

An effective CQI process for BPT should include a number of components, including the establishment of measurable goals and objectives. BPT should also establish expected outputs and outcomes for each goal and objective. For example, BPT's fiscal year 2006-07 objectives disclosed that it identified a need to accelerate the recoupment and redistribution process. However, BPT has not identified any measurable goals it could establish in order to achieve this objective. BPT should specify a maximum time frame for recouping excess funds from providers and redistributing those funds to other providers (see Finding 1).

Also, relating to BPT's responsibilities for monitoring public transportation providers' compliance with laws and regulations, BPT could establish a goal of completing a minimum number of maintenance and compliance reviews each year (see Finding 2). When instances of noncompliance are discovered, BPT could specify a time frame for conducting follow-up reviews to ensure that all instances of noncompliance have been appropriately resolved.

\* See glossary at end of report for definition.

In addition, BPT should have a performance measurement system to timely, completely, and accurately gather actual output and outcome data and a process for comparing data on actual outputs and outcomes with desired outputs and outcomes. BPT's mission\* is to provide Michigan citizens with the best passenger transportation services through quality customer assistance. Without a comprehensive performance measurement system that includes measurable goals and objectives, BPT cannot evaluate the effectiveness of the services that it provides.

An effective CQI process can help an organization focus the allocation of its resources on management's expectations and maximize the utilization of its resources.

### **RECOMMENDATION**

We recommend that BPT improve its CQI processes by establishing performance indicators to measure the outputs and outcomes related to its goals and objectives.

### **AGENCY PRELIMINARY RESPONSE**

MDOT agreed with the recommendation and informed us that the annual "Goals and Objectives" document reviewed by the auditors did not include performance indicators. BPT's annual Goals and Objectives document has served several purposes. MDOT stated that the primary purpose of this document was to establish an issue agenda for BPT management and staff that identified key activities and issues that BPT would focus on in the coming year and that, if a specific program area did not have an activity or issue that was of special or unique focus for the coming year, it was not covered in the document. In addition, the annual goals and objectives were organized according to the vision statements in the MDOT Strategic Plan and, as such, the document reinforced MDOT vision statements.

MDOT added that, in response to the recommendation, BPT expanded the role this document plays, and that its 2008 Goals and Objectives document covers all of BPT's ongoing program areas and that BPT has established one or more annual goal statements for each ongoing program area. MDOT stated that, with this change, the document is now comprehensive and that, for each annual goal statement, BPT has identified performance indicators and specified the monitoring

\* See glossary at end of report for definition.

levels for each indicator. MDOT further stated that supervisors have helped each person understand his or her individual role in meeting and monitoring the performance indicators that are relevant to his or her job. This new format will be used each year to ensure that performance indicators are established for each annual goal statement and that they are then reflected in individual performance plans.

## **DISTRIBUTION OF GRANT FUNDS**

### **COMMENT**

**Audit Objective:** To assess the effectiveness and efficiency of BPT's efforts in distributing grant funds to public transportation providers and in leasing buses to intercity service providers.

**Audit Conclusion:** **We concluded that BPT's efforts in distributing grant funds to public transportation providers and in leasing buses to intercity service providers were effective and efficient.** Our report does not include any reportable conditions related to this audit objective.



# GLOSSARY

## Glossary of Acronyms and Terms

BPT	Bureau of Passenger Transportation.
CAP	cost allocation plan.
CQI	continuous quality improvement.
CTF	Comprehensive Transportation Fund.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical with the minimum amount of resources.
FTA	Federal Transit Administration.
goals	The agency's intended outcomes or impacts for a program to accomplish its mission.
MDOT	Michigan Department of Transportation.
mission	The agency's main purpose or the reason that the agency was established.
objectives	Specific outcomes that a program seeks to achieve its goals.
outcomes	The actual impacts of the program.
outputs	The products or services produced by the program.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or

function to improve program operations, to facilitate decision making by parties responsible for overseeing or initiating corrective action, and to improve public accountability.

performance  
indicators

Information of a quantitative or qualitative nature used to assess achievement of goals and/or objectives.

reportable condition

A matter that, in the auditor's judgment, represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.









