



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**

Financial Audit

Including the Provisions of the Single Audit Act

Report Number:
591-0100-11

Michigan Department of Transportation

October 1, 2008 through September 30, 2010

Released:
June 2011

A single audit is designed to meet the needs of all financial report users, including an entity's federal grantor agencies. The audit determines if the financial schedules and/or financial statements are fairly presented; considers internal control over financial reporting and internal control over federal program compliance; determines compliance with requirements material to the financial schedules and/or financial statements; and assesses compliance with direct and material requirements of the major federal programs.

Financial Statements:

Auditor's Report Issued

We issued an unqualified opinion on the Michigan Department of Transportation's (MDOT's) financial statements.

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Internal Control Over Financial Reporting

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, we did identify significant deficiencies (Findings 1 through 4).

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Noncompliance and Other Matters Material to the Financial Statements

We did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under *Government Auditing Standards*.

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Federal Awards:

Auditor's Reports Issued on Compliance

We audited 5 programs (including 3 ARRA related programs) as major programs and identified known questioned costs of \$61,300. MDOT expended and distributed a total of \$2.7 billion in federal awards, including \$695.3 million of ARRA funding, during the two-year period ended September 30, 2010. We issued 5 unqualified opinions. The federal programs audited as major programs are identified on the back of this summary.

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Internal Control Over Major Programs

We identified material weaknesses in internal control over federal program compliance (Finding 6). We also identified significant deficiencies in internal control over federal program compliance (Findings 5 through 9).

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Required Reporting of Noncompliance

We identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management

and Budget (OMB) Circular A-133 (Findings 5 through 9).

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Systems of Accounting and Internal Control:
Section 18.1489 of the *Michigan Compiled Laws* requires the Auditor General to evaluate the implementation of Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* and report to the Legislature in the financial audit of each department. As a result of Executive Reorganization Order No. 2007-31 (Consolidating Internal Audit Functions), in which responsibility for most of the sections was moved to the Office of Internal Audit Services, Department of Management and Budget, we have evaluated the implementation of only Section 18.1485

in this financial audit. Section 18.1485 requires each department director to establish an internal accounting and administrative control system, defines the elements of that system, defines the duties of the department director, and provides for certain reports. We determined that MDOT was in substantial compliance with Section 18.1485 of the *Michigan Compiled Laws*.

The remaining sections (Sections 18.1483, 18.1484, and 18.1486 - 18.1488 of the *Michigan Compiled Laws*) will be evaluated and reported on in the performance audit of the Office of Internal Audit Services, Department of Technology, Management & Budget.

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We audited the following programs as major programs:

<i>CFDA Number</i>	<i>Program or Cluster Title</i>	<i>Compliance Opinions</i>
20.106*	Airport Improvement Program	Unqualified
	<u>Highway Planning and Construction Cluster:</u>	Unqualified
20.205*	• Highway Planning and Construction	
	<u>Federal Transit Cluster:</u>	Unqualified
20.500	• Federal Transit: Capital Investments Grants	
20.507	• ARRA - Federal Transit: Formula Grants	
20.509*	Formula Grants for Other Than Urbanized Areas	Unqualified
	<u>Transit Services Programs Cluster:</u>	Unqualified
20.513	• Capital Assistance Programs for Elderly Persons and Persons with Disabilities	
20.516	• Job Access: Reverse Commute	
20.521	• New Freedom Program	

* Includes American Recovery and Reinvestment Act of 2009 (ARRA) funding.

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

June 30, 2011

Mr. Jerrold M. Jung, Chair
State Transportation Commission
and
Kirk T. Steudle, P.E., Director
Michigan Department of Transportation
Murray Van Wagoner Transportation Building
Lansing, Michigan

Dear Mr. Jung and Mr. Steudle:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Michigan Department of Transportation (MDOT) for the period October 1, 2008 through September 30, 2010.

This report contains our report summary, our independent auditor's report on the financial statements, and the MDOT financial statements and supplemental financial statements and schedules. This report also contains our independent auditor's report on internal control over financial reporting and on compliance and other matters, our independent auditor's report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133, and our schedule of findings and questioned costs. In addition, this report contains MDOT's summary schedule of prior audit findings, its corrective action plan, and a glossary of acronyms and terms.

Our findings and recommendations are contained in Section II and Section III of the schedule of findings and questioned costs. The agency preliminary responses are contained in the corrective action plan. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a plan to address the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

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

AUDITOR GENERAL

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INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS



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AUDITOR GENERAL

Independent Auditor's Report on the Financial Statements

Mr. Jerrold M. Jung, Chair
State Transportation Commission
and
Kirk T. Steudle, P.E., Director
Michigan Department of Transportation
Murray Van Wagoner Transportation Building
Lansing, Michigan

Dear Mr. Jung and Mr. Steudle:

We have audited the accompanying combined financial statements of the Michigan Department of Transportation as of and for the fiscal years ended September 30, 2010 and September 30, 2009, as identified in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial statements present only the Michigan Department of Transportation and do not purport to, and do not, present fairly the financial position of the State of Michigan or its special revenue or debt service funds as of September 30, 2010 and September 30, 2009 and the changes in financial position thereof for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Michigan Department of Transportation as of September 30, 2010 and September 30, 2009 and the changes in financial position for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2011 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and other supplemental financial statements and schedules, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the Department's financial statements referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

AUDITOR GENERAL

June 22, 2011

MICHIGAN DEPARTMENT OF TRANSPORTATION

Combined Balance Sheet

As of September 30

(In Thousands)

	Special Revenue		Debt Service		Totals (Memorandum Only)	
	2010	2009	2010	2009	2010	2009
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 2,344	\$ 335	\$	\$	\$ 2,344	\$ 335
Equity in common cash (Note 2)	508,243	319,487			508,243	319,487
Receivables (Note 3):						
Taxes, interest, and penalties (net)	101,376	108,571			101,376	108,571
Federal aid	236,528	265,834			236,528	265,834
Local units	52,838	95,662			52,838	95,662
Other funds	359,575	735,347			359,575	735,347
Component units (Note 10)	1,950	1,576			1,950	1,576
Other current assets	3,123	4,712			3,123	4,712
Inventories	16,810	8,184			16,810	8,184
Total current assets	<u>\$ 1,282,788</u>	<u>\$ 1,539,708</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,282,788</u>	<u>\$ 1,539,708</u>
Noncurrent assets:						
Receivables:						
Taxes	\$ 3,293	\$ 5,861	\$	\$	\$ 3,293	\$ 5,861
Local units	35,059	36,652			35,059	36,652
Land contracts	445	622			445	622
Miscellaneous	653	834			653	834
Total noncurrent assets	<u>\$ 39,451</u>	<u>\$ 43,968</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 39,451</u>	<u>\$ 43,968</u>
Total assets	<u>\$ 1,322,239</u>	<u>\$ 1,583,676</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,322,239</u>	<u>\$ 1,583,676</u>
LIABILITIES AND FUND BALANCES						
Current liabilities:						
Warrants outstanding	\$ 6,980	\$ 4,033	\$	\$	\$ 6,980	\$ 4,033
Accounts payable	477,741	486,380			477,741	486,380
Contract reserve payable	4,750	3,959			4,750	3,959
Due to other funds and component units	42,916	55,945			42,916	55,945
Deposits, permits, and other liabilities	23,499	35,412			23,499	35,412
Deferred revenue	13,623	15,526			13,623	15,526
Total current liabilities	<u>\$ 569,510</u>	<u>\$ 601,255</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 569,510</u>	<u>\$ 601,255</u>
Long-term liabilities (Note 5):						
Deferred revenue	4,391	7,317			4,391	7,317
Total liabilities	<u>\$ 573,901</u>	<u>\$ 608,572</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 573,901</u>	<u>\$ 608,572</u>
Fund balances (Note 9):						
Reserves for:						
Encumbrances	\$ 76,896	\$ 105,520	\$	\$	\$ 76,896	\$ 105,520
Restricted revenue balances	192,528	148,328			192,528	148,328
Multi-year projects	144,169	270,730			144,169	270,730
Revolving funds	32,459	37,841			32,459	37,841
Construction and debt service	145,498	116,470			145,498	116,470
Noncurrent assets	21,707	22,998			21,707	22,998
Total reserved	<u>\$ 613,256</u>	<u>\$ 701,888</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 613,256</u>	<u>\$ 701,888</u>
Unreserved	<u>135,081</u>	<u>273,216</u>			<u>135,081</u>	<u>273,216</u>
Total fund balances	<u>\$ 748,337</u>	<u>\$ 975,104</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 748,337</u>	<u>\$ 975,104</u>
Total liabilities and fund balances	<u>\$ 1,322,239</u>	<u>\$ 1,583,676</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,322,239</u>	<u>\$ 1,583,676</u>

The accompanying notes are an integral part of the financial statements.

MICHIGAN DEPARTMENT OF TRANSPORTATION
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Fiscal Years Ended September 30
(In Thousands)

	Special Revenue		Debt Service		Totals (Memorandum Only)	
	2010	2009	2010	2009	2010	2009
REVENUES						
Taxes	\$ 1,886,372	\$ 1,892,277	\$	\$	\$ 1,886,372	\$ 1,892,277
Licenses and permits	36,412	34,970			36,412	34,970
Federal aid	1,531,103	1,370,423			1,531,103	1,370,423
Local participation	16,540	17,434			16,540	17,434
Interest earnings	2,566	8,874			2,566	8,874
Services	4,025	3,827			4,025	3,827
Nonoperating revenue - bridges	2,928	3,077			2,928	3,077
Miscellaneous	59,692	47,497			59,692	47,497
Total revenues	\$ 3,539,638	\$ 3,378,379	\$ 0	\$ 0	\$ 3,539,638	\$ 3,378,379
EXPENDITURES						
Administration and operations:						
Administration and maintenance	\$ 494,021	\$ 517,566	\$	\$	\$ 494,021	\$ 517,567
Bus operating assistance grants	197,613	184,709			197,613	184,709
Other grants	1,080,756	1,088,921			1,080,756	1,088,921
Airport development	132,781	123,812			132,781	123,812
Nonoperating expenditures - bridges	2,777	2,923			2,777	2,923
Trust fund construction activity	370,918	277,365			370,918	277,365
Capital lease payments	171	171			171	171
Costs of issuance			1,023	426	1,023	426
Bond principal retirement			96,311	55,900	96,311	55,900
Bond interest and fiscal charges			142,482	120,503	142,482	120,503
Total administration and operations	\$ 2,279,038	\$ 2,195,466	\$ 239,816	\$ 176,828	\$ 2,518,854	\$ 2,372,295
Capital outlay:						
Roads and bridges	\$ 1,204,213	\$ 1,150,359	\$	\$	\$ 1,204,213	\$ 1,150,359
Other capital outlay	13,259	13,143			13,259	13,143
Total capital outlay	\$ 1,217,473	\$ 1,163,502	\$ 0	\$ 0	\$ 1,217,473	\$ 1,163,502
Total expenditures	\$ 3,496,510	\$ 3,358,968	\$ 239,816	\$ 176,828	\$ 3,736,327	\$ 3,535,797
Excess of revenues over (under) expenditures	\$ 43,128	\$ 19,410	\$ (239,816)	\$ (176,828)	\$ (196,689)	\$ (157,418)
OTHER FINANCING SOURCES						
Michigan Transportation Fund distribution (Note 8)	\$ 742,643	\$ 742,457	\$	\$	\$ 742,643	\$ 742,457
Grants and transfers from other funds	244,245	210,063	238,793	176,403	483,038	386,466
Proceeds from sale of capital assets	308	800			308	800
Proceeds from bonds and notes issued	4,000	281,910			4,000	281,910
Refunding bonds issued			142,190	42,335	142,190	42,335
Premium on bonds issued			9,321	2,268	9,321	2,268
Total other financing sources	\$ 991,195	\$ 1,235,229	\$ 390,304	\$ 221,005	\$ 1,381,499	\$ 1,456,235
OTHER FINANCING USES						
Michigan Transportation Fund distribution (Note 8)	\$ 742,643	\$ 742,457	\$	\$	\$ 742,643	\$ 742,457
Grants and transfers to other funds (Note 10)	279,653	230,058			279,653	230,058
Discount on bonds issued		1,914			0	1,914
Debt service	238,793	191,780			238,793	191,780
Payment to refunded bond escrow agent			150,488	44,177	150,488	44,177
Total other financing uses	\$ 1,261,089	\$ 1,166,209	\$ 150,488	\$ 44,177	\$ 1,411,577	\$ 1,210,386
Excess of other financing sources over (under) other financing uses	\$ (269,894)	\$ 69,021	\$ 239,816	\$ 176,828	\$ (30,078)	\$ 245,849
Excess of revenues and other financing sources over (under) expenditures and other financing uses	\$ (226,766)	\$ 88,431	\$ 0	\$ 0	\$ (226,767)	\$ 88,431
Fund balances - Beginning of fiscal year	975,104	886,673			975,104	886,673
Fund balances - End of fiscal year	\$ 748,338	\$ 975,104	\$ 0	\$ 0	\$ 748,337	\$ 975,104

The accompanying notes are an integral part of the financial statements.

Notes to the Financial Statements

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial statements report the financial position and the changes in financial position of the following funds administered by the Michigan Department of Transportation (MDOT) as of and for the fiscal years ended September 30, 2010 and September 30, 2009:

Special Revenue Funds

Michigan Transportation Fund

State Trunkline Fund

Comprehensive Transportation Fund

State Aeronautics Fund

Combined State Trunkline Bond Proceeds Fund

Combined Comprehensive Transportation Bond Proceeds Fund

Transportation Related Trust Fund

Debt Service Funds

Combined State Trunkline Bond and Interest Redemption Fund

Combined Comprehensive Transportation Bond and Interest Redemption Fund

These funds are a part of the State of Michigan's reporting entity and are reported in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*. The *SOMCAFR* also includes MDOT in the government-wide statement of net assets and statement of activities. These government-wide financial statements include accounts such as long-term liabilities and capital assets that are reported only on a government-wide basis and are not reported in MDOT's financial statements. The notes accompanying these financial statements relate directly to MDOT, including amounts reported in the government-wide financial statements. The *SOMCAFR* provides more extensive disclosures regarding the State's significant accounting policies; budgeting, budgetary control, and legal compliance; common cash;

pension benefits; other postemployment benefits; and bonds and notes payable.

b. Joint Venture

MDOT and the St. Mary's River Bridge Company (SMRBC), a Canadian Corporation, share ownership of the International Bridge. The Sault Ste. Marie Bridge Authority (SSMBA) is the international non-profit entity with eight members, four from Michigan and four from Canada, created by an intergovernmental agreement to set policy and oversee bridge operations. The agreement became effective September 1, 2009 and shall remain in effect until September 30, 2017 and is automatically renewed for successive ten-year periods thereafter unless, one year prior to the renewal date, an owner gives written notice to the other owner that it elects not to renew the agreement. The agreement is subject to written notice of cancellation upon one year written notice by MDOT or the SMRBC.

This is a revised intergovernmental agreement between MDOT and the SMRBC, whereby the SSMBA replaced the Joint International Bridge Authority (JIBA), as established on September 1, 2000.

The International Bridge Administration (IBA) is a special administrative entity within MDOT created to carry out the policy decisions of the SSMBA and, under the direction and supervision of MDOT, to enter into contracts and manage and operate the bridge on a daily basis. The IBA is made up of MDOT employees who are responsible for the administration, operation, repair, and improvement of the International Bridge. Revenue from bridge tolls covers the expenses of the IBA.

A summary of financial information for the JIBA audit periods ended December 31, 2008 and eight months ended August 31, 2009 and the SSMBA's four months ended December 31, 2009 follows (in thousands):

	December 31, 2009	August 31, 2008	December 31, 2008
Assets	\$ 8,251	\$ 5,785	\$ 6,460
Liabilities	\$ 4,763	\$ 2,649	\$ 2,315
Total equity	\$ 3,488	\$ 3,135	\$ 4,145
Total revenues and other sources	\$ 3,945	\$ 4,719	\$ 7,013
Total expenditures and other uses	\$ 3,593	\$ 5,728	\$ 8,916
Excess of revenues and other sources over (under) expenditures and other uses	\$ 352	\$ (1,010)	\$ (1,903)

c. Component Unit

The Mackinac Bridge Authority, a component unit of the State of Michigan, is reported on in the *SOMCAFR* and is not reported on in these statements. The Mackinac Bridge Authority separately issues its own audited financial statements. These statements may be obtained by directly contacting the Mackinac Bridge Authority at (906) 643-7600.

Further information regarding the relationship between MDOT and the Mackinac Bridge Authority is provided in Note 10.

d. Basis of Presentation

The financial transactions of MDOT are recorded in individual funds in the State's central accounting system. The accompanying financial statements present only MDOT. Accordingly, they do not purport to, and do not, present fairly the financial position and the changes in financial position of the State of Michigan or its special revenue or debt service funds in conformity with accounting principles generally accepted in the United States of America (GAAP). The various transportation funds are

combined in the *SOMCAFR* into the governmental fund types described as follows:

Governmental Fund Types

Special Revenue Funds: This fund group includes operating funds that account for the proceeds of certain specific revenue sources, which are legally restricted for specified purposes.

Debt Service Funds: This fund group accounts for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Totals (Memorandum Only)

Amounts in the "Totals (Memorandum Only)" columns represent summations of the fund types and are presented only for analytical purposes. The summations include interfund transactions that have not been eliminated. Consequently, amounts shown in the "Totals (Memorandum Only)" columns are not comparable to a consolidation.

e. Measurement Focus and Basis of Accounting

The financial statements contained in this report are presented using the current financial resources measurement focus and the modified accrual basis of accounting as provided by GAAP. Under the modified accrual basis of accounting, revenues are recognized as they become susceptible to accrual, generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred; however, certain expenditures related to long-term liabilities are recorded only when payment is due and payable.

Note 2 Equity in Common Cash

Custodial Credit Risk: All of MDOT's deposits are managed by the State Treasurer. "Equity in common cash" represents an interest in the State's common cash pool, which is used by most State funds as a short-term investment vehicle. MDOT's deposits are included in the State of Michigan equity in common cash.

MDOT's common cash balances were as follows as of September 30, 2010 and September 30, 2009 (in thousands):

	<u>Special Revenue Funds</u>		<u>Debt Service Funds</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Equity in common cash	\$ 508,243	\$ 319,487	\$ 0	\$ 0

The balances for the special revenue funds averaged \$902.7 million and \$869.2 million during fiscal years 2009-10 and 2008-09, respectively. These balances are substantially higher than the September 30 balances because \$319.7 million and \$722.3 million were loaned to the School Aid Fund as of September 30, 2010 and September 30, 2009, respectively. See Note 18 of the fiscal year 2009-10 and 2008-09 *SOMCAFR*.

The Governmental Accounting Standards Board (GASB) requires certain disclosures related to custodial credit risk for deposits. Custodial credit risk of deposits is the risk that, in the event of a bank failure, MDOT's deposits will not be returned to it. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized, collateralized with securities held by pledging financial institutions, or collateralized with securities held by the pledging financial institution's trust department or agent but not in MDOT's name. The State Treasurer evaluates each financial institution it deposits common cash funds with and assesses the level of risk of each institution. The State Treasurer's policy requires that all financial institutions holding the State's money must pledge collateral equal to the amount of the account balance for all demand and time deposits to secure the State's funds. Only those institutions with an acceptable estimated risk are used as depositories.

Note 3 Current Receivables and Other Current Assets

a. Contested and Delinquent Receivables

Contested and delinquent receivables reported within current receivables and recorded in the financial statements represent amounts due to MDOT as of September 30, 2010 and September 30, 2009 that are expected to be collected within 12 months. Receivables not due for collection within 12 months are classified as noncurrent assets with an offsetting deferred revenue or fund balance reserve. Contested and delinquent receivables in litigation or pending litigation and delinquent receivables referred to a third party for collection are recorded in an allowance for doubtful accounts and are not included in the net receivable amount reported in the financial statements.

b. Taxes Receivable and Other Current Assets

Taxes receivable are recorded for taxes due to the State at September 30 that are considered "available," i.e., received by the State within approximately 60 days after that date. The Michigan Transportation Fund had current receivables and other current assets of \$178.6 million and \$190.0 million, net of allowances for uncollectible receivables of \$78.0 million and \$82.0 million for motor fuel taxes due to the Fund as of September 30, 2010 and September 30, 2009, respectively. The reporting of a receivable amount net of a related allowance for uncollectible accounts is consistent with the treatment of other taxes receivable reported in the *SOMCAFR*.

c. Federal Highway Administration (FHWA) Receivable

MDOT recorded federal aid receivables in the State Trunkline Fund, Combined State Trunkline Bond Proceeds Fund, and Transportation Related Trust Fund totaling \$190.0 million and \$198.9 million as of September 30, 2010 and September 30, 2009, respectively. No noncurrent federal aid receivables were recorded as of September 30, 2010 and September 30, 2009.

d. Interfund Receivable

The interfund receivable is recorded for borrowings to eliminate negative balances in the common cash pool at fiscal year-end. The *SOMCAFR* provides more disclosures regarding the common cash pool and interfund borrowings. As of September 30, 2010 and September 30, 2009, interfund borrowing from MDOT's special revenue funds amounted to \$359.6 million and \$735.3 million, respectively.

Note 4 Capital Assets

Capital assets owned by MDOT, including property, plant, equipment, and infrastructure items (roads, bridges, ramps, railroads, rest areas, and welcome centers) are reported in the government-wide financial statements of the *SOMCAFR*. These items are not reported on the face of MDOT's financial statements; however, the detailed changes in capital assets are reported in Note 4a. As allowed by GASB Statement No. 34, MDOT uses the "modified approach" for certain infrastructure. In order to qualify for the modified approach, MDOT is required to maintain an asset management system with an up-to-date inventory of assets, perform condition assessments, estimate each year the annual amount to maintain and preserve the assets, and document that the assets are being preserved. Under the modified approach, MDOT expenses certain maintenance and preservation costs and does not record depreciation expense for roads or bridges. Other capital assets are depreciated over their useful lives except for land and construction in progress. For more information on the reporting of capital assets and infrastructure, see Note 9 and the required supplementary information section of the fiscal year 2009-10 and 2008-09 *SOMCAFR*.

a. Classification

The following tables summarize, by major class of asset, changes in reported costs for MDOT's capital assets for the fiscal years ended September 30, 2010 and September 30, 2009:

Changes in Capital Assets
Fiscal Year Ended September 30, 2010
(In Millions)

	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
<u>Capital assets, not being depreciated:</u>					
Roads	\$ 10,854.2	\$ 354.6	\$ (204.3)	\$	\$ 11,004.5
Land	2,966.9	11.4			2,978.3
Bridges	1,654.1	136.4	(51.7)		1,738.7
Construction in progress	1,389.7	613.1	(267.4)	6.5	1,741.9
<u>Capital assets, being depreciated:</u>					
Ramps	637.4				637.4
Equipment	137.2	5.1	(3.5)	(1.2)	137.6
Buildings	155.1	3.9		3.7	162.6
Railroads	32.5				32.5
Rest areas and welcome centers	85.6	3.1	(1.3)		87.4
Land improvements	7.4	5.7			13.2
Airports	1.9				1.9
<u>Less accumulated depreciation for:</u>					
Ramps	(416.7)	(25.5)			(442.2)
Equipment	(84.0)	(7.6)	3.3	1.3	(87.0)
Buildings	(62.9)	(3.8)		(0.3)	(67.0)
Railroads	(22.6)	(0.8)			(23.5)
Rest areas and welcome centers	(33.2)	(2.0)	1.1		(34.0)
Land improvements	(1.3)	(0.4)			(1.8)
Airports	(0.7)	(0.1)			(0.8)
Total capital assets	\$ 17,300.5	\$ 1,093.0	\$ (523.8)	\$ 10.0	\$ 17,879.6

Changes in Capital Assets
Fiscal Year Ended September 30, 2009
(In Millions)

	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
<u>Capital assets, not being depreciated:</u>					
Roads	\$ 10,944.8	\$ 62.5	\$ (144.2)	\$ (8.9)	\$ 10,854.2
Land	2,951.0	16.1	(3.5)	3.3	2,966.9
Bridges	1,692.1	49.6	(87.7)		1,654.1
Construction in progress	1,130.4	432.1	(176.4)	3.7	1,389.7
<u>Capital assets, being depreciated:</u>					
Ramps	581.9	57.5	(2.0)		637.4
Equipment	132.8	6.1	(4.3)	2.5	137.2
Buildings	147.1	4.6		3.4	155.1
Railroads	32.5				32.5
Rest areas and welcome centers	80.2	6.1	(0.7)		85.6
Land improvements	2.8	4.7			7.4
Airports	1.9				1.9
<u>Less accumulated depreciation for:</u>					
Ramps	(394.4)	(24.4)	2.0		(416.7)
Equipment	(78.8)	(7.3)	3.3	(1.2)	(84.0)
Buildings	(59.2)	(3.7)		(0.1)	(62.9)
Railroads	(21.8)	(0.8)			(22.6)
Rest areas and welcome centers	(31.9)	(1.9)	0.6		(33.2)
Land improvements	(1.2)	(0.2)			(1.3)
Airports	(0.7)	(0.1)			(0.7)
Total capital assets	<u>\$ 17,109.5</u>	<u>\$ 601.0</u>	<u>\$ (412.8)</u>	<u>\$ 2.8</u>	<u>\$ 17,300.5</u>

b. Funding Source

Following is a summary of funding sources for investments in capital assets (in millions):

	Investments	
	As of September 30	
	2010	2009
State Trunkline Fund	\$ 17,835.1	\$ 17,252.3
Comprehensive Transportation Fund	24.8	27.0
State Aeronautics Fund	19.8	21.2
Total investments in capital assets	\$ 17,879.6	\$ 17,300.5

Note 5 Long-Term Liabilities

As discussed in Note 1a., certain long-term liabilities are recorded in the government-wide statement of net assets in the *SOMCAFR* and are not reported in MDOT's financial statements. However, long-term liabilities considered "due and payable" in the current fiscal year are recorded as fund liabilities in these financial statements. These include long-term deferred revenues of \$4.4 million and \$7.3 million as of September 30, 2010 and September 30, 2009, respectively.

Long-term liabilities of MDOT that are not considered due and payable that are reported in the *SOMCAFR* include:

a. Bonded Debt

Revenue Dedicated Bonded Debt: MDOT has periodically issued long-term bonds for specific purposes with the stipulation that financing of debt requirements is to come strictly from designated revenue sources, including federal grants and State revenues in the State Trunkline Fund and Comprehensive Transportation Fund as provided by Article IX, Section 9 of the Michigan Constitution. The State of Michigan's general credit does not support such issues. The principal and interest for the 2007 and 2009B issues are secured by federal grants and are payable solely from and are secured by an irrevocable pledge of the State share of all federal grants received each year under the federal Highway Planning

and Construction Program. Payment of principal and interest on the bonds shall be subject to an appropriation each year by the Legislature in an amount sufficient to make the payments. Act 51, P.A. 1951, as amended, provides that money deposited in the State Trunkline Fund and/or the Comprehensive Transportation Fund is appropriated for specific purposes, with debt service being the first in order of priority. A sufficient portion of the State Trunkline Fund and the Comprehensive Transportation Fund is appropriated to pay, when due, the principal of and interest outstanding on bonds and notes. The State Trunkline Series 1992 A and B bond issues included capital appreciation bonds (zero coupon bonds) with an ultimate maturity value of \$41.1 million. These bonds are recorded in the *SOMCAFR* in the amount of \$38.6 million, which is the accreted value* at September 30, 2010. These bonds mature in the years 2011 through 2013.

For more information on revenue dedicated bonded debt, see Debt Service Coverage - Comprehensive Transportation Fund Related Bonds and Debt Service Coverage - State Trunkline Fund Related Bonds in the statistical section of the fiscal year 2009-10 and 2008-09 *SOMCAFR*.

* See glossary at end of report for definition.

Revenue dedicated bonds issued and outstanding (excluding defeased bonds) at September 30, 2010 and September 30, 2009 are as follows (in thousands):

Revenue Dedicated Bonded Debt

	Amounts Issued	Outstanding at		Maturities		Average Interest Rate
		September 30		First Year	Last Year	
		2010	2009			
<u>Comprehensive Transportation Fund Bonds:</u>						
2001 (Series A Refunding)	\$ 27,765	\$ 23,750	\$ 25,145	2008	2022	5.01%
2002 (Series A Refunding)	89,620	6,950	13,925	2003	2011	5.07%
2002 (Series B)	82,310	4,460	4,945	2004	2012	5.13%
2003 (Series A)	35,020	14,905	15,870	2004	2023	3.61%
2005 (Series A Refunding)	62,180	62,175	62,175	2009	2023	5.15%
2006 and Refunding	53,685	51,610	51,840	2007	2031	4.54%
2009 (Series A Refunding)	42,335	42,335	42,335	2012	2019	4.11%
<u>State Trunkline Fund Bonds:</u>						
1992 (Series A)	253,618	34,131	44,157	2000	2013	5.76%
1992 (Series B Refunding)	99,592	4,515	5,841	2000	2013	5.68%
1998 (Series A Refunding)	377,890	206,335	364,905	2006	2019	5.03%
2001 (Series A)	308,200	14,115	20,620	2003	2012	4.96%
2002 (Series A Refunding)	97,870	59,335	62,200	2004	2022	4.71%
2004 (Series A Refunding)	103,450	98,305	98,350	2006	2022	4.13%
2004	185,710	63,225	76,155	2008	2019	4.36%
2005 (Series A Refunding)	223,020	223,015	223,020	2010	2023	5.10%
2005 (Series B Refunding)	378,250	348,080	378,250	2010	2019	4.81%
2006	244,525	208,715	221,235	2008	2022	4.74%
2009 and Refunding	146,190	146,190		2018	2027	4.76%
<u>Federal Grant Anticipation Bonds:</u>						
2007	485,115	474,585	481,610	2009	2027	4.87%
2009 (Series B Build America)	281,910	281,910	281,910	2012	2027	7.63%
Total revenue dedicated bonded debt	\$ 3,578,255	\$ 2,368,641	\$ 2,474,489			

Advance Refunding and Defeasance: MDOT has issued refunding bond issues to finance the advance refunding of selected bond issues. A portion of the proceeds of the refunding issues was placed in trust and used to purchase securities of the U.S. government and related agencies at various interest rates and maturities sufficient to meet all debt service

requirements of the refunded debt. These assets are administered by a trustee and are restricted for the retirement of the refunded debt. The liability for the refunded bonds and the related securities and escrow accounts are not included in the accompanying financial statements because MDOT defeased its obligation for payment of the refunded bonded debt upon completion of the refunding transaction.

The following table summarizes the defeased bonds outstanding (in millions):

	Amounts	Balance With Trustee	
	Refunded	At September 30	
		2010	2009
<u>State Trunkline Fund Bonds:</u>			
Series 2001A	\$ 245.8	\$ 245.8	\$ 245.8
Series 2004	85.2	85.2	85.2
Total State Trunkline Fund Bonds	<u>\$ 331.1</u>	<u>\$ 331.1</u>	<u>\$ 331.1</u>
<u>Comprehensive Transportation Fund Bonds:</u>			
Series 2002B	\$ 64.4	\$ 56.2	\$ 59.3
Series 2003	11.4	10.4	10.9
Total Comprehensive Transportation Fund Bonds	<u>\$ 75.8</u>	<u>\$ 66.6</u>	<u>\$ 70.1</u>
Total	<u>\$ 406.9</u>	<u>\$ 397.6</u>	<u>\$ 401.2</u>

b. Debt Service Requirements

The following table summarizes debt service requirements for outstanding bonds at September 30, 2010 (in thousands):

Fiscal Years Ending September 30	Principal	Interest	Total
2011	\$ 109,410	\$ 124,235	\$ 233,645
2012	117,560	119,424	236,984
2013	122,665	114,313	236,978
2014	128,455	108,519	236,974
2015	135,340	101,636	236,976
2016	142,150	94,823	236,973
2017	149,505	87,502	237,007
2018	156,860	80,153	237,013
2019	164,735	72,274	237,009
2020	164,725	63,589	228,314
2021	143,485	55,013	198,498
2022	151,070	47,433	198,503
2023	124,005	40,422	164,427
2024	124,700	35,708	160,408
2025	132,720	27,690	160,410
2026	141,000	19,406	160,406
2027	150,120	10,287	160,407
2028	3,370	629	3,999
2029	3,535	460	3,995
2030	3,715	284	3,999
2031	1,955	98	2,053
Total	\$ 2,371,080	\$ 1,203,897	\$ 3,574,977

c. Other General Long-Term Obligations

Capital Leases: Capitalized lease liabilities are described in more detail in Note 6.

Compensated Absences: Compensated absences liabilities are described in more detail in Note 7b.

Claims and Judgments: The liability recorded for claims and judgments consists of projected amounts for highway-related negligence cases based upon historical loss ratios. MDOT continues to contest all of these claims and may incur no liability in the individual cases involved. Therefore, the allowance for litigation losses may be overstated (to the extent that losses do not occur) or understated (if the losses exceed the projected amounts).

Changes in General Long-Term Obligations: Changes in long-term obligations for the audit period are summarized as follows (in thousands):

	Revenue Dedicated Debt - Oversight Entity		Capital Lease Obligations	
	Fiscal Year		Fiscal Year	
	2009-10	2008-09	2009-10	2008-09
<u>Bonds and Capital Lease Obligations:</u>				
Balance - October 1	\$2,474,489	\$ 2,256,895	\$ 723	\$ 784
New bond issues/capital lease additions and adjustments	146,190	324,245		
Accretion on capital appreciation bonds	2,342	3,369		
Bond principal retirements/capital lease payments and adjustments	(254,380)	(110,020)	(67)	(61)
Balance - September 30	<u>\$2,368,641</u>	<u>\$ 2,474,489</u>	<u>\$ 656</u>	<u>\$ 723</u>

	Claims and Judgments		Compensated Absences Liabilities	
	Fiscal Year		Fiscal Year	
	2009-10	2008-09	2009-10	2008-09
<u>Other Long-Term Obligations:</u>				
Balance - October 1	\$ 438	\$ 360	\$ 34,300	\$ 34,022
Net increase (decrease) in estimated liabilities	2,256	78	972	278
Balance - September 30	<u>\$ 2,694</u>	<u>\$ 438</u>	<u>\$ 35,272</u>	<u>\$ 34,300</u>

Note 6 Leases

MDOT leases office facilities under noncancelable leasing arrangements. However, most leases have cancellation clauses with 1- to 6-month notice requirements in the event that funding is not available. For reporting purposes, such cancellation clauses are not considered in the determination of whether a lease is cancelable because the likelihood that such clauses will be exercised is considered remote. Leases that are in the nature of acquisitions are classified as "capital" leases; therefore, assets and liabilities are recorded at lease inception in the *SOMCAFR* but not in these financial statements. Other leases are classified as "operating" leases, and these are treated as rent commitments rather than acquisitions.

Rental expenditures incurred under operating leases totaled \$812,781 and \$887,249 during fiscal years 2009-10 and 2008-09, respectively.

A summary of the operating and noncancelable capital leasing commitments to maturity as of September 30, 2010 follows (in thousands):

Fiscal Year Ending September 30	Operating Leases	Capital Leases			
		Principal	Interest	Executory Costs	Total
2011	\$ 840	\$ 74	\$ 97	\$ 58	\$ 229
2012	599	83	88	58	229
2013	397	93	79	58	229
2014	283	104	67	58	229
2015	110	76	54	51	181
2016 - 2020	32	226	73	132	432
Total	\$ 2,261	\$ 656	\$ 458	\$ 415	\$ 1,528

A summary of the operating and noncancelable capital leasing commitments to maturity as of September 30, 2009 follows (in thousands):

Fiscal Year Ending September 30	Operating Leases	Capital Leases			
		Principal	Interest	Executory Costs	Total
2010	\$ 1,159	\$ 67	\$ 104	\$ 58	\$ 229
2011	866	74	97	58	229
2012	599	83	88	58	229
2013	298	93	79	58	229
2014	87	104	67	58	229
2015 - 2019		302	127	184	613
Total	<u>\$ 3,008</u>	<u>\$ 723</u>	<u>\$ 562</u>	<u>\$ 472</u>	<u>\$ 1,757</u>

The preceding tables do not include leases for State-owned buildings, leases for an amount less than \$10,000, lease extensions less than 12 months, and lease payment changes less than \$200.

All of the preceding capital leases are related to governmental fund operations and the total of capital lease principal is recorded in the government-wide statement of net assets in the *SOMCAFR*.

The historical cost of assets acquired under capital leases, which are recorded in the government-wide statements of the *SOMCAFR*, included buildings reported at \$1.1 million as of both September 30, 2010 and September 30, 2009.

Note 7 Employee Benefits - Retirement and Compensated Absences

a. Retirement Contributions

MDOT employees are members of the State Employees' Retirement System. Retirement contributions are transferred from MDOT's special revenue funds to the State Employees' Pension Benefits Fund, the State Employees' Other Postemployment Benefits Fund, and the State of Michigan Defined Contribution Retirement Fund.

MDOT's retirement contributions were as follows (in thousands):

	Fiscal Year	
	2009-10	2008-09
State Trunkline Fund	\$ 43,997	\$ 42,164
Comprehensive Transportation Fund	1,301	1,186
State Aeronautics Fund	1,006	934
Total MDOT retirement contributions	<u>\$ 46,304</u>	<u>\$ 44,284</u>

b. Compensated Absences

MDOT has accrued liabilities for compensated absences as required by GASB. Long-term liabilities are recorded in the government-wide statement of net assets reported in the *SOMCAFR*. Liabilities are recorded as fund liabilities if the liability is "due and payable." Compensated absences are recorded in the fund only for separations or transfers that occur before year-end. The amount "due and payable" is reflected in the "Accounts payable" line of the balance sheet.

The following table summarizes MDOT related compensated absences liabilities as of September 30, 2010 and September 30, 2009 (in thousands):

	Sick Leave		Annual Leave		Banked Leave		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
State Trunkline Fund	\$8,463	\$8,779	\$18,280	\$18,065	\$6,315	\$5,300	\$33,058	\$32,145
Comprehensive Transportation Fund	417	402	587	574	240	211	1,243	1,186
State Aeronautics Fund	362	380	433	417	176	171	970	969
Total	<u>\$9,242</u>	<u>\$9,561</u>	<u>\$19,299</u>	<u>\$19,057</u>	<u>\$6,731</u>	<u>\$5,682</u>	<u>\$35,272</u>	<u>\$34,300</u>

If an MDOT employee transfers to another department, the related compensated absence liability is assumed by the employee's new department.

For a more detailed explanation of pension benefits, other postemployment benefits, and compensated absence accruals, refer to Notes 10, 11, and 1, respectively, of the fiscal year 2009-10 and 2008-09 SOMCAFR.

Note 8 Distributions, Grants, and Transfers by the Michigan Transportation Fund

Transactions primarily include distributions and interfund transfers that are reported as other financing sources and uses on the combined statement of revenues, expenditures, and changes in fund balances.

MDOT's most significant transaction is the distribution of Michigan Transportation Fund revenues to the State Trunkline Fund and Comprehensive Transportation Fund. This distribution is in accordance with Section 247.660 of the *Michigan Compiled Laws* (Section 10, Act 51, P.A. 1951, as amended).

The Michigan Transportation Fund collects various taxes, such as gasoline taxes, diesel taxes, motor carrier taxes, and vehicle license taxes. Before the distribution is calculated, various deductions are taken from the Michigan Transportation Fund's total gross receipts. These deductions include funding for debt service payments, the Rail Grade Crossing Program, administrative costs for divisions within MDOT, and grants with other State agencies.

The Comprehensive Transportation Fund receives 10% of the remaining balance from the Michigan Transportation Fund. After the Comprehensive Transportation Fund's balance is distributed, additional deductions are taken for the Local Bridge Program, the Economic Development Program, and the Local Road Program. Three of the four cents a gallon that MDOT receives for gasoline taxes is then added to the total. The State Trunkline Fund receives 39.1% of the remaining balance.

Other transfers by the Michigan Transportation Fund are also required by Act 51, P.A. 1951, as amended, or the current year's appropriations act. The table below shows the Michigan Transportation Fund's distributions and interfund transfers in fiscal years 2009-10 and 2008-09:

	Fiscal Year	
	2009-10	2008-09
Michigan Transportation Fund Distribution		
State Trunkline Fund	\$ 587,437,841	\$ 587,168,145
Comprehensive Transportation Fund	155,205,057	155,288,492
Grants and Transfers to Other Funds		
Other State agencies	45,348,525	45,074,081
Debt service	43,000,000	43,000,000
Economic Development Program	40,275,000	40,275,000
Local Road Program	33,000,000	33,000,000
Local Bridge Fund	30,484,921	29,799,503
Bureau of Transportation Planning	7,775,933	7,876,981
Design and Engineering Services	4,922,272	4,753,877
Rail Grade Crossing Program	3,000,000	3,000,000
Freight and Safety Services	1,742,575	1,681,320
Finance, Contracts and Support Services	1,625,200	1,804,000
Enhancement Program	184,285	170,276
Total	<u>\$ 954,001,609</u>	<u>\$ 952,891,675</u>

Note 9 Reserved Fund Balance

Total reserved fund balances in MDOT's special revenue funds were \$613.3 million and \$701.9 million as of September 30, 2010 and September 30, 2009, respectively. The State Trunkline Fund's portion of these reserved fund balances, excluding reserves of the Blue Water Bridge Fund (a subfund of the State Trunkline Fund) were \$542.5 million and \$628.8 million as of September 30, 2010 and September 30, 2009, respectively. Reserved fund balances in the State Trunkline Fund help fund future construction of highways

and bridges, which are primary functions of MDOT. A comparative analysis of the State Trunkline Fund reserved fund balance follows (in thousands):

	As of September 30	
	2010	2009
Reserves:		
Capital outlay:		
Facilities	\$ 14,345	\$ 27,543
Institutional roads	1,041	1,752
Road and bridge	109,020	229,550
Total capital outlay reserves	<u>\$124,406</u>	<u>\$258,845</u>
Encumbrances	<u>\$ 38,685</u>	<u>\$ 61,914</u>
Restricted revenue	<u>\$189,746</u>	<u>\$146,360</u>
Revolving loan program	<u>\$ 22,490</u>	<u>\$ 22,193</u>
Construction and debt service	<u>\$145,498</u>	<u>\$116,470</u>
Noncurrent assets:		
Capital equipment loans	\$ 10,068	\$ 12,651
Maintenance advances	11,639	10,348
Total noncurrent assets	<u>\$ 21,707</u>	<u>\$ 22,998</u>
Total reserved fund balance	<u>\$542,531</u>	<u>\$628,782</u>

For a more detailed explanation of reserved fund balance, refer to Note 22 of the fiscal year 2009-10 and 2008-09 *SOMCAFR*.

Note 10 Component Unit - Mackinac Bridge Authority

The Mackinac Bridge Authority, which is reported as a component unit in the *SOMCAFR*, has received \$75.3 million of subsidies over the years for operations (\$12.3 million) and debt service (\$63.0 million). These subsidies were provided by the State Trunkline Fund and the Michigan Transportation Fund, respectively, both of which are special revenue funds. The Authority redeemed its remaining bonds on July 1, 1986.

State statutes require that the Authority continue charging bridge tolls and begin repaying the State Trunkline Fund and the Michigan Transportation Fund for the subsidies provided. These repayments would continue until such time as the subsidies have been completely returned. Executive Order No. 1986-14 created the Governor's Mackinac Bridge Task Force to develop an advisory proposal concerning reimbursement of the subsidies, future funding of repair and renovation costs, and the bridge toll structure. The Authority has not recorded a liability, and the State funds have not recorded receivables for these subsidies, because the reimbursements are contingent upon future net revenues and because the repayment commitment is long-term and budgetary in nature. Repayments may be authorized by the Authority after consideration of the Authority's annual needs for its operations and planned repairs and improvements.

The Authority repaid \$11.5 million between fiscal years 1992-93 and 2008-09, with additional repayments of \$250,000 repaid in fiscal year 2009-10, to the Michigan Transportation Fund. These repayments come directly from the revenue generated by bridge tolls and not from the State Trunkline Fund. A balance of \$51.3 million is owed to the Michigan Transportation Fund and a balance of \$12.3 million is owed to the State Trunkline Fund.

Current receivables of \$2.0 million and \$1.6 million were recorded as of September 30, 2010 and September 30, 2009, respectively, in the State Trunkline Fund's balance sheet as amounts due from component units for the Authority's reimbursement of payroll and related expenses. An account payable due to MDOT is recorded in the Authority's balance sheet.

Note 11 Contingencies and Commitments

a. Litigation

MDOT is party to various legal proceedings seeking damages and other relief, including injunctive or mandatory relief. The ultimate disposition of such legal proceedings is not presently determinable, but such ultimate disposition and consequences of all these legal proceedings will not, themselves, in the opinion of the State of Michigan's Attorney General, have a materially adverse effect on MDOT's financial position.

MDOT accrues fund liabilities at year-end related to settled cases in which the amount is due and payable. For other cases, if a loss is probable and reasonably estimable, the liability is recorded in the government-wide statement of net assets as a long-term liability (see Note 5 for more information).

In March 2002, the County Road Association of Michigan (CRAM) and the Chippewa County Road Commission filed a lawsuit against John M. Engler, et al., concerning the provisions of Executive Order No. 2001-9. The lawsuit challenges the constitutionality of the reduction of funds by Executive Order that would have otherwise been spent under the Michigan Transportation Fund and the Comprehensive Transportation Fund but, under the Executive Order, would make additional funds available in the General Fund. In part, the lawsuit challenges the constitutionality of that use of the funds. In addition, funds were transferred from the Economic Development Fund to the General Fund. A trial was conducted and an appeal taken by both parties. The Court of Appeals dismissed the appeal based on sovereign immunity and on the grounds that CRAM lacked standing to bring the suit. In effect, the State prevailed. CRAM then filed an Application for Leave to Appeal to the Supreme Court. CRAM's Application for Leave to Appeal was denied by the Supreme Court on September 29, 2010. CRAM then filed a motion for reconsideration, which was denied on December 29, 2010. For more information, see Note 24 of the fiscal year 2009-10 and 2008-09 *SOMCAFR*.

b. Federal Grants

Federal revenues are generally subject to review and audit by grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agencies for expenditures disallowed under the terms of the grant. As of September 30, 2010 and September 30, 2009, MDOT estimated that the disallowance of recognized revenues would not be material to the financial statements.

c. Construction Projects

MDOT has entered into construction contracts for transportation related special revenue funds and trust funds. The following table summarizes the balances remaining on MDOT related construction projects (in millions):

	As of September 30	
	2010	2009
State Trunkline Fund	\$ 592.8	\$ 707.7
Transportation Related Trust Fund	127.9	93.2
Other	75.2	88.0
Total	<u>\$ 795.9</u>	<u>\$ 888.9</u>

d. Advanced Construction* (AC)

Under an agreement with FHWA, MDOT has, over a period of years, qualified a number of construction projects for federal reimbursement without placing them under a reimbursement agreement. These deferred federal aid projects may be converted to current reimbursement at the option of MDOT, provided there are adequate federal aid allocations. The arrangement was worked out between the states and the federal government to allow states to obtain federal reimbursement not received during the construction period in case a relatively greater amount of federal aid becomes available at some later date or to assist in balancing the federal aid from year to year. Accounts receivable are not recorded until FHWA allocates federal aid to the deferred federal aid projects.

AC expenditure activity during the audit period follows (in millions):

	Fiscal Year	
	2009-10	2008-09
Beginning balance of AC expenditures	\$ 580.6	\$ 551.0
Add: State Trunkline Fund AC expenditures incurred	129.7	126.4
Subtract: AC expenditures placed under reimbursement agreement	<u>(38.1)</u>	<u>(96.8)</u>
Ending balance of AC expenditures	<u>\$ 672.2</u>	<u>\$ 580.6</u>

* See glossary at end of report for definition.

SUPPLEMENTAL FINANCIAL STATEMENTS AND SCHEDULES

Descriptions of Special Revenue Funds

MICHIGAN TRANSPORTATION FUND

This Fund, established by Section 10, Act 51, P.A. 1951, as amended, is administered jointly by the Michigan Department of Transportation and the Department of State. In addition, Fund revenue is also collected by the Department of Treasury. The Fund's budget is subject to annual legislative review and appropriation. The Fund is a receiving fund for the several tax revenues dedicated to transportation purposes. Transfers are made to the General Fund to pay the cost of collection of the dedicated revenues and to the State Trunkline Fund, Comprehensive Transportation Fund, Economic Development Fund (a subfund of the State Trunkline Fund), and the Recreation Improvement Fund (a subfund within the General Fund at the Department of Natural Resources) in accordance with the statutory formulas. Expenditures consist of grants to counties, cities, and villages for highway purposes in accordance with statutory formulas.

STATE TRUNKLINE FUND

This Fund, established by Section 11, Act 51, P.A. 1951, as amended, provides for construction and maintenance of highways and bridges. Its overall budget is subject to annual legislative review and appropriation, but the State Transportation Commission has significant discretion in determining the funding of individual projects. Major financing sources are transfers from the Michigan Transportation Fund, federal aid, and local participation. Expenditures and transfers are for administration, highway maintenance and construction, debt service, and various contractual obligations. This Fund was also used to record loans made to local units of government for reconstructing and resurfacing roadways. In accordance with the annual statutory provisions, unreserved balances at fiscal year-end are transferred to the road and bridge construction account of the Fund.

In fiscal year 1987-88, the Economic Development Fund (EDF), a subfund, was created within the State Trunkline Fund. The statements for the State Trunkline Fund include the financial activity for EDF. A separate schedule summarizing EDF activity is included as a supplemental schedule in this report.

The Blue Water Bridge Fund (BWBF) was created as a separate fund, reported within the State Trunkline Fund, during fiscal year 1993-94 to account for the Blue Water Bridge Project. The Blue Water Bridge is located between Port Huron, Michigan, and

Sarnia, Ontario (Canada). Through provisions of Section 1012 in the federal Intermodal Surface Transportation Efficiency Act of 1991, the State Trunkline Fund received federal funds to be loaned to BWBF for construction of the Blue Water Bridge Project. Repayment of the \$45 million loan began in 1998. The loan was fully repaid during fiscal year 2006-07. A separate schedule summarizing BWBF activity is included as a supplemental schedule in this report.

COMPREHENSIVE TRANSPORTATION FUND

This Fund, which operates under Section 10b, Act 51, P.A. 1951, as amended, was created for the purpose of planning, developing, and funding public transportation systems within the State. It was created by Acts 326, 327, and 328, P.A. 1972, and Act 197, P.A. 1973. In 1975, Acts 195, 196, and 239 were enacted, providing further additions and amendments to the laws governing this Fund. Its budget is subject to annual legislative review and appropriation. Fund revenues consist primarily of federal revenues, vehicle-related sales tax, and transfers from the Michigan Transportation Fund. In accordance with statutory provisions, any unreserved balance at fiscal year-end lapses and reverts to the Fund for appropriation in the following fiscal year.

STATE AERONAUTICS FUND

This Fund, established by Act 327, P.A. 1945, administers development and capital improvement projects for airports. Its budget is subject to annual legislative review and appropriation. Fund revenues consist mostly of federal contributions and aviation fuel taxes. Expenditures and transfers are for administration and local airport improvement project costs. In accordance with statutory provisions, any unreserved balance at fiscal year-end lapses and reverts to the Fund for appropriation in the following fiscal year.

COMBINED STATE TRUNKLINE BOND PROCEEDS FUND

This Fund was established pursuant to Section 18b, Act 51, P.A. 1951, as amended, to account for the proceeds of State trunkline revenue dedicated bonds. These bonds are being used in part to finance the costs of reconstructing and resurfacing portions of the State trunkline system.

COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND

This Fund was established pursuant to Section 18b, Act 51, P.A. 1951, as amended, to account for the proceeds of comprehensive transportation revenue dedicated bonds. These bonds are being used to finance part of the construction and acquisition of comprehensive transportation projects.

TRANSPORTATION RELATED TRUST FUND

To achieve administrative efficiencies, the Special Federal Bridge Replacement Fund, Federal County Road Fund, Federal Urban Transportation System Fund, Highway Topics and Safety Program Fund, and Metropolitan Planning Fund were combined in a single trust fund. The functions and purposes of these funds, although combined in a single fund, remain unchanged. The following funds are included in the special revenue fund:

SPECIAL FEDERAL BRIDGE REPLACEMENT FUND

This Fund was authorized by enabling legislation associated with Section 144 of the Federal Highway Act of 1970. The Fund accounts for the federal and State funding used to upgrade locally owned bridges.

FEDERAL COUNTY ROAD FUND

This Fund was authorized by enabling legislation associated with the Federal Highway Act of 1944, as amended. The Fund accounts for the federal and State money expended to meet the road construction needs of rural areas and communities with populations less than 5,000.

FEDERAL URBAN TRANSPORTATION SYSTEM FUND

This Fund was authorized by enabling legislation associated with the Federal Highway Act of 1970, as amended. The Fund accounts for the federal and State money expended to meet the road construction needs of communities with populations 5,000 or more.

HIGHWAY TOPICS AND SAFETY PROGRAM FUND

This Fund was established by enabling legislation associated with the Federal Highway Acts of 1968 and 1973. The Fund accounts for federal and State money used to fund urban and road safety projects.

METROPOLITAN PLANNING FUND

This Fund was established by Sections 112 and 134 of the Federal Highway Act of 1973 to account for federal funds that reimburse local regional planning agencies for operating expenses.

MICHIGAN DEPARTMENT OF TRANSPORTATION
Combining Balance Sheet
Special Revenue Funds
As of September 30
(In Thousands)

	Michigan Transportation Fund		State Trunkline Fund		Comprehensive Transportation Fund		State Aeronautics Fund	
	2010	2009	2010	2009	2010	2009	2010	2009
ASSETS								
Current assets:								
Cash and cash equivalents	\$	\$	\$ 201	\$ 75	\$	\$ 26	\$	\$ 9
Equity in common cash	133,747		190,476		44,618	43,859	18,590	15,705
Receivables:								
Taxes, interest, and penalties (net)	100,665	108,044					710	527
Federal aid			135,516	153,944	17,982	13,908	28,558	53,009
Local units			18,251	43,826	1,209	1,048	8,953	25,410
Other funds		129,604	341,676	579,016	17,899	26,728		
Component units			1,950	1,576				
Other current assets	12	1	3,020	4,603	47	71	45	37
Inventories			16,810	8,184				
Total current assets	<u>\$ 234,423</u>	<u>\$ 237,649</u>	<u>\$ 707,900</u>	<u>\$ 791,223</u>	<u>\$ 81,756</u>	<u>\$ 85,639</u>	<u>\$ 56,857</u>	<u>\$ 94,697</u>
Noncurrent assets:								
Receivables:								
Taxes	\$ 3,293	\$ 5,627	\$	\$	\$	\$	\$	\$ 234
Local units			30,400	31,373	4,410	5,055	250	223
Land contracts			445	622				
Miscellaneous					653	834		
Total noncurrent assets	<u>\$ 3,293</u>	<u>\$ 5,627</u>	<u>\$ 30,845</u>	<u>\$ 31,995</u>	<u>\$ 5,063</u>	<u>\$ 5,889</u>	<u>\$ 250</u>	<u>\$ 457</u>
Total assets	<u>\$ 237,716</u>	<u>\$ 243,276</u>	<u>\$ 738,746</u>	<u>\$ 823,218</u>	<u>\$ 86,819</u>	<u>\$ 91,528</u>	<u>\$ 57,107</u>	<u>\$ 95,154</u>
LIABILITIES AND FUND BALANCES								
Current liabilities:								
Warrants outstanding	\$ 301	\$ 363	\$ 5,741	\$ 3,169	\$ 91	\$ 212	\$ 28	\$ 28
Accounts payable	196,361	192,398	168,611	174,003	22,039	21,224	27,311	52,151
Contract reserve payable			2,730	2,641			14	22
Due to other funds and component units	28,261	32,389	1,528	3,807	48	107	37	83
Deposits, permits, and other liabilities			1,726	2,054	1,567	2,850	7,550	20,258
Deferred revenue	9,500	12,500	3,481	2,380	2	2	6	7
Total current liabilities	<u>\$ 234,423</u>	<u>\$ 237,649</u>	<u>\$ 183,818</u>	<u>\$ 188,054</u>	<u>\$ 23,746</u>	<u>\$ 24,395</u>	<u>\$ 34,946</u>	<u>\$ 72,550</u>
Long-term liabilities:								
Deferred revenue	3,293	5,627	445	622	653	834		234
Total liabilities	<u>\$ 237,716</u>	<u>\$ 243,276</u>	<u>\$ 184,263</u>	<u>\$ 188,676</u>	<u>\$ 24,399</u>	<u>\$ 25,229</u>	<u>\$ 34,946</u>	<u>\$ 72,784</u>
Fund balances:								
Reserves for:								
Encumbrances	\$	\$	\$ 38,751	\$ 62,034	\$ 33,722	\$ 37,052	\$ 4,422	\$ 6,434
Restricted revenue balances			189,746	146,360	1,994	1,180	788	788
Multi-year projects			136,291	264,486			7,878	6,244
Revolving funds			22,490	22,193	7,769	13,448	2,200	2,200
Construction and debt service			145,498	116,470				
Noncurrent assets			21,707	22,998				
Total reserved	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 554,483</u>	<u>\$ 634,542</u>	<u>\$ 43,486</u>	<u>\$ 51,680</u>	<u>\$ 15,288</u>	<u>\$ 15,666</u>
Unreserved					18,935	14,620	6,873	6,704
Total fund balances	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 554,483</u>	<u>\$ 634,542</u>	<u>\$ 62,420</u>	<u>\$ 66,300</u>	<u>\$ 22,161</u>	<u>\$ 22,370</u>
Total liabilities and fund balances	<u>\$ 237,716</u>	<u>\$ 243,276</u>	<u>\$ 738,746</u>	<u>\$ 823,218</u>	<u>\$ 86,819</u>	<u>\$ 91,528</u>	<u>\$ 57,107</u>	<u>\$ 95,154</u>

Combined State Trunkline Bond Proceeds Fund		Combined Comprehensive Transportation Bond Proceeds Fund		Transportation Related Trust Fund		Totals	
2010	2009	2010	2009	2010	2009	2010	2009
\$ 66,560	\$ 197,174	\$ 54,252	\$ 62,749	\$ 2,142	\$ 224	\$ 2,344	\$ 335
						508,243	319,487
						101,376	108,571
237	195			54,235	44,779	236,528	265,834
510	615			23,915	24,763	52,838	95,662
						359,575	735,347
						1,950	1,576
						3,123	4,712
						16,810	8,184
<u>\$ 67,307</u>	<u>\$ 197,985</u>	<u>\$ 54,252</u>	<u>\$ 62,749</u>	<u>\$ 80,292</u>	<u>\$ 69,766</u>	<u>\$ 1,282,788</u>	<u>\$ 1,539,708</u>
\$	\$	\$	\$	\$	\$	\$ 3,293	\$ 5,861
						35,059	36,652
						445	622
						653	834
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 39,451</u>	<u>\$ 43,968</u>
<u>\$ 67,307</u>	<u>\$ 197,985</u>	<u>\$ 54,252</u>	<u>\$ 62,749</u>	<u>\$ 80,292</u>	<u>\$ 69,766</u>	<u>\$ 1,322,239</u>	<u>\$ 1,583,676</u>
\$ 44	\$	\$	\$	\$ 775	\$ 261	\$ 6,980	\$ 4,033
9,303	6,147	1,983	1,846	52,133	38,610	477,741	486,380
321	212			1,685	1,084	4,750	3,959
				13,043	19,560	42,916	55,945
				12,656	10,250	23,499	35,412
635	637					13,623	15,526
<u>\$ 10,302</u>	<u>\$ 6,996</u>	<u>\$ 1,983</u>	<u>\$ 1,846</u>	<u>\$ 80,292</u>	<u>\$ 69,766</u>	<u>\$ 569,510</u>	<u>\$ 601,255</u>
						4,391	7,317
<u>\$ 10,302</u>	<u>\$ 6,996</u>	<u>\$ 1,983</u>	<u>\$ 1,846</u>	<u>\$ 80,292</u>	<u>\$ 69,766</u>	<u>\$ 573,901</u>	<u>\$ 608,572</u>
\$	\$	\$	\$	\$	\$	\$ 76,896	\$ 105,520
						192,528	148,328
						144,169	270,730
						32,459	37,841
						145,498	116,470
						21,707	22,998
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 613,256</u>	<u>\$ 701,888</u>
57,004	190,989	52,269	60,903			135,081	273,216
<u>\$ 57,004</u>	<u>\$ 190,989</u>	<u>\$ 52,269</u>	<u>\$ 60,903</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 748,337</u>	<u>\$ 975,104</u>
<u>\$ 67,307</u>	<u>\$ 197,985</u>	<u>\$ 54,252</u>	<u>\$ 62,749</u>	<u>\$ 80,292</u>	<u>\$ 69,766</u>	<u>\$ 1,322,239</u>	<u>\$ 1,583,676</u>

MICHIGAN DEPARTMENT OF TRANSPORTATION
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Special Revenue Funds
Fiscal Years Ended September 30
(In Thousands)

	Michigan Transportation Fund		State Trunkline Fund		Comprehensive Transportation Fund	
	2010	2009	2010	2009	2010	2009
REVENUES						
Taxes	\$ 1,804,172	\$ 1,803,699	\$	\$	\$ 76,778	\$ 82,887
Licenses and permits	30,366	29,676	5,357	4,654	363	323
Federal aid			934,843	916,841	50,217	33,820
Local participation			16,115	16,254		
Interest earnings	349	1,745	1,506	5,714	85	260
Services	3,396	3,323	54	17		
Nonoperating revenue - bridges			2,928	3,077		
Miscellaneous	739	250	44,607	40,690	1,755	833
Total revenues	<u>\$ 1,839,023</u>	<u>\$ 1,838,692</u>	<u>\$ 1,005,410</u>	<u>\$ 987,248</u>	<u>\$ 129,198</u>	<u>\$ 118,124</u>
EXPENDITURES						
Administration and operations:						
Administration and maintenance	\$ 8,436	\$ 8,226	\$ 468,250	\$ 491,990	\$ 10,140	\$ 8,837
Bus operating assistance grants					197,613	184,709
Other grants	886,176	886,099	120,765	135,861	52,293	49,713
Airport development						
Nonoperating expenditures - bridges			2,777	2,923		
Trust fund construction activity						
Capital lease payments			171	171		
Total administration and operations	<u>\$ 894,612</u>	<u>\$ 894,325</u>	<u>\$ 591,963</u>	<u>\$ 630,945</u>	<u>\$ 260,046</u>	<u>\$ 243,259</u>
Capital outlay:						
Roads and bridges	\$	\$	\$ 1,067,103	\$ 1,029,751	\$	\$
Other capital outlay			12,884	12,252		
Total capital outlay	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,079,986</u>	<u>\$ 1,042,003</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total expenditures	<u>\$ 894,612</u>	<u>\$ 894,325</u>	<u>\$ 1,671,949</u>	<u>\$ 1,672,948</u>	<u>\$ 260,046</u>	<u>\$ 243,259</u>
Excess of revenues over (under) expenditures	<u>\$ 944,410</u>	<u>\$ 944,367</u>	<u>\$ (666,539)</u>	<u>\$ (685,700)</u>	<u>\$ (130,848)</u>	<u>\$ (125,136)</u>
OTHER FINANCING SOURCES						
Michigan Transportation Fund distribution	\$	\$	\$ 587,438	\$ 587,168	\$ 155,205	\$ 155,288
Grants and transfers from other funds	1,155	299	222,588	186,705	1,743	1,681
Proceeds from sale of capital assets			308	800		
Proceeds from bonds and notes issued						
Total other financing sources	<u>\$ 1,155</u>	<u>\$ 299</u>	<u>\$ 810,334</u>	<u>\$ 774,673</u>	<u>\$ 156,948</u>	<u>\$ 156,970</u>
OTHER FINANCING USES						
Michigan Transportation Fund distribution	\$ 742,643	\$ 742,457	\$	\$	\$	\$
Grants and transfers to other funds	202,923	202,209	5,618	4,916	12,894	94
Discount on bonds issued						
Debt service			218,236	158,458	17,085	29,892
Total other financing uses	<u>\$ 945,566</u>	<u>\$ 944,666</u>	<u>\$ 223,854</u>	<u>\$ 163,374</u>	<u>\$ 29,979</u>	<u>\$ 29,985</u>
Excess of other financing sources over (under) other financing uses	<u>\$ (944,410)</u>	<u>\$ (944,367)</u>	<u>\$ 586,480</u>	<u>\$ 611,299</u>	<u>\$ 126,969</u>	<u>\$ 126,984</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>\$</u>	<u>\$</u>	<u>\$ (80,059)</u>	<u>\$ (74,401)</u>	<u>\$ (3,880)</u>	<u>\$ 1,849</u>
Fund balances - Beginning of fiscal year			634,542	708,943	66,300	64,451
Fund balances - End of fiscal year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 554,483</u>	<u>\$ 634,542</u>	<u>\$ 62,420</u>	<u>\$ 66,300</u>

State Aeronautics Fund		Combined State Trunkline Bond Proceeds Fund		Combined Comprehensive Transportation Bond Proceeds Fund		Transportation Related Trust Fund		Totals	
2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
\$ 5,422	\$ 5,692	\$	\$	\$	\$	\$	\$	\$ 1,886,372	\$ 1,892,277
325	318							36,412	34,970
118,528	115,840	58,534	27,076			368,980	276,845	1,531,103	1,370,423
15	44	410	1,135					16,540	17,434
61	207	388	362	177	585			2,566	8,874
575	488							4,025	3,827
								2,928	3,077
10,111	3,301	448	625	94	1,278	1,937	519	59,692	47,497
\$ 135,038	\$ 125,889	\$ 59,781	\$ 29,198	\$ 271	\$ 1,863	\$ 370,918	\$ 277,365	\$ 3,539,638	\$ 3,378,379
\$ 6,643	\$ 6,615	\$ 459	\$ 628	\$ 94	\$ 1,270	\$	\$	\$ 494,021	\$ 517,566
								197,613	184,709
		2,074	9,604	19,448	7,644			1,080,756	1,088,921
130,897	121,903			1,884	1,909			132,781	123,812
								2,777	2,923
						370,918	277,365	370,918	277,365
								171	171
\$ 137,539	\$ 128,518	\$ 2,533	\$ 10,232	\$ 21,426	\$ 10,823	\$ 370,918	\$ 277,365	\$ 2,279,038	\$ 2,195,466
\$	\$	\$ 137,110	\$ 120,608	\$	\$	\$	\$	\$ 1,204,213	\$ 1,150,359
139	527			237	364			13,259	13,143
\$ 139	\$ 527	\$ 137,110	\$ 120,608	\$ 237	\$ 364	\$ 0	\$ 0	\$ 1,217,473	\$ 1,163,502
\$ 137,679	\$ 129,045	\$ 139,643	\$ 130,841	\$ 21,663	\$ 11,186	\$ 370,918	\$ 277,365	\$ 3,496,510	\$ 3,358,968
\$ (2,641)	\$ (3,156)	\$ (79,862)	\$ (101,642)	\$ (21,392)	\$ (9,323)	\$ 0	\$ 0	\$ 43,128	\$ 19,410
\$	\$	\$	\$	\$	\$	\$	\$	\$ 742,643	\$ 742,457
6,000	6,000			12,758	15,378			244,245	210,063
		4,000	281,910					308	800
\$ 6,000	\$ 6,000	\$ 4,000	\$ 281,910	\$ 12,758	\$ 15,378	\$ 0	\$ 0	\$ 991,195	\$ 1,235,229
\$	\$	\$	\$	\$	\$	\$	\$	\$ 742,643	\$ 742,457
96	55	58,122	22,783					279,653	230,058
			1,914					0	1,914
3,472	3,431							238,793	191,780
\$ 3,568	\$ 3,486	\$ 58,122	\$ 24,697	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,261,089	\$ 1,166,209
\$ 2,432	\$ 2,514	\$ (54,122)	\$ 257,213	\$ 12,758	\$ 15,378	\$ 0	\$ 0	\$ (269,894)	\$ 69,021
\$ (209)	\$ (642)	\$ (133,984)	\$ 155,570	\$ (8,634)	\$ 6,054	\$	\$	\$ (226,766)	\$ 88,431
22,370	23,012	190,989	35,418	60,903	54,849			975,104	886,673
\$ 22,161	\$ 22,370	\$ 57,004	\$ 190,989	\$ 52,269	\$ 60,903	\$ 0	\$ 0	\$ 748,338	\$ 975,104

MICHIGAN DEPARTMENT OF TRANSPORTATION
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Special Revenue Funds
Fiscal Year Ended September 30, 2010
(In Thousands)

(Statutory/Budgetary Basis)	Michigan Transportation Fund			State Trunkline Fund (Excluding Blue Water Bridge Fund)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Taxes	\$ 1,804,172	\$ 1,804,172	\$ 0	\$	\$	\$
Licenses and permits	30,366	30,366	0	5,357	5,357	0
Federal aid				934,843	934,843	0
Local participation				16,115	16,115	0
Interest earnings	349	349	0	1,452	1,452	0
Services	3,396	3,396	0	54	54	0
Nonoperating revenue - bridges				2,928	2,928	0
Miscellaneous	739	739	0	25,527	25,527	0
Total revenues	<u>\$ 1,839,023</u>	<u>\$ 1,839,023</u>	<u>\$ 0</u>	<u>\$ 986,277</u>	<u>\$ 986,277</u>	<u>\$ 0</u>
EXPENDITURES AND ENCUMBRANCES						
Administration and operations:						
Administration and maintenance	\$ 8,632	\$ 8,436	\$ 196	\$ 538,978	\$ 482,695	\$ 56,283
Bus operating assistance grants						
Other grants	891,314	886,176	5,138	126,208	125,967	241
Airport development						
Nonoperating expenditures - bridges				2,928	2,777	151
Total administration and operations	<u>\$ 899,946</u>	<u>\$ 894,612</u>	<u>\$ 5,334</u>	<u>\$ 668,115</u>	<u>\$ 611,440</u>	<u>\$ 56,675</u>
Capital outlay:						
Roads and bridges	\$	\$	\$	\$ 1,080,477	\$ 1,080,477	\$ 0
Other capital outlay				25,745	14,950	10,795
Total capital outlay	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,106,222</u>	<u>\$ 1,095,428</u>	<u>\$ 10,795</u>
Total expenditures and encumbrances	<u>\$ 899,946</u>	<u>\$ 894,612</u>	<u>\$ 5,334</u>	<u>\$ 1,774,337</u>	<u>\$ 1,706,867</u>	<u>\$ 67,470</u>
Excess of revenues over (under) expenditures and encumbrances	<u>\$ 939,076</u>	<u>\$ 944,410</u>	<u>\$ 5,334</u>	<u>\$ (788,060)</u>	<u>\$ (720,590)</u>	<u>\$ 67,470</u>
OTHER FINANCING SOURCES						
Michigan Transportation Fund distribution	\$	\$	\$	\$ 587,438	\$ 587,438	\$ 0
Grants and transfers from other funds	1,155	1,155	0	222,588	222,588	0
Proceeds from sale of capital assets				308	308	0
Total other financing sources	<u>\$ 1,155</u>	<u>\$ 1,155</u>	<u>\$ 0</u>	<u>\$ 810,334</u>	<u>\$ 810,334</u>	<u>\$ 0</u>
OTHER FINANCING USES						
Michigan Transportation Fund distribution	\$ 746,465	\$ 742,643	\$ 3,822	\$	\$	\$
Grants and transfers to other funds	204,526	202,923	1,603	5,697	5,563	134
Debt service				216,107	216,095	12
Total other financing uses	<u>\$ 950,991</u>	<u>\$ 945,566</u>	<u>\$ 5,425</u>	<u>\$ 221,804</u>	<u>\$ 221,658</u>	<u>\$ 146</u>
Excess of other financing sources over (under) other financing uses	<u>\$ (949,836)</u>	<u>\$ (944,410)</u>	<u>\$ 5,425</u>	<u>\$ 588,529</u>	<u>\$ 588,675</u>	<u>\$ 146</u>
Excess of revenues and other financing sources over (under) expenditures, encumbrances and other financing uses	<u>\$ (10,759)</u>	<u>\$ 0</u>	<u>\$ 10,759</u>	<u>\$ (199,531)</u>	<u>\$ (131,915)</u>	<u>\$ 67,616</u>
RECONCILING ITEMS						
Encumbrances at September 30		\$			\$ 38,685	
Funds not annually budgeted						
Net reconciling items		<u>\$ 0</u>			<u>\$ 38,685</u>	
Excess of revenues and other financing sources over (under) expenditures and other financing uses (GAAP Basis)		\$ 0			\$ (93,230)	
FUND BALANCES (GAAP BASIS)						
Beginning balance		<u>\$ 0</u>			<u>\$ 620,547</u>	
Ending balances (GAAP Basis)		<u>\$ 0</u>			<u>\$ 527,317</u>	

This schedule continued on next page.

Blue Water Bridge Fund			Comprehensive Transportation Fund			State Aeronautics Fund		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$	\$	\$	\$ 76,778	\$ 76,778	\$ 0	\$ 5,422	\$ 5,422	\$ 0
			363	363	0	325	325	0
			50,217	50,217	0	118,528	118,528	0
						15	15	0
53	53	0	85	85	0	61	61	0
						575	575	0
19,080	19,080	0	1,755	1,755	0	10,111	10,111	0
<u>\$ 19,133</u>	<u>\$ 19,133</u>	<u>\$ 0</u>	<u>\$ 129,198</u>	<u>\$ 129,198</u>	<u>\$ 0</u>	<u>\$ 135,038</u>	<u>\$ 135,038</u>	<u>\$ 0</u>
\$ 5,412	\$ 2,890	\$ 2,522	\$ 12,528	\$ 10,764	\$ 1,763	\$ 8,260	\$ 6,651	\$ 1,608
			198,913	198,911	3			
			85,205	84,094	1,111			
						136,026	135,160	866
<u>\$ 5,412</u>	<u>\$ 2,890</u>	<u>\$ 2,522</u>	<u>\$ 296,646</u>	<u>\$ 293,769</u>	<u>\$ 2,877</u>	<u>\$ 144,286</u>	<u>\$ 141,812</u>	<u>\$ 2,474</u>
\$ 943	\$ 943	\$ 0	\$	\$	\$	\$ 309	\$ 289	\$ 20
<u>\$ 943</u>	<u>\$ 943</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 309</u>	<u>\$ 289</u>	<u>\$ 20</u>
\$ 6,355	\$ 3,833	\$ 2,522	\$ 296,646	\$ 293,769	\$ 2,877	\$ 144,595	\$ 142,101	\$ 2,494
<u>\$ 12,778</u>	<u>\$ 15,299</u>	<u>\$ 2,522</u>	<u>\$ (167,448)</u>	<u>\$ (164,571)</u>	<u>\$ 2,877</u>	<u>\$ (9,557)</u>	<u>\$ (7,063)</u>	<u>\$ 2,494</u>
\$	\$	\$	\$ 155,205	\$ 155,205	\$ 0	\$	\$	\$
			1,743	1,743	0	6,000	6,000	0
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 156,948</u>	<u>\$ 156,948</u>	<u>\$ 0</u>	<u>\$ 6,000</u>	<u>\$ 6,000</u>	<u>\$ 0</u>
\$ 55	\$ 55	\$ 0	\$ 13,000	\$ 12,894	\$ 106	\$ 150	\$ 96	\$ 54
2,150	2,141	9	29,843	17,085	12,758	3,472	3,472	0
<u>\$ 2,205</u>	<u>\$ 2,196</u>	<u>\$ 9</u>	<u>\$ 42,843</u>	<u>\$ 29,979</u>	<u>\$ 12,864</u>	<u>\$ 3,622</u>	<u>\$ 3,568</u>	<u>\$ 54</u>
<u>\$ (2,205)</u>	<u>\$ (2,196)</u>	<u>\$ 9</u>	<u>\$ 114,104</u>	<u>\$ 126,969</u>	<u>\$ 12,864</u>	<u>\$ 2,378</u>	<u>\$ 2,432</u>	<u>\$ 54</u>
<u>\$ 10,573</u>	<u>\$ 13,104</u>	<u>\$ 2,531</u>	<u>\$ (53,343)</u>	<u>\$ (37,602)</u>	<u>\$ 15,741</u>	<u>\$ (7,180)</u>	<u>\$ (4,631)</u>	<u>\$ 2,549</u>
\$ 67				\$ 33,722			\$ 4,422	
<u>\$ 67</u>				<u>\$ 33,722</u>			<u>\$ 4,422</u>	
\$ 13,171				\$ (3,880)			\$ (209)	
<u>\$ 13,995</u>				<u>\$ 66,300</u>			<u>22,370</u>	
<u>\$ 27,166</u>				<u>\$ 62,420</u>			<u>\$ 22,161</u>	

MICHIGAN DEPARTMENT OF TRANSPORTATION
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Special Revenue Funds
Fiscal Year Ended September 30, 2010
(In Thousands)
(Continued)

(Statutory/Budgetary Basis)	Funds Not Annually Budgeted			Totals		
	Combined State Trunkline Bond Proceeds Fund	Combined Transportation Bond Proceeds Fund	Transportation Related Trust Fund	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Taxes	\$	\$	\$	\$ 1,886,372	\$ 1,886,372	\$ 0
Licenses and permits				36,412	36,412	0
Federal aid				1,103,589	1,103,589	0
Local participation				16,130	16,130	0
Interest earnings				2,001	2,001	0
Services				4,025	4,025	0
Nonoperating revenue - bridges				2,928	2,928	0
Miscellaneous				57,212	57,212	0
Total revenues	\$ 0	\$ 0	\$ 0	\$ 3,108,669	\$ 3,108,669	\$ 0
EXPENDITURES AND ENCUMBRANCES						
Administration and operations:						
Administration and maintenance	\$	\$	\$	\$ 573,810	\$ 511,437	\$ 62,373
Bus operating assistance grants				198,913	198,911	3
Other grants				1,102,727	1,096,237	6,490
Airport development				136,026	135,160	866
Nonoperating expenditures - bridges				2,928	2,777	151
Total administration and operations	\$ 0	\$ 0	\$ 0	\$ 2,014,405	\$ 1,944,523	\$ 69,882
Capital outlay:						
Roads and bridges	\$	\$	\$	\$ 1,081,420	\$ 1,081,420	\$ 0
Other capital outlay				26,055	15,240	10,815
Total capital outlay	\$ 0	\$ 0	\$ 0	\$ 1,107,475	\$ 1,096,660	\$ 10,815
Total expenditures and encumbrances	\$ 0	\$ 0	\$ 0	\$ 3,121,880	\$ 3,041,183	\$ 80,697
Excess of revenues over (under) expenditures and encumbrances	\$ 0	\$ 0	\$ 0	\$ (13,211)	\$ 67,486	\$ 80,697
OTHER FINANCING SOURCES						
Michigan Transportation Fund distribution	\$	\$	\$	\$ 742,643	\$ 742,643	\$ 0
Grants and transfers from other funds				231,486	231,486	0
Proceeds from sale of capital assets				308	308	0
Total other financing sources	\$ 0	\$ 0	\$ 0	\$ 974,437	\$ 974,437	\$ 0
OTHER FINANCING USES						
Michigan Transportation Fund distribution	\$	\$	\$	\$ 746,465	\$ 742,643	\$ 3,822
Grants and transfers to other funds				223,428	221,531	1,898
Debt service				251,572	238,793	12,780
Total other financing uses	\$ 0	\$ 0	\$ 0	\$ 1,221,466	\$ 1,202,967	\$ 18,499
Excess of other financing sources over (under) other financing uses	\$ 0	\$ 0	\$ 0	\$ (247,029)	\$ (228,530)	\$ 18,499
Excess of revenues and other financing sources over (under) expenditures, encumbrances and other financing uses	\$ 0	\$ 0	\$ 0	\$ (260,240)	\$ (161,044)	\$ 99,196
RECONCILING ITEMS						
Encumbrances at September 30	\$	\$	\$		\$ 76,896	
Funds not annually budgeted	(133,984)	(8,634)			(142,619)	
Net reconciling items	\$ (133,984)	\$ (8,634)	\$ 0		\$ (65,722)	
Excess of revenues and other financing sources over (under) expenditures and other financing uses (GAAP Basis)	\$ (133,984)	\$ (8,634)	\$ 0		\$ (226,766)	
FUND BALANCES (GAAP BASIS)						
Beginning balance	190,989	60,903	0		975,104	
Ending balances (GAAP Basis)	\$ 57,004	\$ 52,269	\$ 0		\$ 748,338	

MICHIGAN DEPARTMENT OF TRANSPORTATION
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Special Revenue Funds
Fiscal Year Ended September 30, 2009
(In Thousands)

(Statutory/Budgetary Basis)	Michigan Transportation Fund			State Trunkline Fund (Excluding Blue Water Bridge Fund)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Taxes	\$ 1,803,699	\$ 1,803,699	\$ 0	\$	\$	\$
Licenses and permits	29,676	29,676	0	4,654	4,654	0
Federal aid				916,841	916,841	0
Local participation				16,254	16,254	0
Interest earnings	1,745	1,745	0	5,583	5,583	0
Services	3,323	3,323	0	17	17	0
Nonoperating revenue - bridges				3,077	3,077	0
Miscellaneous	250	250	0	27,908	27,908	0
Total revenues	\$ 1,838,692	\$ 1,838,692	\$ 0	\$ 974,335	\$ 974,335	\$ 0
EXPENDITURES AND ENCUMBRANCES						
Administration and operations:						
Administration and maintenance	\$ 8,649	\$ 8,226	\$ 423	\$ 537,700	\$ 514,212	\$ 23,488
Bus operating assistance grants						
Other grants	931,571	886,099	45,472	140,027	139,856	171
Airport development						
Nonoperating expenditures - bridges				3,077	2,923	155
Total administration and operations	\$ 940,220	\$ 894,325	\$ 45,895	\$ 680,804	\$ 656,990	\$ 23,813
Capital outlay:						
Roads and bridges	\$	\$	\$	\$ 1,065,212	\$ 1,050,442	\$ 14,771
Other capital outlay				19,365	19,143	222
Total capital outlay	\$ 0	\$ 0	\$ 0	\$ 1,084,578	\$ 1,069,585	\$ 14,993
Total expenditures and encumbrances	\$ 940,220	\$ 894,325	\$ 45,895	\$ 1,765,382	\$ 1,726,575	\$ 38,807
Excess of revenues over (under) expenditures and encumbrances	\$ 898,472	\$ 944,367	\$ 45,895	\$ (791,047)	\$ (752,240)	\$ 38,807
OTHER FINANCING SOURCES						
Michigan Transportation Fund distribution	\$	\$	\$	\$ 587,168	\$ 587,168	\$ 0
Grants and transfers from other funds	299	299	0	186,705	186,705	0
Proceeds from sale of capital assets				800	800	0
Total other financing sources	299	299	0	774,673	774,673	\$ 0
OTHER FINANCING USES						
Michigan Transportation Fund distribution	\$ 763,688	\$ 742,457	\$ 21,231	\$	\$	\$
Grants and transfers to other funds	205,195	202,209	2,986	5,044	4,861	183
Debt service				156,481	156,481	0
Total other financing uses	\$ 968,883	\$ 944,666	\$ 24,218	\$ 161,525	\$ 161,341	\$ 183
Excess of other financing sources over (under) other financing uses	\$ (968,585)	\$ (944,367)	\$ 24,218	\$ 613,149	\$ 613,332	\$ 183
Excess of revenues and other financing sources over (under) expenditures, encumbrances and other financing uses	\$ (70,113)	\$ 0	\$ 70,113	\$ (177,898)	\$ (138,908)	\$ 38,990
RECONCILING ITEMS						
Encumbrances at September 30		\$			\$ 61,914	
Funds not annually budgeted						
Net reconciling items		\$ 0			\$ 61,914	
Excess of revenues and other financing sources over (under) expenditures and other financing uses (GAAP Basis)		\$ 0			\$ (76,994)	
FUND BALANCES (GAAP BASIS)						
Beginning balance		0			697,541	
Ending balances (GAAP Basis)		\$ 0			\$ 620,547	

This schedule continued on next page.

MICHIGAN DEPARTMENT OF TRANSPORTATION
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Special Revenue Funds
Fiscal Year Ended September 30, 2009
(In Thousands)
(Continued)

(Statutory/Budgetary Basis)	Blue Water Bridge Fund			Comprehensive Transportation Fund		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Taxes	\$	\$	\$	\$ 82,887	\$ 82,887	\$ 0
Licenses and permits				323	323	0
Federal aid				33,820	33,820	0
Local participation						
Interest earnings	131	131	0	260	260	0
Services						
Nonoperating revenue - bridges						
Miscellaneous	12,782	12,782	0	833	833	0
Total revenues	<u>\$ 12,913</u>	<u>\$ 12,913</u>	<u>\$ 0</u>	<u>\$ 118,124</u>	<u>\$ 118,124</u>	<u>\$ 0</u>
EXPENDITURES AND ENCUMBRANCES						
Administration and operations:						
Administration and maintenance	\$ 5,846	\$ 4,933	\$ 913	\$ 11,570	\$ 10,473	\$ 1,097
Bus operating assistance grants				185,853	185,745	109
Other grants				86,643	84,094	2,549
Airport development						
Nonoperating expenditures - bridges						
Total administration and operations	<u>\$ 5,846</u>	<u>\$ 4,933</u>	<u>\$ 913</u>	<u>\$ 284,065</u>	<u>\$ 280,311</u>	<u>\$ 3,754</u>
Capital outlay:						
Roads and bridges	\$ 7,148	\$ 3,474	\$ 3,675	\$	\$	\$
Other capital outlay						
Total capital outlay	<u>\$ 7,148</u>	<u>\$ 3,474</u>	<u>\$ 3,675</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total expenditures and encumbrances	<u>\$ 12,995</u>	<u>\$ 8,407</u>	<u>\$ 4,588</u>	<u>\$ 284,065</u>	<u>\$ 280,311</u>	<u>\$ 3,754</u>
Excess of revenues over (under) expenditures and encumbrances	<u>\$ (82)</u>	<u>\$ 4,506</u>	<u>\$ 4,588</u>	<u>\$ (165,942)</u>	<u>\$ (162,188)</u>	<u>\$ 3,754</u>
OTHER FINANCING SOURCES						
Michigan Transportation Fund distribution	\$	\$	\$	\$ 155,288	\$ 155,288	\$ 0
Grants and transfers from other funds				1,681	1,681	0
Proceeds from sale of capital assets						
Total other financing sources	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 156,970</u>	<u>\$ 156,970</u>	<u>\$ 0</u>
OTHER FINANCING USES						
Michigan Transportation Fund distribution	\$	\$	\$	\$	\$	\$
Grants and transfers to other funds	56	56	0	95	94	1
Debt service	1,977	1,977	0	29,892	29,892	0
Total other financing uses	<u>\$ 2,033</u>	<u>\$ 2,033</u>	<u>\$ 0</u>	<u>\$ 29,987</u>	<u>\$ 29,985</u>	<u>\$ 1</u>
Excess of other financing sources over (under) other financing uses	<u>\$ (2,033)</u>	<u>\$ (2,033)</u>	<u>\$ 0</u>	<u>\$ 126,983</u>	<u>\$ 126,984</u>	<u>\$ 1</u>
Excess of revenues and other financing sources over (under) expenditures, encumbrances and other financing uses	<u>\$ (2,115)</u>	<u>\$ 2,473</u>	<u>\$ 4,588</u>	<u>\$ (38,959)</u>	<u>\$ (35,203)</u>	<u>\$ 3,756</u>
RECONCILING ITEMS						
Encumbrances at September 30		\$ 120			\$ 37,052	
Funds not annually budgeted						
Net reconciling items		<u>\$ 120</u>			<u>\$ 37,052</u>	
Excess of revenues and other financing sources over (under) expenditures and other financing uses (GAAP Basis)		\$ 2,593			\$ 1,849	
FUND BALANCES (GAAP BASIS)						
Beginning balance		11,402			64,451	
Ending balances (GAAP Basis)		<u>\$ 13,995</u>			<u>\$ 66,300</u>	

This schedule continued on next page.

State Aeronautics Fund			Funds Not Annually Budgeted			Totals		
Budget	Actual	Variance Favorable (Unfavorable)	Combined State Trunkline Bond Proceeds Fund	Combined Comprehensive Transportation Bond Proceeds Fund	Transportation Related Trust Fund	Budget	Actual	Variance Favorable (Unfavorable)
\$ 5,692	\$ 5,692	\$ 0	\$	\$	\$	\$ 1,892,277	\$ 1,892,277	\$ 0
318	318	0				34,970	34,970	0
115,840	115,840	0				1,066,501	1,066,501	0
44	44	0				16,299	16,299	0
207	207	0				7,926	7,926	0
488	488	0				3,827	3,827	0
						3,077	3,077	0
3,301	3,301	0				45,074	45,074	0
<u>\$ 125,889</u>	<u>\$ 125,889</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,069,952</u>	<u>\$ 3,069,952</u>	<u>\$ 0</u>
\$ 8,219	\$ 6,639	\$ 1,580	\$	\$	\$	\$ 571,984	\$ 544,483	\$ 27,501
						185,853	185,745	109
						1,158,240	1,110,048	48,192
130,800	128,159	2,642				130,800	128,159	2,642
						3,077	2,923	155
<u>\$ 139,020</u>	<u>\$ 134,798</u>	<u>\$ 4,222</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,049,955</u>	<u>\$ 1,971,357</u>	<u>\$ 78,598</u>
\$ 682	\$ 682	\$	\$	\$	\$	\$ 1,072,361	\$ 1,053,915	\$ 18,446
						20,047	19,825	222
<u>\$ 682</u>	<u>\$ 682</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,092,408</u>	<u>\$ 1,073,740</u>	<u>\$ 18,668</u>
<u>\$ 139,702</u>	<u>\$ 135,480</u>	<u>\$ 4,222</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,142,363</u>	<u>\$ 3,045,077</u>	<u>\$ 97,266</u>
\$ (13,812)	\$ (9,590)	\$ 4,222	\$ 0	\$ 0	\$ 0	\$ (72,411)	\$ 24,855	\$ 97,266
\$ 6,000	\$ 6,000	\$ 0	\$	\$	\$	\$ 742,457	\$ 742,457	\$ 0
						194,685	194,685	0
						800	800	0
<u>\$ 6,000</u>	<u>\$ 6,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 937,942</u>	<u>\$ 937,942</u>	<u>\$ 0</u>
\$ 56	\$ 55	\$ 1	\$	\$	\$	\$ 763,688	\$ 742,457	\$ 21,231
3,431	3,431	0				210,446	207,274	3,172
						191,781	191,780	0
<u>\$ 3,487</u>	<u>\$ 3,486</u>	<u>\$ 1</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,165,915</u>	<u>\$ 1,141,511</u>	<u>\$ 24,403</u>
\$ 2,513	\$ 2,514	\$ 1	\$ 0	\$ 0	\$ 0	\$ (227,973)	\$ (203,569)	\$ 24,403
<u>\$ (11,299)</u>	<u>\$ (7,076)</u>	<u>\$ 4,223</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (300,384)</u>	<u>\$ (178,715)</u>	<u>\$ 121,669</u>
\$ 6,434			\$ 0	\$	\$		\$ 105,520	
			155,570	6,054			161,625	
<u>\$ 6,434</u>			<u>\$ 155,570</u>	<u>\$ 6,054</u>	<u>\$ 0</u>		<u>\$ 267,145</u>	
\$ (642)			\$ 155,570	\$ 6,054	\$ 0		\$ 88,431	
23,012			35,418	54,849	0		886,673	
<u>\$ 22,370</u>			<u>\$ 190,989</u>	<u>\$ 60,903</u>	<u>\$ 0</u>		<u>\$ 975,104</u>	

Descriptions of Debt Service Funds

COMBINED STATE TRUNKLINE BOND AND INTEREST REDEMPTION FUND

This Fund was established pursuant to Act 51, P.A. 1951, as amended, to account for debt service on all State Trunkline Fund related bond issues. The bonds are not general obligations of the State of Michigan but are payable solely out of funds restricted as to use for transportation purposes by Article IX, Section 9 of the Michigan Constitution and irrevocably pledged by law for deposit in the State Trunkline Fund. Debt service requirements are funded by annual appropriations in the State Trunkline Fund.

COMBINED COMPREHENSIVE TRANSPORTATION BOND AND INTEREST REDEMPTION FUND

This Fund was established pursuant to Act 51, P.A. 1951, as amended, to account for debt service on all Comprehensive Transportation Fund related bond issues. The bonds are not general obligations of the State of Michigan but are payable solely out of funds restricted as to use for comprehensive transportation purposes by Article IX, Section 9 of the Michigan Constitution and irrevocably pledged by law for deposit in the Comprehensive Transportation Fund. Debt service requirements are funded by annual appropriations in the Comprehensive Transportation Fund.

MICHIGAN DEPARTMENT OF TRANSPORTATION
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Debt Service Funds
Fiscal Years Ended September 30
(In Thousands)

	Combined State Trunkline Bond and Interest Redemption Fund		Combined Comprehensive Transportation Bond and Interest Redemption Fund		Totals	
	2010	2009	2010	2009	2010	2009
REVENUES						
Total revenues	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
EXPENDITURES						
Costs of issuance	\$ 1,023	\$	\$	\$ 426	\$ 1,023	\$ 426
Bond principal retirement	86,261	48,385	10,050	7,515	96,311	55,900
Bond interest and fiscal charges	131,975	110,073	10,507	10,430	142,482	120,503
Total expenditures	\$ 219,259	\$ 158,458	\$ 20,557	\$ 18,370	\$ 239,816	\$ 176,829
Excess of revenues over (under) expenditures	\$ (219,259)	\$ (158,458)	\$ (20,557)	\$ (18,370)	\$ (239,816)	\$ (176,828)
OTHER FINANCING SOURCES						
Refunding bonds issued	\$ 142,190	\$	\$	\$ 42,335	\$ 142,190	\$ 42,335
Premium on bonds issued	9,321			2,268	9,321	2,268
Transfer from State Trunkline Fund	218,236	158,458			218,236	158,458
Transfer from Comprehensive Transportation Fund			20,557	17,945	20,557	17,945
Total other financing sources	\$ 369,747	\$ 158,458	\$ 20,557	\$ 62,547	\$ 390,304	\$ 221,005
OTHER FINANCING USES						
Payment to refunded bond escrow agent	\$ 150,488	\$	\$	\$ 44,177	\$ 150,488	\$ 44,177
Total other financing uses	\$ 150,488	\$ 0	\$ 0	\$ 44,177	\$ 150,488	\$ 44,177
Excess of other financing sources over (under) other financing uses	\$ 219,259	\$ 158,458	\$ 20,557	\$ 18,370	\$ 239,816	\$ 176,828
Excess of revenues and other financing sources over (under) expenditures and other financing uses	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Fund balances - Beginning of fiscal year					0	0
Fund balances - End of fiscal year	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

MICHIGAN DEPARTMENT OF TRANSPORTATION
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Economic Development Fund
Fiscal Years Ended September 30
(In Thousands)

	<u>2010</u>	<u>2009</u>
REVENUES AND OTHER FINANCING SOURCES		
Licenses and permits	\$ 312	\$ 898
Federal aid	26,504	33,072
Local participation	863	193
Interest earnings	409	1,456
Michigan Transportation Fund distribution	40,275	40,275
Miscellaneous	916	136
Transfers in		
Total revenues and other financing sources	<u>\$ 69,280</u>	<u>\$ 76,031</u>
EXPENDITURES AND OTHER FINANCING USES		
Administration	\$ 450	\$ 474
Forest roads	5,000	5,040
Target industries - State takeovers	12,306	20,690
Rural county urban system	2,543	2,978
Urban county congestion	11,359	8,036
Rural county primary	22,369	26,674
Debt service	9,210	14,450
Total expenditures and other financing uses	<u>\$ 63,237</u>	<u>\$ 78,341</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	\$ 6,043	\$ (2,309)
Fund balances - Beginning of fiscal year	<u>105,559</u>	<u>107,869</u>
Fund balances - End of fiscal year	<u>\$ 111,602</u>	<u>\$ 105,559</u>

The Economic Development Fund (EDF) was created as a subfund of the State Trunkline Fund during fiscal year 1987-88. The amounts shown on this schedule have been reported as part of the State Trunkline Fund in the various combined and combining statements of this report. This supplemental schedule was prepared to provide additional information pertaining specifically to EDF.

Revenues are derived from the Michigan Transportation Fund, motor vehicle fee income, federal funds for expenditures eligible for matching, and interest earnings. EDF money is expended for the purpose of enhancing the State's ability to compete in an international economy, serving as a catalyst for the economic growth of the State, and improving the quality of life in the rural and urban areas of the State.

License and permit revenue authorized by Act 232, P.A. 1987, to be deposited in EDF was reduced in fiscal year 2009-10 and fiscal year 2008-09 because Act 137, P.A. 2009, required \$12 million and \$18 million, respectively, be credited to the State's General Fund.

MICHIGAN DEPARTMENT OF TRANSPORTATION
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Blue Water Bridge Fund
Fiscal Years Ended September 30
(In Thousands)

	<u>2010</u>	<u>2009</u>
REVENUES AND OTHER FINANCING SOURCES		
Interest earnings on common cash	\$ 53	\$ 131
Miscellaneous revenue	19,080	12,782
Total revenues and other financing sources	<u>\$ 19,133</u>	<u>\$ 12,913</u>
EXPENDITURES AND OTHER FINANCING USES		
Administration and operations:		
Administration and maintenance	\$ 2,871	\$ 4,893
Roads and bridges	895	3,394
Grants and transfers to other funds	55	56
Debt service	2,141	1,977
Total expenditures and other financing uses	<u>\$ 5,962</u>	<u>\$ 10,320</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	\$ 13,171	\$ 2,593
Fund balances - Beginning of fiscal year	<u>13,995</u>	<u>11,402</u>
Fund balances - End of fiscal year	<u><u>\$ 27,166</u></u>	<u><u>\$ 13,995</u></u>

The Blue Water Bridge Fund (BWBF) was created as a subfund of the State Trunkline Fund during fiscal year 1993-94. The amounts shown on this schedule have been reported as part of the State Trunkline Fund in the various combined and combining statements of this report. This supplemental schedule was prepared to provide additional information pertaining specifically to BWBF.

MICHIGAN DEPARTMENT OF TRANSPORTATION
Schedule of Expenditures of Federal Awards (Note 1)
For the Period October 1, 2008 through September 30, 2010
(In Thousands)

		For the Fiscal Year Ended September 30, 2009		
Federal Agency/Program	CFDA * Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<u>U.S. Department of Commerce</u>				
Direct Program:				
Geodetic Surveys and Services	11.400	\$ 59	\$	\$ 59
Total U.S. Department of Commerce		<u>\$ 59</u>	<u>\$ 0</u>	<u>\$ 59</u>
<u>U.S. Department of Transportation</u>				
Highway Planning and Construction Cluster:				
Direct Programs:				
Highway Planning and Construction (Note 2)	20.205	\$ 1,047,928	\$ 44,267	\$ 1,092,195
ARRA - Highway Planning and Construction	20.205	122,578	2,350	124,928
Total Highway Planning and Construction Cluster		<u>\$ 1,170,506</u>	<u>\$ 46,617</u>	<u>\$ 1,217,123</u>
Federal Transit Cluster:				
Direct Programs:				
Federal Transit: Capital Investments Grants	20.500	\$ 29	\$ 6,955	\$ 6,984
ARRA - Federal Transit: Formula Grants	20.507			
Total Federal Transit Cluster		<u>\$ 29</u>	<u>\$ 6,955</u>	<u>\$ 6,984</u>
Transit Services Programs Cluster:				
Direct Programs:				
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	\$	\$ 5,775	\$ 5,775
Job Access: Reverse Commute	20.516	3	1,844	1,847
New Freedom Program	20.521		725	725
Total Transit Services Programs Cluster		<u>\$ 3</u>	<u>\$ 8,344</u>	<u>\$ 8,347</u>
Direct Programs:				
Airport Improvement Program (Note 3)	20.106	\$ 32,614	\$	\$ 32,614
ARRA - Airport Improvement Program (Note 3)	20.106	199		199
Total Airport Improvement Program		<u>\$ 32,813</u>	<u>\$ 0</u>	<u>\$ 32,813</u>
High Speed Ground Transportation: Next Generation High Speed Rail Program	20.312	\$ 871	\$	\$ 871
ARRA - High-Speed Rail Corridors and Intercity Passenger Rail Service - Capital Assistance Grants	20.319			
Metropolitan Transportation Planning	20.505		2,579	2,579
Formula Grants for Other Than Urbanized Areas	20.509	\$ 1,752	\$ 15,256	\$ 17,008
ARRA - Formula Grants for Other Than Urbanized Areas	20.509		68	68
Total Formula Grants for Other Than Urbanized Areas		<u>\$ 1,752</u>	<u>\$ 15,324</u>	<u>\$ 17,076</u>
State Planning and Research	20.515	\$ 141	\$ 403	\$ 544
Paul S. Sarbanes Transit in the Parks	20.520			
Total Direct Programs		<u>\$ 35,577</u>	<u>\$ 18,306</u>	<u>\$ 53,883</u>
Total U.S. Department of Transportation		<u>\$ 1,206,115</u>	<u>\$ 80,222</u>	<u>\$ 1,286,337</u>
<u>U.S. Department of Homeland Security</u>				
Direct Program:				
Port Security Grant Program	97.056	\$ 1,538	\$	\$ 1,538
Total U.S. Department of Homeland Security		<u>\$ 1,538</u>	<u>\$ 0</u>	<u>\$ 1,538</u>
Total Expenditures of Federal Awards		<u>\$ 1,207,712</u>	<u>\$ 80,222</u>	<u>\$ 1,287,934</u>

* CFDA is defined as *Catalog of Federal Domestic Assistance*.

The accompanying notes are an integral part of this schedule.

For the Fiscal Year Ended September 30, 2010			Total Expended and Distributed for the Two-Year Period
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	
\$	\$	\$	\$
0	0	0	59
\$ 780,554	\$ 40,640	\$ 821,194	\$ 1,913,389
523,878	7,905	531,783	656,711
\$ 1,304,432	\$ 48,545	\$ 1,352,977	\$ 2,570,100
\$ 694	\$ 10,779	\$ 11,473	\$ 18,457
	208	208	208
\$ 694	\$ 10,987	\$ 11,681	\$ 18,665
\$	\$ 3,678	\$ 3,678	\$ 9,453
	2,002	2,002	3,849
	929	929	1,654
\$ 0	\$ 6,609	\$ 6,609	\$ 14,956
\$ 33,907	\$ 37	\$ 33,944	\$ 66,558
1		1	200
\$ 33,908	\$ 37	\$ 33,945	\$ 66,758
\$ 693	\$	\$ 693	\$ 1,564
	20	20	20
	2,528	2,528	5,107
\$ 1,795	\$ 16,869	\$ 18,664	\$ 35,672
56	12,109	12,165	12,233
\$ 1,851	\$ 28,978	\$ 30,829	\$ 47,905
\$ 28	\$ 323	\$ 351	\$ 895
	121	121	121
\$ 36,480	\$ 32,007	\$ 68,487	\$ 122,370
\$ 1,341,606	\$ 98,148	\$ 1,439,754	\$ 2,726,091
\$ 602	\$	\$ 602	\$ 2,140
\$ 602	\$ 0	\$ 602	\$ 2,140
\$ 1,342,208	\$ 98,148	\$ 1,440,356	\$ 2,728,290

Notes to the Schedule of Expenditures of Federal Awards

Note 1 Basis of Presentation

This schedule presents the federal grant activity of the Michigan Department of Transportation (MDOT) on the modified accrual basis of accounting and in accordance with the requirements of U.S. Office of Management and Budget (OMB) Circular A-133*, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 2 Highway Planning and Construction

MDOT's schedule of expenditures of federal awards (SEFA) reported \$3.7 million and \$4,691 more in Highway Planning and Construction (CFDA 20.205) expenditures than the amount in the State's accounting records in fiscal years 2009-2010 and 2008-09, respectively. These differences are from MDOT converting advanced construction (AC) project expenditures related to grant anticipation revenue vehicles (GARVEE) notes* previously issued by MDOT.

AC projects are construction projects originally funded using State funds, which have been preapproved for future federal reimbursement when the AC project federal funds become available at a later date. MDOT obtains federal reimbursement by converting the AC project expenditures.

MDOT issued \$600 million of GARVEE notes in fiscal years 2000-01 and 2001-02 to provide the original State funding for AC project expenditures. MDOT planned to use the federal funds from converting these AC construction projects to repay these notes in future fiscal years. However, these AC project expenditures were not needed to repay the GARVEE notes because MDOT refinanced the GARVEE notes during fiscal year 2006-07 by issuing \$244.5 million in long-term bonds. MDOT subsequently collected federal reimbursement from converting \$3.7 million and \$4,691 in AC project expenditures originally funded by the issuance of the GARVEE notes.

* See glossary at end of report for definition.

Because the related expenditures were recorded in previous fiscal years, this resulted in a \$3.7 million and \$4,691 reconciling item between the SEFA and the State's accounting records.

Note 3 Federal Aviation Administration (FAA)

Federal expenditures for primary airports of \$83.2 million and \$84.1 million for fiscal years 2008-09 and 2009-10, respectively, are not included in the SEFA for the Airport Improvement Program (CFDA 20.106). Included in these expenditure amounts are American Recovery and Reinvestment Act of 2009* (ARRA) expenditures totaling \$10.2 million and \$15.7 million for fiscal years 2008-09 and 2009-10, respectively. MDOT is channeling* Airport Improvement Program grants from the FAA to primary airports, in accordance with Act 345, P.A. 1945. The FAA determined that MDOT has no oversight responsibility for these grants to primary airports. The FAA agreed with MDOT that primary airport expenditures will not be reported in the SEFA due to primary airports, not MDOT, having compliance responsibilities.

Note 4 State Infrastructure Bank (SIB) Program

The SIB Program was enacted by the U.S. Congress in 1995 as part of the U.S. Department of Transportation's continuing effort to increase infrastructure investment in the transportation sector. A SIB is an investment fund at the state or multi-state level with the ability to make loans to public and private entities to carry out highway construction or transit capital projects. The Federal Highway Administration (FHWA) deposited a percentage of funds apportioned to the State of Michigan in fiscal years 1997-98 through 2004-05 in an MDOT account strictly used for SIB activity. A State match equal to 25% of the federal deposit was required. These monies, along with interest earnings, are to remain in the SIB account and be used for purposes included in the cooperative agreement between the FHWA, the Federal Transit Administration, and MDOT. At the end of the two-year period ended September 30, 2010, the total amount of federal and State deposits and interest earnings equaled \$44.7 million.

Five loans, totaling \$5.3 million, were made during the audit period.

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

INDEPENDENT AUDITOR'S REPORTS ON INTERNAL CONTROL AND COMPLIANCE



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Mr. Jerrold M. Jung, Chair
State Transportation Commission
and
Kirk T. Steudle, P.E., Director
Michigan Department of Transportation
Murray Van Wagoner Transportation Building
Lansing, Michigan

Dear Mr. Jung and Mr. Steudle:

We have audited the combined financial statements of the Michigan Department of Transportation as of and for the fiscal years ended September 30, 2010 and September 30, 2009, as identified in the table of contents, and have issued our report thereon dated June 22, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined in the preceding paragraph. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs in Findings 1 through 4, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Department's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the Department's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Governor, the Legislature, the State Transportation Commission, the Michigan Aeronautics Commission, the Department's management, others within the Department, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

June 22, 2011



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on Compliance With
Requirements That Could Have a Direct and Material Effect on
Each Major Program and on Internal Control Over Compliance in
Accordance With OMB Circular A-133

Mr. Jerrold M. Jung, Chair
State Transportation Commission
and
Kirk T. Steudle, P.E., Director
Michigan Department of Transportation
Murray Van Wagoner Transportation Building
Lansing, Michigan

Dear Mr. Jung and Mr. Steudle:

Compliance

We have audited the Michigan Department of Transportation's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the two-year period ended September 30, 2010. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the preceding paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

In our opinion, the Michigan Department of Transportation complied, in all material respects, with the compliance requirements referred to in the first paragraph that could have a direct and material effect on each of its major federal programs for the two-year period ended September 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which

are described in the accompanying schedule of findings and questioned costs in Findings 5 through 9.

Internal Control Over Compliance

Management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider certain deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs in Finding 6 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs in Findings 5 through 9 to be significant deficiencies.

The Department's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the Department's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Governor, the Legislature, the State Transportation Commission, the Michigan Aeronautics Commission, the Department's management, others within the Department, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

June 22, 2011

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified*

Internal control* over financial reporting:

Material weaknesses* identified? No

Significant deficiencies* identified? Yes

Noncompliance or other matters material to the financial statements? No

Federal Awards

Internal control over major programs:

Material weaknesses* identified? Yes

Significant deficiencies* identified? Yes

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, Section 510(a)? Yes

Identification of major programs:

<i>CFDA</i> * Number	Name of Federal Program or Cluster*
20.106	Airport Improvement Program
20.106	ARRA - Airport Improvement Program
	<u>Highway Planning and Construction Cluster:</u>
20.205	• Highway Planning and Construction
20.205	• ARRA - Highway Planning and Construction
	<u>Federal Transit Cluster:</u>
20.500	• Federal Transit: Capital Investments Grants
20.507	• ARRA - Federal Transit: Formula Grants

* See glossary at end of report for definition.

20.509	Formula Grants for Other Than Urbanized Areas
20.509	ARRA - Formula Grants for Other Than Urbanized Areas
	<u>Transit Services Programs Cluster:</u>
20.513	<ul style="list-style-type: none"> • Capital Assistance Program for Elderly Persons and Persons with Disabilities
20.516	<ul style="list-style-type: none"> • Job Access: Reverse Commute
20.521	<ul style="list-style-type: none"> • New Freedom Program

Dollar threshold used to distinguish between type A and type B programs: \$8,184,858

Auditee qualified as a low-risk auditee*? No

Section II: Findings Related to the Financial Statements

FINDING (5911101)

1. User Class 17 Access Rights

The Michigan Department of Transportation (MDOT) did not periodically review user class 17 access assigned to users to ensure that the access is still required. As a result, MDOT could not ensure the effectiveness of its internal control structure in relation to security administration.

Individuals with a user class of 17 have the ability to perform all Advanced Purchasing and Inventory Control System* (ADPICS) purchasing and disbursement functions, including the ability to operate as a requisitioner, receiver, or purchaser. This user class is inherently risky because of the ability to process transactions without review or approval by other agency personnel.

The State of Michigan Financial Management Guide (FMG) (Part VIII, Chapter 2, Section 200) requires agencies to maintain ongoing assurances about the continued effectiveness of the internal control structure in relation to security administration by continually monitoring security to identify the need for changes and/or transaction follow-up.

* See glossary at end of report for definition.

Our review of ADPICS user classes for fiscal years 2009-10 and 2008-09 noted that 269 (36%) of 752 unique users were granted user class 17 access rights.

RECOMMENDATION

We recommend that MDOT periodically review user class 17 access assigned to users to ensure that the access is still required.

FINDING (5911102)

2. Preparation of the Schedule of Expenditures of Federal Awards (SEFA)

MDOT's internal control over financial reporting did not ensure that MDOT prepared its SEFA in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and State financial management policies.

Internal control is a process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness* and efficiency* of operations, and compliance with applicable laws and regulations. Section 18.1485 of the *Michigan Compiled Laws* requires the head of each principal department to establish and maintain an internal accounting and administrative control system. OMB Circular A-133 and the FMG require that MDOT's SEFA report total federal awards expended for each individual federal program. Also, the FMG requires that MDOT's SEFA report the portion of federal assistance that was expended directly by MDOT or distributed to subrecipients*.

Our review of MDOT's SEFA preparation process disclosed:

- a. MDOT included accounts receivable write-offs for the Highway Planning and Construction Cluster and for the Federal Transit Cluster. As a result, MDOT overstated Highway Planning and Construction Cluster federal awards directly expended by \$5.9 million and \$5.7 million for fiscal years 2009-10 and 2008-09, respectively. Also, MDOT overstated Federal Transit Cluster federal awards distributed to subrecipients by approximately \$94,000 for fiscal year 2009-10.

* See glossary at end of report for definition.

MDOT records its federal accounts receivable and related federal revenues at fiscal year-end. MDOT reverses both accounts at the beginning of the next fiscal year, thereby reducing the accounts receivable balance to zero and creating a negative balance in the revenue account. MDOT collects the prior fiscal year receivables, which increases revenues and increases cash. MDOT writes off any differences between the negative revenues recorded at the beginning of the fiscal year and the increase in revenues from receiving prior fiscal year receivables because the revenues were already recorded in the prior fiscal year. In accordance with generally accepted accounting principles* (GAAP), MDOT records a federal expenditure, which MDOT inappropriately reported on the SEFA, in the same amount as the federal revenue write-off.

- b. MDOT did not include accounts payable write-offs for the Airport Improvement Program. As a result, MDOT understated Airport Improvement Program federal awards directly expended by approximately \$861,000 and \$1.2 million for fiscal years 2009-10 and 2008-09, respectively. Also, MDOT understated federal expenditures for primary airports reported in the notes to the SEFA by \$9.0 million and \$1.9 million for fiscal years 2009-10 and 2008-09, respectively.

MDOT records its federal accounts payable and related federal expenditures at fiscal year-end. MDOT reverses both accounts at the beginning of the next fiscal year, thereby reducing the accounts payable balance to zero and creating a negative balance in the expenditure account. MDOT pays the prior fiscal year liabilities, which increases expenditures and decreases cash. MDOT writes off any differences between the negative expenditures recorded at the beginning of the fiscal year and the increase in expenditures from paying prior fiscal year liabilities because the expenditures were already recorded in the prior fiscal year. In accordance with GAAP, MDOT records miscellaneous revenue in the same amount as the federal expenditure write-off.

- c. MDOT did not properly classify accrued expenditures as either directly expended by MDOT or distributed to subrecipients. As a result, MDOT overstated American Recovery and Reinvestment Act of 2009 (ARRA)

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

Highway Planning and Construction Cluster amounts directly expended and understated ARRA amounts distributed to subrecipients by approximately \$46,000 for fiscal year 2009-10.

As a result of our audit, MDOT corrected the SEFA for the period October 1, 2008 through September 30, 2010 to properly report on its SEFA accounts payable and accounts receivable write-offs and to properly classify amounts directly expended by MDOT or distributed to subrecipients.

RECOMMENDATION

We recommend that MDOT improve its internal control over financial reporting to ensure that MDOT prepares its SEFA in accordance with OMB Circular A-133 and State financial management policies.

FINDING (5911103)

3. Accounts Payable

MDOT's internal control was not sufficient to ensure that accounts payable recorded represented obligations of the State. As a result, we estimate that accounts payable and expenditures were overstated by approximately \$295,000 for fiscal year 2008-09.

Internal control is a process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Section 18.1485 of the *Michigan Compiled Laws* requires the head of each principal department to establish and maintain an internal accounting and administrative control system. Section 1600.119 of the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the Governmental Accounting Standards Board* (GASB), states that a government should accrue a governmental fund liability and expenditure in the period in which the government incurs the liability.

* See glossary at end of report for definition.

MDOT establishes accounts payable liabilities at year-end based on either actual or estimated amounts obtained from its subrecipients and vendors. MDOT recorded accounts payable liabilities totaling \$486.4 million for fiscal year 2008-09. Our review of accounts payable transactions recorded during fiscal year 2008-09 disclosed that 2 (5%) of 40 reviewed did not represent obligations of the State. MDOT informed us that it did not have documentation to support 1 liability totaling \$48,000 and that the liability recorded was not an obligation of the State. MDOT also informed us that 1 liability totaling \$42,122 had already been paid during fiscal year 2008-09 and that the liability should not have been recorded. As a result, accounts payable and expenditures were overstated by \$90,122 and we estimate that total accounts payable and expenditures were overstated by a total of \$295,000 for fiscal year 2008-09.

RECOMMENDATION

We recommend that MDOT implement sufficient internal control to ensure that accounts payable recorded represents obligations of the State.

FINDING (5911104)

4. Inventory

MDOT needs to improve its internal control over monitoring its annual physical counts of inventory. Improved internal control would strengthen MDOT's ability to report reliable financial information pertaining to inventory.

Internal control is a process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Section 18.1485 of the *Michigan Compiled Laws* requires the head of each principal department to establish and maintain an internal accounting and administrative control system. The FMG (Part II, Chapter 12, Section 100) requires MDOT to implement and maintain an inventory accounting system that provides adequate internal control and to conduct annual physical counts of inventory.

MDOT maintains inventory, such as salt, at MDOT stores located throughout the State. MDOT reported inventory balances totaling \$16.8 million and \$8.2 million for fiscal years 2009-10 and 2008-09, respectively. MDOT uses MaintStar, a perpetual inventory system, to record the MDOT stores' inventory. MaintStar interfaces with the State's Michigan Administrative Information Network* (MAIN) accounting system. MDOT stores' staff are responsible for conducting annual physical counts of inventory and for recording their inventory on an inventory count sheet. MDOT stores' staff then reconcile their inventory count sheets to the inventory recorded in MaintStar and make any needed adjustments to MaintStar to ensure that MaintStar reflects the inventory recorded on the inventory count sheets. MDOT stores' staff submit their inventory count sheets to MDOT Stores Control, which is responsible for ensuring that each MDOT store conducted an annual physical inventory count and that the inventory count sheets reconcile to MaintStar.

MDOT Stores Control informed us that it did not document the inventory count sheets that it received and that it did not ensure that the inventory count sheets reconciled to MaintStar during the audit period.

RECOMMENDATION

We recommend that MDOT improve its internal control over monitoring its annual physical counts of inventory.

The status of the findings related to the financial statements that were reported in prior single audits* is disclosed in the summary schedule of prior audit findings.

Section III: Findings and Questioned Costs* Related to Federal Awards

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires the auditor to test key controls at a level that would provide sufficient evidence that the established control structure would provide a high probability that material federal program noncompliance would be prevented or detected and corrected. This requires that the auditor set the tolerable exception rate of occurrence

* See glossary at end of report for definition.

at a very low level. During the audit fieldwork, the auditor, in close consultation with the auditee, identifies the key controls that the auditee has established to ensure federal program compliance. In those cases in which the auditor's tests of key controls identify exception rates in excess of the tolerable exception rate of occurrence, the auditor must generally report the observed exception rate in the report finding.

Further, Circular A-133 requires the auditor to report in this section of the audit report known questioned costs that are greater than \$10,000 for a type of compliance requirement for a major program and known questioned costs that are less than \$10,000 for a type of compliance requirement for a major program if it is likely that total questioned costs would exceed \$10,000.

As a result of these low required reporting thresholds, the reader may note that, in some cases, the observed exception rates of occurrence and reported known questioned costs appear insignificant in relation to the overall federal expenditures of the auditee. After the audit report is filed with the federal audit clearinghouse, the responsible federal agency is required to issue a management decision within six months of the receipt of the audit report. The management decision may include a request for the return of the known questioned costs.

FINDING (5911105)

5. Monitoring of Subrecipient Single Audit Reports

U.S. Department of Transportation	Federal Transit Cluster: <i>CFDA</i> 20.500: Federal Transit: Capital Investments Grants <i>CFDA</i> 20.507: ARRA - Federal Transit: Formula Grants
Award Number: Various	Award Period: Various
	Known Questioned Costs: \$0

U.S. Department of Transportation	Transit Services Programs Cluster: <i>CFDA</i> 20.513: Capital Assistance Program for Elderly Persons and Persons with Disabilities <i>CFDA</i> 20.516: Job Access: Reverse Commute <i>CFDA</i> 20.521: New Freedom Program
Award Number: Various	Award Period: Various
	Known Questioned Costs: \$0

U.S. Department of Transportation	CFDA 20.509: Formula Grants for Other Than Urbanized Areas CFDA 20.509: ARRA - Formula Grants for Other Than Urbanized Areas
Award Number: Various	Award Period: Various
	Known Questioned Costs: \$0

MDOT's internal control over the Federal Transit Cluster, the Transit Services Programs Cluster, and the Formula Grants for Other Than Urbanized Areas Program did not ensure compliance with federal laws and regulations regarding monitoring of subrecipients' single audit reports.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of the Federal Transit Cluster, the Transit Services Programs Cluster, and the Formula Grants for Other Than Urbanized Areas Program awards.

MDOT distributed \$77.2 million to subrecipients of the Federal Transit Cluster, the Transit Services Programs Cluster, and the Formula Grants for Other Than Urbanized Areas Program for the two-year period ended September 30, 2010. Of this total, \$12.4 million was from ARRA funds and the remaining \$64.8 million was from non-ARRA funds. Subrecipients of the Federal Transit Cluster, the Transit Services Programs Cluster, and the Formula Grants for Other Than Urbanized Areas Program include local transit agencies and non-profit organizations.

MDOT did not obtain single audit reports for 6 (50%) of 12 subrecipients reviewed. Because MDOT did not obtain single audit reports, MDOT could not review and follow up on 5 single audit reports with findings related to funds distributed by MDOT for the Federal Transit Cluster, the Transit Services Programs Cluster, and the Formula Grants for Other Than Urbanized Areas Program. MDOT determines which of its subrecipients are required to have and submit single audit reports by identifying which subrecipients have expended \$500,000 or more in federal awards that were awarded by MDOT. However, MDOT does not consider whether its subrecipients have expended a total of \$500,000 or more in federal awards received from all funding sources. As a result, MDOT did not ensure the receipt of existing single audit reports, did not review the single audit reports for findings, and

did not keep program management informed of the results contained in the subrecipients' single audit reports.

OMB Circular A-133, Section 400(d)(4) requires that a pass-through entity* ensure that subrecipients expending \$500,000 or more in federal awards during the subrecipient's fiscal year have a single audit conducted. Also, OMB Circular A-133, Section 400(d)(5) requires MDOT to issue a management decision on audit findings within six months after receipt of the subrecipient's audit report to ensure that the subrecipient takes appropriate and timely corrective action.

RECOMMENDATION

We recommend that MDOT improve its internal control to ensure compliance with federal laws and regulations regarding monitoring of subrecipients' single audit reports.

FINDING (5911106)

6. Highway Planning and Construction Cluster, Including ARRA - Highway Planning and Construction, CFDA 20.205

U.S. Department of Transportation	Highway Planning and Construction Cluster: CFDA 20.205: Highway Planning and Construction CFDA 20.205: ARRA - Highway Planning and Construction
Award Number: Various	Award Period: Various
	Known Questioned Costs: \$61,300

MDOT's internal control over the Highway Planning and Construction Cluster would not ensure compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, and the Davis-Bacon Act. Also, MDOT's internal control over the Highway Planning and Construction Cluster did not ensure compliance with federal laws and regulations regarding special tests and provisions (quality assurance). Our review disclosed material weaknesses in internal control over federal program compliance related to activities allowed or unallowed, allowable costs/cost principles, and the Davis-Bacon Act and a significant deficiency in internal control over federal program compliance for special tests and provisions (quality assurance).

* See glossary at end of report for definition.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Highway Planning and Construction Cluster awards.

Federal expenditures for the Highway Planning and Construction Cluster totaled \$2.6 billion for the two-year period ended September 30, 2010. Of this total, \$656.7 million was from ARRA funds and the remaining \$1.9 billion was from non-ARRA funds. We identified known questioned costs of \$61,300. The Federal Highway Administration (FHWA) provides federal funds through the Highway Planning and Construction Cluster to assist states in the planning and development of transportation systems for interstate commerce and travel by constructing and rehabilitating the National Highway System, including interstate highways and other public roadways. The FHWA approves those projects that are on the State Transportation Improvement Plan. During our audit period, MDOT also received ARRA funding for these purposes for projects that were already on the plan and ready for implementation.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed and Allowable Costs/Cost Principles

MDOT's internal control would not ensure that Highway Planning and Construction Cluster payments to contractors for activities on road and bridge construction projects met the requirements in the contract and met the allowable cost principles of OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (Title 2, Part 225 of the *Code of Federal Regulations** [CFR]).

MDOT processed 478,579 payments to contractors totaling \$2,622,679,357 for activities on road and bridge construction projects for fiscal years 2009-10 and 2008-09. We randomly selected 41 payments to contractors for fiscal years 2009-10 and 2008-09 totaling \$36,048,925.

MDOT staff informed us that the project engineer is responsible for ensuring that the contractor performed the proper work on the project. MDOT also informed us that the project engineer's signature and date on a construction

* See glossary at end of report for definition.

pay estimate report represented the key control for ensuring proper payments to contractors. When the construction pay estimate is generated for the project engineer's review and approval, it is also sent electronically to MDOT central office for payment. MDOT central office assumes that the project engineer has reviewed, approved, and signed the construction pay estimate report to indicate that the project engineer has reviewed and approved the payment to the contractor.

However, the project engineer did not sign and date the construction pay estimate reports prior to payment to the contractor for 5 (12%) payments totaling \$4,632,470. Based on our sample results, we are 90% confident that the true but unknown rate of occurrence that engineers did not sign and date the construction pay estimate reports is between 3.66% and 20.73%. Such a lack of proper approval of the construction pay estimate may result in payments to contractors for activities that are not allowed and MDOT could not be assured that the costs paid were allowable for the purposes of the Highway Planning and Construction Program.

Subsequent to our identification of this issue, MDOT obtained project engineer approval for the 5 construction pay estimates. Thus, we are not identifying instances of noncompliance.

b. Davis-Bacon Act

MDOT's internal control would not ensure that Highway Planning and Construction Cluster contractor payments were in compliance with federal laws and regulations regarding the Davis-Bacon Act compliance requirement.

MDOT processed 478,579 payments to contractors totaling \$2,622,679,357 for activities on road and bridge construction projects for fiscal years 2009-10 and 2008-09. We randomly selected 40 payments to contractors for fiscal years 2009-10 and 2008-09 totaling \$35,933,613.

The project engineer's signature on the construction pay estimate reports provides assurance to MDOT that the payrolls of the contractors are current and that they comply with the requirements of the Davis-Bacon Act. The contractors are required to submit certified payrolls throughout the project for their staff that will include the names of their staff, the classifications, and the

hours paid. The MDOT field staff working on-site on the road/bridge projects are to accurately complete the inspector daily reports so the project engineer can compare them to the certified payrolls for accuracy. The inspector daily report is to contain the number of workers, the hours worked, the type of work, and the equipment used on the job. According to MDOT procedures, it is important that the information on the inspector daily report is accurate to support the work performed on the project.

However, the project engineer did not sign and date the construction pay estimate reports prior to payment to the contractor for 4 (10%) payments totaling \$3,994,626. Based on our sample results, we are 90% confident that the true but unknown rate of occurrence that engineers did not sign and date the construction pay estimate reports is between 2.07% and 17.93%. Without proper approval on the construction pay estimate reports, MDOT could not be assured that the contractors performed the appropriate work and that the payrolls were current.

As discussed in part a. of this finding, the Activities Allowed or Unallowed and Allowable Costs/Cost Principles section of this finding, MDOT subsequently obtained project engineer approval on the 4 construction pay estimates after payments were made to the contractors.

c. Special Tests and Provisions - Quality Assurance

MDOT's internal control did not ensure that the expenditures for the Highway Planning and Construction Cluster complied with federal laws and regulations regarding special tests and provisions for quality assurance. As a result, we questioned costs totaling \$61,300. We determined that 786,473 tons of asphalt were used during our audit period totaling \$48.8 million.

Our review of 1 (4%) of the 25 projects in our sample of projects for material and density tests for hot mix asphalt items disclosed that MDOT did not have the required quality test of material to ensure that it met specifications prior to payment. Federal regulation 23 *CFR* 637.205 requires each state transportation department to develop a quality assurance program. MDOT's quality assurance manual includes provisions for material testing. MDOT requires the project engineer to ensure that the project specifications were met before he or she approves the construction pay estimate report for payment.

This includes the review of tests performed on materials used to ensure that they met quality acceptance standards. The project engineer at the local agency stated that he was unable to provide any test results for materials used on the project for that construction pay estimate report; however, MDOT paid the contractor \$61,300 for the hot mix asphalt used on this project. This is a questioned cost as the project engineer should have ensured that the materials used on the project were appropriate before the payment was made to the contractor. Without this approval, MDOT is unable to provide assurance that the materials met specifications.

RECOMMENDATION

We recommend that MDOT improve its internal control over the Highway Planning and Construction Cluster to ensure compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, the Davis-Bacon Act, and special tests and provisions (quality assurance).

FINDING (5911107)

7. Federal Transit Cluster, Including ARRA - Federal Transit: Formula Grants, CFDA 20.500 and 20.507

U.S. Department of Transportation		Federal Transit Cluster: CFDA 20.500: Federal Transit: Capital Investments Grants CFDA 20.507: ARRA - Federal Transit: Formula Grants
Award Number:		Award Period:
MI-03-0166	MI-04-0011	Various
MI-03-0169	MI-03-0238	
MI-03-0176	MI-04-0018	
MI-03-0186	MI-04-0019	
MI-03-0189	MI-04-0020	
MI-03-0192	MI-03-0141	
MI-03-0226	MI-04-0041	
MI-03-0212	MI-04-0042	
MI-03-0215	MI-04-0043	
MI-03-0232	MI-04-0052	
MI-03-0235	MI-96-X022	
MI-04-0009		
		Known Questioned Costs: \$0

MDOT's internal control over the Federal Transit Cluster did not ensure compliance with federal laws and regulations regarding reporting and subrecipient monitoring.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Federal Transit Cluster awards.

Federal expenditures for the Federal Transit Cluster totaled \$18.7 million for the two-year period ended September 30, 2010. MDOT distributed \$17.9 million to subrecipients for the same two-year period. Of this amount, \$208,000 was from ARRA funds and the remaining amount was from non-ARRA funds.

Our exceptions, by compliance area, are as follows:

a. Reporting

MDOT's internal control over the Federal Transit Cluster did not ensure that quarterly financial status reports (FSRs) were prepared each quarter and on the accrual basis of accounting. As a result, MDOT's FSRs were overstated by \$558,649 and \$720,358 in fiscal years 2009-10 and 2008-09, respectively.

Federal regulation 2 *CFR* 215.52(a)(1) provides that the Federal Transit Administration (FTA) shall prescribe whether the FSR shall be on a cash or accrual basis and shall determine the frequency of the FSR for each project or program. FTA Circular 5010.1D provides that FSRs must be prepared on the accrual basis of accounting and requires the FSRs to be prepared quarterly.

We reviewed 15 FSRs for the audit period and determined that MDOT prepared all 15 FSRs using the cash basis of accounting. We also determined that MDOT did not prepare FSRs for 2 (50%) of the 4 quarters that required FSRs for fiscal year 2009-10. MDOT requested a partial waiver in November 2007 from the FTA to allow MDOT to submit the FSRs annually, instead of quarterly. MDOT stated in its request that the annual FSR would be prepared using the accrual basis of accounting. The FTA has not responded to the request for a partial waiver. However, MDOT continues to prepare all FSRs using the cash basis of accounting.

b. Subrecipient Monitoring

MDOT's internal control over the Federal Transit Cluster did not ensure that MDOT complied with subrecipient monitoring requirements. As a result, MDOT did not sufficiently monitor subrecipient activities and could not be assured that subrecipients used federal awards for authorized purposes in compliance with laws, regulations, and provisions of grant agreements.

We reviewed MDOT's monitoring activities for its subrecipients and noted:

- (1) MDOT did not always document in its inventory records non-rolling stock equipment* purchases made by its subrecipients. As a result, MDOT could not be assured that federally funded equipment was used in transit service.

Federal regulation 49 *CFR* 18.32d requires MDOT to maintain control over equipment purchased with federal funds. MDOT awards FTA funding to subrecipients to support capital projects to build and/or improve facilities and to purchase non-rolling stock equipment. The subrecipient maintains control over the facilities and equipment, and MDOT is required to keep complete information of all FTA-funded assets and their status.

We reviewed 21 non-rolling stock equipment purchases totaling \$411,793 and determined that MDOT did not document in its inventory system 12 (57%) non-rolling stock equipment purchases totaling \$205,717. MDOT's subrecipients made 96 non-rolling stock equipment purchases totaling \$1.2 million for the two-year period ended September 30, 2010.

MDOT tried to utilize its electronic Passenger Transportation Management System (PTMS) to document and monitor non-rolling stock equipment. However, MDOT informed us that it could not utilize PTMS because it determined that a system upgrade was needed that would allow MDOT or MDOT's subrecipients to enter non-rolling stock equipment information directly into PTMS and have that information save properly. However, MDOT did not institute alternative procedures to document and monitor non-rolling stock equipment while the system

* See glossary at end of report for definition.

upgrade was being completed. MDOT also informed us that the system upgrade is now partially complete and some non-rolling stock equipment information is being documented in PTMS with other information being collected in paper form until the PTMS upgrade is completely functional.

- (2) MDOT did not ensure that its subrecipients obtained copies of certified payrolls from construction contractors. As a result, MDOT could not be assured that its subrecipients used Federal Transit Cluster funds in compliance with the Davis-Bacon Act federal compliance requirement.

Federal regulation 29 *CFR* 5.5 requires that all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by federal assistance funds be paid wages not less than those established for the locality of the project by the U.S. Department of Labor (prevailing wage rates). Federal regulation 29 *CFR* 5.5 also requires the contractor or subcontractor to submit to the subrecipient weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance.

We reviewed 9 expenditures in excess of \$2,000 (totaling \$665,271) and none of them were supported by copies of certified payrolls from the contractors. In addition, MDOT did not include in its subrecipient on-site monitoring checklist that a review of payroll documentation be performed to provide assurance that the Davis-Bacon Act federal compliance requirement was met.

- (3) MDOT did not monitor its subrecipients' compliance with federal suspension and debarment requirements.

Federal regulation 49 *CFR* 18.35 prohibits MDOT and its subrecipients from contracting with or making subrecipient awards to any party that is suspended or debarred.

When a nonfederal entity enters into a covered transaction with an entity at a lower tier, the nonfederal entity must verify that the entity is not suspended or debarred or otherwise excluded, which can be accomplished by checking the Excluded Parties List System (EPLS).

Federal regulation 2 *CFR* 180.300 requires MDOT and its subrecipients to meet this requirement by collecting a certification from the contracted party, adding a clause or condition to the contract that the party is not suspended or debarred, or checking the EPLS.

MDOT stated that it did not ensure that local transit agencies collected a certification from their vendors or third party contractors, added the required clause or condition to the contract, or checked the EPLS.

- (4) MDOT did not monitor its subrecipients' compliance with equipment and real property management requirements related to the disposition of property, equipment, or supplies.

Title 49, Section 5334 of the *United States Code (USC)* provides the disposition requirements for assets acquired with federal transit funds that are no longer needed for transit purposes. If a recipient sells the asset, the proceeds of the sale must be used to reduce the gross project costs of another federally funded capital transit project.

MDOT stated that it did not ensure that the local transit agencies were using the proceeds of the sale to reduce the gross project costs of another federally funded capital transit project.

RECOMMENDATION

We recommend that MDOT improve its internal control over the Federal Transit Cluster to ensure compliance with federal laws and regulations regarding reporting and subrecipient monitoring.

FINDING (5911108)**8. Formula Grants for Other Than Urbanized Areas and ARRA - Formula Grants for Other Than Urbanized Areas, CFDA 20.509**

U.S. Department of Transportation	CFDA 20.509: Formula Grants for Other Than Urbanized Areas CFDA 20.509: ARRA - Formula Grants for Other Than Urbanized Areas
Award Number: MI-18-X030 MI-85-X001 MI-18-X032 MI-85-X002 MI-18-X034 MI-18-X042 MI-18-X035 MI-85-X003 MI-18-X036 MI-18-X047 MI-18-X037 MI-85-X004 MI-18-4038 MI-86-X001 MI-18-7039 MI-06-X001 MI-18-4040 MI-18-4050 MI-18-4041 MI-86-X002	Award Period: Various
	Known Questioned Costs: \$0

MDOT's internal control over the Formula Grants for Other Than Urbanized Areas Program did not ensure compliance with federal laws and regulations regarding reporting and subrecipient monitoring.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Formula Grants for Other Than Urbanized Areas Program awards.

Federal expenditures for the Formula Grants for Other Than Urbanized Areas Program totaled \$47.9 million for the two-year period ended September 30, 2010. Of these expenditures, MDOT distributed \$44.3 million to subrecipients for the same two-year period. Of this amount, \$12.2 million was from ARRA funds and the remaining amount was from non-ARRA funds.

Our exceptions, by compliance area, are as follows:

a. Reporting

MDOT's internal control over the Formula Grants for Other Than Urbanized Areas Program did not ensure that FSRs were prepared on the accrual basis of accounting. As a result, MDOT's FSRs were understated by \$4.3 million and \$2.0 million in fiscal years 2009-10 and 2008-09, respectively.

Federal regulation 2 *CFR* 215.52(a)(1) provides that the FTA shall prescribe whether the FSR shall be on a cash or accrual basis and shall determine the frequency of the FSR for each project or program. FTA Circular 9040.1F provides that FSRs must be prepared on the accrual basis of accounting.

We reviewed 35 FSRs for the audit period and determined that MDOT prepared all 35 FSRs using the cash basis of accounting.

b. Subrecipient Monitoring

MDOT's internal control over the Formula Grants for Other Than Urbanized Areas Program did not ensure that MDOT complied with subrecipient monitoring requirements. As a result, MDOT did not sufficiently monitor subrecipient activities and could not be assured that subrecipients used federal awards for authorized purposes in compliance with laws, regulations, and provisions of grant agreements.

We reviewed MDOT's monitoring activities for its subrecipients and noted:

- (1) MDOT did not always document in its inventory records non-rolling stock equipment purchases made by its subrecipients. As a result, MDOT could not be assured that federally funded equipment was used in transit service.

Federal regulation 49 *CFR* 18.32d requires MDOT to maintain control over equipment purchased with federal funds. MDOT awards FTA funding to subrecipients to support capital projects to build and/or improve facilities and to purchase non-rolling stock equipment. The subrecipient maintains control over the facilities and equipment, and MDOT is required to keep complete information of all FTA-funded assets and their status.

We reviewed 14 non-rolling stock equipment purchases totaling \$45,046 and determined that MDOT did not document in its inventory system 8 (57%) non-rolling stock equipment purchases totaling \$34,778. MDOT's subrecipients made 135 non-rolling stock equipment purchases totaling \$946,515 for the two-year period ended September 30, 2010.

MDOT tried to utilize its electronic PTMS to document and monitor non-rolling stock equipment. However, MDOT informed us that it could not utilize PTMS because it determined that a system upgrade was needed that would allow MDOT or MDOT's subrecipients to enter non-rolling stock equipment information directly into PTMS and have that information save properly. However, MDOT did not institute alternative procedures to document and monitor non-rolling stock equipment while the system upgrade was being completed. MDOT also informed us that the system upgrade is now partially complete and some non-rolling stock equipment information is being documented in PTMS with other information being collected in paper form until the PTMS upgrade is completely functional.

- (2) MDOT did not ensure that its subrecipients obtained copies of certified payrolls from construction contractors. As a result, MDOT could not be assured that its subrecipients used Formula Grants for Other Than Urbanized Areas Program funds in compliance with the Davis-Bacon Act federal compliance requirement.

Federal regulation 29 *CFR* 5.5 requires that all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by federal assistance funds must be paid wages not less than those established for the locality of the project by the U.S. Department of Labor (prevailing wage rates). Federal regulation 29 *CFR* 5.5 also requires the contractor or subcontractor to submit to the subrecipient weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance.

We reviewed 8 expenditures in excess of \$2,000 (totaling \$327,774) and none of them were supported by copies of certified payrolls from the

contractors. In addition, MDOT did not include in its subrecipient on-site monitoring checklist that a review of payroll documentation be performed to provide assurance that the Davis-Bacon Act federal compliance requirement was met.

- (3) MDOT did not monitor its subrecipients' compliance with federal suspension and debarment requirements.

Federal regulation 49 *CFR* 18.35 prohibits MDOT and its subrecipients from contracting with or making subrecipient awards to any party that is suspended or debarred.

When a nonfederal entity enters into a covered transaction with an entity at a lower tier, the nonfederal entity must verify that the entity is not suspended or debarred or otherwise excluded, which can be accomplished by checking the EPLS. Federal regulation 2 *CFR* 180.300 requires MDOT and its subrecipients to meet this requirement by collecting a certification from the contracted party, adding a clause or condition to the contract that the party is not suspended or debarred, or checking the EPLS.

MDOT stated that it did not ensure that local transit agencies collected a certification from their vendors or third party contractors, added the required clause or condition to the contract, or checked the EPLS.

- (4) MDOT did not monitor its subrecipients' compliance with equipment and real property management requirements related to the disposition of property, equipment, or supplies.

Federal law 49 *USC* 5334 provides the disposition requirements for assets acquired with federal transit funds that are no longer needed for transit purposes. If a recipient sells the asset, the proceeds of the sale must be used to reduce the gross project costs of another federally funded capital transit project.

MDOT stated that it did not ensure that the local transit agencies were using the proceeds of the sale to reduce the gross project costs of another federally funded capital transit project.

RECOMMENDATION

We recommend that MDOT improve its internal control over the Formula Grants for Other Than Urbanized Areas Program to ensure compliance with federal laws and regulations regarding reporting and subrecipient monitoring.

FINDING (5911109)

9. Transit Services Programs Cluster, CFDA 20.513, 20.516, and 20.521

U.S. Department of Transportation		Transit Services Programs Cluster: CFDA 20.513: Capital Assistance Program for Elderly Persons and Persons with Disabilities CFDA 20.516: Job Access: Reverse Commute CFDA 20.521: New Freedom Program
Award Number:		Award Period:
MI-16-0027	MI-37-2026	Various
MI-16-0028	MI-16-X002	
MI-16-0029	MI-65-X002	
MI-16-0030	MI-37-2031	
MI-16-0031	MI-16-X003	
MI-37-2024	MI-65-X003	
MI-57-0001	MI-37-X010	
MI-65-X001	MI-37-0037	
MI-16-X001	MI-57-0010	
		Known Questioned Costs: \$0

MDOT's internal control over the Transit Services Programs Cluster did not ensure compliance with federal laws and regulations regarding reporting and subrecipient monitoring.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Transit Services Programs Cluster awards.

Federal expenditures for the Transit Services Programs Cluster totaled \$15.0 million for the two-year period ended September 30, 2010. Subrecipient distributions accounted for all but \$3,000 of total expenditures.

Our exceptions, by compliance area, are as follows:

a. Reporting

MDOT's internal control over the Transit Services Programs Cluster did not ensure that FSRs were prepared on the accrual basis of accounting. As a result, MDOT's FSRs were overstated by \$2.7 million and understated by \$3.1 million in fiscal years 2009-10 and 2008-09, respectively.

Federal regulation 2 *CFR* 215.52(a)(1) provides that the FTA shall prescribe whether the FSR shall be on a cash or accrual basis and shall determine the frequency of the FSR for each project or program. FTA Circulars 9070.1F, 9050.1, and 9045.1 provide that FSRs must be prepared on the accrual basis of accounting.

We reviewed 29 FSRs for the audit period and determined that MDOT prepared all 29 FSRs using the cash basis of accounting.

b. Subrecipient Monitoring

MDOT's internal control over the Transit Services Programs Cluster did not ensure that MDOT complied with subrecipient monitoring requirements. As a result, MDOT did not sufficiently monitor subrecipient activities and could not be assured that subrecipients used federal awards for authorized purposes in compliance with laws, regulations, and provisions of grant agreements.

We reviewed MDOT's monitoring activities for its subrecipients and noted:

- (1) MDOT did not monitor its subrecipients' compliance with federal suspension and debarment requirements.

Federal regulation 49 *CFR* 18.35 prohibits MDOT and its subrecipients from contracting with or making subrecipient awards to any party that is suspended or debarred.

When a nonfederal entity enters into a covered transaction with an entity at a lower tier, the nonfederal entity must verify that the entity is not suspended or debarred or otherwise excluded, which can be accomplished by checking the EPLS. Federal regulation 2 *CFR* 180.300 requires MDOT and its subrecipients to meet this requirement by collecting a certification from the contracted party, adding a clause or condition to the contract that the party is not suspended or debarred, or checking the EPLS.

MDOT stated that it did not ensure that local transit agencies collected a certification from their vendors or third party contractors, added the required clause or condition to the contract, or checked the EPLS.

- (2) MDOT did not monitor its subrecipients' compliance with equipment and real property management requirements related to the disposition of property, equipment, or supplies.

Federal law 49 *USC* 5334 provides the disposition requirements for assets acquired with federal transit funds that are no longer needed for transit purposes. If a recipient sells the asset, the proceeds of the sale must be used to reduce the gross project costs of another federally funded capital transit project.

MDOT stated that it did not ensure that the local transit agencies were using the proceeds of the sale to reduce the gross project costs of another federally funded capital transit project.

RECOMMENDATION

We recommend that MDOT improve its internal control over the Transit Services Programs Cluster to ensure compliance with federal laws and regulations regarding reporting and subrecipient monitoring.

The status of the findings related to federal awards that were reported in prior single audits is disclosed in the summary schedule of prior audit findings.

OTHER SCHEDULES

MICHIGAN DEPARTMENT OF TRANSPORTATION
Summary Schedule of Prior Audit Findings
As of June 22, 2011

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL STATEMENTS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2006 through September 30, 2008

Finding Number: 5910901

Finding Title: Control Over Cash Receipts

Finding: The Michigan Department of Transportation (MDOT) needs to improve its internal control over cash receipts received through the mail and by its central cashier.

Agency Comments: MDOT improved its internal control over cash receipts by adding procedures to ensure that deposits reconcile with the cash receipt logs, ensuring that both mail openers initial the cash receipts log, ensuring that the mailroom staff record the type of cash item received, ensuring that the cashier initials the cash receipts log acknowledging the receipt of money from the mail openers, ensuring that the cashier issues receipts for monies received directly by the cashier, and ensuring that deposits are made as required by the State of Michigan Financial Management Guide. MDOT also improved its internal control by periodically ensuring the cashier's batch documents are deposited or otherwise accounted for. MDOT does not maintain copies of checks and, therefore, cannot independently validate that the cashier applies the receipts to the correct information in the Accounts Receivable System. MDOT's current control to send dunning letters for outstanding invoices provides reasonable assurance that the correct invoices are being credited by the cashier. The procedures were in place as of August 31, 2009.

Audit Period: October 1, 2006 through September 30, 2008
Finding Number: 5910902
Finding Title: Distributions From the Michigan Transportation Fund

Finding: MDOT needs to strengthen its internal control over the distribution of motor fuel taxes and vehicle registration fees from the Michigan Transportation Fund to county road commissions to ensure compliance with State law.

Agency Comments: MDOT notified the locals of the error, and the distributions beginning in fiscal year 2005-06 and forward were corrected as of September 30, 2009. A three-year statute of limitation applies per the verbal counsel received from the assistant attorney general and a formal Attorney General opinion is not needed.

Audit Period: October 1, 2006 through September 30, 2008
Finding Number: 5910903
Finding Title: Cash Management

Finding: MDOT did not request federal reimbursement in a timely manner for eligible expenditures for the Highway Planning and Construction Program. Also, MDOT should request that the Department of Treasury renegotiate its Cash Management Improvement Act agreement for the Highway Planning and Construction Program to take into account the time savings that result from the use of electronic funds transfers.

Agency Comments: MDOT followed the understanding between MDOT and the Federal Highway Administration regarding how the indirect grant anticipation revenue vehicle (GARVEE) advanced construction (AC) program would work during the period of audit and therefore did not violate Department of Technology, Management & Budget Administrative Guide procedure 1210.06. In fiscal year 2009-10, federal aid was being allocated on a monthly/weekly basis and without any flexibility in apportionment; therefore, MDOT had no ability to bring in the federal aid early in the fiscal year. Beginning

in fiscal year 2010-11, MDOT brought in the federal reimbursement at the beginning of the year. MDOT worked with the Department of Treasury to recalculate the average clearance pattern and adjusted its procedures accordingly prior to December 31, 2009.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2006 through September 30, 2008

Finding Number: 5910904

Finding Title: Airport Improvement Program (AIP), *CFDA* 20.106

Finding: MDOT's internal control did not ensure compliance with federal cash management requirements related to nonautomated payments for AIP. Also, MDOT should request that the Department of Treasury renegotiate its Cash Management Improvement Act agreement for AIP to take into account the time savings that result from the use of electronic funds transfers.

Agency Comments: MDOT worked with the Department of Treasury to recalculate the average clearance pattern and adjusted its procedures accordingly prior to December 31, 2009.

MICHIGAN DEPARTMENT OF TRANSPORTATION

Corrective Action Plan

As of June 17, 2011

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

Finding Number: 5911101

Finding Title: User Class 17 Access Rights

Management Views: The Michigan Department of Transportation (MDOT) agrees with the audit finding.

Planned Corrective Action: MDOT will periodically review users with class 17 access to determine if the access is still required and to ensure the effectiveness of its internal control structure in relation to security administration.

Anticipated Completion Date: December 31, 2011

Responsible Individual: Edward A. Timpf, Administrator
Financial Operations Division

Finding Number: 5911102

Finding Title: Preparation of the Schedule of Expenditures of Federal Awards (SEFA)

Management Views: MDOT agrees that it can improve its internal control over financial reporting.

Planned Corrective Action: MDOT will annually evaluate its controls to ensure that the information reported in the SEFA is in accordance with U.S. Office of Management and Budget (OMB) Circular A-133 and State financial management policies.

Anticipated Completion Date: December 31, 2011

Responsible Individual: Edward A. Timpf, Administrator
Financial Operations Division

Finding Number: 5911103

Finding Title: Accounts Payable

Management Views: MDOT agrees that its internal control over the accuracy of recorded accounts payable could be improved.

Planned Corrective Action: MDOT will continue to evaluate its accounts payable methodologies and related controls each year to help ensure that accounts payables posted at year-end represent obligations of the State.

Anticipated Completion Date: October 31, 2011

Responsible Individual: Edward A. Timpf, Administrator
Financial Operations Division

Finding Number: 5911104

Finding Title: Inventory

Management Views: MDOT agrees with the audit finding. Written procedures existed for performing the annual physical counts of inventory as well as the periodic audits of the actual inventory on hand.

Planned Corrective Action: MDOT will work to ensure that it adheres to all procedures regarding inventory monitoring and performance of annual physical counts of inventory. MDOT Stores Control staff will provide results of their audits to management. Management will also

periodically perform independent reviews to ensure that MDOT follows its inventory related procedures.

Anticipated Completion Date: September 30, 2011

Responsible Individual: Edward A. Timpf, Administrator
Financial Operations Division

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 5911105

Finding Title: Monitoring of Subrecipient Single Audit Reports

Management Views: MDOT agrees that the requirements of OMB Circular A-133, Sections 400(d)(4) and 400(d)(5) were not completely followed.

Planned Corrective Action: In consideration of limited resources, potential risk of subrecipient noncompliance, and costs versus benefits of full compliance, MDOT will comply with OMB Circular A-133, Sections 400(d)(4) and 400(d)(5) for all subrecipients receiving \$500,000 or more from MDOT. Also, MDOT will develop and implement a procedure to annually sample the remaining subrecipients to provide reasonable assurance that compliance is being achieved.

Anticipated Completion Date: December 31, 2011

Responsible Individual: Edward A. Timpf, Administrator
Financial Operations Division

Finding Number: 5911106
Finding Title: Highway Planning and Construction Cluster,
Including ARRA - Highway Planning and Construction,
CFDA 20.205

Management Views: MDOT agrees and will strengthen its internal control to help ensure that the Highway Planning and Construction Cluster is in compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, the Davis-Bacon Act, and special tests and provisions.

MDOT agrees that the project engineer's signature is a key control but notes that there are other controls throughout the payment process to help mitigate risks, such as noncompliance with allowable costs/cost principles, the Davis-Bacon Act, and special tests and provisions.

Planned Corrective Action: MDOT will develop and provide written guidance to field staff and local agency staff to help ensure that existing control procedures are improved.

Anticipated Completion Date: September 30, 2011

Responsible Individual: Myron Frierson, Bureau Administrator
Finance and Administration

Finding Number: 5911107
Finding Title: Federal Transit Cluster, Including ARRA - Federal
Transit: Formula Grants, *CFDA 20.500 and 20.507*

Management Views:

MDOT agrees that it needs to improve its internal control over the Federal Transit Cluster to ensure compliance with federal laws and regulations regarding reporting and subrecipient monitoring.

a. Reporting - Financial Status Reports

MDOT agrees that it needs to improve its internal control over the Federal Transit Cluster reporting.

b. Subrecipient Monitoring

(1) Inventory of Non-Rolling Stock Equipment

MDOT agrees that it can improve its controls over inventory records for non-rolling stock equipment purchases made by subrecipients.

(2) Certified Payrolls

MDOT agrees that it needs to improve its internal control over the monitoring of subrecipients for compliance with Davis-Bacon Act requirements.

(3) Federal Suspension and Debarment Requirements

MDOT agrees that it needs to improve its monitoring of subrecipients to ensure that subrecipients comply with federal suspension and debarment requirements.

(4) Disposition of Assets

MDOT agrees that it can improve its controls over the monitoring of subrecipients' disposition of assets. Written procedures existed for subrecipient disposal of equipment and real property.

Planned Corrective Action:

- a. Reporting - Financial Status Reports
MDOT will work to ensure that it complies with accrual basis reporting requirements at year-end so that all four quarterly reports total MDOT's annual expenditures on the accrual basis.
- b. Subrecipient Monitoring
 - (1) Inventory of Non-Rolling Stock Equipment
MDOT is using the Passenger Transportation Management System (PTMS) to enter some of the data for non-rolling stock equipment. However, because of needed system upgrades, all of the information cannot be entered. Consequently, MDOT is collecting information manually so that it can be entered into PTMS once the upgrades are complete and PTMS is fully functional.
 - (2) Certified Payrolls
MDOT will improve its subrecipient monitoring by establishing methods to confirm that subrecipients obtain copies of certified payrolls from construction contractors.
 - (3) Federal Suspension and Debarment Requirements
MDOT has begun monitoring its subrecipients to ensure that subrecipients comply with federal suspension and debarment requirements.
 - (4) Disposition of Assets
MDOT will revise its procedures for subrecipient disposal of equipment and real

property and seek approval from the Federal Transit Administration (FTA) to ensure that the procedures comply with FTA requirements.

- Anticipated Completion Date:**
- a. Reporting - Financial Status Reports
November 30, 2011
 - b. Subrecipient Monitoring
 - (1) Inventory of Non-Rolling Stock Equipment
June 30, 2012
 - (2) Certified Payrolls
December 31, 2011
 - (3) Federal Suspension and Debarment Requirements
June 30, 2011
 - (4) Disposition of Assets
June 30, 2012

- Responsible Individuals:**
- a. Reporting - Financial Status Reports
Edward A. Timpf, Administrator
Financial Operations Division
 - b. Subrecipient Monitoring
 - (1) Inventory of Non-Rolling Stock Equipment
Sharon L. Edgar, Administrator
Passenger Transportation
 - (2) Certified Payrolls
Sharon L. Edgar, Administrator
Passenger Transportation

(3) Federal Suspension and Debarment Requirements

Sharon L. Edgar, Administrator
Passenger Transportation

(4) Disposition of Assets

Sharon L. Edgar, Administrator
Passenger Transportation

Finding Number: 5911108

Finding Title: Formula Grants for Other Than Urbanized Areas and
ARRA - Formula Grants for Other Than Urbanized
Areas, *CFDA* 20.509

Management Views: MDOT agrees that it needs to improve its internal control over the Formula Grants for Other Than Urbanized Areas Program to ensure compliance with federal laws and regulations regarding reporting and subrecipient monitoring.

a. Reporting - Financial Status Reports

MDOT agrees that it needs to improve its internal control over the Formula Grants for Other Than Urbanized Areas Program reporting.

b. Subrecipient Monitoring

(1) Inventory of Non-Rolling Stock Equipment

MDOT agrees that it can improve its controls over inventory records for non-rolling stock equipment purchases made by subrecipients.

(2) Certified Payrolls

MDOT agrees that it needs to improve its internal control over the monitoring of subrecipients for compliance with Davis-Bacon Act requirements.

(3) Federal Suspension and Debarment Requirements

MDOT agrees that it needs to improve its monitoring of subrecipients to ensure that subrecipients comply with federal suspension and debarment requirements.

(4) Disposition of Assets

MDOT agrees that it can improve its controls over the monitoring of subrecipients' disposition of assets. Written procedures existed for subrecipient disposal of equipment and real property.

Planned Corrective Action:

a. Reporting - Financial Status Reports

MDOT will work to ensure that it complies with accrual basis reporting requirements at year-end so that all four quarterly reports total MDOT's annual expenditures on the accrual basis.

b. Subrecipient Monitoring

(1) Inventory of Non-Rolling Stock Equipment

MDOT is using PTMS to enter some of the data for non-rolling stock equipment. However, because of needed system upgrades, all of the information cannot be entered. Consequently, MDOT is collecting information manually so that it can be entered into PTMS once the upgrades are complete and PTMS is fully functional.

(2) Certified Payrolls

MDOT will improve its subrecipient monitoring by establishing methods to confirm that subrecipients obtain copies of certified payrolls from construction contractors.

(3) Federal Suspension and Debarment Requirements

MDOT has begun monitoring its subrecipients to ensure that subrecipients comply with federal suspension and debarment requirements.

(4) Disposition of Assets

MDOT will revise its procedures for subrecipient disposal of equipment and real property and seek approval from the FTA to ensure that the procedures comply with FTA requirements.

Anticipated Completion Date: a. Reporting - Financial Status Reports
November 30, 2011

b. Subrecipient Monitoring

(1) Inventory of Non-Rolling Stock Equipment
June 30, 2012

(2) Certified Payrolls
December 31, 2011

(3) Federal Suspension and Debarment Requirements
June 30, 2011

- (4) Disposition of Assets
June 30, 2012

Responsible Individuals:

- a. Reporting - Financial Status Reports
Edward A. Timpf, Administrator
Financial Operations Division
- b. Subrecipient Monitoring
 - (1) Inventory of Non-Rolling Stock Equipment
Sharon L. Edgar, Administrator
Passenger Transportation
 - (2) Certified Payrolls
Sharon L. Edgar, Administrator
Passenger Transportation
 - (3) Federal Suspension and Debarment Requirements
Sharon L. Edgar, Administrator
Passenger Transportation
 - (4) Disposition of Assets
Sharon L. Edgar, Administrator
Passenger Transportation

Finding Number: 5911109

Finding Title: Transit Services Programs Cluster, *CFDA* 20.513, 20.516, and 20.521

Management Views: MDOT agrees that it needs to improve its internal control over the Transit Services Programs Cluster to ensure compliance with federal laws and regulations regarding reporting and subrecipient monitoring.

- a. Reporting - Financial Status Reports
MDOT agrees that it needs to improve its internal control over the Transit Services Programs Cluster reporting.
- b. Subrecipient Monitoring
 - (1) Federal Suspension and Debarment Requirements
MDOT agrees that it needs to improve its monitoring of subrecipients to ensure that subrecipients comply with federal suspension and debarment requirements.
 - (2) Disposition of Assets
MDOT agrees that it can improve its controls over the monitoring of subrecipients' disposition of assets. Written procedures existed for subrecipient disposal of equipment and real property.

Planned Corrective Action:

- a. Reporting - Financial Status Reports
MDOT will work to ensure that it complies with accrual basis reporting requirements at year-end so that all four quarterly reports total MDOT's annual expenditures on the accrual basis.
- b. Subrecipient Monitoring
 - (1) Federal Suspension and Debarment Requirements
MDOT has begun monitoring its subrecipients to ensure that subrecipients comply with federal suspension and debarment requirements.

(2) Disposition of Assets

MDOT will revise its procedures for subrecipient disposal of equipment and real property and seek approval from the FTA to ensure that the procedures comply with FTA requirements.

Anticipated Completion Date: a. Reporting - Financial Status Reports
November 30, 2011

b. Subrecipient Monitoring

(1) Federal Suspension and Debarment
Requirements
June 30, 2011

(2) Disposition of Assets
June 30, 2012

Responsible Individuals: a. Reporting - Financial Status Reports
Edward A. Timpf, Administrator
Financial Operations Division

b. Subrecipient Monitoring

(1) Federal Suspension and Debarment
Requirements
Sharon L. Edgar, Administrator
Passenger Transportation

(2) Disposition of Assets
Sharon L. Edgar, Administrator
Passenger Transportation

GLOSSARY

Glossary of Acronyms and Terms

accreted value	The value of a bond, when it is issued at a deep discount, that includes the bond issuance price plus the incremental increase in the value of the bond as it approaches redemption at face value.
advanced construction (AC)	In agreement with FHWA, deferred federal aid projects that MDOT may choose to convert for current year reimbursement from the federal government, provided there are adequate federal aid allocations. This allows states to obtain federal reimbursement not received during the construction period in case a relatively greater amount of federal aid becomes available at some later date or to assist in balancing the federal aid from year to year.
Advanced Purchasing and Inventory Control System (ADPICS)	The State's procurement and materials management system that is integrated with the Relational Standard Accounting and Reporting System (R*STARS) in supporting the purchasing, receiving, and payment processes within State agencies.
AIP	Airport Improvement Program.
American Recovery and Reinvestment Act of 2009 (ARRA)	An economic stimulus package enacted by the 111th United States Congress in February 2009.
BWBF	Blue Water Bridge Fund.
<i>Catalog of Federal Domestic Assistance (CFDA)</i>	The catalog that provides a full listing, with detailed program descriptions, of all federal programs available to state and local governments.

channeling	Requirement by State legislation that federal revenue received by a political subdivision must be accepted and disbursed by the State.
cluster	A grouping of closely related federal programs that have similar compliance requirements. Although the programs within a cluster are administered as separate programs, a cluster of programs is treated as a single program for the purpose of meeting the audit requirements of OMB Circular A-133.
<i>Code of Federal Regulations (CFR)</i>	The codification of the general and permanent rules published by the departments and agencies of the federal government.
CRAM	County Road Association of Michigan.
deficiency in internal control over federal program compliance	The design or operation of a control over compliance that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.
deficiency in internal control over financial reporting	The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.
EDF	Economic Development Fund.
effectiveness	Success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical with the minimum amount of resources.
EPLS	Excluded Parties List System.

FAA	Federal Aviation Administration.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are presented fairly in all material respects in conformity with the disclosed basis of accounting.
FHWA	Federal Highway Administration.
FMG	State of Michigan Financial Management Guide.
FSR	financial status report.
FTA	Federal Transit Administration.
generally accepted accounting principles (GAAP)	A technical accounting term that encompasses the conventions, rules, guidelines, and procedures necessary to define accepted accounting practice at a particular time; also cited as "accounting principles generally accepted in the United States of America."
Governmental Accounting Standards Board (GASB)	An arm of the Financial Accounting Foundation established to promulgate standards of financial accounting and reporting with respect to activities and transaction of state and local governmental entities.
grant anticipation revenue vehicles (GARVEE) notes	Tax-exempt debt instrument financing mechanisms backed by annual federal appropriations for federal aid transportation projects. GARVEE notes were authorized in federal law to expand the eligibility of bond and other debt instrument financing costs for federal aid reimbursement. GARVEE notes represent debt issued that will be paid using federal funds instead of state restricted revenues.
IBA	International Bridge Administration.

internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
JIBA	Joint International Bridge Authority.
low-risk auditee	As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual single audit and it meets other criteria related to prior audit results. In accordance with State statute, this single audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.
material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the changes in financial position or cash flows in conformity with the disclosed basis of accounting.
material noncompliance	Violations of laws, regulations, contracts, and grants that could have a direct and material effect on major federal programs or on financial schedule and/or financial statement amounts.
material weakness in internal control over federal program compliance	A deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.
material weakness in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial schedules and/or

financial statements will not be prevented, or detected and corrected, on a timely basis.

Michigan
Administrative
Information Network
(MAIN)

The State's automated administrative management system that supports accounting, purchasing, and other financial management activities.

MDOT

Michigan Department of Transportation.

non-rolling stock
equipment

Equipment other than buses, vans, cars, railcars, locomotives, trolley cars and buses, ferry boats, and vehicles used for guideways and incline planes.

pass-through entity

A nonfederal entity that provides a federal award to a subrecipient to carry out a federal program.

PTMS

Passenger Transportation Management System.

questioned cost

A cost that is questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

SEFA

schedule of expenditures of federal awards.

SIB

State Infrastructure Bank.

significant deficiency in internal control over federal program compliance	A deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.
significant deficiency in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
single audit	A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in <i>Government Auditing Standards</i> issued by the Comptroller General of the United States, a single audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.
SMRBC	St. Mary's River Bridge Company.
SSMBA	Sault Ste. Marie Bridge Authority.
<i>SOMCAFR</i>	<i>State of Michigan Comprehensive Financial Report.</i>
subrecipient	A nonfederal entity that expends federal awards received from another nonfederal entity to carry out a federal program.

unqualified opinion

An auditor's opinion in which the auditor states that:

- a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting; or
- b. The financial schedules and/or financial statements presenting supplemental financial information are fairly stated in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules and/or financial statements to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules and/or financial statements taken by themselves; or
- c. The audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.

USC

United States Code.

U.S. Office of
Management and
Budget (OMB)

A cabinet-level office that assists the President in overseeing the preparation of the federal budget and in supervising its administration in executive branch agencies.

