



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



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

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

– Article IV, Section 53 of the Michigan Constitution

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Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit

Report Number:
591-0105-12

Use of Transportation-Related Funding

Released:
December 2012

Act 192, P.A. 2010, and Act 116, P.A. 2009, require State agencies that are appropriated funding from transportation funds for providing tax and fee collection and other services to contract with the Michigan Department of Transportation (MDOT). These agencies are also required to annually report the amount of funding contracted with MDOT, funds expended, funds returned, and unreimbursed costs incurred but not billed to the transportation funds. The aforementioned acts require the Office of the Auditor General to report on the use of transportation-related funding.

Audit Objective:

To determine the appropriateness of selected State agencies' charges to transportation funds.

Audit Conclusion:

We determined that the charges to transportation funds were generally appropriate for 3 of the 4 selected State agencies. However, we noted one reportable condition (Finding 1).

Reportable Condition:

The Department of Treasury could not document that its allocation of expenditures to the Michigan Transportation Fund and the State Aeronautics Fund was based on the level of activity necessary to administer and enforce the Motor Fuel Tax Act. In addition, MDOT needs to improve its review and approval of the cost allocation methodologies developed by State agencies to help ensure that costs for transportation-related activities are

accurately identified and equitably allocated to transportation funds (Finding 1).

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Audit Objective:

To determine compliance with selected State agencies' contractual and reporting requirements for transportation-related funding.

Audit Conclusion:

We determined that the selected State agencies complied with contractual and reporting requirements for transportation-related funding. Our audit report does not include any reportable conditions related to this audit objective.

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Audit Objective:

To report charges to transportation funds, the cost allocation methodologies used in determining the level of funding, and unreimbursed costs.

Audit Conclusion:

We reported the charges to transportation funds, the cost allocation methodologies used in determining the level of funding, and the unreimbursed costs as supplemental information in this audit report. Our audit report does not include any reportable conditions related to this audit objective.

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Agency Response:

Our audit report contains 1 finding and 2 corresponding recommendations. The Department of Treasury's preliminary response indicates that it agrees with the first recommendation and will comply. MDOT's preliminary response indicates that it generally agrees with the second recommendation.

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



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

December 4, 2012

The Honorable Roger Kahn, Chair
Senate Appropriations Committee
Michigan Senate
and
The Honorable Charles J. Moss, Chair
House Appropriations Committee
Michigan House of Representatives
State Capitol
Lansing, Michigan

Dear Senator Kahn and Representative Moss:

This is our report on the performance audit of the Use of Transportation-Related Funding for the period October 1, 2009 through September 30, 2011, as required by Section 306 of both Act 192, P.A. 2010, and Act 116, P.A. 2009.

This report contains our report summary; description of funding requirements; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, finding, recommendations, and agency preliminary response; detailed reviews by State agency and summaries of charges to transportation funds, services provided, and cost allocation methodologies; and a glossary of acronyms and terms.

Our comments, finding, and recommendations are organized by audit objective. The agency preliminary response was taken from the agencies' responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agencies develop a plan to comply with 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 agencies to take additional steps to finalize the plan.

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

Sincerely,


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

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Description of Funding Requirements

Act 192, P.A. 2010, and Act 116, P.A. 2009 (the annual appropriations acts for the Michigan Department of Transportation [MDOT] for fiscal years 2010-11 and 2009-10, respectively) require State agencies that are appropriated funding from transportation funds for providing tax and fee collection and other services to contract with MDOT. The contracts must include estimated costs to be recovered from transportation funds, a description of the services financed by transportation funds, and detailed cost allocation methodologies that are appropriate to the types of services being provided and the activities financed with transportation funds. MDOT's annual appropriations act also requires these agencies to annually report the amount of funding contracted with MDOT, funds expended, funds returned, and unreimbursed costs incurred but not billed to the transportation funds.

MDOT's annual appropriations act requires the Office of the Auditor General to conduct a biennial audit of charges to transportation funds by State departments and to prepare a report with recommendations and conclusions. For fiscal year 2009-10 and fiscal years prior, we identified "transportation funds" as those funds classified under "Special Revenue Funds" as "Transportation Related" in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*. With the State's implementation of Governmental Accounting Standards Board (GASB) Statement No. 54 beginning in fiscal year 2010-11, several of these "transportation funds" were reclassified as "Capital Project Funds" but are still considered "Transportation Related." Transportation funds include the State Aeronautics Fund, State Trunkline Fund (including the Blue Water Bridge Fund and the Economic Development Fund), Michigan Transportation Fund, Comprehensive Transportation Fund, Combined State Trunkline Bond Proceeds Fund, Combined Comprehensive Transportation Bond Proceeds Fund, and Transportation Related Trust Funds. Our audit report includes all contractual and miscellaneous charges from State departments and agencies to these transportation funds.

The Legislature appropriated transportation-related funding of \$51.2 million and \$49.8 million for fiscal years 2010-11 and 2009-10, respectively, with interdepartmental grants to the following eight State agencies: the Department of State; the Michigan Department of State Police; the Department of Technology, Management, and Budget;

the Department of Treasury; the Civil Service Commission; the Department of Attorney General; the Department of Environmental Quality; and the Office of the Auditor General.

The Legislature also appropriated \$27.8 million and \$29.3 million for fiscal years 2010-11 and 2009-10, respectively, for information technology services and products. In addition, the Legislature appropriated \$5.0 million for fiscal year 2009-10 for welcome center operations, which were provided primarily by the Michigan Economic Development Corporation.

MDOT funded contractual and miscellaneous transportation-related charges of \$91.0 million and \$94.8 million for fiscal years 2010-11 and 2009-10, respectively (see Exhibits 5 and 6).

Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

Audit Objectives

Our performance audit* of the Use of Transportation-Related Funding had the following objectives:

1. To determine the appropriateness of selected State agencies' charges to transportation funds.
2. To determine compliance with selected State agencies' contractual and reporting requirements for transportation-related funding.
3. To report charges to transportation funds, the cost allocation methodologies used in determining the level of funding, and unreimbursed costs.

Audit Scope

Our audit was required by Section 306 of both Act 192, P.A. 2010, and Act 116, P.A. 2009. Our audit scope was to examine the records supporting transportation-related charges to transportation funds. Our audit included all contractual and miscellaneous charges from State departments and agencies to transportation funds classified as "Transportation Related" in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*. We conducted this performance audit in accordance with generally accepted government auditing standards except that we were not independent in regard to the Office of the Auditor General. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives. Our audit procedures, conducted primarily from June through October 2012, included examination of records and activities for the period October 1, 2009 through September 30, 2011.

As part of our audit, we compiled and reported exhibits of State agencies' use of transportation-related funding based on information provided by the Michigan

* See glossary at end of report for definition.

Administrative Information Network* (MAIN), the State agencies, and the Michigan Department of Transportation (MDOT).

Audit Methodology

Based on a risk analysis, we selected four State agencies (the Department of Technology, Management, and Budget; Department of State; Michigan Department of State Police; and Department of Treasury) to review. To determine the appropriateness of selected State agencies' charges to transportation funds, we reviewed the four selected State agencies' charges for transportation-related expenditures. In addition, we examined the selected State agencies' processes for allocating transportation-related costs to transportation funds.

To determine compliance with selected State agencies' contractual and reporting requirements for transportation-related funding, we reviewed the four selected State agencies' contracts and annual reports to verify whether they included all of the information required by Sections 306(1) and 306(2) of both Act 192, P.A. 2010, and Act 116, P.A. 2009.

To report the charges to transportation funds, the cost allocation methodologies used in determining the level of funding, and unreimbursed costs, we obtained and reviewed financial data and other information from State agency reports, annual contracts, appropriations acts, MDOT expenditure summaries, and MAIN accounting records.

We reported the transportation-related costs and unreimbursed costs of State agencies by transportation fund (see Exhibits 5 through 7). We also reported the types of services provided and the cost allocation methodologies of each State agency (see Exhibit 8).

Agency Responses and Prior Audit Follow-Up

Our audit report contains 1 finding and 2 corresponding recommendations. The Department of Treasury's preliminary response indicates that it agrees with the first recommendation and will comply. MDOT's preliminary response indicates that it generally agrees with the second recommendation.

* See glossary at end of report for definition.

The agency preliminary response that follows the recommendations in our report was taken from the agencies' written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require the audited agencies to 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 will review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We released our prior performance audit of the Use of Transportation-Related Funding (591-0105-10) in March 2011. Within the scope of this audit, we followed up both prior audit recommendations. The Department of Treasury and MDOT did not comply with the prior audit recommendations directed at them. We repeated both prior audit recommendations in Finding 1 of this audit report.

COMMENTS, FINDING, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSE

CHARGES TO TRANSPORTATION FUNDS

COMMENT

Audit Objective: To determine the appropriateness of selected State agencies' charges to transportation funds.

Audit Conclusion: We determined that the charges to transportation funds were generally appropriate for 3 of the 4 selected State agencies. However, our audit disclosed one reportable condition* related to the cost allocation methodology for the Department of Treasury (Finding 1).

FINDING

1. Cost Allocation Methodology for the Department of Treasury

The Department of Treasury could not document that its allocation of expenditures to the Michigan Transportation Fund (MTF) and the State Aeronautics Fund (SAF) was based on the level of activity necessary to administer and enforce the Motor Fuel Tax Act (Sections 270.1001 - 270.1170 of the *Michigan Compiled Laws*). In addition, the Michigan Department of Transportation (MDOT) needs to improve its review and approval of the cost allocation methodologies developed by State agencies to help ensure that costs for transportation-related activities are accurately identified and equitably allocated to transportation funds. As a result, neither the Department of Treasury nor MDOT could ensure that the payments made to the Department of Treasury were based on actual transportation-related costs.

MDOT's appropriations acts for fiscal years 2010-11 and 2009-10 require that the annual contracts between MDOT and the various State agencies receiving transportation-related funding include detailed cost allocation methodologies that are appropriate to the types of services being provided and the activities financed with transportation funds. Section 247.660(1) of the *Michigan Compiled Laws* (a section of Act 51, P.A. 1951, as amended) requires that funds appropriated for necessary expenses be based on established cost allocation methodologies that reflect actual costs.

* See glossary at end of report for definition.

The Department of Treasury provides tax collection services to administer and enforce the Motor Fuel Tax Act. The Department's cost allocation methodology appropriately identified the actual costs it incurred related to its tax collection responsibilities, which included all of the taxes collected by the Department. However, the Department allocated these expenditures to MTF and SAF based on the percentage of transportation-related tax revenue collections to total tax revenue collections.

The Department is responsible for collecting numerous types of taxes, including sales taxes, use taxes, income taxes, cigarette taxes, and motor fuel taxes. The Department's allocation methodology presumes that its efforts to collect all of the different types of taxes are the same for each type of tax collected. However, the Department could not demonstrate that the charges to MTF and SAF were based on the proportion of the Department's collection efforts (costs) that relate to administering and enforcing the Motor Fuel Tax Act. As a result, the Department could not document that it used an appropriate cost allocation methodology to allocate costs of \$7,129,174 and \$6,897,654 to MTF and \$37,578 and \$39,324 to SAF for fiscal years 2010-11 and 2009-10, respectively.

We reported similar conditions in our three prior audit reports. In response to the prior audit report, the Department of Treasury responded that it agreed that charges to MTF and SAF should be based on the proportion of the Department's costs that relate to administering and enforcing the Motor Fuel Tax Act. The Department added that it believes that allocating expenditures based on the percentage of transportation-related collections to total tax collections is a reasonable allocation methodology based on the way that the Department's tax-related functions are organized. MDOT also responded that it agreed that a properly supported cost methodology is necessary and stated that it continues to annually review and approve State agencies' cost allocation methodologies. However, the Department of Treasury and MDOT did not implement any changes in the Department of Treasury's cost allocation methodology.

RECOMMENDATIONS

We again recommend that the Department of Treasury document that its allocation of expenditures to MTF and SAF was based on the level of activity necessary to administer and enforce the Motor Fuel Tax Act.

We also again recommend that MDOT improve its review and approval of the cost allocation methodologies developed by State agencies to help ensure that costs for transportation-related activities are accurately identified and equitably allocated to transportation funds.

AGENCY PRELIMINARY RESPONSE

With regard to the first recommendation, the Department of Treasury agrees that charges to MTF and SAF should be based on the proportion of the Department's costs that relate to administering and enforcing the Motor Fuel Tax Act. The Department believes that allocating expenditures based on the percentage of transportation-related collections to total tax collections is a reasonable allocation methodology based on the way that the Department's tax-related functions are organized. However, in response to the prior audit findings, the Department contracted with a third party to develop recommendations on an improved allocation methodology that was based on the level of activity instead of collections. The Department informed us that the recommendations are currently under review. Also, the Department informed us that it will be testing a new cost allocation methodology for fiscal year 2012-13 based on the recommendations of the third party.

With regard to the second recommendation, MDOT agrees that a properly supported cost allocation methodology is necessary. As a result, MDOT stated that it continues to annually review and approve the cost allocation methodologies of agencies providing services to MDOT and that each State agency that receives transportation-related funding signs a memorandum of understanding (MOU) with MDOT. The MOU includes the estimated costs to be reimbursed, a description of the services financed by transportation funds, and a detailed cost allocation methodology, which describes the services being provided and the activities financed with transportation funds. MDOT informed us that it reviews the document for accuracy and completeness and to help ensure that estimated costs for transportation-related activities are identified and that the allocation method is reasonable, prior to signing the MOU. In addition, MDOT stated that it ensures that billed costs are no more than the amount appropriated for these services.

MDOT added that the Department of Treasury has continued to conclude that a high-level cost allocation methodology was the most effective and that a more detailed methodology would not improve the accuracy of the charges to transportation related funding. As a result, MDOT stated that there is no further action that it can take to improve the review and approval process over the Department of Treasury's current methodology as it has no basis to refute the Department of Treasury's assertion.

Detailed Reviews by State Agency (Exhibits 1 through 4)

We compiled Exhibits 1 through 4 from information contained in the Michigan Administrative Information Network (MAIN), State agencies' records, and MDOT's records related to State agencies' use of transportation-related funding for the fiscal years ended September 30, 2011 and September 30, 2010. Each detailed review by State agency includes the following information:

- **Interdepartmental Contract Charges** - This section represents State agencies' expenditures and encumbrances charged to transportation funds for services contracted between MDOT and State agencies and appropriated in Sections 103, 106, and 107 of both Act 192, P.A. 2010, and Act 116, P.A. 2009. In addition, this section includes State agencies' revenue transactions to fund the Civil Service Commission for transportation-funded employees.
- **Miscellaneous Charges** - This section represents the transportation-related expenditures charged to transportation funds that were not specifically appropriated to State agencies in Act 192, P.A. 2010, and Act 116, P.A. 2009.
- **Unreimbursed Costs** - This section includes unreimbursed transportation-related costs, which are costs that were incurred by a State agency but were not reimbursed by transportation revenue.

Department of Technology, Management, and Budget
Fiscal Years Ended September 30

	2011	2010
CHARGES TO TRANSPORTATION FUNDS		
<u>Interdepartmental Contract Charges</u>		
State Trunkline Fund		
Information technology services and contracts	\$ 26,644,165	\$ 26,849,989
Central support services	1,140,500	1,142,500
MAIN user charges	679,500	795,700
State Aeronautics Fund		
Information technology services and contracts	149,377	84,693
Central support services	30,700	23,800
MAIN user charges	18,200	16,400
Comprehensive Transportation Fund		
Information technology services and contracts	44,455	58,180
Central support services	35,000	33,500
MAIN user charges	20,700	23,100
Blue Water Bridge Fund		
Information technology services and contracts	66,297	45,123
Central support services	18,100	17,100
MAIN user charges	10,900	12,100
Economic Development Fund		
Information technology services and contracts	5,692	11,149
Total interdepartmental contract charges	<u>\$ 28,863,586</u>	<u>\$ 29,113,333</u>
<u>Miscellaneous Charges</u>		
State Trunkline Fund		
Information technology services and contracts	\$ 4,970,282	\$ 5,354,940
Building occupancy charges	5,171,189	5,907,857
Motor Transport Fund	1,082,933	838,148
Office Services Revolving Fund	423,771	415,304
Risk Management Fund	705,505	636,898
Other fees and services	(5,844)	248,346
State Aeronautics Fund		
Information technology services and contracts	21,753	22,279
Motor Transport Fund	36,308	20,207
Office Services Revolving Fund	27,430	31,061
Risk Management Fund	33,228	32,905
Comprehensive Transportation Fund		
Information technology services and contracts	26,705	62,051
Motor Transport Fund	31,268	29,075
Office Services Revolving Fund	10,599	7,143
Risk Management Fund	1,543	10,471
Other fees and services	4,380	38,658
Blue Water Bridge Fund		
Information technology services and contracts	71,178	29,626
Motor Transport Fund	3,589	916
Risk Management Fund	6,074	5,743

This exhibit continued on next page.

Department of Technology, Management, and Budget
Fiscal Years Ended September 30
Continued

	2011	2010
Combined Comprehensive Transportation Bond Proceeds Fund		
Motor Transport Fund	\$ 56	\$ 76
Other fees and services	31,164	14,161
Risk Management Fund		1,185
Economic Development Fund		
Information technology services and contracts	4,164	4,381
Motor Transport Fund	68	76
Total miscellaneous charges	<u>\$ 12,657,343</u>	<u>\$ 13,711,506</u>
TOTAL CHARGES	\$ 41,520,930	\$ 42,824,839
UNREIMBURSED COSTS		
State Trunkline Fund		
Building occupancy charges*	\$ (1,645,230)	\$ (881,805)
Central support services	(499,984)	(473,543)
MAIN user charges	(478,492)	(506,159)
State Aeronautics Fund		
Central support services	(6,071)	(12,937)
MAIN user charges	(7,756)	(13,007)
Comprehensive Transportation Fund		
Central support services	(19,034)	(19,948)
MAIN user charges	(17,442)	(19,650)
Blue Water Bridge Fund		
Central support services	(4,016)	7,615
MAIN user charges	(4,711)	3,768
Combined State Trunkline Bond Proceeds Fund		
Central support services	(10,855)	(14,058)
MAIN user charges	(7,662)	(10,780)
Combined Comprehensive Transportation Bond Proceeds Fund		
Central support services	(124)	(79)
MAIN user charges	(87)	(60)
Transportation Related Trust Funds		
Central support services	(934)	(3,190)
MAIN user charges	(658)	(2,446)
TOTAL UNREIMBURSED COSTS	\$ (2,703,056)	\$ (1,946,279)

* Unreimbursed costs for building occupancy charges are the difference between federally allowable expenditures and budgetary allowable expenditures.

Appropriateness of Charges

- **Interdepartmental Contract Charges**

The Legislature appropriated information technology (IT) services from transportation funds of \$27.8 million and \$29.3 million to the Department of Technology, Management, and Budget (DTMB) for fiscal years 2010-11 and 2009-10, respectively. DTMB incurred and encumbered transportation-related costs for administering and implementing IT services of \$26.9 million (including encumbrances of \$2.3 million) and \$27.0 million (including encumbrances of \$3.6 million) in fiscal years 2010-11 and 2009-10, respectively.

DTMB charged the Michigan Department of Transportation (MDOT) for various costs associated with the delivery of IT services using the cost allocation methodologies described below:

- Center for Shared Solutions (leadership, technical expertise, and policy) costs are allocated based on actual payroll hours at a specified rate for work performed during the invoice period. Charges for core infrastructure are based on a tiered percentage of DTMB-900 information technology expenditures.
- Data center services (mainframe operations, centralized servers, data warehouses and exchange gateways, and disaster recovery) are allocated based on actual costs for specific functions or usage of service at a specified rate.
- Direct agency charges, such as IT equipment, software, and contractual services, are based on actual vendor invoice costs.
- DTMB 900 Fee costs (standards, policy development, and strategic planning) are based on 0.5% of prior year agency expenditures.
- Administrative services and contract management costs are based on 1.4% of prior year agency expenditures.

- Enterprise Security (computer security management) costs are based on actual payroll costs based on a time-and-effort reporting system.
- Information Officer Services (maintaining the business relationships between DTMB and its agency customers) costs are actual payroll costs based on a time-and-effort reporting system.
- Michigan Business One Stop costs are a specified amount based on the volume of transactions including business licenses, permits, registrations, and filings where fees are associated with the filing activity.
- Michigan Public Safety Communications System (Statewide radio communication for public safety) costs are actual payroll costs based on a time-and-effort reporting system.
- Michigan.gov (Internet and infrastructure services) costs are allocated based on a weighted blend of content count and number of page views.
- Office Automation (support desktop computing environment and other equipment) costs for actual desktop equipment or wireless devices at a specified rate.
- Technical Services (servers and server support) costs are based on usage of service at a specified rate.
- Telecommunications (voice and data services) costs are based on usage of service at a specified rate.

The Legislature also appropriated interdepartmental grants from transportation funds of \$1.3 and \$1.2 million for central support costs to DTMB for fiscal years 2010-11 and 2009-10, respectively. In addition to the appropriated interdepartmental grant amounts, the annual contract between DTMB and MDOT included \$0.9 million and \$1.0 million for Michigan Administrative Information

Network (MAIN) user charges, which are appropriated Statewide, for fiscal years 2010-11 and 2009-10, respectively. DTMB incurred transportation-related costs of \$2.0 million and \$2.1 million for fiscal years 2010-11 and 2009-10, respectively, for central support services and MAIN user charges. Central support services included financial management, real estate, mail and delivery, purchasing, State employer services, and budgetary services. DTMB used the most recent Statewide Cost Allocation Plan* (SWCAP) to allocate estimated costs for central support services and MAIN user charges to the transportation funds.

We determined that DTMB costs for IT services, central support services, and MAIN user charges were appropriate charges to transportation funds.

- **Miscellaneous Charges**

DTMB charged \$5.1 million and \$5.5 million in fiscal years 2010-11 and 2009-10, respectively, for additional IT projects, services, and equipment that DTMB provided that were not included in the general operating services in the interdepartmental grant. These additional IT projects, services, and equipment were charged using the same methodologies as the interdepartmental contract charges.

DTMB charged building occupancy costs of \$5.2 million and \$5.9 million for fiscal years 2010-11 and 2009-10, respectively, to the State Trunkline Fund for all buildings occupied by MDOT personnel. Building occupancy costs are allocated through SWCAP based on estimated costs per square foot. We determined that DTMB costs for building occupancy charged to transportation funds were for appropriate charges.

DTMB charged actual costs of \$2.4 million and \$2.0 million to the transportation funds for services provided by internal service funds for fiscal years 2010-11 and 2009-10, respectively. The Motor Transport Fund provides vehicle and travel services. The Office Services Revolving Fund provides services such as printing, reproduction, mailing, microfilm, distribution of surplus property, and materials

* See glossary at end of report for definition.

management. The Risk Management Fund accounts for certain centralized risk management functions. DTMB charged actual expenditures of \$29,700 and \$301,165 for other fees and services, including project supervision, parking, and facility management, for fiscal years 2010-11 and 2009-10, respectively.

- **Unreimbursed Costs**

DTMB did not report any unreimbursed costs related to IT services for fiscal years 2010-11 and 2009-10. A comparison of actual SWCAP costs to amounts charged to transportation funds disclosed net underreimbursed costs for DTMB building occupancy charges, central support services, and MAIN user charges of \$2.7 million and \$1.9 million for fiscal years 2010-11 and 2009-10, respectively.

Department of State
Fiscal Years Ended September 30

	2011	2010
CHARGES TO TRANSPORTATION FUNDS		
<u>Interdepartmental Contract Charges</u>		
Michigan Transportation Fund		
Collection of transportation taxes and fees	\$ 20,000,000	\$ 20,000,000
Total interdepartmental contracts	\$ 20,000,000	\$ 20,000,000
<u>Miscellaneous Charges</u>		
State Trunkline Fund		
Title and application fees	\$ 101	\$ 86
Transport permit fees	7	5,069
Total miscellaneous charges	\$ 108	\$ 5,155
TOTAL CHARGES	\$ 20,000,108	\$ 20,005,155
 UNREIMBURSED COSTS		
Collection of transportation taxes and fees	\$ (2,041,143)	\$ (645,031)
TOTAL UNREIMBURSED COSTS	\$ (2,041,143) *	\$ (645,031)

* As of the end of audit fieldwork on October 12, 2012, the fiscal year 2010-11 cost allocation plan for the Department of State was not yet available. Therefore, we estimated the amount using the same methodology used to produce the actual fiscal year 2009-10 figure.

Appropriateness of Charges

- **Interdepartmental Contract Charges**

The Legislature appropriated interdepartmental grants from the Michigan Transportation Fund (MTF) of \$20.0 million to the Department of State for each of fiscal years 2010-11 and 2009-10. The Department charged transportation-related costs to MTF of \$20.0 million for each of fiscal years 2010-11 and 2009-10 for administering and enforcing the collection of transportation taxes and fees identified in the Michigan Vehicle Code (Sections 257.801 - 257.810 of the *Michigan Compiled Laws*). Section 247.660(1) of the *Michigan Compiled Laws* limits total appropriations to the Department, relating to its interdepartmental contract with the Michigan Department of Transportation (MDOT), to \$20.0 million per fiscal year.

The Department has two sources of funding for transportation-related costs: its interdepartmental contract with MDOT, which is funded from MTF, and transportation fees collected in the Transportation Administration Collection Fund (TACF). The transportation fees in TACF are collected under Sections 257.801 - 257.810 of the *Michigan Compiled Laws* and, upon appropriation, are to be spent to pay the necessary expenses incurred by the Department in the administration and enforcement of collecting transportation taxes and fees. In addition, Department revenue from look-up and list fees collected in TACF can be used to pay the necessary expenses incurred by the Department in the administration and enforcement of collecting transportation taxes and fees.

The Department retains an independent consulting firm to conduct an annual cost allocation review to determine actual transportation-related costs from time-and-effort cost studies. The cost allocation review is an after-the-fact analysis used to support the costs charged to MTF and to establish future funding levels.

We determined that the Department's costs charged to MTF for administering and enforcing the collection of transportation taxes and fees for fiscal years 2010-11 and 2009-10 were for appropriate charges.

- **Miscellaneous Charges**

Miscellaneous charges included fees for vehicle titles, notary applications, and transport permit fees. We determined that the miscellaneous charges were appropriate.

- **Unreimbursed Costs**

The Department's cost allocation review disclosed unreimbursed costs of \$2,041,143 and \$645,031 for administering and enforcing the collection of transportation taxes and fees for fiscal years 2010-11 and 2009-10, respectively. Unreimbursed costs are transportation-related costs that exceed the combined transportation revenue from MTF and the transportation fees from TACF.

Michigan Department of State Police
Fiscal Years Ended September 30

	<u>2011</u>	<u>2010</u>
CHARGES TO TRANSPORTATION FUNDS		
<u>Interdepartmental Contract Charges</u>		
State Trunkline Fund		
Traffic Safety Division - Inspections, enforcement, and services	\$8,074,369	\$8,480,041
Criminal Justice Information Center - Traffic accident database	477,771	579,731
Support services	3,000	4,200
Information technology services	70,047	107,394
Total interdepartmental contracts	<u>\$8,625,187</u>	<u>\$9,171,366</u>
 <u>Miscellaneous Charges</u>		
State Trunkline Fund		
Construction work zone patrols	\$	\$ 19,301
Training	6,220	10,280
Aerial surveys	8,275	8,999
 State Aeronautics Fund		
Aviation fuel and rental	124,930	79,467
Total miscellaneous charges	<u>\$ 139,425</u>	<u>\$ 118,047</u>
 TOTAL CHARGES	<u>\$8,764,612</u>	<u>\$9,289,413</u>
 UNREIMBURSED COSTS		
 TOTAL UNREIMBURSED COSTS	<u>\$ 0</u>	<u>\$ 0</u>

Appropriateness of Charges

- **Interdepartmental Contract Charges**

The Legislature appropriated interdepartmental grants from the State Trunkline Fund of \$10.2 million and \$9.8 million to the Michigan Department of State Police (MSP) for fiscal years 2010-11 and 2009-10, respectively. MSP charged transportation-related costs of \$8.6 million (including encumbrances of \$1.0 million) and \$9.2 million (including encumbrances of \$1.1 million) in fiscal years 2010-11 and 2009-10, respectively, primarily for safety inspections and enforcement activities by the Traffic Safety Division.

MSP used its Automated Officer Daily System to identify the percentage of Traffic Safety Division officers' time spent on safety inspections and enforcement activities. These percentages were applied to payroll and indirect costs to determine chargeable expenditures for time spent on safety inspections and enforcement activities for commercial vehicles. These expenditures were then allocated to the three allowable funding sources for these activities: transportation-related funding (through MSP's interdepartmental contract with the Michigan Department of Transportation [MDOT]), motor carrier fees, and a federal grant. MSP allocated costs for traffic services as a percentage of staff funded by the State Trunkline Fund.

MSP allocated personnel and operating costs for the Criminal Justice Information Center to three primary user departments, including MDOT, based on each department's usage of traffic accident records data and proportionally shared costs for administrative functions.

MSP allocated Department of Technology, Management, and Budget (DTMB) information technology direct agency charges in the same percentage as enforcement activities in the Traffic Safety Division.

MSP allocated the support services expenditures for telecommunication services using the DTMB rate for full-time equated positions.

We determined that MSP's expenditures for safety inspections, enforcement activities, traffic services, the Criminal Justice Information Center, IT services, and support services were appropriate charges to transportation-related funding.

- **Miscellaneous Charges**

MSP charged expenditures of \$0.1 million each year based on costs or established fees for fiscal years 2010-11 and 2009-10 for miscellaneous charges for construction zone work patrols, training, aerial surveys, and aviation fuel and rental. We determined that the miscellaneous charges were appropriate.

- **Unreimbursed Costs**

MSP did not report any unreimbursed costs for fiscal years 2010-11 and 2009-10.

Department of Treasury
Fiscal Years Ended September 30

	<u>2011</u>	<u>2010</u>
CHARGES TO TRANSPORTATION FUNDS		
<u>Interdepartmental Contract Charges</u>		
State Trunkline Fund		
Investment services	\$ 142,200	\$ 179,100
Michigan Transportation Fund		
Collection and audit activities of motor fuel taxes	7,129,174	6,897,654
Information technology services	466,100	440,177
Investment services	1,900	2,200
State Aeronautics Fund		
Collection and audit activities of aviation fuel taxes	37,578	39,324
Investment services	5,300	6,000
Comprehensive Transportation Fund		
Investment services	6,500	4,100
Total interdepartmental contracts	<u>\$ 7,788,752</u>	<u>\$ 7,568,555</u>
<u>Miscellaneous Charges</u>		
State Trunkline Fund		
Manual warrant fees	\$	\$ 192
Blue Water Bridge Fund		
Investment services	3,100	3,100
Combined State Trunkline Bond Proceeds Fund		
Investment services	17,400	43,600
Combined Comprehensive Transportation Bond Proceeds Fund		
Investment services	14,100	16,900
Total miscellaneous charges	<u>\$ 34,600</u>	<u>\$ 63,792</u>
TOTAL CHARGES	<u><u>\$ 7,823,352</u></u>	<u><u>\$ 7,632,347</u></u>
UNREIMBURSED COSTS		
TOTAL UNREIMBURSED COSTS	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

Appropriateness of Charges

- **Interdepartmental Contract Charges**

The Legislature appropriated interdepartmental grants from transportation funds of \$8.5 million and \$7.6 million to the Department of Treasury for fiscal years 2010-11 and 2009-10, respectively. The Department incurred and encumbered transportation-related costs of \$7.8 million (including encumbrances of \$38,842) and \$7.6 million (including encumbrances of \$669) in fiscal years 2010-11 and 2009-10, respectively, for administering and enforcing the Motor Fuel Tax Act for the Michigan Department of Transportation (MDOT).

The Department appropriately identified the actual costs it incurred related to its tax collection responsibilities, which included all of the taxes collected by the Department. However, the Department allocated these expenditures to the Michigan Transportation Fund (MTF) and the State Aeronautics Fund (SAF) based on the percentage of transportation-related tax revenue collections to total tax revenue collections. The Department is responsible for collecting numerous types of taxes, including sales taxes, use taxes, income taxes, cigarette taxes, and motor fuel taxes. The Department's allocation methodology presumes that its efforts to collect all of the different types of taxes are the same for each type of tax collected. Charges to MTF and SAF should be based on the proportion of the Department's collection efforts (costs) that relate to administering and enforcing the Motor Fuel Tax Act. As a result, the Department could not document that its allocation of expenditures to MTF of \$7,129,174 and \$6,897,654 and to SAF of \$37,578 and \$39,324 was based on the level of activity necessary to administer and enforce the Motor Fuel Tax Act for fiscal years 2010-11 and 2009-10, respectively (Finding 1).

Charges for investment services were allocated based on the transportation funds' investment balances and the investing activity. We determined that the charges for investment services were appropriate.

The Department charged actual costs for information technology services, which related to the motor fuel diesel simplification project.

- **Miscellaneous Charges**

The Department charged costs of \$34,600 and \$63,792 in fiscal years 2010-11 and 2009-10, respectively, for investment services and manual warrant fees. We determined that the miscellaneous charges were appropriate.

- **Unreimbursed Costs**

The Department did not report unreimbursed costs for fiscal years 2010-11 and 2009-10.

CONTRACTUAL AND REPORTING REQUIREMENTS

COMMENT

Audit Objective: To determine compliance with selected State agencies' contractual and reporting requirements for transportation-related funding.

Audit Conclusion: We determined that the selected State agencies complied with contractual and reporting requirements for transportation-related funding. Our audit report does not include any reportable conditions related to this audit objective.

TRANSPORTATION FUND CHARGES, COST ALLOCATION METHODOLOGIES, AND UNREIMBURSED COSTS

COMMENT

Audit Objective: To report charges to transportation funds, the cost allocation methodologies used in determining the level of funding, and unreimbursed costs.

Audit Conclusion: We reported the charges to transportation funds, the cost allocation methodologies used in determining the level of funding, and the unreimbursed costs in Exhibits 5 through 8. Our audit report does not include any reportable conditions related to this audit objective.

Summaries of Charges to Transportation Funds, Services Provided, and Cost Allocation Methodologies (Exhibits 5 through 8)

We compiled Exhibits 5 through 8 from information contained in the Michigan Administrative Information Network (MAIN), State agencies' records, and MDOT's records related to State agencies' use of transportation-related funding for the fiscal years ended September 30, 2011 and September 30, 2010:

- Summary of State Agencies' Use of Transportation-Related Funding - These exhibits summarize total transportation-related charges by State agency and by transportation fund (Exhibits 5 and 6).
- Summary of Unreimbursed Transportation-Related Costs by State Agency - This exhibit summarizes unreimbursed transportation-related costs (Exhibit 7).
- Summary of Types of Services Provided and Cost Allocation Methodologies - This exhibit describes the types of services provided by the State agencies and the cost allocation methodologies used by the State agencies to allocate transportation-related costs (Exhibit 8).

Summary of Agencies' Use of Transportation-Related Funding
Fiscal Year Ended September 30, 2011

Receiving Agency	Charges Paid by Fund				
	State Trunkline	Michigan Transportation	State Aeronautics	Comprehensive Transportation	Blue Water Bridge
Department of Technology, Management, and Budget (1)	\$ 40,812,002	\$	\$ 316,996	\$ 174,649	\$ 176,138
Department of State	108	20,000,000			
Michigan Department of State Police	8,639,682		124,930		
Department of Treasury	142,200	7,597,174	42,878	6,500	3,100
Michigan Economic Development Corporation (2)					
Civil Service Commission	4,287,777		94,587	137,932	25,392
Department of Attorney General	1,521,539		113,021	11,812	
Department of Environmental Quality (3)	132,754	1,132,600	12,912		
Office of the Auditor General	789,763	204,300	47,020	36,817	
Department of Natural Resources (3)	10,913				
Mackinac Island State Park Commission (4)	48,338		35,000		
Department of Corrections	450,646		4,400		
Department of Licensing and Regulatory Affairs (5)	773,451		308	23	
Department of Agriculture and Rural Development (6)	1,050				
Judiciary	875				
Total for Agencies	\$ 57,611,098	\$ 28,934,074	\$ 792,052	\$ 367,733	\$ 204,630

- (1) Effective March 21, 2010, the Department of Information Technology was combined with the Department of Management and Budget by Executive Order No. 2009-55, forming the Department of Technology, Management, and Budget.
- (2) Effective October 1, 2010, the Michigan Department of Transportation did not renew its annual memorandum of understanding with the Michigan Economic Development Corporation and assumed the responsibility for the authority and administration of Welcome Center operations.
- (3) Effective January 17, 2010, the Department of Natural Resources (DNR) was combined with the Department of Environmental Quality (DEQ) by Executive Order No. 2009-45, forming the Department of Natural Resources and Environment (DNRE). Effective March 13, 2011, Executive Order No. 2011-1 subsequently abolished DNRE and re-established DNR and DEQ. The departments are reported separately for the purposes of our report.
- (4) Effective October 1, 2009, the authority, powers, duties, functions, and responsibilities of the Mackinac Island State Park Commission were transferred from the Department of History, Arts and Libraries (HAL) to the Department of Natural Resources by Executive Order No. 2009-36. This executive order also abolished HAL. The Mackinac Island State Park Commission is presented in the *State of Michigan Comprehensive Annual Financial Report* separately as a component unit; therefore, the Commission is reported as a separate agency for the purposes of our report.
- (5) Effective April 24, 2011, the Department of Energy, Labor & Economic Growth was renamed the Department of Licensing and Regulatory Affairs by Executive Order No. 2011-04.
- (6) Effective March 13, 2011, the Department of Agriculture was renamed the Department of Agriculture and Rural Development by Executive Order No. 2011-02.

Exhibit 5

Combined Comprehensive Transportation Bond Proceeds	Combined State Trunkline Bond Proceeds	Economic Development	Transportation Related Trust	Agency Total
\$ 31,220	\$	\$ 9,925	\$	\$ 41,520,930
				20,000,108
				8,764,612
14,100	17,400			7,823,352
				0
				4,545,688
				1,646,372
				1,278,266
				1,077,900
			2,978,436	2,989,349
				83,338
				455,046
				773,782
				1,050
				875
<u>\$ 45,320</u>	<u>\$ 17,400</u>	<u>\$ 9,925</u>	<u>\$ 2,978,436</u>	<u>\$ 90,960,668</u>

Summary of Agencies' Use of Transportation-Related Funding
Fiscal Year Ended September 30, 2010

Receiving Agency	Charges Paid by Fund				
	State Trunkline	Michigan Transportation	State Aeronautics	Comprehensive Transportation	Blue Water Bridge
Department of Technology, Management, and Budget (1)	\$ 42,189,682	\$	\$ 231,345	\$ 262,178	\$ 110,607
Department of State	5,155	20,000,000			
Michigan Department of State Police	9,209,946		79,467		
Department of Treasury	179,292	7,340,031	45,324	4,100	3,100
Michigan Economic Development Corporation (2)	4,530,918				
Civil Service Commission	4,431,055		96,272	136,187	55,245
Department of Attorney General	1,806,697		114,043	85,059	
Department of Environmental Quality (3)	150,806	1,059,623	19,791		
Office of the Auditor General	474,600	40,369	14,872	25,200	
Department of Natural Resources (3)	24,470			1,291	
Mackinac Island State Park Commission (4)	80,318		35,000		
Department of Corrections	530,794		2,800	50	
Department of Licensing and Regulatory Affairs (5)	1,053,768		365	230	920
Department of Agriculture and Rural Development (6)	825				
Judiciary	1,825				
Total for Agencies	\$ 64,670,151	\$ 28,440,023	\$ 639,279	\$ 514,295	\$ 169,872

- (1) Effective March 21, 2010, the Department of Information Technology was combined with the Department of Management and Budget by Executive Order No. 2009-55, forming the Department of Technology, Management, and Budget.
- (2) Effective October 1, 2010, the Michigan Department of Transportation did not renew its annual memorandum of understanding with the Michigan Economic Development Corporation and assumed the responsibility for the authority and administration of Welcome Center operations.
- (3) Effective January 17, 2010, the Department of Natural Resources (DNR) was combined with the Department of Environmental Quality (DEQ) by Executive Order No. 2009-45, forming the Department of Natural Resources and Environment (DNRE). Effective March 13, 2011, Executive Order No. 2011-1 subsequently abolished DNRE and re-established DNR and DEQ. The departments are reported separately for the purposes of our report.
- (4) Effective October 1, 2009, the authority, powers, duties, functions, and responsibilities of the Mackinac Island State Park Commission were transferred from the Department of History, Arts and Libraries (HAL) to the Department of Natural Resources by Executive Order No. 2009-36. This executive order also abolished HAL. The Mackinac Island State Park Commission is presented in the *State of Michigan Comprehensive Annual Financial Report* separately as a component unit; therefore, the Commission is reported as a separate agency for the purposes of our report.
- (5) Effective April 24, 2011, the Department of Energy, Labor & Economic Growth was renamed the Department of Licensing and Regulatory Affairs by Executive Order No. 2011-04.
- (6) Effective March 13, 2011, the Department of Agriculture was renamed the Department of Agriculture and Rural Development by Executive Order No. 2011-02.

Exhibit 6

Combined Comprehensive Transportation Bond Proceeds	Combined State Trunkline Bond Proceeds	Economic Development	Transportation Related Trust	Agency Total
\$ 15,421	\$	\$ 15,606	\$	\$ 42,824,839
				20,005,155
				9,289,413
16,900	43,600			7,632,347
				4,530,918
				4,718,759
				2,005,799
				1,230,220
				555,041
			311,047	336,808
				115,318
				533,644
575				1,055,858
				825
				1,825
<u>\$ 32,896</u>	<u>\$ 43,600</u>	<u>\$ 15,606</u>	<u>\$ 311,047</u>	<u>\$ 94,836,769</u>

Summary of Unreimbursed Transportation-Related Costs by State Agency
Fiscal Years Ended September 30

<u>Receiving State Agency</u>	<u>2011</u>	<u>2010</u>
Department of Technology, Management, and Budget	\$ (2,703,056)	\$ (1,946,279)
Department of State	<u>(2,041,143)</u>	<u>(645,031)</u>
Total for State agencies	<u>\$ (4,744,199)</u>	<u>\$ (2,591,310)</u>

Summary of Types of Services Provided and Cost Allocation Methodologies
Fiscal Years Ended September 30, 2011 and September 30, 2010

Department of Technology, Management, and Budget (DTMB)

DTMB charged the Michigan Department of Transportation (MDOT) for costs associated with the delivery of information technology (IT) services, central support services, Michigan Administrative Information Network (MAIN) user charges, building occupancy services, and multiple services from internal service funds. The cost allocation methodologies used for each are described below.

DTMB provided various IT services. Center for Shared Solutions (leadership, technical expertise, and policy) costs are allocated based on actual payroll hours at a specified rate. Data center services (mainframe operations, centralized servers, data warehouses and exchange gateways, and disaster recovery) are allocated based on actual costs for specific functions or usage of service at a specified rate. Direct agency charges, such as IT equipment, software, and contractual services, are based on actual vendor invoice costs. DTMB 900 Fee costs (standards, policy development, and strategic planning) are based on 0.5% of prior year agency expenditures. Administrative services and contract management costs are based on 1.4% of prior year agency expenditures. Enterprise Security (computer security management) costs are based on actual payroll costs based on a time-and-effort reporting system and a share of managers' costs. Information Officer Services (maintaining the business relationships between DTMB and its agency customers) costs are actual payroll costs based on a time-and-effort reporting system. Michigan Business One Stop costs are a specified amount based on the volume of transactions including business licenses, permits, registrations, and filings where fees are associated with the filing activity. Michigan Public Safety Communications System (Statewide radio communication for public safety) costs are actual payroll costs based on a time-and-effort reporting system. Michigan.gov (Internet and infrastructure services) costs are allocated based on a weighted blend of content count and number of page views. Office Automation (support desktop computing environment and other equipment) costs for actual desktop equipment or wireless devices at a specified rate. Technical Services (servers and server support) costs are based on usage of service at a specified rate. Telecommunications (voice and data services) costs are based on usage of service at a specified rate.

Also, DTMB provided central support services and billed State agencies for MAIN user charges. Central support services included financial management, real estate, mail and delivery, purchasing, State employer services, and budgetary services. DTMB used the most recent Statewide Cost Allocation Plan (SWCAP) to allocate estimated costs for central support services and MAIN user charges to the transportation funds.

In addition, DTMB provided building occupancy services for all buildings occupied by MDOT personnel. Building occupancy costs are allocated through SWCAP based on estimated costs per square foot.

Further, DTMB provided services from internal service funds. Charges for these services are based on costs. These services included vehicle and travel services from the Motor Transport Fund; printing, reproduction, mailing, microfilm, distribution of surplus property, and materials management from the Office Services Revolving Fund; and centralized risk management functions from the Risk Management Fund.

DTMB also provided other services for which charges were based on actual expenditures, including project supervision, parking, and facility management.

Department of State

The Department of State charged transportation-related costs to the Michigan Transportation Fund (MTF) for administering and enforcing the collection of transportation taxes and fees identified in the Michigan Vehicle Code (Sections 257.801 - 257.810 of the *Michigan Compiled Laws*). The Department retains an independent consulting firm to conduct an annual cost allocation review to determine actual transportation-related costs from time-and-effort cost studies. The cost allocation review is an after-the-fact analysis used to support the costs charged to MTF and to establish future funding levels.

In addition, the Department charged fees for vehicle titles, notary applications, and transport permit fees.

Michigan Department of State Police (MSP)

MSP's Traffic Safety Division conducted safety inspections and enforcement activities for commercial vehicles. MSP used its Officer Daily Automated System to identify the percentage of Traffic Safety Division officers' time spent on safety inspections and enforcement activities. These percentages were applied to payroll and indirect costs to determine chargeable expenditures for time spent on safety inspections and enforcement activities for commercial vehicles. These expenditures were then allocated to the three allowable funding sources for these activities: transportation-related funding (through MSP's interdepartmental contract with MDOT), motor carrier fees, and a federal grant. MSP allocated costs for the traffic services as a percentage of staff funded by the State Trunkline Fund.

Also, MSP allocated personnel and operating costs for the Criminal Justice Information Center to three primary user departments, including MDOT, based on each department's usage of traffic accident records data and proportionally shared costs for administrative functions. MSP allocated DTMB direct agency charges in the same percentage as enforcement activities in the Traffic Safety Division.

In addition, MSP allocated the support services expenditures for telecommunication services using the DTMB rate for full-time equated positions.

Further, MSP charged for miscellaneous expenditures related to construction zone work patrols, training, aerial surveys, and aviation fuel and rental.

Department of Treasury

The Department of Treasury collected motor and aviation fuel taxes for the administration and enforcement of the Motor Fuel Tax Act for MTF and the State Aeronautics Fund. The Department allocated the administration and enforcement costs as a percentage of transportation-related tax revenue collections to total tax revenue collections applied to total costs for administration and enforcement activities for all taxes.

Also, the Department provided investment services. Investment services were allocated based on the transportation funds' investment balances and the investing activities.

In addition, the Department charged actual costs for IT services, which related to the motor fuel diesel simplification project.

Further, the Department charged costs for miscellaneous fees.

Michigan Economic Development Corporation

The Michigan Economic Development Corporation provided administration for the daily operations of the State welcome centers, including staffing; travel; vehicles, equipment, and supplies for facility and grounds operations; utilities; telecommunications; and contractual services, supplies, and materials for maintenance. The Michigan Economic Development Corporation's charges were based on actual costs for these services.

Civil Service Commission

The Civil Service Commission provided assistance and support for classified State employees. The Commission allocated these costs based on the constitutionally required minimum of 1% of the aggregate payroll of the preceding year associated with the transportation funds.

Also, the Commission charged expenditures for training and administrative costs for flexible spending accounts based on costs or established fees.

In addition, the Commission charged and was reimbursed for travel costs for staff attending the annual National Summer Transportation Institute Youth Program.

Department of Attorney General

The Department of Attorney General provided legal consultation, representation, and other services. The salaries, insurance, retirement costs, and computer support charges of the attorneys assigned to the Transportation Division were allocated to the transportation funds based on an annual time study of legal work performed.

Also, the Department of Attorney General charged and was reimbursed for travel costs for the Transportation Division attorneys.

Department of Natural Resources

The Department of Natural Resources was reimbursed for expenditures for trail construction costs, land sales and grants, easement considerations, and conference center rental based on costs or established fees.

Mackinac Island State Park Commission

The Mackinac Island State Park Commission was reimbursed for expenditures to manage various transportation projects, maintain Mackinac Island roads, and maintain the Mackinac Island airport.

Department of Environmental Quality

The Department of Environmental Quality was reimbursed for the cost of fees and for services related to providing, expediting, and coordinating environmental permits for construction, maintenance, or improvement of a public transportation facility or public airport. Salaries and fringe benefits for program staff were allocated based on a time-and-effort system for direct activities and a proportionate share for administrative activities. Travel, supplies, equipment, and training for program staff assigned to transportation projects were allocated based on actual costs. Overhead costs for district offices, civil service charges, terminal leave costs, and DTMB charges were allocated based on the proportion of program staff assigned to transportation projects.

Also, the Department of Environmental Quality provided various services to MDOT that were charged to transportation funds, including water and environmental testing, issuance of permits, rental fees, dues, and MDOT employee training. The charges for these services were based on costs or established fees.

Office of the Auditor General

The Office of the Auditor General conducted audits of transportation programs and funds. The Office of the Auditor General allocated charges based on a time-and-effort reporting system that identified the actual hours spent on transportation audits, adjusted for audit costs carried forward from the prior year.

Department of Corrections

The Department of Corrections was reimbursed for MDOT purchases from the Correctional Industries Revolving Fund based on costs or established fees.

Department of Licensing and Regulatory Affairs

The Department of Licensing and Regulatory Affairs was reimbursed for services provided to MDOT for permits, licenses, inspections, and plan reviews based on costs or established fees.

Michigan Department of Agriculture and Rural Development

The Michigan Department of Agriculture and Rural Development was reimbursed for expenditures for certifications based on established fees.

Judiciary

The Judiciary was reimbursed for expenditures for filing appeals to courts based on costs or established fees.

GLOSSARY

Glossary of Acronyms and Terms

DEQ	Department of Environmental Quality.
DNR	Department of Natural Resources.
DNRE	Department of Natural Resources and Environment.
DTMB	Department of Technology, Management, and Budget.
HAL	Department of History, Arts and Libraries.
IT	information technology.
MDOT	Michigan Department of Transportation.
Michigan Administrative Information Network (MAIN)	The State's automated administrative management system that supports accounting, purchasing, and other financial management activities.
MOU	memorandum of understanding.
MSP	Michigan Department of State Police.
MTF	Michigan Transportation Fund.
performance audit	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.

reportable condition

A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the audit objectives; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.

SAF

State Aeronautics Fund.

Statewide Cost
Allocation Plan
(SWCAP)

The official cost allocation methodology accepted by federal grantor agencies for the State's negotiated indirect cost rate.

TACF

Transportation Administration Collection Fund.

