

FINANCIAL RELATED AUDIT
OF THE
USE OF TRANSPORTATION-RELATED FUNDING

October 1, 1997 through September 30, 1998

EXECUTIVE DIGEST

USE OF TRANSPORTATION-RELATED FUNDING

INTRODUCTION

This report contains the results of our financial related* audit of the Use of Transportation-Related Funding for the period October 1, 1997 through September 30, 1998.

AUDIT PURPOSE

This financial related audit was conducted as part of the constitutional responsibility of the Office of the Auditor General (OAG). Financial related audits are conducted at various intervals to permit the Auditor General to express an opinion on the State's financial statements.

Also, this audit is mandated by Section 306, Act 117, P.A. 1997, which was approved on October 2, 1997. This section requires the Auditor General to conduct an audit of fiscal year 1997-98 charges to transportation funds by the Michigan Department of Transportation (MDOT) and the nine nontransportation agencies that received transportation funding.

BACKGROUND

MDOT appropriations acts require the nine nontransportation agencies that receive transportation-related funding for providing tax collection and other services for transportation funds to contract with MDOT. The contracts must include estimated costs to be recovered from transportation funds, a description of the

* See glossary at end of report for definition.

services financed by transportation funds, and cost allocation methods and rationale for the portion of costs allocated to transportation funds. These agencies are also required to annually report the amount of funding received, expended, and returned to the transportation funds.

The nine nontransportation agencies accounted for \$58,524,431 (3.2%) of the \$1,842,262,215 in total transportation-related funding expended during fiscal year 1997-98 (see the summary of grants, presented as supplemental information).

AUDIT OBJECTIVES
AND CONCLUSIONS

Audit Objective: To determine the adequacy of the cost allocation methodologies used to identify transportation-related costs and the appropriateness of charges to transportation funds.

Conclusion: Of the 10 agencies that received transportation-related funding, 8 agencies (the Departments of State, Management and Budget, Civil Service, Attorney General, Environmental Quality, and Natural Resources, MDOT, and the OAG) had complied with the appropriations acts by applying adequate cost allocation methodologies to identify transportation-related costs. However, our audit disclosed a reportable condition* involving the other 2 agencies (the Departments of Treasury and State Police), which had not followed appropriate cost allocation methodologies (Finding 1).

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

* See glossary at end of report for definition.

Conclusion: All the agencies had returned their unused transportation fund appropriations for fiscal year 1997-98 to the appropriate transportation fund.

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

Conclusion: All nine nontransportation agencies reviewed had executed the required contracts with MDOT for fiscal year 1997-98. However, our audit disclosed a reportable condition regarding appropriations acts' requirements (Finding 2).

AUDIT SCOPE

Our audit scope was to examine the financial and other records supporting transportation-related costs and charges to transportation funds for the period October 1, 1997 through September 30, 1998. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances, except that we were not independent in our audit of the OAG.

In connection with our audit, we prepared supplemental information about the agencies' use of transportation-related funding. Our audit was not directed toward expressing an opinion on the supplemental information and, accordingly, we express no opinion on it.

PRIOR AUDIT
FOLLOW-UP

The audited agencies complied with 1 of our 4 prior audit recommendations. We are repeating the other 3 recommendations in this report.

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The Honorable Harry Gast, Chairman
Senate Appropriations Committee
Michigan Senate
and
The Honorable Terry Geiger, Chairman
House Appropriations Committee
Michigan House of Representatives
State Capitol
Lansing, Michigan

Dear Senator Gast and Representative Geiger:

This is our special report on the financial related audit of the Use of Transportation-Related Funding by the Departments of State, State Police, Treasury, Management and Budget, Civil Service, Attorney General, Environmental Quality, Natural Resources, and Transportation and the Office of the Auditor General for the period October 1, 1997 through September 30, 1998, as required by Section 306, Act 117, P.A. 1997.

This report contains our executive digest; description of funding requirements; audit objectives, audit scope, and prior audit follow-up; comments, findings, and recommendations; detailed review comments relating to the various agencies and a summary of grants, presented as supplemental information; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective.

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

AUDITOR GENERAL

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Description of Funding Requirements

Michigan Department of Transportation (MDOT) appropriations acts require the nontransportation agencies that receive transportation-related funding for providing tax collection and other services for transportation funds 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 cost allocation methods and rationale for the portion of costs allocated to transportation funds. These agencies are also required to annually report the amount of funding received, expended, and returned to the transportation funds.

In fiscal year 1997-98, transportation-related funding was provided to nine nontransportation agencies (the Departments of State, State Police, Treasury, Management and Budget, Civil Service, Attorney General, Environmental Quality, and Natural Resources and the Office of the Auditor General). These nine agencies accounted for \$58,524,431 (3.2%) of the \$1,842,262,215 in total transportation-related funding expended during fiscal year 1997-98 (see the summary of grants, presented as supplemental information).

Audit Objectives, Audit Scope, and Prior Audit Follow-Up

Audit Objectives

Our financial related audit of the Use of Transportation-Related Funding had the following objectives:

1. To determine the adequacy of the cost allocation methodologies used to identify transportation-related costs and the appropriateness of charges to transportation funds.
2. To determine whether unused transportation fund appropriations were returned to the appropriate transportation fund.
3. To determine compliance with contractual and reporting requirements for transportation-related funding as prescribed by the appropriations acts.

Audit Scope

Our audit scope was to examine the financial and other records supporting transportation-related costs and charges to transportation funds for the period October 1, 1997 through September 30, 1998. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances, except that we were not independent in our audit of the Office of the Auditor General.

In connection with our audit, we prepared supplemental information about the agencies' use of transportation-related funding. Our audit was not directed toward expressing an opinion on the supplemental information and, accordingly, we express no opinion on it.

Prior Audit Follow-Up

The audited agencies complied with 1 of our 4 prior audit recommendations. We are repeating the other 3 recommendations in this report.

COMMENTS, FINDINGS, AND RECOMMENDATIONS

COST ALLOCATION METHODOLOGIES AND TRANSPORTATION FUND CHARGES

COMMENT

Audit Objective: To determine the adequacy of the cost allocation methodologies used to identify transportation-related costs and the appropriateness of charges to transportation funds.

Conclusion: Of the 10 agencies that received transportation-related funding, 8 agencies (the Departments of State, Management and Budget, Civil Service, Attorney General, Environmental Quality, Natural Resources, and Transportation and the Office of the Auditor General) had complied with the appropriations acts by applying adequate cost allocation methodologies to identify transportation-related costs. However, our audit disclosed a reportable condition involving the other 2 agencies (the Departments of Treasury and State Police), which had not followed appropriate cost allocation methodologies.

FINDING

1. Cost Allocation Methodologies

The Department of Management and Budget (DMB), in conjunction with the Michigan Department of Transportation (MDOT), had not established an effective process to ensure that the nontransportation agencies followed appropriate cost allocation methodologies. Also, DMB had not developed a process to settle overcharges and undercharges from prior fiscal years.

DMB is required by Section 18.1141 of the *Michigan Compiled Laws* to plan, prepare, and execute a comprehensive State budget pursuant to the State Constitution. DMB prepares the executive budget request, which is the basis for legislative appropriations. The executive budget request is based on information submitted by the departments.

Section 505, Act 117, P.A. 1997 (a section of the fiscal year 1997-98 appropriations act for MDOT), requires the use of a time-and-effort cost allocation methodology for the costs allocated to transportation funds.

We reviewed the adequacy of the cost allocation methodologies used and the appropriateness of charges to transportation funds for 10 agencies (see the detailed review comments by agency, presented as supplemental information). Our review noted that the Department of Treasury's contract with MDOT specified a cost allocation methodology based on time and effort spent on transportation-related activities. However, the Department of Treasury incorrectly used appropriation funding ratios to allocate costs. Our review also noted that the Michigan Department of State Police (MSP) made unsupported adjustments to charges from its Motor Carrier Division that resulted in an overallocation of charges to the transportation funds of \$217,642.

We identified the same situation for the Department of Treasury in our prior audit; however, DMB did not work with the Department of Treasury to change its methodology to a time-and-effort cost allocation.

We again noted that DMB had not developed a process to adjust departments' executive budget requests or supplemental appropriations to account for overallocations and underallocations. Overallocations or underallocations occur when agencies charge and collect transportation funds incorrectly because of errors in their allocation process or delays in obtaining accurate data.

RECOMMENDATIONS

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

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

UNUSED TRANSPORTATION FUND APPROPRIATIONS

COMMENT

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

Conclusion: All the agencies had returned their unused transportation fund appropriations for fiscal year 1997-98 to the appropriate transportation fund (for the amounts returned, see the detailed review comments by agency, presented as supplemental information).

We commend the agencies on their proper return of unused fiscal year 1997-98 transportation fund appropriations. We have no reportable conditions for this audit objective.

CONTRACTUAL AND REPORTING REQUIREMENTS

COMMENT

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

Conclusion: All nine nontransportation agencies reviewed had executed the required contracts with MDOT for fiscal year 1997-98. However, our audit disclosed a reportable condition regarding appropriations acts' requirements.

FINDING

2. Appropriations Acts' Requirements

Three of the agencies reviewed did not fully comply with the annual appropriations acts' requirements for transportation-related funding.

Contractual and reporting requirements for fiscal year 1997-98 funding were prescribed by Section 505, Act 117, P.A. 1997, and Section 502, Act 107, P.A. 1997. Our review to determine compliance with these requirements disclosed:

- a. The Department of Natural Resources (DNR) and the Department of Treasury did not submit their required annual reports to DMB and the Office of the Auditor General (OAG). Section 505, Act 117, P.A. 1997, required the nontransportation agencies to submit written reports annually (by April 1) that include the amount of funds contracted with MDOT and the amount of funds expended and returned to the transportation funds. The same situation regarding the lack of a DNR annual report was noted in our prior audit.
- b. MSP charged three departments for an equal third of the cost of maintaining the traffic accident records program. Section 502, Act 107, P.A. 1997, required MSP, in conjunction with MDOT, the Department of State, and DMB, to determine the cost of maintaining the traffic accident records program based on each departments' respective use. MSP may have overcharged or undercharged MDOT for the cost of maintaining the traffic accident records program. The amount is indeterminable because of a lack of cost data available from MSP.

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

RECOMMENDATIONS

WE AGAIN RECOMMEND THAT DNR SUBMIT ITS ANNUAL REPORT TO DMB AND THE OAG AS REQUIRED BY THE APPROPRIATIONS ACTS.

We also recommend that the Department of Treasury submit its annual report to DMB and the OAG as required by the appropriations acts.

We further recommend that MSP determine the cost of maintaining the traffic accident records program based on respective use as required by the appropriations acts.

SUPPLEMENTAL INFORMATION

DEPARTMENT OF STATE

The disposition of the Department of State's transportation-related funding for fiscal year 1997-98 was as follows:

Fund	Appropriated Charges	Allocated Charges	Returned Appropriations	Overallocated (Underallocated) Charges
Michigan Transportation	\$ 44,361,700	\$36,023,711	\$ 8,337,989	\$ (47,385,336)

The Department of State's expenditure ratios per appropriation unit were as follows:

Appropriation Unit	Allocated Charges	Percentage of Unit's Expenditures
Executive Direction	\$ 341,137	15.15%
Department Services	9,756,133	25.26%
Regulatory Services	1,674,496	27.01%
Customer Delivery Services	21,728,928	26.13%
Department Policy and Planning	421,640	8.84%
Departmentwide	2,101,377	24.66%
Total	<u>\$36,023,711</u>	

Cost Allocation Methodology and Transportation Fund Charges

The Department of State's fiscal year 1997-98 charges of \$36,023,711 against the Michigan Transportation Fund were based on the Fund's share of funding (funding ratio) of the appropriation units. The Departments of State, Management and Budget, and Transportation (MDOT) jointly contracted with an outside firm to determine the appropriateness of funding provided by the Michigan Transportation Fund for fiscal year 1995-96. The firm also conducted a time-and-effort cost study for fiscal year 1997-98 and determined that the Department of State should have charged the Michigan Transportation Fund \$83,409,047. Consequently, there was an underallocation of allocated charges of \$47,385,336. We reviewed the contracted firm's supporting documentation and concluded that the documentation supports the firm's position.

The Department of State's contract with MDOT indicated that funds would be used to finance the collection of transportation taxes, fees, and other transportation-related services. The contract also required the Department to provide MDOT with a cost allocation plan and rationale for the portion of costs allocated to transportation funds. The charges were consistent with the amounts appropriated. The Department collected approximately \$720,034,234 of revenue credited to the Fund in fiscal year 1997-98.

Unused Transportation Fund Appropriations

The Department of State returned the entire \$8,337,989 of unused Michigan Transportation Fund appropriations for fiscal year 1997-98.

Disposition of Prior Year's Overallocation or Underallocation

The fiscal year 1996-97 underallocation of \$4,535,812 was not obtained from MDOT. Also, the Department of State did not adjust future requests for transportation-related funding to offset the differences between the charges and actual costs.

MICHIGAN DEPARTMENT OF STATE POLICE

The disposition of the Michigan Department of State Police's (MSP's) transportation-related funding for fiscal year 1997-98 was as follows:

Fund	Appropriated Charges	Allocated Charges	Returned Appropriations	Overallocated (Underallocated) Charges
Michigan Transportation	\$ 594,000	\$ 494,138	\$ 99,862	\$
State Trunkline	5,635,500	5,231,092	404,408	217,642
Total	<u>\$6,229,500</u>	<u>\$5,725,230</u>	<u>\$ 504,270</u>	<u>\$ 217,642</u>

MSP's expenditure ratios per appropriation unit were as follows:

Appropriation Unit	Allocated Charges	Percentage of Unit's Expenditures
Highway Safety Planning	\$ 494,138	3.19%
Motor Carrier Division	4,943,990	42.39%
Criminal Justice Data Center	287,102	2.30%
Total	<u>\$5,725,230</u>	

Cost Allocation Methodology and Transportation Fund Charges

MSP's contract with the Michigan Department of Transportation (MDOT) provided that the Michigan Transportation Fund would fund the State match of the Federal Highway Safety Grant. The MSP Office of Highway Safety Planning spent \$494,138 of the Fund's appropriations.

The MSP Motor Carrier Division's charge of \$4,943,990 against the State Trunkline Fund was based upon the total level of funding provided by the Motor Carrier Enforcement line items, which provided funding for enforcement and program administration. The Motor Carrier Division enforces not only State Trunkline Fund related regulations but also other motor carrier regulations financed with motor carrier fees. The Motor Carrier Division has a proper cost allocation methodology in place.

However, MSP did not have adequate support for fiscal year-end adjustments made (see Finding 1). This resulted in an overallocation of charges to the transportation funds of \$217,642.

The MSP Criminal Justice Data Center spent \$287,102 of State Trunkline Fund appropriations for fiscal year 1997-98. The Center provides software, mainframe processing, data keying equipment, and related services of maintaining staff for this funding as well as support of other programs. MSP shared costs with two other State departments that receive and use data produced by the Center. Section 502, Act 107, P.A. 1997, requires MSP, in conjunction with MDOT and the Departments of State and Management and Budget, to determine the cost of maintaining the traffic accident records program based on each department's respective use. However, MSP did not make this determination and instead used its original shared cost system. The use of the shared cost system may have resulted in an undetermined amount of overallocation or underallocation of MDOT funds (see Finding 2). The Criminal Justice Data Center returned unused funds of \$5,798. Overall, the Motor Carrier Division and the Criminal Justice Data Center returned \$404,408 to the State Trunkline Fund.

Unused Transportation Fund Appropriations

MSP returned the entire \$504,270 of unused transportation fund appropriations for fiscal year 1997-98.

Disposition of Prior Year's Overallocation or Underallocation

MSP did not have an overallocation or an underallocation of charges for fiscal year 1996-97.

DEPARTMENT OF TREASURY

The disposition of the Department of Treasury's transportation-related funding for fiscal year 1997-98 was as follows:

Fund	Appropriated Charges	Allocated Charges	Returned Appropriations	Overallocated (Underallocated) Charges
Comprehensive Transportation	\$ 7,500	\$ 7,500		
Michigan Transportation	6,707,600	6,439,702	\$ 267,898	\$ 714,264
State Aeronautics	58,000	54,716	3,284	8,755
State Trunkline	18,800	18,800		
Total	<u>\$6,791,900</u>	<u>\$6,520,718</u>	<u>\$ 271,182</u>	<u>\$ 723,019</u>

The Department of Treasury's expenditure ratios per appropriation unit were as follows:

Appropriation Unit	Allocated Charges	Percentage of Unit's Expenditures
Executive Direction	\$ 57,749	5.97%
Departmentwide	237,137	5.32%
Management Programs	1,563,972	6.95%
Tax Programs	4,609,361	7.44%
Investments	52,500	0.22%
Total	<u>\$6,520,718</u>	

Cost Allocation Methodology and Transportation Fund Charges

The Department of Treasury charged the transportation funds \$6,468,218 for collecting revenues credited to the transportation funds and \$52,500 for investment services conducted on behalf of the transportation funds.

The Department of Treasury's charge of \$6,468,218 was for collecting \$1,028,851,000 of revenues credited to the transportation funds for fiscal year 1997-98. The Department charged a proportional share of collection costs based on the ratio of appropriated transportation funding to total department appropriations (appropriation

funding ratio). Because it lacked the cost allocation procedures required by appropriations acts and the contract, the Department could not adequately support its charges against the transportation funds (see Finding 1). The charges were consistent with the amounts appropriated; however, the Department did not have specific support or adequate documentation for its charges allocated to the transportation funds.

The Department of Treasury's contract with the Michigan Department of Transportation states that the Department of Treasury shall base its charges on the proportionate share of collection costs based on the ratio of transportation fund revenue to total tax revenue. The transportation funds' proportionate share of the Department of Treasury's collection costs of \$106,893,719 was \$5,745,200 (\$723,019 less than the actual allocation). As a result, the Department overallocated charges to the transportation funds by \$723,019 in fiscal year 1997-98.

The Department of Treasury's charge of \$52,500 for investment services was based on the transportation funds' proportionate share of investing activities' costs. The Department conducts similar services for other State special revenue funds and the charge method used for the transportation funds was consistent with the method used for State special revenue funds.

Unused Transportation Fund Appropriations

The Department of Treasury returned the entire \$271,182 of unused transportation fund appropriations for fiscal year 1997-98. However, based on the overallocated charges noted in our audit, the Department should have returned an additional \$723,019.

Disposition of Prior Year's Overallocation or Underallocation

The Department of Treasury did not return the overallocated charges of \$1,509,372 for fiscal year 1996-97.

DEPARTMENT OF MANAGEMENT AND BUDGET

The disposition of the Department of Management and Budget's (DMB's) transportation-related funding for fiscal year 1997-98 was as follows:

Fund	Appropriated Charges	Allocated Charges	Returned Appropriations	Overallocated (Underallocated) Charges
Comprehensive Transportation	\$ 39,000	\$ 31,600	\$ 7,400	\$ (14,306)
Michigan Transportation	336,800	315,200	21,600	131,822
State Aeronautics	28,900	24,800	4,100	627
State Trunkline	5,013,300	4,844,319	168,981	(291,216)
Total	<u>\$5,418,000</u>	<u>\$5,215,919</u>	<u>\$202,081</u>	<u>\$(173,073)</u>

DMB's expenditure ratios per appropriation unit were as follows:

Appropriation Unit	Allocated Charges	Percentage of Unit's Expenditures
Statewide Administrative Services	\$ 650,700	3.14%
Statewide Support Services	4,565,219	10.08%
Total	<u>\$ 5,215,919</u>	

Cost Allocation Methodology and Transportation Fund Charges

DMB charged the transportation funds for central services, such as payroll, central audit, fixed assets accounting, space leasing services, mail and freight, purchasing, employer services, budgeting, contract management, and operating costs of buildings used by transportation programs.

DMB adjusts the subsequent year allocated charges for the prior year's increases and decreases as identified by the Statewide Cost Allocation Plan* . This method allocates costs based on estimated expenditures and adjusts future allocations for differences between estimates and actual expenditures.

* See glossary at end of report for definition.

DMB's total actual costs for services provided to transportation funds for fiscal year 1997-98 were \$173,073 more than the \$5,215,919 charged to transportation funds.

Unused Transportation Fund Appropriations

DMB returned the entire \$202,081 of unused transportation fund appropriations for fiscal year 1997-98.

Disposition of Prior Year's Overallocation or Underallocation

The fiscal year 1996-97 underallocation of \$92,154 will be used to adjust the fiscal year 1999-2000 executive budget request for transportation-related funding.

DEPARTMENT OF CIVIL SERVICE

The disposition of the Department of Civil Service's (DCS's) transportation-related funding for fiscal year 1997-98 was as follows:

Fund	Appropriated Charges	Allocated Charges	Returned Appropriations	Overallocated (Underallocated) Charges
Comprehensive Transportation	\$ 106,212	\$ 97,982	\$ 8,230	\$
Michigan Transportation	703,386		703,386	
State Aeronautics	53,106	48,113	4,993	
State Trunkline	3,561,396	1,911,127	1,650,269	
Total	<u>\$4,424,100</u>	<u>\$2,057,222</u>	<u>\$2,366,878</u>	<u>\$ 0</u>

DCS's expenditure ratio per appropriation unit was as follows:

Appropriation Unit	Allocated Charges	Percentage of Unit's Expenditures
Operations	<u>\$2,057,222</u>	7.57%

Cost Allocation Methodology and Transportation Fund Charges

Article 11, Section 5 of the State Constitution states: ". . . the legislature shall appropriate to the [civil service] commission for the ensuing fiscal year a sum not less than one percent of the aggregate payroll of the classified service for the preceding fiscal year"

Transportation funds are appropriated to DCS based on the executive budget request prepared by the Department of Management and Budget (DMB). DMB personnel informed us that DCS's fiscal year 1997-98 budget was based on the ratio of the actual fiscal year 1990-91 salary and fringe benefit expenditures of transportation funds compared to the Statewide aggregate payroll. The transportation funds' share of the 1% aggregate classified payroll was adjusted each fiscal year using this base year calculation.

Fiscal year 1997-98 DCS charges to transportation funds were based on actual fiscal year 1996-97 salary and fringe benefit expenditures charged to the transportation funds. Our review disclosed that transportation funds accounted for 7.57% of the total amount expended for DCS operations for fiscal year 1997-98.

Unused Transportation Fund Appropriations

DCS returned the entire \$2,366,878 of unused transportation fund appropriations for fiscal year 1997-98.

Disposition of Prior Year's Overallocation and Underallocation

DCS did not have an overallocation or an underallocation of charges for fiscal year 1996-97.

DEPARTMENT OF ATTORNEY GENERAL

The disposition of the Department of Attorney General's transportation-related funding for fiscal year 1997-98 was as follows:

Fund	Appropriated Charges	Allocated Charges	Returned Appropriations	Overallocated (Underallocated) Charges
Comprehensive Transportation	\$ 116,100	\$ 80,747	\$ 35,353	\$
State Aeronautics	112,300	60,695	51,605	
State Trunkline	2,193,200	1,570,210	622,990	
Total	<u>\$2,421,600</u>	<u>\$1,711,652</u>	<u>\$ 709,948</u>	<u>\$ 0</u>

The Department of Attorney General's expenditure ratio per appropriation unit was as follows:

Appropriation Unit	Allocated Charges	Percentage of Unit's Expenditures
Operations	<u>\$1,711,652</u>	4.12%

Cost Allocation Methodology and Transportation Fund Charges

The Department of Attorney General's charges of \$1,711,652 to the transportation funds consisted of salaries, insurance, and retirement costs of 21 attorney positions and 0.8 clerical position. These positions provided legal services exclusively to transportation programs, and costs were identified and accumulated in Department records.

The Department of Attorney General also bills the appropriate transportation fund for other expenditures, such as travel, services, and supplies, incurred on behalf of transportation programs. In fiscal year 1997-98, the Michigan Department of Transportation (MDOT) reimbursed the Department of Attorney General \$38,738 for billed costs from its transportation fund appropriations.

In addition, MDOT provides the Department of Attorney General with support staff and funding for special assistant attorneys general at the MDOT offices. The cost of the support staff and special assistant attorneys general, which is funded by the State Trunkline Fund, was \$2,008,523 in fiscal year 1997-98.

Unused Transportation Fund Appropriations

The Department of Attorney General returned the entire \$709,948 of unused transportation fund appropriations for fiscal year 1997-98.

Disposition of Prior Year's Overallocation or Underallocation

The Department of Attorney General did not have an overallocation or an underallocation of charges for fiscal year 1996-97.

DEPARTMENT OF ENVIRONMENTAL QUALITY

The disposition of the Department of Environmental Quality's (DEQ's) transportation-related funding for fiscal year 1997-98 was as follows:

Fund	Appropriated Charges	Allocated Charges	Returned Appropriations	Overallocated (Underallocated) Charges
Michigan Transportation	\$756,600	\$692,066	\$64,534	\$ 0

DEQ's expenditure ratios per appropriation unit were as follows:

Appropriation Unit	Allocated Charges	Percentage of Unit's Expenditures
Land and Water Protection	\$475,786	26.30%
Field Project Assistance and Permitting	116,015	2.88%
Dam Safety, Erosion Control, and Clean Lakes	100,265	7.17%
Total	\$692,066	

Cost Allocation Methodology and Transportation Fund Charges

DEQ's Land and Water Management Division received \$692,066 from the Michigan Department of Transportation to pay for the salaries, wages, and fringe benefits of 11 employees who work exclusively on acquiring permits for transportation projects. DEQ used a time-and-effort system for allocating overall costs to the Michigan Transportation Fund and identified individuals and projects charged. DEQ had total transportation-related expenditures of \$692,066.

Unused Transportation Fund Appropriations

DEQ returned the entire \$64,534 of unused transportation fund appropriations for fiscal year 1997-98.

Disposition of Prior Year's Overallocation or Underallocation

DEQ did not have an overallocation or an underallocation of charges for fiscal year 1996-97.

OFFICE OF THE AUDITOR GENERAL

The disposition of the Office of the Auditor General's (OAG's) transportation-related funding for fiscal year 1997-98 was as follows:

Fund	Appropriated Charges	Allocated Charges	Returned Appropriations	Overallocated (Underallocated) Charges
Comprehensive Transportation	\$ 36,100	\$ 36,000	\$ 100	\$
Michigan Transportation	162,500	157,600	4,900	
State Aeronautics	15,700	15,600	100	
State Trunkline	341,000	339,500	1,500	
Total	<u>\$555,300</u>	<u>\$548,700</u>	<u>\$ 6,600</u>	<u>\$ 0</u>

The OAG's expenditure ratio per appropriation unit was as follows:

Appropriation Unit	Allocated Charges	Percentage of Unit's Expenditures
Field Operations	<u>\$548,700</u>	4.37%

Cost Allocation Methodology and Transportation Fund Charges

The OAG's charges to the transportation funds consisted of salaries, fringe benefits, supplies, materials, and travel costs for conducting audits of transportation programs and funds.

The OAG maintains a time-and-effort reporting system to account for audits conducted. The time-and-effort reporting system is the basis for allocating costs by audit, program, and fund. Most audit charges are based on average actual audit hours and hourly audit costs. Programs and funds audited annually are charged by the average audit hours; programs and funds not audited annually are charged proportionally. Changes in the average actual hours and the hourly audit costs are used to adjust future requests for transportation-related funding.

Unused Transportation Fund Appropriations

The OAG returned the entire \$6,600 of unused transportation fund appropriations for fiscal year 1997-98.

Disposition of Prior Year's Overallocation or Underallocation

The OAG did not have an overallocation or an underallocation of charges in fiscal year 1996-97.

DEPARTMENT OF NATURAL RESOURCES

The disposition of the Department of Natural Resources' (DNR's) transportation-related funding for fiscal year 1997-98 was as follows:

Fund	Appropriated Charges	Allocated Charges	Returned Appropriations	Overallocated (Underallocated) Charges
State Trunkline	\$ 35,500	\$ 29,213	\$ 6,287	\$ 0

DNR's expenditure ratio per appropriation unit was as follows:

Appropriation Unit	Allocated Charges	Percentage of Unit's Expenditures
Mackinac Island State Park Commission	\$ 29,213	1.11%

Cost Allocation Methodology and Transportation Fund Charges

DNR used a time-and-effort system for allocating overall costs to the State Trunkline Fund and identified individuals and projects charged. In addition, DNR allocated charges for equipment rentals.

The Mackinac Island State Park Commission was appropriated \$35,500 from the State Trunkline Fund. The Commission received \$29,213 from the trunkline appropriation.

DNR's Mackinac Island State Park Commission charged the State Trunkline Fund for maintaining highway M-185 at Mackinac Island. DNR's charges against the State Trunkline Fund were supported by payroll records and equipment rental charges used to identify and account for highway M-185 maintenance costs during fiscal year 1997-98.

Unused Transportation Fund Appropriations

DNR returned the entire \$6,287 of unused transportation fund appropriations for fiscal year 1997-98.

Disposition of Prior Year's Overallocation or Underallocation

DNR did not have an overallocation or an underallocation of charges for fiscal year 1996-97.

MICHIGAN DEPARTMENT OF TRANSPORTATION

EXPENDITURES FROM THE MICHIGAN TRANSPORTATION FUND

Michigan Department of Transportation (MDOT) expenditures and operating transfers to other transportation funds from the Michigan Transportation Fund for fiscal year 1997-98 were:

Receiving Agency	Appropriations and Authorizations	Expenditures and Operating Transfers Out	Lapsed
Payments to County Road Commissions	\$ 564,825,763	\$ 564,825,763	
Payments to Cities and Villages	319,718,743	319,718,743	
Recreation Improvement Fund	17,885,700	17,885,625	\$ 75
Comprehensive Transportation Fund:			
10% Comprehensive Transportation Purposes	148,966,818	148,966,818	
Railroad Safety and Tariffs	1,153,100	1,153,100	
State Trunkline Fund:			
39.1% State Trunkline Purposes	595,013,957	595,013,957	
Critical Bridge Program	8,000,000	6,570,205	1,429,795
Economic Development Fund	36,775,000	36,775,000	
Targeted Industries	3,500,000	3,500,000	
Debt Service	43,000,000	43,000,000	
Local Road Program	33,000,000	33,000,000	
Counties and Incorporated Cities and Villages:			
Rail Grade Crossing	3,000,000	3,000,000	
Executive Direction	33,200	33,200	
Bureau of Transportation Planning	4,224,100	4,224,100	
Highways for Engineering	1,926,200	1,926,200	
Finance and Administration	446,900	446,900	
Total	<u>\$ 1,781,469,481</u>	<u>\$1,780,039,611</u>	<u>\$ 1,429,870</u>

Cost Allocation Methodology and Transportation Fund Charges

State Trunkline Purposes, County Road Commissions, and Cities and Villages

Section 247.660 of the *Michigan Compiled Laws* (Act 51, P.A. 1951, as amended) requires that, after up to 10% of Michigan Transportation Fund revenues have been credited to the Comprehensive Transportation Fund and after additional distribution listed below, the remaining funds must be distributed as follows: 39.1% for State trunkline purposes, 39.1% for county road commissions, and 21.8% for cities and

villages. The distributions for county road commissions and cities and villages are paid directly from the Michigan Transportation Fund. In fiscal year 1997-98, the amounts paid were in accordance with the statute.

Recreation Improvement Fund

Section 324.71106 of the *Michigan Compiled Laws* (Act 58, P.A. 1995) requires the Department of Treasury to transfer to the Recreation Improvement Fund 2% of the gasoline taxes collected less a deduction for collection costs and refunds. The Recreation Improvement Fund is administered by the Department of Natural Resources. In fiscal year 1997-98, \$17,885,625 was paid to the Recreation Improvement Fund consistent with the statute.

Comprehensive Transportation Fund:

10% Comprehensive Transportation Purposes

Section 247.660 of the *Michigan Compiled Laws* (Act 51, P.A. 1951, as amended) requires that up to 10% of the revenues deposited in the State Treasury to the credit of the Michigan Transportation Fund be transferred to the Comprehensive Transportation Fund. The use of the funds is prioritized by statute. In fiscal year 1997-98, \$148,966,818 was paid to the Comprehensive Transportation Fund consistent with the statute.

Railroad Safety and Tariffs

To reimburse the Comprehensive Transportation Fund for the Michigan Transportation Fund's share in the costs of the administration of Transportation Safety and Tariffs, Bureau of Urban and Public Transportation, \$1,153,100 was appropriated and paid.

State Trunkline Fund:

Critical Bridge Program

Section 247.661b of the *Michigan Compiled Laws* (Act 51, P.A. 1951, as amended) requires the annual transfer of \$5,000,000 to the Critical Bridge Program from the Michigan Transportation Fund. The money appropriated and interest accruing to the Fund is administered by MDOT according to promulgated rules. The Program provides financial assistance to local and county road commissions for the improvement or reconstruction of existing bridges or for the construction of replacement bridges. In addition, Section 247.660(1)(b) provides

that \$3,000,000 be appropriated to the Critical Bridge Program for the purpose of payment of the principal, interest, and redemption premium on any notes or bonds issued. In fiscal year 1997-98, of the \$8,000,000 appropriated, \$6,570,205 was paid to the Critical Bridge Program.

Economic Development Fund and Targeted Industries

Section 247.660 of the *Michigan Compiled Laws* (Act 51, P.A. 1951, as amended) requires the payment of \$36,775,000 to the State Trunkline Fund for subsequent deposit in MDOT's Economic Development Fund. In fiscal year 1997-98, the full amount was paid consistent with the statute.

In addition, this section requires that, beginning October 1, 1997, \$3,500,000 be appropriated from the Michigan Transportation Fund to the State Trunkline Fund for subsequent deposit in MDOT's Economic Development Fund to be used for economic development road projects in any of the following targeted industries: agriculture or food processing, tourism, forestry, high technology research, manufacturing, mining, and office centers of not less than 50,000 square feet. In fiscal year 1997-98, the full amount was paid consistent with the statute.

Debt Service

Section 247.660 of the *Michigan Compiled Laws* (Act 51, P.A. 1951, as amended) requires the payment of \$43,000,000 to the State Trunkline Fund for debt service costs on State of Michigan projects. In fiscal year 1997-98, the full amount was paid consistent with the statute.

Local Road Program

Section 247.660 of the *Michigan Compiled Laws* (Act 51, P.A. 1951, as amended) requires that, beginning October 1, 1995, a grant of not less than \$33,000,000 be made to the State Trunkline Fund, which shall then be made to the Local Road Program. These funds received shall then be distributed 64.2% to county road commissions and 35.8% to cities and villages. In fiscal year 1997-98, the full amount was paid consistent with the statute.

Operations Related to Counties and Incorporated Cities and Villages

The following Michigan Transportation Fund appropriations for fiscal year 1997-98 were to reimburse the State Trunkline Fund to cover the costs of MDOT operations

directly related to counties and incorporated cities and villages. MDOT receives State Trunkline Fund appropriations to fund services provided through the Executive Program, the Metro-Regional Planning Programs, the Local Government Program, and cost-shared federal highway traffic safety projects in the Traffic and Safety Program:

Rail Grade Crossing - Section 247.660 of the *Michigan Compiled Laws* (Act 51, P.A. 1951, as amended) provides that not more than \$3,000,000 shall be appropriated for improvements in rail grade crossings. Accordingly, \$3,000,000 was appropriated from the Michigan Transportation Fund and paid to the State Trunkline Fund.

Executive Direction - To cover the Michigan Transportation Fund's share of workers' compensation costs, \$33,200 was appropriated and paid to the State Trunkline Fund.

Bureau of Transportation Planning - To reimburse the State Trunkline Fund for the Michigan Transportation Fund's share in the costs of the Bureau of Transportation Planning, \$4,224,100 was appropriated and paid.

Highways for Engineering - To reimburse the State Trunkline Fund for the full costs of local contracts and project management of the Engineering Services Division, Bureau of Highways, \$1,926,200 was appropriated and paid.

Finance and Administration - To reimburse the State Trunkline Fund for the Michigan Transportation Fund's share in the costs of the Bureau of Finance and Administration, \$446,900 was appropriated and paid.

CHARGES TO THE COMPREHENSIVE TRANSPORTATION AND STATE AERONAUTICS FUNDS

MDOT charges to the Comprehensive Transportation and State Aeronautics Funds for the State Trunkline Fund for fiscal year 1997-98 were:

Fund/Purpose	Appropriated Charges	Allocated Charges	Returned Appropriations	Overallocated (Underallocated) Charges
Comprehensive Transportation:				
Administrative and Data Center	\$1,388,400	\$1,388,400	\$	\$
Planning	1,618,500	1,390,155	228,345	
State Aeronautics:				
Administrative and Data Center	722,700	722,700		
Planning	226,700	196,918	29,782	
Total	\$3,956,300	\$3,698,173	\$258,127	\$ 0

Cost Allocation Methodology and Transportation Fund Charges

The administrative and data center charges and the planning charges consisted of the Comprehensive Transportation and State Aeronautics Funds' allocated portion of these costs to the State Trunkline Fund. If these amounts are not representative of the actual costs, budget requests submitted in subsequent years are modified to reflect the differences.

TRANSPORTATION RELATED SPECIAL REVENUE FUNDS
 Summary of Grants
 Fiscal Year Ended September 30, 1998

Receiving Agency	Grants Made From				Agency Total
	Comprehensive Transportation Fund	Michigan Transportation Fund	State Aeronautics Fund	State Trunkline Fund	
Department of State	\$	\$ 36,023,711	\$	\$	\$ 36,023,711
Michigan Department of State Police		494,138		5,231,092	5,725,230
Department of Treasury	7,500	6,439,702	54,716	18,800	6,520,718
Department of Management and Budget	31,600	315,200	24,800	4,844,319	5,215,919
Department of Civil Service	97,982		48,113	1,911,127	2,057,222
Department of Attorney General	80,747		60,695	1,570,210	1,711,652
Department of Environmental Quality		692,066			692,066
Office of the Auditor General	36,000	157,600	15,600	339,500	548,700
Department of Natural Resources				29,213	29,213
Total for Nontransportation Agencies	<u>\$ 253,829</u>	<u>\$ 44,122,417</u>	<u>\$ 203,924</u>	<u>\$ 13,944,261</u>	<u>\$ 58,524,431</u>
Michigan Department of Transportation:					
Payments to County Road Commissions	\$	\$ 564,825,763	\$	\$	\$ 564,825,763
Payments to Cities and Villages		319,718,743			319,718,743
Recreation Improvement Fund		17,885,625			17,885,625
Comprehensive Transportation Fund:					
10% Comprehensive Transportation Purposes		148,966,818			148,966,818
Railroad Safety and Tariffs		1,153,100			1,153,100
State Trunkline Fund:					
39.1% State Trunkline Purposes		595,013,957			595,013,957
Critical Bridge Program		6,570,205			6,570,205
Economic Development Fund		36,775,000			36,775,000
Targeted Industries		3,500,000			3,500,000
Debt Service		43,000,000			43,000,000
Local Road Program		33,000,000			33,000,000
Rail Grade Crossing		3,000,000			3,000,000
Executive Direction		33,200			33,200
Bureau of Transportation Planning		4,224,100			4,224,100
Highways for Engineering		1,926,200			1,926,200
Finance and Administration		446,900			446,900
Administrative and Data Center	1,388,400		722,700		2,111,100
Planning	1,390,155		196,918		1,587,073
Total for Michigan Department of Transportation	<u>\$ 2,778,555</u>	<u>\$ 1,780,039,611</u>	<u>\$ 919,618</u>	<u>\$ 0</u>	<u>\$ 1,783,737,784</u>
Grand Total	<u>\$ 3,032,384</u>	<u>\$ 1,824,162,028</u>	<u>\$ 1,123,542</u>	<u>\$ 13,944,261</u>	<u>\$ 1,842,262,215</u>

Glossary of Acronyms and Terms

DCS	Department of Civil Service.
DEQ	Department of Environmental Quality.
DMB	Department of Management and Budget.
DNR	Department of Natural Resources.
financial related audit	An audit that includes determining whether (1) financial information is presented in accordance with established or stated criteria, (2) the entity has adhered to specific financial compliance requirements, or (3) the entity's internal control over financial reporting and/or safeguarding assets is suitably designed and implemented to achieve the control objectives.
MDOT	Michigan Department of Transportation.
MSP	Michigan Department of State Police.
OAG	Office of the Auditor General.
reportable condition	A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the departments' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements/schedules.
Statewide Cost Allocation Plan	The official cost allocation methodology accepted by federal grantor agencies for the State's negotiated indirect cost rate.