



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TRANSPORTATION
LANSING

KIRK T. STEUDLE
DIRECTOR

November 12, 2009

Mr. Robert Emerson
State Budget Director
Department of Management and Budget
111 South Capitol, 6th Floor
Lansing, Michigan 48909

Dear Mr. Emerson:

In accordance with the State of Michigan, Financial Management Guide, Part VII, enclosed is a summary table identifying the Michigan Department of Transportation's responses and final corrective action plans to address the recommendations of the Office of the Auditor General's Financial Audit including the Provisions of the Single Audit Act of the Michigan Department of Transportation, covering the period of October 1, 2006 through September 30, 2008. The Office of Financial Management approved distribution of the plan.

Questions regarding the summary table or corrective action plan should be directed to Edward A. Timpf, Administrator, Financial Operations Division, at 517-373-1527, or Jerry J. Jones, Commission Auditor, at 517-373-2384.

Sincerely,

Signature Redacted

Kirk T. Steudle
Director

Enclosure

**Financial Audit Including the Provisions of the Single Audit Act
Michigan Department of Transportation (MDOT)
Summary of Agency Responses to the Recommendations
Audit Period: October 1, 2006 to September 30, 2008**

SUMMARY TABLE

1. **Audit Recommendations the agency complied with:**

FINDING #5910901

1. Control Over Cash Receipts

RECOMMENDATION

We recommend that MDOT improve its internal control over cash receipts received through the mail and by its central cashier.

AGENCY RESPONSE

MDOT generally concurs. MDOT will ensure that both mail openers initial the cash receipts log. The mailroom staff will record the amount received by type of cash item. The cashier will initial the cash receipts log acknowledging receipt of the money from the mail openers. The cashier will prepare and issue receipts for all individuals making a deposit at the cashier's office. When making a deposit, the cashier will also deposit all types of cash items as required by the Financial Management Guide. These improvements were implemented August 31, 2009.

MDOT will compare the cashier's batch documents with the cash receipts log to verify that all receipts were deposited or otherwise accounted for by having an independent review of the information. This procedure will be performed once a week initially, and adjusted if determined a different time frame is needed. This improvement was implemented August 31, 2009.

Improving the controls above will eliminate the need to change MDOT's current process related to endorsing checks received in the mail, noted in part b of the audit memo. The cashier will continue to retain responsibility for security of the bank endorsement stamp and restrictively endorse the checks upon receipt of the cash items from the mail openers.

The cashier will continue to record payments in the Accounts Receivable System. MDOT sends out dunning letters on a routine basis to those who have outstanding invoices. Testing daily receipts to ensure they are deposited or otherwise accounted for and sending out dunning letters will ensure that the cashier is posting payments correctly in the Accounts Receivable System, therefore, no action is necessary with regards to part h.

FINDING #5910902

2. Distributions from the Michigan Transportation Fund (MTF)

RECOMMENDATION

We recommend that MDOT strengthen its internal control over the distribution of motor fuel taxes and vehicle registration fees from the MTF to county road commissions to ensure compliance with State law.

We also recommend that MDOT correct all distributions made to county road commissions during fiscal years 2007-08 and 2006-07.

We further recommend that MDOT obtain a formal Attorney General opinion to determine how far back it should go to correct distributions made to county road commissions in previous fiscal years.

AGENCY RESPONSE

MDOT generally concurs. MDOT notified the locals impacted by this error in March, 2009. The MTF monthly distribution for fiscal years 2006–2008 and distributions to date for fiscal year 2009, were corrected for the population errors with the June 3, 2009 distribution for all but four counties. These four counties worked together and negotiated a repayment plan to correct the distribution error. MDOT disagrees that a formal Attorney General opinion is needed. MDOT sought, received, and followed the advice from the Assistant Attorney General of the three year statute of limitations and does not believe a formal opinion is required. None of the counties impacted by this error have notified MDOT of any disagreements with the corrective plan.

2. Audit Recommendations the agency generally agrees with and will comply with:

FINDING #5910903

3. Cash Management

RECOMMENDATION

We recommend that MDOT request federal reimbursement in a timely manner for eligible expenditures for the Highway Planning and Construction Program (HPCP).

We also recommend that MDOT request that the Department of Treasury renegotiate its Cash Management Improvement Act (CMIA) agreement for the HPCP to take into account the time savings that result from the use of electronic funds transfers.

AGENCY RESPONSE

MDOT does not concur that HPCP reimbursements were not sought in a timely manner. Total requests for HPCP reimbursements for the audit period total \$2.1 billion. The audit finding noted two requests for HPCP reimbursements totaling \$84 million, which represents four percent of total collections. MDOT followed the understanding between MDOT and the Federal Highway

Administration (FHWA) regarding how the indirect Grant Anticipation Revenue Vehicles advanced construction program would work. However, MDOT does agree that it will work with FHWA to determine if the reimbursement could occur sooner in the fiscal year. Currently, MDOT is negotiating how advanced construction would be reflected in the Statewide Transportation Improvement Program which will impact whether this change can be made. MDOT contacted the Department of Treasury (Treasury) to request a new calculation of the average clearance pattern to determine if the increase in use of electronic fund transfer (EFT) payments will reduce the number of days between payment and receipt of federal funds. Treasury informed MDOT that it had already nearly completed this calculation since it is required to be completed every five years. MDOT will adjust its payment cycle to match the new average clearance pattern. MDOT and the Office of the Auditor General did not recalculate the actual clearance pattern, therefore, the amount of interest lost is not known at this time.

MDOT's procedure to request federal reimbursement for purposes of paying debt service states that federal revenue shall be requested two weeks prior to making the debt service payment. MDOT followed its procedure for the debt service payment program, therefore, is not in violation of Department of Management and Budget (DMB) Administrative Guide procedure 1210.06. DMB Office of Financial Management also believes MDOT did not violate DMB Administrative Guide procedure 1210.06. As stated earlier, MDOT will review its procedure to determine if changes can be made in order to request the federal reimbursement at the beginning of the fiscal year.

Following Treasury's recalculation of the average clearance pattern, MDOT will request changes, as appropriate, for the HPCP when renegotiating the CMIA agreement with Treasury.

FINDING #5910904

4. Airport Improvement Program (AIP), CFDA 20.106

RECOMMENDATION

We recommend that MDOT improve its internal control to ensure compliance with federal cash management requirements related to non-automated payments for AIP.

We also recommend that MDOT request that the Department of Treasury renegotiate its AIP CMIA agreement for AIP to take into account the time savings that result from the use of electronic funds transfers.

AGENCY RESPONSE

MDOT concurs. MDOT reviewed its process for non-automated payments related to the AIP to ensure compliance with federal cash management requirements. MDOT determined changes were needed and implemented those changes in mid August 2009. MDOT will also consider the time savings involved with EFT payments for the AIP, as appropriate, when renegotiating the CMIA agreement with Treasury. MDOT and the Office of the Auditor General did not recalculate the actual clearance pattern, therefore, the amount of interest lost is not known at this time.

1. Audit Recommendations the agency disagrees with:

None.