



STATE OF MICHIGAN  
**DEPARTMENT OF TRANSPORTATION**  
LANSING

RICK SNYDER  
GOVERNOR

KIRK T. STEUDLE  
DIRECTOR

November 4, 2011

Mr. Doug Ringler, Director  
Office of Internal Audit Services  
Office of the State Budget  
George W. Romney Building  
111 South Capitol, 6<sup>th</sup> Floor  
Lansing, Michigan 48909

Dear Mr. Ringler:

In accordance with the State of Michigan, Financial Management Guide, Part VII, Chapter 4, Section 100, enclosed is a summary table identifying our responses and corrective action plan to address the recommendations in 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, 2008, through September 30, 2010. The Office of Internal Audit Services, State Budget Office, approved distribution of the plan.

Questions regarding the summary table or corrective action plan should be directed to Laura Mester, Chief Administrative Officer, at 517-241-2674, or John T. Cotter, C.P.A., Commission Auditor, at 517-373-1500.

Sincerely,

Signature Redacted

Kirk T. Steudle, P.E.  
Director

Enclosures

cc: The Hon. Rick Snyder, Executive Office  
The Hon. David Agema, House Appropriations Subcommittee  
The Hon. John Pappageorge, Senate Appropriations Subcommittee  
The Hon. Paul Opsommer, House Transportation Committee  
The Hon. Tom Casperson, Senate Transportation Committee  
Mr. Thomas McTavish, Auditor General  
Ms. Mary Ann Cleary, House Fiscal Agency  
Ms. Ellen Jeffries, Senate Fiscal Agency

Financial Audit including the Provisions of the Single Audit Act  
Michigan Department of Transportation  
Summary of Agency Responses to Recommendations  
October 1, 2008 through September 30, 2010

**SUMMARY TABLE**

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

1, 3, 4, 6, 7.b.3, 8.b.3, 9.b.1

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

2, 5, 7.a., 7.b.1, 7.b.2., 7.b.4., 8.a., 8.b.1., 8.b.2., 8.b.4., 9.a., 9.b.2.

**3. Audit Recommendations the agency disagrees with:**

N/A

Financial Audit including the Provisions of the Single Audit Act  
Michigan Department of Transportation  
Corrective Action Plan  
October 1, 2008 through September 30, 2010

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

**FINDING**

**User Class 17 Access Rights**

**RECOMMENDATION**

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

**AGENCY RESPONSE**

MDOT, in conjunction with DTMB Purchasing, completed a review of all UC 17 users. UC 17 access was removed for all users. The appropriate staff were converted to UC 4 access by October 1, 2011. All applicable staff received a communication advising of the changes.

**FINDING**

**Accounts Payable**

**RECOMMENDATION**

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

**AGENCY RESPONSE**

MDOT management met on September 12, 2011, to discuss accounts payable methodologies and review processes to ensure that year-end payables are reported and recorded accurately. MDOT developed written guidelines, which were completed by October 31, 2011.

**FINDING**

**Inventory**

**RECOMMENDATION**

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

**AGENCY RESPONSE**

MDOT complied with all procedures regarding monitoring of inventory and performed annual physical counts of inventory as of September 30, 2011. MDOT management will perform independent reviews by November 15<sup>th</sup> of each year to ensure continued adherence.

**FINDING**

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

**RECOMMENDATION**

We recommend that MDOT improve its internal control over the Highway Planning and Construction Cluster to ensure compliance with federal laws and regulations regarding

activities allowed or unallowed, allowable costs/cost principles, the Davis Bacon Act, and special tests and provisions (quality assurance).

**AGENCY RESPONSE**

MDOT has developed a draft guidance document to help ensure compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, the Davis Bacon Act, and special tests and provisions (quality assurance). The guidance document was finalized and approved by September 30, 2011.

**FINDING**

**Federal Transit Cluster, Including ARRA – Federal Transit: Formula Grants, CFDA 20.500 and 20.507.**

**RECOMMENDATION**

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

**AGENCY RESPONSE**

MDOT developed and implemented new guidelines to improve its internal control over the Federal Transit Cluster Program to ensure compliance with federal laws and regulations regarding reporting and subrecipient monitoring.

**3. Federal Suspension and Debarment Requirements**

MDOT developed and implemented new guidelines to ensure subrecipients comply with federal suspension and debarment requirements. The guidance was finalized and approved on June 30, 2011.

**FINDING**

**Formula Grants for Other Than Urbanized Areas and ARRA – Formula Grants for Other Than Urbanized Areas, CFDA 20.509.**

**RECOMMENDATION**

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

**AGENCY RESPONSE**

MDOT developed and implemented new guidelines to improve its internal control over the Formula Grant for Other Than Urbanized Areas Program to ensure compliance with federal laws and regulations regarding reporting and subrecipient monitoring.

**3. Federal Suspension and Debarment Requirements**

MDOT developed and implemented new guidelines to ensure subrecipients comply with federal suspension and debarment requirements. The guidance was finalized and approved on June 30, 2011.

**FINDING**

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

**RECOMMENDATION**

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

**AGENCY RESPONSE**

MDOT developed and implemented new guidelines to improve its internal control over the Transit Services Programs Cluster to ensure compliance with federal laws and regulations regarding reporting and subrecipient monitoring.

**b. Subrecipient Monitoring**

**1. Federal Suspension and Debarment Requirements**

MDOT developed and implemented new guidelines to ensure subrecipients comply with federal suspension and debarment requirements. The guidance was finalized and approved on June 30, 2011.

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

**FINDING**

**Preparation of the Schedule of Expenditures of Federal Awards (SEFA)**

**RECOMMENDATION**

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

**AGENCY RESPONSE**

MDOT agrees it can improve its internal control over financial reporting and is in the process of evaluating its controls to ensure that the information reported in the SEFA is in accordance with OMB Circular A-133 and State financial management policies. The internal controls will be evaluated by December 31, 2011.

**FINDING**

**Monitoring of Subrecipient Single Audit Reports**

**RECOMMENDATION**

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

**AGENCY RESPONSE**

MDOT is developing a Memorandum of Understanding (MOU) with the Michigan Department of Education (MDE) that will result in the monitoring of subrecipients' single audit reports by MDE. The MOU will be executed by December 31, 2011.

**FINDING**

**Federal Transit Cluster, Including ARRA – Federal Transit: Formula Grants, CFDA 20.500 and 20.507.**

**RECOMMENDATION**

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

**AGENCY RESPONSE**

MDOT is in the process of developing and implementing new guidelines to improve its internal control over the Federal Transit Cluster Program to ensure compliance with federal laws and regulations regarding reporting and subrecipient monitoring.

**a. Reporting - Financial Status Reports**

MDOT's fourth quarter reporting will comply with accrual basis reporting requirements at year-end so that all four quarterly reports will equal MDOT's annual expenditures on the accrual basis. The recommendation will be implemented by November 30, 2011.

**b. Subrecipient Monitoring**

**1. Inventory of Non-Rolling Stock Equipment**

MDOT agrees and was using the Passenger Transportation Management System (PTMS) to enter some of the data for non-rolling stock equipment. However, all of the information could not be entered because system upgrades were needed. Consequently, MDOT collected information manually so it could be entered into the PTMS upon completion of the upgrades. Subsequently, MDOT has updated PTMS so that all information can be entered. All information will be entered and the recommendation implemented by June 30, 2012.

**2. Certified Payrolls**

MDOT is in the process of developing and implementing new guidelines to improve its subrecipient monitoring. The guidance will be finalized and approved by December 31, 2011.

**4. Disposition of Assets**

MDOT is in the process of developing new guidelines for subrecipient disposal of equipment and real property. Upon completion of the guidelines, MDOT will seek approval from the Federal Transit Administration (FTA) to ensure that the procedures comply with FTA requirements. This recommendation will be implemented by June 30, 2012.

**FINDING**

**Formula Grants for Other Than Urbanized Areas and ARRA – Formula Grants for Other Than Urbanized Areas, CFDA 20.509.**

**RECOMMENDATION**

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

**AGENCY RESPONSE**

MDOT is in the process of developing and implementing new guidelines to improve its internal control over the Formula Grant for Other Than Urbanized Areas Program to ensure compliance with federal laws and regulations regarding reporting and subrecipient monitoring.

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**b. Subrecipient Monitoring**

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**AGENCY RESPONSE**

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**3. Audit Recommendations the agency disagrees with:**

None.