

Office of the Auditor General
Performance Audit Report

Use of Transportation-Related Funding

September 2016

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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Office of the Auditor General

Report Summary

Performance Audit

Report Number:
591-0105-16

Use of Transportation-Related Funding

Released:
September 2016

Public Act 252 of 2014 and Public Act 59 of 2013 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). The Acts also require these agencies to annually report to MDOT the amount of funding contracted with MDOT, funds expended, funds returned, and unreimbursed costs incurred but not billed to the transportation funds. In addition, the Acts require the Office of the Auditor General to audit and report on the use of transportation-related funding.

Audit Objective			Conclusion
Objective #1: To determine the appropriateness of selected State agencies' charges to transportation funds.			Appropriate
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
None reported.	Not applicable	Not applicable	Not applicable

Audit Objective			Conclusion
Objective #2: To determine compliance with selected State agencies' contractual and reporting requirements for transportation-related funding.			Complied
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
None reported.	Not applicable	Not applicable	Not applicable

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

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Doug A. Ringler, CPA, CIA
Auditor General

September 20, 2016

The Honorable Dave Hildenbrand, Chair
Senate Appropriations Committee
S-324 Capitol Building
Lansing, Michigan

The Honorable Al Pscholka, Chair
House Appropriations Committee
S-351 Capitol Building
Lansing, Michigan

The Honorable Vincent Gregory, Min. Vice Chair
Senate Appropriations Committee
1015 Farnum Building
Lansing, Michigan

The Honorable Harvey Santana, Min. Vice Chair
House Appropriations Committee
S-688 Anderson House Office Building
Lansing, Michigan

Dear Senators Hildenbrand and Gregory and Representatives Pscholka and Santana:

I am pleased to provide this performance audit report on the Use of Transportation-Related Funding for the period October 1, 2013 through September 30, 2015, as required by Article XVII, Part 2, Section 306 of both Public Act 252 of 2014 and Public Act 59 of 2013.

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

Sincerely,

Doug Ringler
Auditor General

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AUDIT OBJECTIVES, CONCLUSIONS, FINDINGS, AND OBSERVATIONS

CHARGES TO TRANSPORTATION FUNDS

BACKGROUND

Pursuant to Public Act 252 of 2014 and Public Act 59 of 2013 (the annual appropriations acts for the Michigan Department of Transportation [MDOT] for fiscal years 2015 and 2014, respectively), State agencies may expend appropriated transportation funding for tax and fee collection, law enforcement, other program services, and miscellaneous transportation-related costs. All transportation-related expenditures must be reported to MDOT.

For the four State agencies reviewed, we compiled a report of transportation-related costs (Exhibits #1 through #4), including the following:

- **Interdepartmental contract charges:** This section represents expenditures and encumbrances charged to transportation funds pursuant to the contracts between MDOT and the State agencies and appropriated in Article XVII, Part 1, Sections 103 and 106 of both Public Act 252 of 2014 and Public Act 59 of 2013. Also, this section includes State agencies' 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 covered under a contract and not specifically appropriated to the State agencies in Public Act 252 of 2014 and Public Act 59 of 2013.
- **Unreimbursed costs:** This section includes transportation-related costs that were incurred by the State agencies but were not reimbursed by transportation revenue.

AUDIT OBJECTIVE

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

CONCLUSION

Appropriate.

FACTORS IMPACTING CONCLUSION

- Our review did not identify any significant inappropriate interdepartmental contract or miscellaneous charges to transportation funds for the selected State agencies.
- Our review did not identify errors in the selected State agencies' cost allocation plans.

- MDOT's internal reconciliation process helps ensure that State agencies' charges to transportation funds are appropriate.

CONTRACTUAL AND REPORTING REQUIREMENTS

BACKGROUND

MDOT's annual appropriations acts for fiscal years 2015 and 2014 require:

- State agencies that expend appropriated transportation funding for tax and fee collection, law enforcement, and other program services to contract with MDOT.
- The contracts to be executed prior to the expenditure or obligation of those funds and include:
 - Estimated costs to be recovered from transportation funds.
 - A description of the services financed by transportation funds.
 - Detailed cost allocation methodologies that are appropriate to the types of services being provided and the activities financed with transportation funds.
- Agencies to annually report to MDOT within 2 months after the publication of the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)* the amount of:
 - Funding contracted with MDOT.
 - Funds expended.
 - Funds returned.
 - Unreimbursed costs incurred but not billed to the transportation funds.

Also, MDOT's annual appropriations acts require the Office of the Auditor General to report various transportation-related cost information. Based on these requirements, we summarized all applicable State agencies' charges to transportation funds (Exhibits #5 and #6), unreimbursed costs (Exhibit #7), and types of services provided and cost allocation methodologies used to allocate transportation-related costs (Exhibit #8) for fiscal years ended September 30, 2015 and September 30, 2014.

AUDIT OBJECTIVE

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

CONCLUSION

Complied.

**FACTORS
IMPACTING
CONCLUSION**

- Our review did not identify any significant noncompliance with contractual and/or reporting requirements for the selected State agencies.

SUPPLEMENTAL INFORMATION

Exhibit #1

USE OF TRANSPORTATION-RELATED FUNDING

Department of Technology, Management, and Budget Transportation-Related Costs
Fiscal Years Ended September 30

	<u>2015</u>	<u>2014</u>
CHARGES TO TRANSPORTATION FUNDS		
<u>Interdepartmental Contract Charges</u>		
State Trunkline Fund		
Information technology services and projects	\$ 30,578,598	\$ 29,986,365
Central support services	1,296,300	1,310,000
MAIN user charges	825,800	881,500
State Aeronautics Fund		
Information technology services and projects	86,827	108,647
Central support services	38,600	39,600
MAIN user charges	24,600	26,600
Comprehensive Transportation Fund		
Information technology services and projects	150,509	165,029
Central support services	47,000	45,600
MAIN user charges	29,900	30,700
Blue Water Bridge Fund		
Information technology services and projects	53,700	53,100
Central support services	24,900	24,800
MAIN user charges	15,800	16,600
Economic Development Fund		
Information technology services and projects	19,889	37,109
Total interdepartmental contracts	<u>\$ 33,192,423</u>	<u>\$ 32,725,650</u>
<u>Miscellaneous Charges</u>		
State Trunkline Fund		
Information technology services and projects	\$ 10,769,423	\$ 6,956,032
Building occupancy charges	5,733,160	5,735,326
Motor Transport Fund	1,625,645	1,622,365
Office Services Revolving Fund	344,869	345,077
Risk Management Fund	585,694	428,933
Other fees and services	302,515	306,582
State Aeronautics Fund		
Information technology services and projects	23,109	21,937
Motor Transport Fund	35,035	35,251
Office Services Revolving Fund	35,250	48,883
Risk Management Fund	34,908	38,816
Comprehensive Transportation Fund		
Information technology services and projects	31,649	30,874
Motor Transport Fund	104,890	104,644
Office Services Revolving Fund	10,445	9,759
Risk Management Fund	528	534
Other fees and services	1,304	

This exhibit continued on next page.

USE OF TRANSPORTATION-RELATED FUNDING

Department of Technology, Management, and Budget Transportation-Related Costs
Fiscal Years Ended September 30
Continued

	<u>2015</u>	<u>2014</u>
Blue Water Bridge Fund		
Information technology services and projects	\$ 749,843	\$ 332,287
Motor Transport Fund	8,846	3,547
Office Services Revolving Fund	353	2,082
Other fees and services		4,151
Combined Comprehensive Transportation Bond Proceeds Fund		
Motor Transport Fund		180
Other fees and services		5,200
Economic Development Fund		
Information technology services and projects	4,461	2,996
Total miscellaneous charges	<u>\$ 20,401,927</u>	<u>\$ 16,035,458</u>
TOTAL CHARGES	<u>\$ 53,594,350</u>	<u>\$ 48,761,107</u>
UNREIMBURSED COSTS		
State Trunkline Fund		
Building occupancy charges*	\$ (2,465,998)	\$ (2,075,366)
Central support services	(341,926)	(234,142)
MAIN user charges	(506,013)	(395,190)
State Aeronautics Fund		
Central support services	3,833	5,887
MAIN user charges	(3,664)	(1,274)
Comprehensive Transportation Fund		
Central support services	(7,413)	(5,747)
MAIN user charges	(14,336)	(11,754)
Blue Water Bridge Fund		
Central support services	4,125	
MAIN user charges	(1,089)	(1,167)
Combined State Trunkline Bond Proceeds Fund		
Central support services	(3,326)	(7,693)
MAIN user charges	(2,704)	(6,360)
Combined Comprehensive Transportation Bond Proceeds Fund		
Central support services	(22)	(31)
MAIN user charges	(18)	(26)
Transportation Related Trust Funds		
Central support services	(855)	(954)
MAIN user charges	(695)	(798)
TOTAL UNREIMBURSED COSTS	<u>\$ (3,340,101)</u>	<u>\$ (2,734,615)</u>

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

Department of Technology, Management, and Budget's Charges

- **Interdepartmental Contract Charges***

The Legislature appropriated information technology (IT) services from transportation funds of \$31.5 million and \$31.1 million for fiscal years 2015 and 2014, respectively, to the Department of Technology, Management, and Budget (DTMB). DTMB incurred and encumbered transportation-related costs for administering and implementing IT services of \$30.9 million and \$30.4 million in fiscal years 2015 and 2014, respectively.

The Legislature also appropriated interdepartmental grants from transportation funds of \$1.4 million and \$1.4 million for central support costs to DTMB for fiscal years 2015 and 2014, 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 for fiscal years 2015 and 2014, respectively. DTMB incurred transportation-related costs of \$2.3 million and \$2.4 million for fiscal years 2015 and 2014, respectively, for central support services and MAIN user charges.

- **Miscellaneous Charges***

DTMB charged \$11.6 million and \$7.3 million in fiscal years 2015 and 2014, respectively, for additional IT projects, services, and equipment that DTMB provided that were not included in the general operating services in the interdepartmental grant.

Also, DTMB charged building occupancy costs of \$5.7 million and \$5.7 million for fiscal years 2015 and 2014, respectively, to the State Trunkline Fund for all buildings occupied by MDOT personnel.

In addition, DTMB charged \$2.8 million and \$2.6 million to the transportation funds for services provided by internal service funds for fiscal years 2015 and 2014, 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 management.
- The Risk Management Fund accounts for certain centralized risk management functions.

Further, DTMB charged \$0.3 million and \$0.3 million for other fees and services (including MAIN security, parking, and miscellaneous operating projects) for fiscal years 2015 and 2014, respectively.

- **Unreimbursed Costs**

DTMB did not report any unreimbursed costs related to IT services for fiscal years 2015 and 2014.

* See glossary at end of report for definition.

A comparison of actual Statewide Cost Allocation Plan (SWCAP) costs to amounts charged to transportation funds disclosed net unreimbursed costs for DTMB central support services, MAIN user charges, and building occupancy costs of \$3.3 million and \$2.7 million, respectively, for fiscal years 2015 and 2014.

- * Cost allocation methodologies related to DTMB interdepartmental contract and miscellaneous charges are described in Exhibit #8.

Source: The Office of the Auditor General prepared this exhibit with information obtained from MAIN and DTMB's and MDOT's records related to DTMB's use of transportation-related funding.

USE OF TRANSPORTATION-RELATED FUNDING

Department of State Transportation-Related Costs
Fiscal Years Ended September 30

	<u>2015</u>	<u>2014</u>
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	<u>\$ 20,000,000</u>	<u>\$ 20,000,000</u>
<u>Miscellaneous Charges</u>		
State Trunkline Fund		
Title, registration, and application fees	\$ 159	\$ 153
Total miscellaneous charges	<u>\$ 159</u>	<u>\$ 153</u>
TOTAL CHARGES	<u>\$ 20,000,159</u>	<u>\$ 20,000,153</u>
UNREIMBURSED COSTS		
Collection of transportation taxes and fees	<u>\$ (8,681,238)</u>	<u>\$ (12,187,310)</u>
TOTAL UNREIMBURSED COSTS	<u>\$ (8,681,238)</u> *	<u>\$ (12,187,310)</u>

* As of the end of audit fieldwork on July 1, 2016, the fiscal year 2015 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 2014 figure.

Department of State's Charges

- **Interdepartmental Contract Charges***

The Legislature appropriated interdepartmental grants from the Michigan Transportation Fund (MTF) of \$20.0 million annually to the Department of State for fiscal years 2015 and 2014. The Department charged transportation-related costs to MTF of \$20.0 million for each of fiscal years 2015 and 2014 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 MDOT, to \$20.0 million per fiscal year.

- **Miscellaneous Charges***

Miscellaneous charges included fees for vehicle titles and registrations, watercraft registrations, and notary applications.

- **Unreimbursed Costs**

A comparison of the Department's actual transportation-related allocated costs to amounts charged by the Department to transportation funds disclosed net unreimbursed costs of \$8.7 million and \$12.2 million for administering and enforcing the collection of transportation taxes and fees for fiscal years 2015 and 2014, respectively.

- * Cost allocation methodologies related to Department of State interdepartmental contract and miscellaneous charges are described in Exhibit #8.

Source: The Office of the Auditor General prepared this exhibit with information obtained from MAIN and the Department of State's and MDOT's records related to the Department of State's use of transportation-related funding.

USE OF TRANSPORTATION-RELATED FUNDING

Michigan Department of State Police Transportation-Related Costs
Fiscal Years Ended September 30

	<u>2015</u>	<u>2014</u>
CHARGES TO TRANSPORTATION FUNDS		
<u>Interdepartmental Contract Charges</u>		
State Trunkline Fund		
Commercial Vehicle Enforcement Division - Inspections and enforcement	\$ 9,987,783	\$ 9,118,173
Training Division - Traffic services	481,525	437,390
Criminal Justice Information Center - Traffic accident database	506,482	387,246
Information technology services and projects	192,772	61,762
Support services	600	600
Total interdepartmental contract charges	<u>\$ 11,169,161</u>	<u>\$ 10,005,170</u>
Miscellaneous Charges		
State Trunkline Fund		
Construction work zone patrols	\$ 77,687	\$ 81,547
Aerial surveys	9,728	17,985
Training	8,245	9,804
Fleet leasing	5,756	6,925
State Aeronautics Fund		
Aviation fuel and rental	125,404	163,028
Total miscellaneous charges	<u>\$ 226,820</u>	<u>\$ 279,289</u>
TOTAL CHARGES	<u>\$ 11,395,981</u>	<u>\$ 10,284,459</u>
UNREIMBURSED COSTS		
TOTAL UNREIMBURSED COSTS	<u>\$ 0</u>	<u>\$ 0</u>

Michigan Department of State Police's Charges

- **Interdepartmental Contract Charges***

The Legislature appropriated interdepartmental grants from the State Trunkline Fund of \$11.4 million and \$11.3 million to the Michigan Department of State Police (MSP) for fiscal years 2015 and 2014, respectively. MSP charged transportation-related costs of \$11.2 million and \$10.0 million in fiscal years 2015 and 2014, respectively, primarily for safety inspections and enforcement activities of the Commercial Vehicle Enforcement Division.

- **Miscellaneous Charges***

MSP's miscellaneous expenditures totaled \$0.2 million and \$0.3 million for fiscal years 2015 and 2014, respectively.

- **Unreimbursed Costs**

MSP did not report any unreimbursed costs for fiscal years 2015 and 2014.

* Cost allocation methodologies related to MSP interdepartmental contract and miscellaneous charges are described in Exhibit #8.

Source: The Office of the Auditor General prepared this exhibit with information obtained from MAIN and MSP's and MDOT's records related to MSP's use of transportation-related funding.

USE OF TRANSPORTATION-RELATED FUNDINGCivil Service Commission Transportation-Related Costs
Fiscal Years Ended September 30

	<u>2015</u>	<u>2014</u>
CHARGES TO TRANSPORTATION FUNDS		
<u>Interdepartmental Contract Charges</u>		
State Trunkline Fund		
Civil service, collection, enforcement, and other	\$ 5,132,946	\$ 4,988,808
Blue Water Bridge Fund		
Civil service, collection, enforcement, and other	69,758	73,766
State Aeronautics Fund		
Civil service, collection, enforcement, and other	109,020	104,577
Comprehensive Transportation Fund		
Civil service, collection, enforcement, and other	165,916	154,469
Total interdepartmental contracts	<u>\$ 5,477,640</u>	<u>\$ 5,321,620</u>
<u>Miscellaneous Charges</u>		
State Trunkline Fund		
Flexible spending administration	\$ 8,104	\$ 14,999
Applicable salaries and wages	94,992	87,707
Total miscellaneous charges	<u>\$ 103,096</u>	<u>\$ 102,707</u>
TOTAL CHARGES	<u><u>\$ 5,580,736</u></u>	<u><u>\$ 5,424,327</u></u>
UNREIMBURSED COSTS		
TOTAL UNREIMBURSED COSTS	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

Civil Service Commission's Charges

- **Interdepartmental Contract Charges***
The Legislature appropriated interdepartmental grants from transportation funds of \$6.0 million annually to the Civil Service Commission for fiscal years 2015 and 2014. The Commission charged transportation-related costs of \$5.5 million and \$5.3 million in fiscal years 2015 and 2014, respectively, primarily for Commission activities and responsibilities with regard to classified State of Michigan employees.
- **Miscellaneous Charges***
The Commission's miscellaneous expenditures totaled \$0.1 million and \$0.1 million for fiscal years 2015 and 2014, respectively.
- **Unreimbursed Costs**
The Commission did not report any unreimbursed costs for fiscal years 2015 and 2014.

* Cost allocation methodologies related to Commission interdepartmental contract and miscellaneous charges are described in Exhibit #8.

Source: The Office of the Auditor General prepared this exhibit with information obtained from MAIN and the Civil Service Commission's and MDOT's records related to the Civil Service Commission's use of transportation-related funding.

USE OF TRANSPORTATION-RELATED FUNDING

Summary of Agencies' Use of Transportation-Related Funding
Fiscal Year Ended September 30, 2015

Receiving Agency	Charges Paid by Fund				
	State Trunkline	Michigan Transportation	State Aeronautics	Comprehensive Transportation	Blue Water Bridge
Department of Technology, Management, and Budget	\$ 52,062,004	\$	\$ 278,331	\$ 376,224	\$ 853,441
Department of State	159	20,000,000			
Michigan Department of State Police	11,270,577		125,404		
Civil Service Commission	5,236,042		109,020	165,916	69,758
Department of Treasury	130,475	2,700,000	17,238	16,400	13,700
Department of Attorney General	1,704,024		123,328	31,411	
Department of Environmental Quality	128,405	1,276,401	6,848		132
Office of the Auditor General	864,879	172,893	39,044	53,931	
Department of Corrections	442,927		2,800		
Department of Natural Resources	146,553		69		
Executive Office	56,501				
Mackinac Island State Park Commission *	46,443				
Department of Licensing and Regulatory Affairs	33,809		180	130	500
Michigan Department of Agriculture and Rural Development	3,454				
Judiciary	1,075				
Department of Military and Veterans Affairs			419		
Total for agencies	<u>\$ 72,127,327</u>	<u>\$ 24,149,294</u>	<u>\$ 702,681</u>	<u>\$ 644,012</u>	<u>\$ 937,531</u>

* The authority, powers, duties, functions, and responsibilities of the Mackinac Island State Park Commission are administered within the Department of Natural Resources. The Commission is presented in the *SOMCAFR* separately as a component unit; therefore, we reported the Commission as a separate agency for the purposes of our report.

Source: The Office of the Auditor General prepared this exhibit with information obtained from MAIN and the receiving agencies' and MDOT's records related to those agencies' use of transportation-related funding.

Exhibit #5

Combined Comprehensive Transportation Bond Proceeds	Combined State Trunkline Bond Proceeds	Economic Development	Transportation Related Trust	Agency Total
\$	\$	\$ 24,350	\$	\$ 53,594,350
				20,000,159
				11,395,981
				5,580,736
6,800	20,200		1,800	2,906,613
				1,858,763
				1,411,786
				1,130,747
				445,727
				146,622
				56,501
				46,443
				34,619
				3,454
				1,075
				419
<u>\$ 6,800</u>	<u>\$ 20,200</u>	<u>\$ 24,350</u>	<u>\$ 1,800</u>	<u>\$ 98,613,995</u>

USE OF TRANSPORTATION-RELATED FUNDING

Summary of Agencies' Use of Transportation-Related Funding
Fiscal Year Ended September 30, 2014

Receiving Agency	Charges Paid by Fund				
	State Trunkline	Michigan Transportation	State Aeronautics	Comprehensive Transportation	Blue Water Bridge
Department of Technology, Management, and Budget	\$ 47,572,181	\$	\$ 319,735	\$ 387,139	\$ 436,567
Department of State	153	20,000,000			
Michigan Department of State Police	10,121,431		163,028		
Civil Service Commission	5,091,515		104,577	154,469	73,766
Department of Treasury	130,509	2,500,000	15,961	12,200	11,800
Department of Attorney General	1,706,277		116,087	49,835	
Department of Environmental Quality	118,864	1,272,468	8,611		140
Office of the Auditor General	880,702	296,000	39,161	74,820	
Department of Corrections	376,509		2,800	3,210	
Department of Natural Resources	217,082		385		
Executive Office	201,002				
Mackinac Island State Park Commission *	34,848		17,500		
Department of Licensing and Regulatory Affairs	34,627			485	1,070
Michigan Department of Education	3,610				
Michigan Department of Agriculture and Rural Development	1,500				
Judiciary	1,950				
Department of Military and Veterans Affairs			4,283		
Total for agencies	<u>\$ 66,492,760</u>	<u>\$ 24,068,468</u>	<u>\$ 792,128</u>	<u>\$ 682,158</u>	<u>\$ 523,343</u>

* The authority, powers, duties, functions, and responsibilities of the Mackinac Island State Park Commission are administered within the Department of Natural Resources. The Commission is presented in the *SOMCAFR* separately as a component unit; therefore, we reported the Commission as a separate agency for the purposes of our report.

Source: The Office of the Auditor General prepared this exhibit with information obtained from MAIN and the receiving agencies' and MDOT's records related to those agencies' use of transportation-related funding.

Combined Comprehensive Transportation Bond Proceeds	Combined State Trunkline Bond Proceeds	Economic Development	Transportation Related Trust	Agency Total
\$ 5,380	\$	\$ 40,105	\$	\$ 48,761,107
				20,000,153
				10,284,459
				5,424,327
11,200	24,800		2,300	2,708,770
				1,872,199
				1,400,083
				1,290,683
				382,519
			93,068	310,535
				201,002
				52,348
				36,182
				3,610
				1,500
				1,950
				4,283
<u>\$ 16,580</u>	<u>\$ 24,800</u>	<u>\$ 40,105</u>	<u>\$ 95,368</u>	<u>\$ 92,735,710</u>

USE OF TRANSPORTATION-RELATED FUNDINGSummary of Agencies' Unreimbursed Transportation-Related Costs
Fiscal Years Ended September 30

<u>Receiving Agency</u>	<u>2015</u>	<u>2014</u>
Department of Technology, Management, and Budget	\$ (3,340,101)	\$ (2,734,615)
Department of State	<u>(8,681,238)</u>	<u>(12,187,310)</u>
Total for agencies	<u>\$ (12,021,339)</u>	<u>\$ (14,921,925)</u>

Source: The Office of the Auditor General prepared this exhibit with information obtained from MAIN and the receiving agencies' and MDOT's records related to the agencies' use of transportation-related funding.

USE OF TRANSPORTATION-RELATED FUNDING

Summary of Types of Services Provided and Cost Allocation Methodologies
Fiscal Years Ended September 30, 2015 and September 30, 2014**Department of Technology, Management, and Budget (DTMB)**

DTMB charged MDOT for costs associated with the delivery of IT services, central support services, MAIN user charges, building occupancy services, and multiple services from internal service funds. The cost allocation methodologies used for each are 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. Core infrastructure costs are based on a tiered percentage of DTMB-900 IT expenditures.
- Data center services (mainframe operations, centralized servers, data warehouses and exchange gateways, and disaster recovery) costs are allocated based on actual costs for specific functions or usage of services at a specified rate.
- Direct agency charges, such as IT equipment, software licenses and maintenance, 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 DTMB-900 IT expenditures.
- Administrative services and contract management costs are based on 1.6% of prior year DTMB-900 IT expenditures.
- Michigan Cyber Security (computer security management) costs are based on actual payroll costs based on a time-and-effort reporting system and support costs.
- Agency Services (liaison between DTMB and its agency customers) costs are actual payroll and support costs based on a time-and-effort reporting system.
- Enterprise Portfolio Management (managing and directing agency IT projects, software and system portfolios) costs are actual payroll and support costs based on a time-and-effort reporting system.
- Michigan Business One Stop System (centralized on-line system for businesses to obtain departmental permits and licenses) costs are actual amounts 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. In addition, agency-specific Web development costs are billed on an hourly basis.

- Office Automation (client service center, field, design and delivery, logistics, workstation, software, printer, e-mail, device, network access, file and print, receiving, shipping, and disposal support services) costs are primarily on a per workstation basis at a monthly rate.
- Technical Services (infrastructure and support services) 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.
- Central support services (financial management, real estate, mail and delivery, purchasing, records center, State employer services, and budgetary services) costs are based on the most recent SWCAP to allocate estimated costs.
- MAIN user charges costs are based on the most recent SWCAP to allocate estimated costs.
- Building occupancy services costs (for all buildings occupied by MDOT personnel) are allocated through SWCAP based on estimated costs per square foot.
- Internal service fund related (vehicle and travel services, printing, reproduction, mailing, microfilm, distribution of surplus property, materials management, and risk management services) charges are based on actual costs.
- Other services costs (including MAIN security, parking, and miscellaneous operating projects) are based on actual expenditures.

Department of State

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). Transportation-related costs were charged by the Department to MTF for collecting MTF revenues and maintaining related databases and records, regulating and monitoring automotive dealers, and administering the Driver Improvement Program and driver license appeals. The transportation fees in TACF are collected under Section 257.810b 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.

Also, the Department charged fees for vehicle titles and registrations, watercraft registrations, and notary applications to transportation funds.

Michigan Department of State Police (MSP)

MSP charged MDOT for costs associated with:

- Safety inspections and enforcement activities for commercial vehicles conducted by the Commercial Vehicle Enforcement Division. MSP used its automated Officer Daily System to allocate costs for commercial vehicle enforcement and to identify the percentage of motor carrier 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 four allowable funding sources for these activities: transportation-related funding (through MSP's interdepartmental contract with MDOT), motor carrier fees, a federal grant, and the Truck Safety Fund.
- Traffic services activities conducted by its Training Division and allocated based on a percentage of staff activities funded by the State Trunkline Fund.
- 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.
- DTMB IT services charges in the same percentage as enforcement activities in the Commercial Vehicle Enforcement Division.
- Support services expenditures for telecommunication services using the DTMB rate for full-time equated positions.
- Miscellaneous expenditures related to construction work zone patrols, aerial surveys, training, fleet leasing, and aviation fuel and rental based on actual costs.

Civil Service Commission

The Civil Service Commission provided assistance and support for classified State employees. The Commission assesses 1.75% of the prior year's payroll to each State agency for its operations. If actual costs are lower for the year, the Commission refunds the difference to each agency.

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

Department of Treasury

The Department of Treasury provided collection and auditing services for the administration and enforcement of motor fuel, aviation fuel, and marine fuel taxes. The Department allocated these costs as a percentage of actual costs to collect each of the transportation-related taxes to total costs for administration and enforcement activities for all taxes.

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

In addition, the Department charged actual costs for applicable warrant printing costs and IT services related to the maintenance of the motor fuel compliance system and services related to the processing of motor fuel tax returns.

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 transportation-related legal issues were allocated to the transportation funds based on an annual time study of legal work performed and their related travel costs were charged based on actual costs.

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 charged based on actual costs. Overhead costs for district offices, terminal leave costs, and IT charges were allocated based on the proportion of program staff assigned to transportation projects. Civil service charges were allocated based on personnel costs recorded in the previous fiscal year.

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, dues, and MDOT employee training. The charges for these services were based on actual costs or established fees.

Office of the Auditor General

The Office of the Auditor General conducted audits of transportation programs and funds and allocated charges based on a time-and-effort reporting system that identified the actual hours spent on those 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 actual costs or established fees.

Department of Natural Resources

The Department of Natural Resources was reimbursed for expenditures for trail construction costs, mapping contracts, land use permits, easements, State park improvements, continuing education classes, conference center rentals, and historical museum admission fees based on actual costs or established fees.

Executive Office

The Executive Office was reimbursed for applicable salaries and wages expenditures based on established rates.

Mackinac Island State Park Commission

The Mackinac Island State Park Commission was reimbursed for expenditures to maintain Mackinac Island roads and operate the Mackinac Island airport based on actual costs.

Department of Licensing and Regulatory Affairs

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

Michigan Department of Education

The Michigan Department of Education was reimbursed for services provided to MDOT for subrecipient monitoring activities based on actual costs.

Michigan Department of Agriculture and Rural Development

The Michigan Department of Agriculture and Rural Development was reimbursed for expenditures for commercial pest applicator certifications and court judgments based on actual costs or established fees.

Judiciary

The Judiciary was reimbursed for expenditures for filing appeals and claims to courts based on established fees.

Department of Military and Veterans Affairs

The Department of Military and Veterans Affairs was reimbursed for expenditures related to airport construction projects based on actual costs.

DESCRIPTION OF FUNDING REQUIREMENTS

Public Act 252 of 2014 and Public Act 59 of 2013 (the annual appropriations acts for MDOT for fiscal years 2015 and 2014, respectively) require State agencies that are appropriated funding from transportation funds for providing tax and fee collection and other services to contract with MDOT. In addition, 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 report a summary of charges to transportation funds by department (Exhibits #5 and #6), the appropriateness of those charges (Exhibits #1 through #4), any unreimbursed transportation-related costs (Exhibit #7), and the types of services provided and cost allocation methodologies used in determining the level of funding (Exhibit #8).

The Legislature appropriated transportation-related funding of \$46.9 million and \$46.5 million for fiscal years 2015 and 2014, respectively, with interdepartmental grants to the following eight State agencies:

- Department of Technology, Management, and Budget
- Department of State
- Michigan Department of State Police
- Civil Service Commission
- Department of Treasury
- Department of Attorney General
- Department of Environmental Quality
- Office of the Auditor General

The Legislature also appropriated \$31.5 million and \$31.1 million for fiscal years 2015 and 2014, respectively, for IT services and projects.

MDOT funded contractual and miscellaneous transportation-related charges of \$98.6 million and \$92.7 million for fiscal years 2015 and 2014, respectively (see Exhibits #5 and #6).

AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

AUDIT SCOPE

To examine the records supporting transportation-related charges to transportation funds.

We identified transportation funds as those funds classified under Special Revenue Funds - Transportation Related and Capital Projects Funds that are considered transportation related in the *SOMCAFR*. These transportation funds include:

- State Trunkline Fund (Although the Blue Water Bridge Fund and the Economic Development Fund are subfunds of the State Trunkline Fund, we present transportation-related charges to these two subfunds separately within this report.)
- Michigan Transportation Fund
- State Aeronautics Fund
- Comprehensive Transportation Fund
- Combined State Trunkline Bond Proceeds Fund
- Combined Comprehensive Transportation Bond Proceeds Fund
- Transportation Related Trust Funds

Our audit report includes all contractual and miscellaneous charges from State departments and agencies to these transportation funds.

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 conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

PERIOD

Our audit procedures, which included audit fieldwork, report preparation, and quality assurance, generally covered the period October 1, 2013 through September 30, 2015.

* See glossary at end of report for definition.

METHODOLOGY

Based on a risk analysis, we selected the following four State agencies to review:

- Department of Technology, Management, and Budget
- Department of State
- Michigan Department of State Police
- Civil Service Commission

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

OBJECTIVE #1

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

To accomplish this objective, we:

- Reviewed the four selected State agencies' charges for transportation-related expenditures.
- Examined the selected State agencies' processes for allocating transportation-related costs to transportation funds.

OBJECTIVE #2

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

To accomplish this objective, we:

- Reviewed the four selected State agencies' contracts and annual reports to verify whether they included all information required by Article XVII, Part 2, Section 306 of both Public Act 252 of 2014 and Public Act 59 of 2013.

CONCLUSIONS

We base our conclusions on our audit efforts and the resulting material conditions* and reportable conditions*.

SUPPLEMENTAL INFORMATION

As part of our audit, we compiled and reported exhibits of State agencies' use of transportation-related funding, based on information obtained from MAIN or provided by the State agencies and MDOT, presented as Exhibits #1 through #8.

* See glossary at end of report for definition.

GLOSSARY OF ABBREVIATIONS AND TERMS

DTMB	Department of Technology, Management, and Budget.
IT	information technology.
material condition	A matter that, in the auditor's judgment, is more severe than a reportable condition and could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.
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.
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.
<i>SOMCAFR</i>	<i>State of Michigan Comprehensive Annual Financial Report.</i>

SWCAP

Statewide Cost Allocation Plan.

TACF

Transportation Administration Collection Fund.

