

Office of the Auditor General
Follow-Up Report on Prior Audit Recommendations

**Funding for Department Services Provided to
Local Units of Government**
Michigan Department of Transportation

December 2017

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



*Follow-Up Report
Funding for Department Services Provided
to Local Units of Government
Michigan Department of Transportation
(MDOT)*

Report Number:
591-0174-12F

Released:
December 2017

We conducted this follow-up to determine whether MDOT had taken appropriate corrective measures in response to the two reportable conditions noted in our December 2012 audit report.

Prior Audit Information	Follow-Up Results		
	Conclusion	Finding	Agency Preliminary Response
<p>Finding #1 - Reportable condition</p> <p>Formal procedures necessary for allocating applicable MDOT expenditures to the Michigan Transportation Fund.</p> <p>Agency agreed.</p>	Complied	Not applicable	
<p>Finding #2 - Reportable condition</p> <p>MDOT should request appropriations that approximate actual expenditures for services provided to local units of government.</p> <p>Agency agreed.</p>	Complied	Not applicable	

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December 8, 2017

Mr. Todd Wyett, Chair
State Transportation Commission
and
Kirk T. Steudle, PE, Director
Michigan Department of Transportation
Murray D. Van Wagoner Building
Lansing, Michigan

Dear Mr. Wyett and Mr. Steudle:

This is our follow-up report on the two reportable conditions (Findings #1 and #2) and two corresponding recommendations reported in the performance audit of Funding for Department Services Provided to Local Units of Government, Michigan Department of Transportation. That audit report was issued and distributed in December 2012. Additional copies are available on request or at audgen.michigan.gov.

We appreciate the courtesy and cooperation extended to us during our follow-up. If you have any questions, please call me or Laura J. Hirst, CPA, Deputy Auditor General.

Sincerely,

Doug Ringler
Auditor General

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INTRODUCTION, PURPOSE OF FOLLOW-UP, AND DESCRIPTION

INTRODUCTION

This report contains the results of our follow-up of the two reportable conditions* (Findings #1 and #2) and two corresponding recommendations reported in our performance audit* of Funding for Department Services Provided to Local Units of Government, Michigan Department of Transportation (MDOT), issued in December 2012.

PURPOSE OF FOLLOW-UP

To determine whether MDOT had taken appropriate corrective measures to address our corresponding recommendations.

DESCRIPTION

The Michigan Transportation Fund (MTF) is primarily funded through revenues from gasoline and diesel fuel taxes and vehicle registration taxes and fees. Monies from the MTF are distributed to MDOT, counties, cities, and villages according to an allocation formula identified in Public Act 51 of 1951, as amended. In addition, MDOT receives appropriated funds from the MTF for costs incurred by seven different areas for providing services that benefit local units of government. The seven service areas include the Asset Management Council; Design and Engineering Services; Economic Development and Enhancement Programs; Finance, Contracts, and Support Services; Information Technology Services and Projects; the Office of Rail; and Transportation Planning.

For fiscal years 2015 and 2016, MDOT was appropriated \$26.4 million and \$26.3 million, respectively, for services provided that benefit local units of government (see Exhibit #1). As of June 30, 2017, cumulative expenditures for these appropriations were \$25.5 million and \$24.7 million, respectively.

* See glossary at end of report for definition.

PRIOR AUDIT FINDINGS AND RECOMMENDATIONS, AGENCY PLAN TO COMPLY, AND FOLLOW-UP CONCLUSIONS

FINDING #1

Audit Finding Classification: Reportable condition.

Summary of the December 2012 Finding:

MDOT had not developed formal procedures that ensured all eligible expenditures from across all MDOT areas that provided services to local units of government were properly allocated to the MTF.

Recommendation Reported in December 2012:

We recommended that MDOT develop formal procedures for allocating to the MTF the MDOT expenditures related to services provided to local units of government.

AGENCY PLAN TO COMPLY*

MDOT's plan to comply indicated that it was in the process of developing formal written procedures for allocating expenditures related to services provided to local units of government to the MTF. MDOT stated that written procedures would be complete by March 31, 2013.

FOLLOW-UP CONCLUSION

Complied.

MDOT's Financial Operations Division (FOD) required that applicable service areas submit a detailed summary of the activities that were partially or fully funded with MTF funds for review by MDOT leadership (see Exhibit #2).

We reviewed the documentation provided by the service areas of Design and Engineering Services; Economic Development and Enhancement Programs; Finance, Contracts, and Support Services; Office of Rail; and Transportation Planning. Our follow-up noted:

- a. The documentation provided by these service areas adequately detailed the allocation methodology used for services provided to local units of government.
- b. These five service areas appropriately implemented the allocation methodologies submitted to FOD.

* See glossary at end of report for definition.

FINDING #2

Audit Finding Classification: Reportable condition.

Summary of the December 2012 Finding:

MDOT's appropriations from the MTF were not sufficient to fund expenditures incurred for services provided to local units of government.

Recommendation Reported in December 2012:

We recommended that MDOT request appropriations that are commensurate with the amount of expenditures incurred for the level of service efforts provided to local units of government or reduce such expenditures.

AGENCY PLAN TO COMPLY

On February 21, 2013, MDOT stated:

Legislation currently does not allow MDOT to charge individual funds, which would provide a more equitable distribution of the charges. The Act 51 distribution was recreated in the fiscal year 2014 Governor's Recommended Budget. This will include a new funding formula and could provide for a more equitable distribution of charges.

FOLLOW-UP CONCLUSION

Complied.

Our follow-up noted:

- a. In the prior audit, we reported that the Transportation Planning service area expended \$3.4 million and \$3.5 million more than its allocated MTF appropriations in fiscal years 2010 and 2011, respectively. Beginning in fiscal year 2015, this service area requested an ongoing increase of \$1.5 million for expenditures related to services provided to local units of government. This service area did not expend more than its appropriations in either fiscal year 2015 or 2016.
- b. Although in the prior audit the Design and Engineering service area did not expend more than its allocated appropriations, it requested an ongoing increase of \$3.5 million to secure MTF funding commensurate with the estimated cost to provide increased local agency support and oversight beginning in fiscal year 2015. This service area did not expend more than its appropriations in either fiscal year 2015 or 2016.
- c. In the prior audit, we reported that the Economic Development and Enhancement service area expended \$0.3 million more than its allocated MTF appropriations for both fiscal years 2010 and 2011. This service area did not expend more than its appropriations in either fiscal year 2015 or 2016.

SUPPLEMENTAL INFORMATION

Exhibit #1

FUNDING FOR DEPARTMENT SERVICES PROVIDED TO LOCAL UNITS OF GOVERNMENT
 Michigan Department of Transportation
 Comparison of Appropriations With Cumulative Expenditures
As of June 30, 2017

MDOT Service Area	Fiscal Year 2015 Appropriations	Cumulative Expenditures	Expenditures (Over) or Under Appropriations
Asset Management Council	\$ 1,626,400	\$ 1,600,397	\$ 26,003
Design and Engineering Services	11,946,200	11,867,097	79,103
Economic Development and Enhancement Programs	779,600	765,921	13,679
Finance, Contracts, and Support Services	1,553,400	1,553,400	0
Information Technology Services and Projects	288,000	288,000	0
Office of Rail	2,011,500	1,287,480	724,020
Transportation Planning	8,160,400	8,160,202	198
Total	<u>\$ 26,365,500</u>	<u>\$ 25,522,497</u>	<u>\$ 843,003</u>

MDOT Service Area	Fiscal Year 2016 Appropriations	Cumulative Expenditures	Expenditures (Over) or Under Appropriations
Asset Management Council	\$ 1,626,400	\$ 1,370,202	\$ 256,198
Design and Engineering Services	11,913,200	11,587,721	325,479
Economic Development and Enhancement Programs	777,100	719,485	57,615
Finance, Contracts, and Support Services	1,545,500	1,545,500	0
Information Technology Services and Projects	287,600	287,600	0
Office of Rail	2,007,500	1,348,883	658,617
Transportation Planning	8,130,500	7,808,557	321,943
Total	<u>\$ 26,287,800</u>	<u>\$ 24,667,947</u>	<u>\$ 1,619,853</u>

Source: The OAG prepared this exhibit based on data obtained from MAIN.

FUNDING FOR DEPARTMENT SERVICES PROVIDED TO LOCAL UNITS OF GOVERNMENT

Michigan Department of Transportation

Allocation Methodologies

As of June 30, 2017

<u>MDOT Service Area/Service Activity</u>	<u>Allocation Methodology</u>
Asset Management Council	Direct charges for contracted services or training fees (contracts with regional planning organizations, local planning agencies, Michigan Technological University, and Michigan's Center for Shared Solutions and Technology Partnerships).
Design and Engineering Services:	
Engineering Services	Direct labor charges for research projects and providing assistance to local units of government.
Local Program Services	100% of staff labor and related costs are allocated to the MTF.
Economic Development and Enhancement Programs	Direct labor charges allocated based on the service area's annual budget estimate of the percentage of time that will be dedicated to MTF activities.
Finance, Contracts, and Support Services:	
Accounting Outreach	Professional judgment of management from staff feedback provided on work load.
Accounts Receivable and Accounts Payable	The number of transactions processed for local projects compared to the total number of transactions processed.
Budgeting	The amount of budgeted dollars for local projects compared to the total dollars budgeted.
Construction Contracts	The number of contracts processed for local projects compared to the total number of contracts processed.
Consulting Contracts	Professional judgment of management from staff feedback provided on work load.
Information Technology Services and Projects	Direct, monthly charges to the MTF from the Department of Technology, Management, and Budget for technology services provided to MDOT that benefit local units of government.
Office of Rail	Direct labor charges allocated based on the service area's annual budget estimate of the percentage of time that will be dedicated to MTF activities.
Transportation Planning	Direct labor charges for research projects benefiting local units of government coded on time sheets and matching contributions (labor and research payments) provided for federally funded research projects.

Source: The OAG prepared this exhibit based on information provided by MDOT.

FOLLOW-UP METHODOLOGY AND PERIOD

METHODOLOGY

During our follow-up, we:

- Reviewed applicable State laws.
- Reviewed MDOT's corrective action plan.
- Interviewed MDOT staff for the service areas of Design and Engineering Services; Economic Development and Enhancement Programs; Finance, Contracts, and Support Services; Office of Rail; and Transportation Planning to gain an understanding of the methodologies used to allocate expenditures for services provided to local units of government and funded by the MTF.
- Performed an analysis of expenditures for each service area reviewed to determine if the allocation process was implemented and the allocated amounts were accurate. This included comparing the amounts allocated with the allocation percentage provided by management, if applicable.
- Compared appropriations by service area with expenditures recorded in the Michigan Administrative Information Network* (MAIN).

PERIOD

Our follow-up generally covered October 1, 2015 through June 30, 2017.

** See glossary at end of report for definition.*

GLOSSARY OF ABBREVIATIONS AND TERMS

agency plan to comply	The response required by Section 18.1462 of the <i>Michigan Compiled Laws</i> and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100). The audited agency is required to develop a plan to comply with Office of the Auditor General audit recommendations and submit the plan within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.
FOD	Financial Operations Division.
local units of government	County, city, and village governmental components.
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.
MTF	Michigan Transportation Fund.
OAG	Office of the Auditor General.
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.



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