

Office of the Auditor General
Performance Audit Report

Administration of Act 51-Related Funds
Michigan Department of Transportation

July 2018

State of Michigan Auditor General
Doug A. Ringler, CPA, CIA

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



OAG

Office of the Auditor General

Report Summary

Performance Audit

Report Number:
591-0410-17

Administration of Act 51-Related Funds

Michigan Department of Transportation (MDOT)

Released:
July 2018

The Michigan Transportation Fund (MTF), established by Public Act 51 of 1951, as amended, is the depository for revenues, such as vehicle registration fees and gasoline and diesel fuel taxes. After various statutory deductions, the revenue is allocated to the State (39.1%), counties (39.1%), and cities and villages (21.8%). Act 51 restricts the use of disbursed funds to transportation-related activities, such as road preservation, road maintenance, road construction, and snow removal. MDOT calculates deductions, allocations, and distributions and monitors usage of Act 51-related funds. In fiscal year 2016, deductions from and allocations of MTF totaled \$2.1 billion.

Audit Objective			Conclusion
Objective #1: To assess the timeliness and accuracy of MDOT's allocation and distribution of Act 51-related funding.			Timely and accurate
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
MDOT, in conjunction with the Department of Technology, Management, and Budget, needs to fully establish security management and access controls over the Act 51 Distribution and Reporting System (ADARS) to help prevent unauthorized or inappropriate access (<u>Finding #1</u>).		X	Agrees

Audit Objective			Conclusion
Objective #2: To assess the sufficiency of MDOT's processes for monitoring and reporting on the use of Act 51-related funds.			Sufficient, with exceptions
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
MDOT should more clearly define its processes and expectations for performance audits of local units of government and their use of Act 51-related funds (<u>Finding #2</u>).		X	Agrees

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Office of the Auditor General
201 N. Washington Square, Sixth Floor
Lansing, Michigan 48913

Doug A. Ringler, CPA, CIA
Auditor General

Laura J. Hirst, CPA
Deputy Auditor General



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Doug A. Ringler, CPA, CIA
Auditor General

July 10, 2018

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 performance audit report on the Administration of Act 51-Related Funds, Michigan Department of Transportation.

We organize our findings and observations by audit objective. Your agency provided preliminary responses to the recommendations at the end of our fieldwork. The *Michigan Compiled Laws* and administrative procedures require an audited agency to develop a plan to comply with the recommendations and to submit it within 60 days of the date above 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.

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

ALLOCATION AND DISTRIBUTION OF ACT 51-RELATED FUNDING

BACKGROUND

Public Act 51 of 1951, as amended, provides the methodology for the allocation* of the funds in the Michigan Transportation Fund* (MTF) (see Exhibit #3). Utilizing this methodology, the Michigan Department of Transportation (MDOT):

- Allocates the funds in MTF to the State (39.1%), counties (39.1%), and cities and villages (21.8%) after various statutory deductions*.
- Uses the Act 51* Distribution and Reporting System* (ADARS) to calculate monthly distributions* to each of the 616 local units of government* (local units) from the allocated funds.
- Uses ADARS to calculate annual adjustments to allocations and distributions to the State and local units for snow removal costs, engineering expenditures, and mileage transfers.

ADARS had 1,371 user accounts as of July 17, 2017. The 616 local units, several MDOT administrative staff, and local and State auditors require access to ADARS. Because of a significant number of users being non-State employees, MDOT relies on self-reporting by local units for editing or deleting user accounts. MDOT also relies on security* access measures of MiLogin*.

AUDIT OBJECTIVE

To assess the timeliness and accuracy of MDOT's allocation and distribution of Act 51-related funding.

CONCLUSION

Timely and accurate.

FACTORS IMPACTING CONCLUSION

- MDOT accurately calculated Act 51 deductions and allocations for fiscal years 2015 and 2016 and March 2017.
- MDOT accurately calculated distributions to 10 selected local units for fiscal years 2015 and 2016 and March 2017.
- MDOT accurately calculated, in all material respects, annual adjustments for snow removal costs for fiscal years 2015, 2016, and 2017 and subsequent distribution amounts for fiscal years 2016 and 2017.
- MDOT accurately calculated, in all material respects, annual adjustments for mileage transfers for fiscal years 2015 and 2016.

* See glossary at end of report for definition.

- MDOT ensured that monthly distributions to local units were completed in a timely manner and appropriately approved.
- Reportable condition* related to the need to fully establish security management and access controls* over ADARS.

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

FINDING #1

Security improvements needed over ADARS.

MDOT, in conjunction with the Department of Technology, Management, and Budget (DTMB), needs to fully establish security management and access controls over ADARS to help prevent unauthorized or inappropriate access.

DTMB Technical Standard 1340.00.020.01 requires agencies to implement baseline controls ensuring that users are only granted access which is necessary to accomplish assigned tasks in accordance with roles and responsibilities of their job functions. The Standard also requires that separation of duties* must be implemented through assigned information system access authorizations and that accounts should be reviewed for compliance with account management requirements every 120 days. In addition, the U.S. Government Accountability Office's (GAO's) Federal Information System Controls Audit Manual* recommends that compensating controls, such as additional monitoring and supervision, should be in place where segregation of duties* conflicts exist.

Our review of security management and access controls for ADARS disclosed:

- a. MDOT did not review the user access rights in ADARS every 120 days in accordance with DTMB Technical Standard 1340.00.020.01.

We identified 4 individuals who were no longer employed by MDOT with active user accounts. Subsequent to our review, MDOT informed us that it deleted the user accounts for these individuals.

- b. MDOT did not properly authorize and monitor users with incompatible roles. We noted:

- (1) Neither MDOT nor DTMB were able to provide an official list of incompatible roles.

- (2) Two MDOT Financial Operations Division employees had the ability to edit mileage in ADARS, which is the responsibility of MDOT's Bureau of Transportation Planning.

- (3) Two local user accounts had both county roles and city and village roles. MDOT informed us that it removed the inappropriate roles after we brought the matter to MDOT's attention.

MDOT informed us that because of limited resources and time constraints for other priority projects, it has yet to address the revisions to DTMB Technical Standard 1340.00.020.01.

* See glossary at end of report for definition.

RECOMMENDATION

We recommend that MDOT, in conjunction with DTMB, fully establish security management and access controls over ADARS.

**AGENCY
PRELIMINARY
RESPONSE**

MDOT provided us with the following response:

MDOT generally agrees with the recommendation.

In regard to part a., although the finding did not identify instances of unauthorized use or inappropriate access to ADARS, MDOT intends to implement a new policy to review all MDOT-employee ADARS users for proper access every 120 days. For external users of ADARS, because of their unique business processes and needs, MDOT does not plan to evaluate access every 120 days. Many of the over 1,400 external users only access the application every six months, or yearly. However, as a compensating control, MDOT established a System owner/System administrator guidance policy and intends to evaluate external-user access every six months.

In regard to part b., MDOT is developing a list of incompatible roles and intends to review all users for incompatibilities.

MONITORING AND REPORTING ON THE USE OF ACT 51-RELATED FUNDS

BACKGROUND

Public Act 51 of 1951, as amended, provides conditions for the use and administration of funds from MTF. During fiscal year 2016, MDOT distributed \$1.0 billion from MTF under the provisions of Act 51 to local units.

MDOT monitors local units' use and administration of MTF through annually required Act 51 reports*. The local units submit Act 51 reports to MDOT using ADARS. MDOT also uses the local units' financial audits, which are required by the Department of Treasury (Treasury), to monitor compliance with certain provisions of Act 51.

In addition to annual Act 51 reporting, Public Act 298 of 2012 amended Act 51 to allow MDOT to conduct performance audits at its discretion related to the activities and funding prescribed in Act 51. In March 2015, MDOT required all 616 local units to obtain an Act 51 performance audit conducted by the local units' certified public accountant (CPA) firms.

MDOT required Act 51 performance audit reports to be submitted within six months of the local units' fiscal year-end. Initial performance audit reports were due as early as March 31, 2017. On October 26, 2017, MDOT informed the local units that these performance audits were no longer required to be submitted to MDOT, and MDOT would reimburse the local units for the cost of performance audits conducted. Prior to this notification, MDOT had received over 81 (13%) Act 51 performance audits.

AUDIT OBJECTIVE

To assess the sufficiency of MDOT's processes for monitoring and reporting on the use of Act 51-related funds.

CONCLUSION

Sufficient, with exceptions.

FACTORS IMPACTING CONCLUSION

- MDOT sufficiently monitored the 25 Act 51 reports that we reviewed for the audit period.
- MDOT appropriately withheld disbursements* for 7 noncompliant local units that we reviewed for the audit period.
- MDOT sufficiently monitored the use of funds in the State Trunkline Fund* in compliance with select Act 51 requirements during our audit period.

* See glossary at end of report for definition.

- ADARS appropriately recorded report submissions, extensions, and approvals for the Act 51 reports submitted by the local units.
- Reportable condition related to the need for MDOT to more clearly define its Act 51 performance audit processes and expectations, which were previously the responsibility of Treasury.

FINDING #2

MDOT's Act 51 performance audit processes should be defined.

MDOT should more clearly define its processes and expectations for performance audits of local units of government and their use of Act 51-related funds.

These audits were previously Treasury's responsibility and the requirement for Treasury indicated that it *must* complete the audits. Public Act 298 of 2012, effective August 2012, transferred the responsibility to MDOT and states that the department *may* conduct performance audits and make investigations of the disposition of all State funds received by local units to determine compliance with the terms and conditions of Act 51.

MDOT should:

- a. Develop a risk assessment to identify higher risk entities and activities for audit.

In March 2015, MDOT informed all 616 local units that they were responsible for obtaining Act 51 performance audits and instructed the local units to contract the audits with the CPA firms completing their annual financial audits required by Treasury.

MDOT informed us that, even though the law was amended to indicate that the department may complete these audits, it believed that the Legislature still anticipated that performance audits would be conducted of all 616 local units. MDOT also informed us that it instructed local units to contract with CPA firms because it did not receive an increase in appropriations to conduct the Act 51 performance audits and that, with its current resources, MDOT could not complete the audits.

Effective risk assessment procedures would allow for a more focused use of resources. Also, these audits would help MDOT ensure that funds are expended in accordance with the Act and corresponding activities are completed effectively and efficiently.

- b. Clearly define audit objectives (for example, effectiveness*, efficiency*, and compliance) and provide specific guidance related to the portions of Act 51 that MDOT expects to be included in the audit scope.

In October 2017, MDOT notified the local units that they would no longer be required to submit Act 51 performance audits and that costs incurred related to performance audits could be remitted to MDOT for reimbursement. MDOT informed the local units that these audits were discontinued because of concerns regarding the value of the audits.

* See glossary at end of report for definition.

Audit objectives directed at high-risk or high-dollar areas, along with specific guidance for auditors, would help provide consistent and valuable information.

- c. Improve monitoring procedures to address items such as overdue audit reports, receipt of corrective action plans, and management's review of findings identified in the Act 51 performance audits.

MDOT's manual tracking spreadsheet for fiscal year 2017 was incomplete as of July 31, 2017. We noted that the annual performance audits were not submitted within the time period specified by MDOT for 69 (66%) of 104 local units. We also noted that submitted audits contained various findings including missing approvals, administrative expenditures in excess of allowable amount, and potential unallowable costs.

MDOT informed us that staff leave of absence led to delayed development of monitoring policies and procedures. MDOT also informed us that it was in the process of improving a manual monitoring process when it decided to discontinue the Act 51 performance audits.

Monitoring procedures would allow issues to be addressed efficiently and effectively.

RECOMMENDATION

We recommend that MDOT more clearly define its processes and expectations for performance audits of local units of government and their use of Act 51-related funds.

**AGENCY
PRELIMINARY
RESPONSE**

MDOT provided us with the following response:

MDOT agrees that defined processes might be helpful relative to audits of Act 51 funds and will consider the utility of developing such processes in coordination with the Legislature and other affected entities.

SUPPLEMENTAL INFORMATION

UNAUDITED
Exhibit #1

ADMINISTRATION OF ACT 51-RELATED FUNDS

Michigan Department of Transportation

Available Transportation Dedicated Funds
October 1, 2013 Through September 30, 2016

	Fiscal Year Ended September 30			Three-Year Total
	2014	2015	2016	
Receipts:				
Gasoline tax	\$ 833,540,073	\$ 866,115,767	\$ 889,879,441	\$ 2,589,535,281
Diesel fuel tax	113,697,246	116,960,117	120,963,436	351,620,799
Liquid petroleum gas tax	430,066	428,926	448,859	1,307,851
Total motor fuel taxes	<u>\$ 947,667,385</u>	<u>\$ 983,504,810</u>	<u>\$ 1,011,291,736</u>	<u>\$ 2,942,463,931</u>
Diesel carrier tax	\$ 25,106,866	\$ 19,738,962	\$ 20,109,684	\$ 64,955,512
Diesel dealer license	51,700	31,200	31,300	114,200
Total diesel taxes	<u>\$ 25,158,566</u>	<u>\$ 19,770,162</u>	<u>\$ 20,140,984</u>	<u>\$ 65,069,712</u>
Resident weight tax	\$ 878,705,678	\$ 914,311,252	\$ 953,947,454	\$ 2,746,964,384
Nonresident weight tax	57,736,185	59,416,473	51,831,947	168,984,605
Total weight taxes	<u>\$ 936,441,863</u>	<u>\$ 973,727,725</u>	<u>\$ 1,005,779,401</u>	<u>\$ 2,915,948,989</u>
Miscellaneous revenue	<u>\$ 43,128,334</u>	<u>\$ 43,004,057</u>	<u>\$ 47,621,016</u>	<u>\$ 133,753,407</u>
Interest earnings	<u>\$ 92,424</u>	<u>\$ 134,827</u>	<u>\$ 599,551</u>	<u>\$ 826,802</u>
Total gross receipts	<u>\$ 1,952,488,572</u>	<u>\$ 2,020,141,581</u>	<u>\$ 2,085,432,688</u>	<u>\$ 6,058,062,841</u>

Source: The OAG compiled these amounts based on information obtained from MDOT.

ADMINISTRATION OF ACT 51-RELATED FUNDS
Michigan Department of Transportation

Deductions From and Allocations of Transportation Dedicated Funds
October 1, 2013 Through September 30, 2016

	Fiscal Year Ended September 30			Three-Year Total
	2014	2015	2016	
Deductions:				
Recreation Fund*	\$ 16,519,308	\$ 17,170,822	\$ 17,646,095	\$ 51,336,225
Transportation Economic Development Fund*	\$ 41,035,500	\$ 41,054,600	\$ 41,052,300	\$ 123,142,400
State Trunkline Fund:				
Local Program Fund*	\$ 33,000,000	\$ 33,000,000	\$ 33,000,000	\$ 99,000,000
Local Bridge Fund*	29,341,550	30,120,474	30,892,316	90,354,340
Local Agency Wetland Mitigation Bank Fund	N/A	N/A	2,000,000	2,000,000
Movable Bridge Fund Program	N/A	N/A	5,000,000	5,000,000
Rail crossing	3,000,000	3,000,000	3,000,000	9,000,000
Administrative grants	20,773,000	26,074,700	26,005,737	72,853,437
Debt service	43,000,000	43,000,000	43,000,000	129,000,000
Total State Trunkline Fund	\$ 129,114,550	\$ 135,195,174	\$ 142,898,053	\$ 407,207,777
General Fund:				
Department of State	\$ 20,000,000	\$ 20,000,000	\$ 19,999,992	\$ 59,999,992
Department of Treasury	2,500,000	2,700,000	2,700,000	7,900,000
Departments of Natural Resources and Environmental Quality	1,285,700	1,312,800	1,310,496	3,908,996
Office of the Auditor General	296,000	172,893	309,600	778,493
Total General Fund	\$ 24,081,700	\$ 24,185,693	\$ 24,320,088	\$ 72,587,481
Total deductions	\$ 210,751,058	\$ 217,606,289	\$ 225,916,536	\$ 654,273,883
Allocations:				
State Trunkline Fund	\$ 626,903,983	\$ 649,363,511	\$ 669,198,756	\$ 1,945,466,250
Comprehensive Transportation Fund*	166,722,616	172,204,225	178,164,329	517,091,170
Counties	603,251,993	624,406,350	643,952,437	1,871,610,780
Cities and villages	344,870,247	356,561,206	368,200,629	1,069,632,082
Total allocations	\$ 1,741,748,839	\$ 1,802,535,292	\$ 1,859,516,151	\$ 5,403,800,282
Total deductions and allocations	\$ 1,952,499,897	\$ 2,020,141,581	\$ 2,085,432,687	\$ 6,058,074,165

N/A = Not applicable.

* See glossary at end of report for definition.

This exhibit continued on next page.

ADMINISTRATION OF ACT 51-RELATED FUNDS
Michigan Department of Transportation

Deductions From and Allocations of Transportation Dedicated Funds
October 1, 2013 Through September 30, 2016

Top 5 County Distributions

County:	Fiscal Year Ended September 30			Three-Year Total
	2014	2015	2016	
Oakland	\$ 62,436,451	\$ 64,728,096	\$ 67,025,006	\$ 194,189,553
Wayne	\$ 59,156,233	\$ 60,677,707	\$ 62,234,000	\$ 182,067,940
Macomb	\$ 39,087,499	\$ 40,791,096	\$ 42,087,374	\$ 121,965,969
Kent	\$ 30,607,021	\$ 31,732,994	\$ 33,018,729	\$ 95,358,744
Genesee	\$ 21,235,816	\$ 21,722,278	\$ 22,339,479	\$ 65,297,573

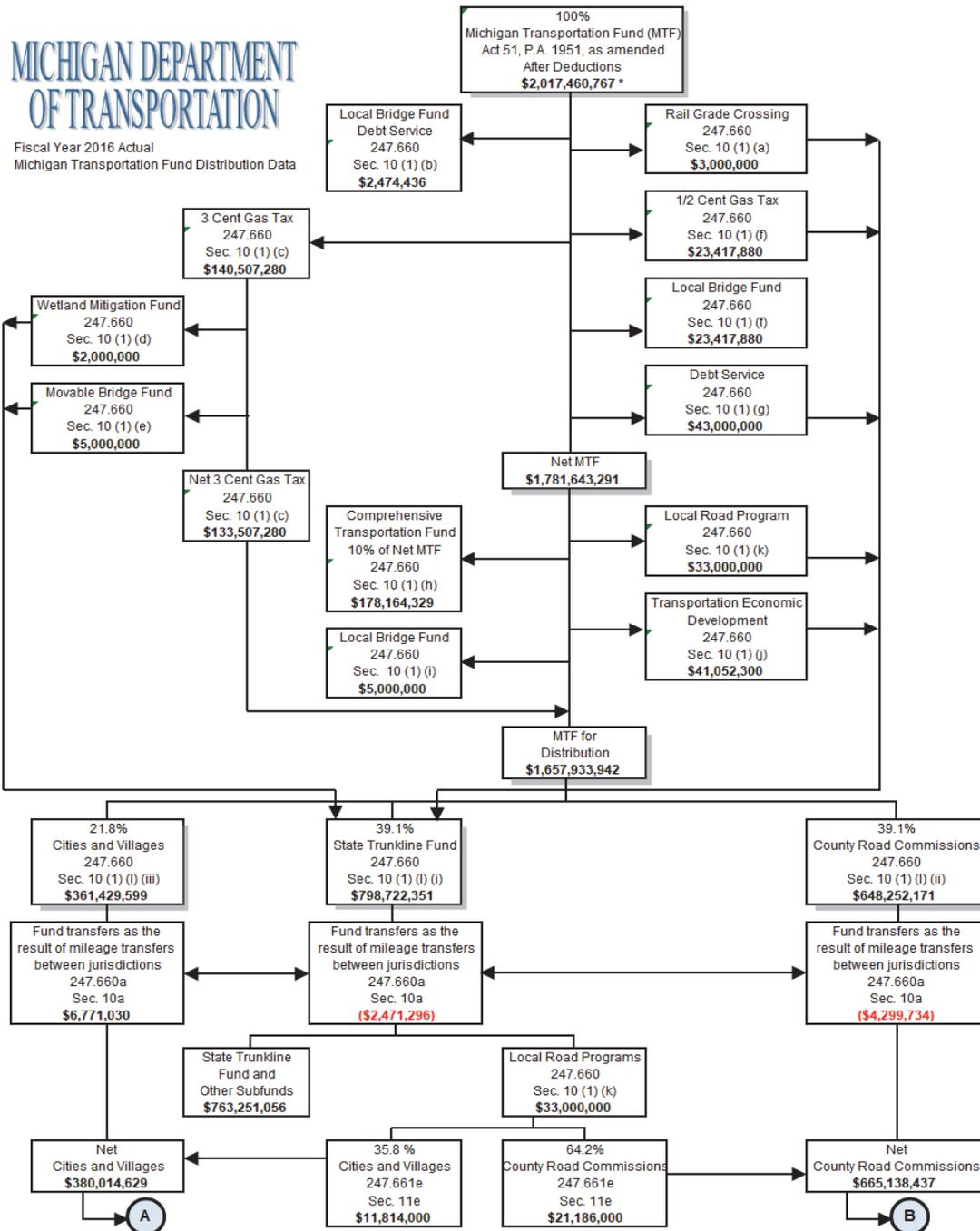
Top 5 City and Village Distributions

City or Village:	Fiscal Year Ended September 30			Three-Year Total
	2014	2015	2016	
Detroit	\$ 54,202,186	\$ 56,018,315	\$ 57,709,316	\$ 167,929,817
Grand Rapids	\$ 13,665,119	\$ 14,105,436	\$ 14,542,434	\$ 42,312,990
Flint	\$ 8,665,250	\$ 8,945,046	\$ 9,223,167	\$ 26,833,463
Warren	\$ 8,570,982	\$ 8,849,949	\$ 9,124,608	\$ 26,545,539
Lansing	\$ 8,436,872	\$ 8,712,537	\$ 8,987,335	\$ 26,136,743

Source: The OAG compiled these amounts based on information obtained from MDOT's Web site.

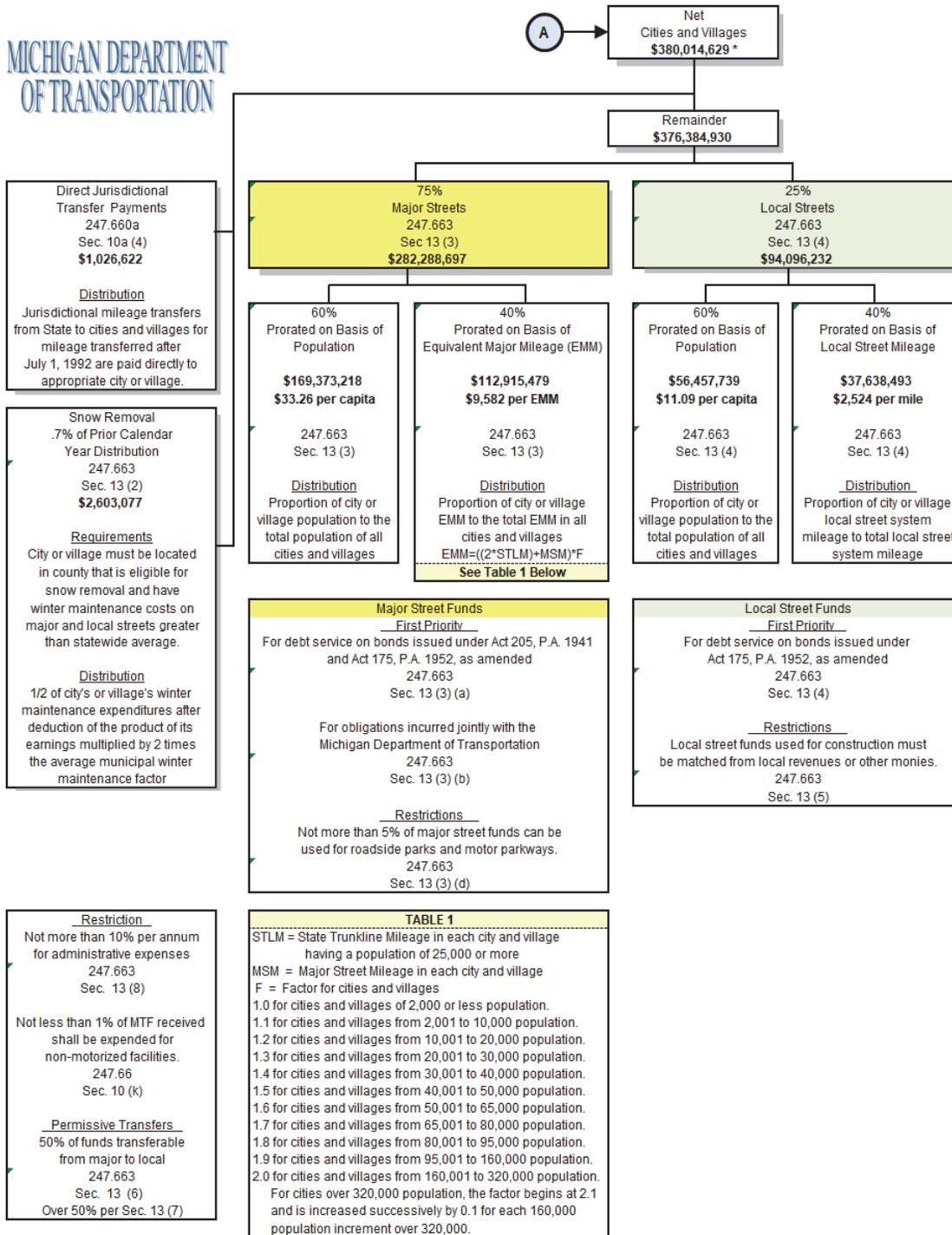
ADMINISTRATION OF ACT 51-RELATED FUNDS
Michigan Department of Transportation

**Flow Chart of Actual Michigan Transportation Fund Distribution Data
For Fiscal Year 2016**

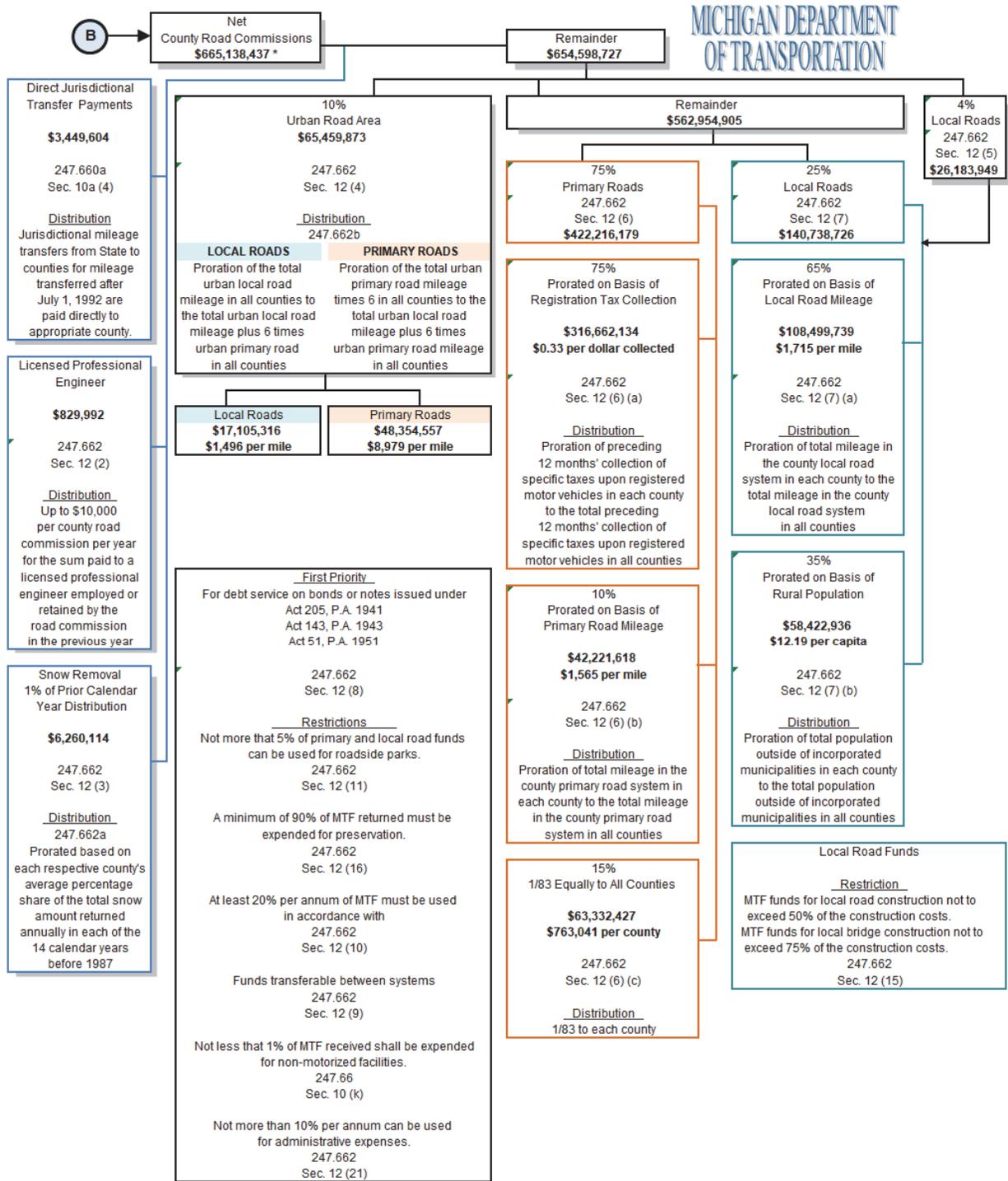


* All dollar amounts based on actual cash basis distribution, including Local Road Programs, for the fiscal year from October 1, 2015 through September 30, 2016.

MICHIGAN DEPARTMENT
OF TRANSPORTATION



* All dollar amounts based on actual cash basis distribution, including Local Road Programs, for the fiscal year from October 1, 2015 through September 30, 2016.



* All dollar amounts based on actual cash basis distribution, including Local Road Programs, for the fiscal year from October 1, 2015 through September 30, 2016.

Source: The OAG prepared this flow chart from information provided by MDOT.

DESCRIPTION

Public Act 51 of 1951, as amended (Sections 247.651 - 247.675 of the *Michigan Compiled Laws*), established MTF as the depository for revenues, such as vehicle registration fees and gasoline and diesel fuel taxes. After various statutory deductions, the revenue is allocated to the State (39.1%), counties (39.1%), and cities and villages (21.8%). Subsequent distributions to each of the 83 counties and 533 cities and villages are based on miles of roadway, population, and vehicle registrations. Act 51 requires annual adjustments to the revenue allocated to the State and local units based on snow removal costs, engineering expenditures, and mileage transfers.

Act 51 restricts the use of disbursed funds to transportation-related activities, such as road preservation, road maintenance, road construction, and snow removal. Act 51 describes minimum and maximum expenditures and reporting requirements. For example, the State and local units cannot expend more than 8% and 10% of MTF, respectively, on administrative costs and both must spend at least an average of 1% on non-motorized transportation services. Act 51 requires local units to report to MDOT on the use of funds through submission of the Act 51 reports.

Prior to August 23, 2012, Act 51 also required Treasury to conduct performance audits to determine local units' compliance with the terms and conditions of Act 51. Public Act 298 of 2012 amended Act 51 and transferred the authority to conduct performance audits to MDOT at its discretion.

From October 1, 2013 through September 30, 2016, \$6.1 billion in transportation dedicated funding was deposited into MTF (see Exhibit #1). For that time period, the amount of deductions from MTF and allocations to MDOT and local units equaled the funding amount (see Exhibit #2).

AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

AUDIT SCOPE

To examine and evaluate MDOT's administration of Act 51-related funds. We conducted this performance audit* in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered October 1, 2014 through July 31, 2017.

METHODOLOGY

We conducted a preliminary survey to gain an understanding of MDOT's administration of Act 51-related funds and to establish our audit objectives, scope, and methodology. During our preliminary survey, we:

- Interviewed program personnel regarding their functions and responsibilities to obtain an understanding of the processes that MDOT used in allocating, distributing, and monitoring Act 51-related funds.
- Reviewed applicable State laws, administrative rules, appropriations, flow charts, and policies and procedures.
- Researched statistics of other comparative states.
- Reviewed Act 51 required report submissions by MDOT and local units.
- Reviewed ADARS data dictionary, user role description, and instructions.
- Recalculated total Act 51 deductions and allocations for fiscal years 2015 and 2016 and March 2017.
- Recalculated distributions for fiscal years 2015 and 2016 and March 2017 for 3 local units.
- Reviewed 6 annual Act 51 report submissions and MDOT's monitoring and follow-up efforts.
- Obtained an understanding of MDOT's efforts related to performance audits in monitoring Act 51-related funds.

* See glossary at end of report for definition.

OBJECTIVE #1

To assess the timeliness and accuracy of MDOT's allocation and distribution of Act 51-related funding.

To accomplish this objective, we:

- Recalculated total Act 51 deductions and allocations for fiscal years 2015 and 2016 and March 2017.
- Recalculated distributions for fiscal years 2015 and 2016 and March 2017 for 6 randomly sampled and 4 judgmentally selected local units. Therefore, we could not project our results to the entire population.
- Recalculated total annual snow removal cost adjustments for counties and cities and villages for fiscal years 2015, 2016, and 2017.
- Recalculated the distribution of annual snow removal cost adjustments for 53 counties. We recalculated the distribution of annual snow removal cost adjustments for 3 judgmentally selected cities and villages of 120 for fiscal year 2016 and 3 judgmentally selected cities and villages of 124 for fiscal year 2017. Therefore, we could not project our results to the entire population.
- Recalculated annual mileage transfer adjustments for fiscal years 2015 and 2016.
- Completed data analysis of the Michigan Administrative Information Network* (MAIN) and ADARS for vendor verification, distribution timeliness, and appropriate authorizations.
- Reviewed user access and roles for ADARS.

OBJECTIVE #2

To assess the sufficiency of MDOT's processes for monitoring and reporting on the use of Act 51-related funds.

To accomplish this objective, we:

- Reviewed a total of 25 annual Act 51 report submissions during our audit period and MDOT's monitoring and follow-up efforts. We randomly sampled 22 and judgmentally selected 3 high-dollar Act 51 report submissions. Therefore, we could not project our results to the entire population.
- Compared MDOT's monitoring process of annual Act 51 reporting and noncompliance checklist with Act 51 requirements.
- Reviewed the appropriateness of withholdings of 4 local units in fiscal years 2015 and 2016 and 3 local units

* See glossary at end of report for definition.

from October 2016 through April 2017. We randomly sampled 2 local units from fiscal years 2015 and 2016, randomly sampled 1 local unit from October 2016 through April 2017, and judgmentally selected 2 local units from October 2014 through April 2017 from a total population of 305. Therefore, we could not project our results to the entire population.

- Reviewed MDOT's efforts toward monitoring the use of funds in the State Trunkline Fund to select Act 51 requirements.
- Obtained an understanding of MDOT's efforts related to conducting performance audits for monitoring Act 51-related funds.
- Assessed MDOT's tracking and review of submitted performance audits.
- Surveyed 41 local units about performance audit resources and requirements. We randomly sampled 33 and judgmentally selected 8 local units. In addition, only 34 local units responded. Therefore, we could not project our results to the entire population.
- Compared 6 judgmentally selected annual Act 51 reporting totals with audited financial statements submitted to Treasury for data verification for fiscal years 2015 and 2016. Therefore, we could not project our results to the entire population.
- Completed data analysis of ADARS for sufficiency of authorizations, extensions, and report submission and review.

CONCLUSIONS

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

When selecting activities or programs for audit, we direct our efforts based on risk and opportunities to improve State government operations. Consequently, we prepare our performance audit reports on an exception basis.

AGENCY RESPONSES

Our audit report contains 2 findings and 2 corresponding recommendations. MDOT's preliminary response indicates that it agrees with both of the recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion at the end of our fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and

* See glossary at end of report for definition.

the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require an audited agency to develop a plan to comply with the recommendations and to submit it 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.

PRIOR AUDIT FOLLOW-UP

Following is the status of the reported findings from our September 2012 performance audit of the Administration of Act 51, P.A. 1951, as amended, Michigan Department of Transportation and Department of Treasury (591-0410-12):

Prior Audit Finding Number	Topic Area	Current Status	Current Finding Number
1	Performance Audits Conducted by the Department of Treasury	No longer applicable.	

SUPPLEMENTAL INFORMATION

Our audit report includes supplemental information presented as Exhibits #1 through #3. Our audit was not directed toward expressing a conclusion on this information.

GLOSSARY OF ABBREVIATIONS AND TERMS

access controls	Controls that protect data from unauthorized modification, loss, or disclosure by restricting access and detecting inappropriate access attempts.
Act 51	Public Act 51 of 1951, as amended (Sections 247.651 - 247.675 of the <i>Michigan Compiled Laws</i>).
Act 51 Distribution and Reporting System (ADARS)	A system used for calculating distributions of funds in MTF and for annual Act 51 reporting.
Act 51 report	An annual financial report prepared by local units and forwarded to MDOT that presents a financial picture of all revenues, expenditures, and funds associated with the local units' road work. The report also provides a schedule of the local units' road mileage and population.
allocation	For the purposes of this report, an amount assigned to the State, counties, and cities and villages, including the statutory MTF split of 39.1% (State), 39.1% (counties), and 21.8% (cities and villages), and total adjustments for snow removal costs, engineering expenditures, and mileage transfers.
Comprehensive Transportation Fund	A fund created by Act 51 to distribute funds to eligible authorities for public transportation purposes.
CPA	certified public accountant.
deduction	For the purposes of this report, an amount assigned to agencies and other funds before allocation of funds in MTF to the State, counties, and cities and villages.
disbursement	For the purposes of this report, an amount paid from a fund.
distribution	For the purposes of this report, an amount calculated to go to a local unit of government.
DTMB	Department of Technology, Management, and Budget.
effectiveness	Success in achieving mission and goals.

efficiency	Achieving the most outputs and the most outcomes practical with the minimum amount of resources.
Federal Information System Controls Audit Manual (FISCAM)	A methodology published by the U.S. Government Accountability Office (GAO) for performing information system control audits of federal and other governmental entities in accordance with <i>Government Auditing Standards</i> .
Local Bridge Fund	A fund established in Treasury that provides financial assistance to highway authorities for the preservation, improvement, or reconstruction of existing bridges or for the construction of bridges to replace existing bridges in whole or in part.
Local Program Fund	A fund created within the State Trunkline Fund for the purpose of receiving funds allocated from MTF and from the State Trunkline Fund. Funds received shall be distributed 64.2% to the county road commissions of the State and 35.8% to the cities and villages of the State.
local unit of government (local unit)	Any of the 83 county road commissions or 533 cities and villages of Michigan.
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 supported accounting, purchasing, and other financial management activities through fiscal year 2017.
Michigan Transportation Fund (MTF)	A fund set up in Treasury to receive money collected under the Motor Fuel Tax Act and taxes, fees, licenses, and other money received and collected under sections of the Michigan Vehicle Code.
MiLogin	The State of Michigan Identity, Credential, and Access Management (MICAM) solution. MiLogin provides enhanced single sign-on capabilities in addition to meeting other business requirements and security and compliance needs.
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.
Recreation Fund	A fund established to provide for the operation, maintenance, and development of recreation trails and restoration of lands damaged by off-road vehicles and inland lake cleanup.
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.
security	Safeguarding an entity's data from unauthorized access or modification to ensure its availability, confidentiality, and integrity.
segregation of duties	Separation of the management or execution of certain duties or areas of responsibility to prevent or reduce opportunities for unauthorized modification or misuse of data or service; also known as separation of duties.
State Trunkline Fund	A fund established in the Department of Treasury to appropriate funds to MDOT for the payment of bonds or obligations; for preservation of the State trunkline system and bridges; and for the opening, widening, improving, construction, and reconstruction of State trunkline highways and bridges.
Transportation Economic Development Fund	A fund that provides a means for State government and local agencies to enhance the ability of the State to compete in an international economy, to serve as a catalyst for economic growth of the State, and to improve the quality of life in the State.
Treasury	Department of Treasury.



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