

Office of the Auditor General
Performance Audit Report

**State Agencies' Use of
Transportation-Related Funding**

January 2021

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.

The auditor general may make investigations pertinent to the conduct of audits.

Article IV, Section 53 of the Michigan Constitution



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Office of the Auditor General

Report Summary

Performance Audit State Agencies' Use of Transportation- Related Funding

Report Number:
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Public Act 207 of 2018 and Public Act 107 of 2017 require State agencies that are appropriated funding from transportation funds to support tax and fee collection, law enforcement, 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 use a risk-based approach in developing an audit program for the use of transportation funds.

Audit Objective			Conclusion
Objective #1: To assess 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.		

Audit Objective			Conclusion
Objective #2: To assess the selected State agencies' compliance with 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.		

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January 27, 2021

Mr. Todd Wyett, Chair
State Transportation Commission
and
Paul C. Ajegba, PE, Director
Michigan Department of Transportation
Murray D. Van Wagoner Transportation Building
Lansing, Michigan

Dear Mr. Wyett and Mr. Ajegba:

This is our performance audit report on the State Agencies' Use of Transportation-Related Funding.

As you are aware, when our preliminary survey does not identify significant concerns to warrant completing the audit, we issue a preliminary survey summary. For this project, we went forward with the audit because of the increased public and legislative interest in State agencies' use of transportation-related funding and the appropriateness of the expenditures.

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 207 of 2018 and Public Act 107 of 2017 (the annual appropriations acts for the Michigan Department of Transportation [MDOT] for fiscal years 2019 and 2018, respectively), State agencies shall expend appropriated transportation funding to support 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 Public Acts 207 of 2018 and 107 of 2017. Also, this section includes State agencies' transactions to fund the Civil Service Commission for transportation-funded employees.
- **Miscellaneous charges:** This section represents 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 207 of 2018 and Public Act 107 of 2017.
- **Unreimbursed costs:** This section represents transportation-related costs that were incurred by the State agencies but were not reimbursed by transportation revenue.

AUDIT OBJECTIVE

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

CONCLUSION

Appropriate.

FACTORS IMPACTING CONCLUSION

- Selected State agencies appropriately charged interdepartmental contract and miscellaneous charges to transportation funds.
- Selected State agencies accurately implemented cost allocation methodologies that reflected actual costs.
- MDOT conducted reconciliations to help ensure that State agency charges to transportation funds were appropriate.

CONTRACTUAL AND REPORTING REQUIREMENTS

BACKGROUND

MDOT's annual appropriations acts for fiscal years 2019 and 2018 require that:

- Contracts shall be executed between State agencies and MDOT prior to the expenditure or obligation of appropriated transportation funds.
- Contracts shall provide the following data applicable to each State agency:
 - Estimated costs to be recovered from transportation funds.
 - A description of the services provided and 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.
- State agencies must annually report to MDOT, the State Budget Director, and the House and Senate Fiscal Agencies 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 to the transportation funds.
 - Unreimbursed costs incurred but not billed to the transportation funds.

AUDIT OBJECTIVE

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

CONCLUSION

Complied.

FACTORS IMPACTING CONCLUSION

- Selected State agencies complied with the following contractual and reporting requirements:
 - Contracts were executed prior to the expenditure or obligation of transportation funds.

- Contracts included estimated costs to be recovered from and a description of the services financed by transportation funds.
- Contracts included detailed cost allocation methodologies that were appropriate to the types of services being provided and the activities financed with transportation funds.
- Annual reports contained the required information.

SUPPLEMENTAL INFORMATION

Exhibit #1

STATE AGENCIES' USE OF TRANSPORTATION-RELATED FUNDING

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

	<u>2019</u>	<u>2018</u>
CHARGES TO TRANSPORTATION FUNDS		
<u>Interdepartmental Contract Charges</u>		
State Trunkline Fund		
IT services and projects	\$ 34,721,600	\$ 32,452,200
Central support services	1,495,100	1,199,300
MAIN and SIGMA user charges	895,300	881,800
State Aeronautics Fund		
IT services and projects	92,436	104,641
Central support services	40,100	34,600
MAIN and SIGMA user charges	24,000	25,400
Comprehensive Transportation Fund		
IT services and projects	65,782	216,516
Central support services	54,800	45,500
MAIN and SIGMA user charges	32,800	33,400
Blue Water Bridge Fund		
IT services and projects	31,714	27,605
Central support services	27,800	20,900
MAIN and SIGMA user charges	16,800	15,400
Economic Development Fund		
IT services and projects	33,934	27,033
Total interdepartmental contract charges	<u>\$ 37,532,166</u>	<u>\$ 35,084,295</u>
<u>Miscellaneous Charges</u>		
State Trunkline Fund		
IT services and projects	\$ 14,849,087	\$ 14,241,708
Building occupancy charges	4,859,375	4,770,024
Motor Transport Fund	2,858,251	2,359,219
Risk Management Fund	1,431,502	1,939,599
Office Services Revolving Fund	314,987	327,644
Other fees and services	231,477	237,520
State Aeronautics Fund		
IT services and projects	35,995	41,618
Motor Transport Fund	21,209	2,929
Risk Management Fund	25,354	33,860
Office Services Revolving Fund	37,815	46,806
Other fees and services	1,099	549
Comprehensive Transportation Fund		
IT services and projects	25,827	27,390
Motor Transport Fund	7,327	
Risk Management Fund	467	483
Office Services Revolving Fund	4,665	4,849
Other fees and services	6,638	

STATE AGENCIES' USE OF TRANSPORTATION-RELATED FUNDING

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

CHARGES TO TRANSPORTATION FUNDS	2019	2018
Miscellaneous Charges		
Blue Water Bridge Fund		
IT services and projects	333,479	310,633
Motor Transport Fund	17,332	
Office Services Revolving Fund	518	390
Transportation Related Trust Funds		
IT services and projects	39,411	
Office Services Revolving Fund	5,260	
Economic Development Fund		
IT services and projects	4,298	4,742
Office Services Revolving Fund		26
Total miscellaneous charges	<u>\$ 25,111,373</u>	<u>\$ 24,349,989</u>
TOTAL CHARGES	\$ 62,643,539	\$ 59,434,284
UNREIMBURSED COSTS		
State Trunkline Fund		
Building occupancy charges*	\$ (930,439)	\$ (1,076,896)
Central support services	(285,559)	(491,964)
MAIN and SIGMA user charges	(1,308,111)	(690,238)
State Aeronautics Fund		
Central support services	(2,229)	(6,951)
MAIN and SIGMA user charges	(28,379)	(13,222)
Comprehensive Transportation Fund		
Central support services	2,469	(8,005)
MAIN and SIGMA user charges	(31,954)	(16,333)
Blue Water Bridge Fund		
Central support services	(365)	(6,105)
MAIN and SIGMA user charges	<u>(18,052)</u>	<u>(9,702)</u>
TOTAL UNREIMBURSED COSTS	\$ (2,602,619)	\$ (2,319,416)

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

Notes to the Schedule of Transportation-Related Costs

- **Interdepartmental Contract Charges**

The Legislature appropriated \$35.7 million and \$33.5 million for IT services from transportation funds for fiscal years 2019 and 2018, respectively, to the Department of Technology, Management, and Budget (DTMB). DTMB incurred and encumbered transportation-related costs for administering and implementing IT services of \$34.9 million and \$32.8 million in fiscal years 2019 and 2018, respectively.

The Legislature also appropriated interdepartmental grants from transportation funds of \$1.6 million and \$1.3 million for central support costs to DTMB for fiscal years 2019 and 2018, respectively. In addition to the grants, the annual contract between DTMB and MDOT included \$1.0 million for Michigan Administrative Information Network* (MAIN) and Statewide Integrated Governmental Management Applications* (SIGMA) user charges for each of fiscal years 2019 and 2018. DTMB incurred transportation-related costs of \$2.6 million and \$2.3 million for fiscal years 2019 and 2018, respectively, for central support services and MAIN and SIGMA user charges.

- **Miscellaneous Charges**

DTMB charged \$15.3 million and \$14.6 million in fiscal years 2019 and 2018, respectively, for additional IT projects, services, and equipment that DTMB provided to transportation funds that were not included in the general operating services in the interdepartmental grant.

Also, DTMB charged building occupancy costs of \$4.9 million and \$4.8 million for fiscal years 2019 and 2018, respectively, to the State Trunkline Fund for buildings occupied by MDOT personnel.

In addition, DTMB charged \$4.7 million for fiscal years 2019 and 2018 to the transportation funds for services provided using internal service funds, including:

- The Motor Transport Fund that provides vehicle and travel services.
- The Risk Management Fund that accounts for certain centralized risk management functions.
- The Office Services Revolving Fund that provides services such as printing, reproduction, mailing, microfilm, distribution of surplus property, and materials management.

Further, DTMB charged \$0.2 million for other fees and services, including MAIN and SIGMA security, parking, and miscellaneous operating projects for fiscal years 2019 and 2018.

- **Unreimbursed Costs**

DTMB did not report any unreimbursed costs related to IT services for fiscal years 2019 and 2018.

* See glossary at end of report for definition.

This exhibit continued on next page.

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 and SIGMA user charges, and building occupancy costs of \$2.6 million and \$2.3 million, respectively, for fiscal years 2019 and 2018.

- **Types of Services Provided and Cost Allocation Methodologies Used**

DTMB charged MDOT for costs associated with the delivery of IT services, central support services, MAIN and SIGMA user charges, building occupancy services, and multiple services from internal service funds. The cost allocation methodologies used for each service were as follows:

- 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 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 invoices.
- DTMB fee costs (standards, policy development, and strategic planning) are based on 0.5% of prior year DTMB IT expenditures.
- Administrative services and contract management costs are based on 1.6% of prior year DTMB IT expenditures.
- Michigan Cyber Security (computer security management) costs are actual payroll costs based on SIGMA Human Resource Management application's Time, Expense, Leave, and Labor* (TELL) component and support costs.
- Agency Services (liaison between DTMB and its agency customers) costs are actual payroll and support costs based on SIGMA TELL.
- Enterprise Portfolio Management (management of agency IT projects, software, and system portfolios) costs are actual payroll and support costs based on SIGMA TELL.
- Michigan Public Safety Communications System (Statewide radio communication for public safety) costs are actual payroll costs based on SIGMA TELL.
- 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.

* See glossary at end of report for definition.

This exhibit continued on next page.

- 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 and Active Directory* 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 and SIGMA user charges 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 fees and services costs (including MAIN and SIGMA security, parking, and miscellaneous operating projects) are based on actual expenditures.

* See glossary at end of report for definition.

Source: The OAG prepared this exhibit using information obtained from SIGMA and DTMB's and MDOT's records related to DTMB's use of transportation-related funding.

STATE AGENCIES' USE OF TRANSPORTATION-RELATED FUNDINGDepartment of State Transportation-Related Costs
Fiscal Years Ended September 30

	<u>2019</u>	<u>2018</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 contract charges	<u>\$ 20,000,000</u>	<u>\$ 20,000,000</u>
<u>Miscellaneous Charges</u>		
State Trunkline Fund		
Title, registration, and application fees	\$ 66	\$ 59
Total miscellaneous charges	<u>\$ 66</u>	<u>\$ 59</u>
TOTAL CHARGES	<u>\$ 20,000,066</u>	<u>\$ 20,000,059</u>
UNREIMBURSED COSTS		
Collection of transportation taxes and fees	\$ (13,073,539)	\$ (10,101,709)
TOTAL UNREIMBURSED COSTS	<u>\$ (13,073,539)</u>	<u>\$ (10,101,709)</u>

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Notes to the Schedule of Transportation-Related Costs

- **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 2019 and 2018. The Department charged \$20.0 million of transportation-related costs to MTF for each of fiscal years 2019 and 2018 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, related 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 \$13.1 million and \$10.1 million for administering and enforcing the collection of transportation taxes and fees for fiscal years 2019 and 2018, respectively.

- **Types of Services Provided and Cost Allocation Methodologies Used**

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 the MTF for collecting MTF revenues and maintaining related databases and records, regulating and monitoring automotive dealers, and administering the Driver Improvement Program and driver's 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 sale fees collected in TACF can be used to pay the necessary expenses incurred by the Department to administer and enforce the collection of 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 review is an after-the-fact analysis used to support the costs charged to MTF and to establish future funding levels.

Source: The OAG prepared this exhibit using information obtained from SIGMA and the Department of State's and MDOT's records related to the Department of State's use of transportation-related funding.

STATE AGENCIES' USE OF TRANSPORTATION-RELATED FUNDING

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

	<u>2019</u>	<u>2018</u>
CHARGES TO TRANSPORTATION FUNDS		
<u>Interdepartmental Contract Charges</u>		
State Trunkline Fund		
Commercial Vehicle Enforcement Division - Inspections and enforcement	\$ 7,787,027	\$ 7,822,005
Training Division - Traffic services	612,400	499,200
Criminal Justice Information Center - Traffic safety	604,137	698,500
IT services and projects	127,001	191,695
Departmental services	3,900	3,900
Total interdepartmental contract charges	<u>\$ 9,134,465</u>	<u>\$ 9,215,300</u>
<u>Miscellaneous Charges</u>		
State Trunkline Fund		
Construction work zone patrols	\$ 307,753	\$ 236,232
Training	12,292	9,107
Aircraft rentals		3,764
Other	600	
State Aeronautics Fund		
Aviation fuel	47,894	64,341
Total miscellaneous charges	<u>\$ 368,539</u>	<u>\$ 313,444</u>
TOTAL CHARGES	<u>\$ 9,503,004</u>	<u>\$ 9,528,744</u>

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Notes to the Schedule of Transportation-Related Costs

- **Interdepartmental Contract Charges**

The Legislature appropriated interdepartmental grants from the State Trunkline Fund of \$11.8 million and \$11.7 million to the Michigan Department of State Police (MSP) for fiscal years 2019 and 2018, respectively. MSP charged transportation-related costs of \$9.1 million and \$9.2 million in fiscal years 2019 and 2018, respectively, primarily for safety inspections and enforcement activities of the Commercial Vehicle Enforcement Division.

- **Miscellaneous Charges**

MSP's miscellaneous expenditures totaled \$0.4 million and \$0.3 million for fiscal years 2019 and 2018, respectively.

- **Unreimbursed Costs**

MSP did not report any unreimbursed costs for fiscal years 2019 and 2018.

- **Types of Services Provided and Cost Allocation Methodologies**

MSP's Commercial Vehicle Enforcement Division conducts safety inspections and enforcement activities for commercial vehicles. MSP used its automated Officer Daily System to allocate costs for commercial vehicle enforcement and to identify the percentage of time spent by motor carrier officers 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.

Also, traffic services activities conducted by MSP's Training Division are allocated based on a percentage of staff activities funded by the State Trunkline Fund.

In addition, MSP allocated personnel and operating costs for the Criminal Justice Information Center to three primary user departments, including MDOT, based on each department's use of traffic accident records data and proportionally shared costs for administrative functions.

Further, MSP:

- Allocated DTMB IT services charges in the same percentage as enforcement activities in the Commercial Vehicle Enforcement Division.
- Allocated support services expenditures for telecommunication services based on actual costs.
- Charged for miscellaneous expenditures related to construction work zone patrols, training, aircraft rentals, and aviation fuel based on actual costs.

Source: The OAG prepared this exhibit using information obtained from SIGMA and MSP's and MDOT's records related to MSP's use of transportation-related funding.

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

	<u>2019</u>	<u>2018</u>
CHARGES TO TRANSPORTATION FUNDS		
<u>Interdepartmental Contract Charges</u>		
State Trunkline Fund		
Civil service, collection, enforcement, and other	\$ 5,486,834	\$ 6,080,468
Blue Water Bridge Fund		
Civil service, collection, enforcement, and other	70,974	99,690
State Aeronautics Fund		
Civil service, collection, enforcement, and other	111,941	116,706
Comprehensive Transportation Fund		
Civil service, collection, enforcement, and other	170,784	201,311
Total interdepartmental contract charges	<u>\$ 5,840,533</u>	<u>\$ 6,498,175</u>
<u>Miscellaneous Charges</u>		
State Trunkline Fund		
Flexible spending administration	20,518	4,170
Applicable salaries and wages	65,147	125,906
Blue Water Bridge Fund		
Flexible spending administration	317	12,363
State Aeronautics Fund		
Flexible spending administration	355	353
Comprehensive Transportation Fund		
Flexible spending administration	579	7,004
Total miscellaneous charges	<u>\$ 86,916</u>	<u>\$ 149,796</u>
TOTAL CHARGES	<u><u>\$ 5,927,449</u></u>	<u><u>\$ 6,647,971</u></u>

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Notes to the Schedule of Transportation-Related Costs

- **Interdepartmental Contract Charges**
The Legislature appropriated interdepartmental grants from transportation funds of \$6.6 million and \$6.2 million to the Civil Service Commission for fiscal years 2019 and 2018, respectively. The Commission charged transportation-related costs of \$5.8 million and \$6.5 million in fiscal years 2019 and 2018, respectively, primarily for Commission activities and responsibilities regarding classified State of Michigan employees.
- **Miscellaneous Charges**
The Commission's miscellaneous expenditures totaled \$86,916 and \$149,796 for fiscal years 2019 and 2018, respectively.
- **Unreimbursed Costs**
The Commission did not report any unreimbursed costs for fiscal years 2019 and 2018.
- **Types of Services Provided and Cost Allocation Methodologies Used**
The Commission provided assistance and support for classified State employees. The Commission assessed 1.8% of the prior year's payroll to each State agency for its operations. If actual costs were lower for the year, the Commission refunded 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.

Source: The OAG prepared this exhibit using information from SIGMA and the Civil Service Commission's and MDOT's records related to the Civil Service Commission's use of transportation-related funding.

STATE AGENCIES' USE OF TRANSPORTATION-RELATED FUNDING

Summary of Agencies' Use of Transportation-Related Funding
Fiscal Year Ended September 30, 2019

Receiving Agency	Charges Paid by Fund										Agency Total
	State Trunkline	Michigan Transportation	State Aeronautics	Comprehensive Transportation	Blue Water Bridge	Combined Comprehensive Transportation Bond Proceeds	Combined State Trunkline Bond Proceeds	Combined State Trunkline Bond And Interest Redemption	Economic Development	Transportation Related Trust	
Department of Technology, Management, and Budget	\$ 61,656,679	\$	\$ 278,008	\$ 198,306	\$ 427,643	\$	\$	\$	\$ 38,232	\$ 44,671	\$ 62,643,539
Department of State	66	20,000,000									20,000,066
Michigan Department of State Police	9,455,110		47,894								9,503,004
Civil Service Commission	5,572,499		112,296	171,363	71,291						5,927,449
Department of Treasury	156,900	2,709,959	11,283	16,300	15,400	1,700	13,100	100		2,600	2,927,342
Department of Attorney General	1,826,933		123,468	38,362							1,988,763
Department of Environment, Great Lakes, and Energy *	103,046	1,352,660	1,068		100						1,456,874
Office of the Auditor General	748,200	272,100	31,000	39,800							1,091,100
Total for all agencies	\$ 79,519,433	\$ 24,334,719	\$ 605,017	\$ 464,131	\$ 514,434	\$ 1,700	\$ 13,100	\$ 100	\$ 38,232	\$ 47,271	\$ 105,538,137

*Effective April 7, 2019, the Department of Environmental Quality was renamed the Department of Environment, Great Lakes, and Energy by Executive Order No. 2019-02.

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

STATE AGENCIES' USE OF TRANSPORTATION-RELATED FUNDINGSummary of Agencies' Use of Transportation-Related Funding
Fiscal Year Ended September 30, 2018

Receiving Agency	Charges Paid by Fund										Agency Total
	State Trunkline	Michigan Transportation	State Aeronautics	Comprehensive Transportation	Blue Water Bridge	Combined Comprehensive Transportation Bond Proceeds	Combined State Trunkline Bond Proceeds	Combined State Trunkline Bond And Interest Redemption	Economic Development	Transportation Related Trust	
Department of Technology, Management, and Budget	\$ 58,409,014	\$	\$ 290,403	\$ 328,138	\$ 374,928	\$	\$	\$	\$ 31,801	\$	\$ 59,434,284
Department of State	59	20,000,000									20,000,059
Michigan Department of State Police	9,464,403		64,341								9,528,744
Civil Service Commission	6,210,544		117,059	208,315	112,053						6,647,971
Department of Treasury	169,800	2,666,897	10,563	12,700	15,700	2,200	8,600	1,900		3,200	2,891,560
Department of Attorney General	1,628,627		122,027	42,387							1,793,041
Department of Environmental Quality	100,872	1,135,642	260	400	116						1,237,290
Office of the Auditor General	733,500	315,800	30,300	39,000							1,118,600
Total for all agencies	<u>\$ 76,716,819</u>	<u>\$ 24,118,339</u>	<u>\$ 634,953</u>	<u>\$ 630,940</u>	<u>\$ 502,797</u>	<u>\$ 2,200</u>	<u>\$ 8,600</u>	<u>\$ 1,900</u>	<u>\$ 31,801</u>	<u>\$ 3,200</u>	<u>\$ 102,651,549</u>

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

FUNDING REQUIREMENT DESCRIPTION

MDOT's annual appropriations act requires the OAG to use a risk-based approach in developing an audit program for the use of transportation funds.

The Legislature appropriated transportation-related funding of \$48.4 million and \$47.4 million for fiscal years 2019 and 2018, 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 Environment, Great Lakes, and Energy
- Office of the Auditor General

The Legislature also appropriated \$35.7 million and \$33.5 million for fiscal years 2019 and 2018, respectively, for IT services and projects.

MDOT funded contractual and miscellaneous transportation-related charges of \$105.5 million and \$102.7 million for fiscal years 2019 and 2018, 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, Capital Projects Funds, and Debt Service 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
- Combined State Trunkline Bond and Interest Redemption Fund
- Transportation Related Trust Funds

Our audit scope includes all contractual and miscellaneous charges to these transportation funds from State departments and agencies that the Legislature appropriated transportation funds.

We conducted this performance audit* in accordance with generally accepted government auditing standards except that we were not independent in regard to funds received by the OAG. 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.

* See glossary at end of report for definition.

Not all five internal control* components as defined by the COSO Framework* were significant to Objective #1. The significant internal control components and underlying principles were:

- Control Activities
 - Management designs control activities to achieve objectives and respond to risks.
- Monitoring
 - Management establishes and operates monitoring activities over internal control and evaluates the results.

Not all five internal control components as defined by the COSO Framework were significant to Objective #2. The significant internal control component and underlying principle were:

- Information and Communication
 - Management externally communicates the necessary quality information to achieve the entity's objectives.

PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, and quality assurance, generally covered October 1, 2017 through September 30, 2019.

METHODOLOGY

We conducted a preliminary survey of State agencies' use of transportation-related funding. During our preliminary survey, we:

- Met with applicable MDOT and State agency staff to gain an understanding of the use of transportation-related processes related to contractual, reporting, and cost allocation requirements.
- Reviewed applicable laws related to State agencies' use of transportation-related funding.
- Reviewed applicable MDOT board and committee minutes.
- Identified and assessed internal control significant to the audit objectives.
- Obtained and reviewed financial data and other information from State agency reports, annual contracts,

* See glossary at end of report for definition.

appropriations acts, MDOT expenditure summaries, and SIGMA accounting records.

- Selected, using a risk-based approach, the following four State agencies to review:
 - Department of Technology, Management, and Budget
 - Department of State
 - Michigan Department of State Police
 - Civil Service Commission

OBJECTIVE #1

To assess 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. As part of our review, we:
 - Randomly sampled 40 of DTMB's 28,452 transportation-related charges from October 1, 2017 through September 30, 2019 to determine whether the charges were appropriate.
 - Randomly sampled 2 of DTMB's 24 monthly IT invoices from October 1, 2017 through September 30, 2019 to determine whether the charges to MDOT were appropriate.
 - Analyzed the fiscal year 2018 and 2019 State agencies' charges to identify, investigate, and explain any significant fluctuations from the prior year.

Our random samples were selected to eliminate bias and enable us to project the results to the respective populations.

- Evaluated the selected State agencies' processes for allocating transportation-related costs to transportation funds.
- Summarized the types of services provided and cost allocation methodologies used to allocate transportation-related costs for the four State agencies we reviewed (Exhibits #1 through #4) and summarized all applicable State agencies' charges to transportation funds (Exhibits #5 and #6) for fiscal years ended September 30, 2019 and September 30, 2018.

OBJECTIVE #2

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

To accomplish this objective, we:

- Reviewed contracts and annual reports for the four selected State agencies to verify that the reports included all information required by Article XVII, Part 2, Section 306 of both Public Act 207 of 2018 and Public Act 107 of 2017.

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**

Not applicable.

**SUPPLEMENTAL
INFORMATION**

Our audit report includes supplemental information presented as Exhibits #1 through #6. The information presented in these exhibits was used to support our conclusions for Objectives #1 and #2.

* See glossary at end of report for definition.

GLOSSARY OF ABBREVIATIONS AND TERMS

Active Directory	Microsoft's directory service product that contains information for managing users and resources in a computer network.
COSO Framework	A model developed by the Committee of Sponsoring Organizations of the Treadway Commission titled <i>Internal Control - Integrated Framework</i> that is recognized as a leading framework for designing, implementing, and evaluating internal control. The COSO Framework consists of 5 components and 17 underlying principles and defines effective internal control as a system in which each of the 5 components and relevant principles is present, functioning, and operating in an integrated manner.
DTMB	Department of Technology, Management, and Budget.
internal control	The plan, policies, methods, and procedures adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes the systems for measuring, reporting, and monitoring program performance. Internal control serves as a defense in safeguarding assets and in preventing and detecting errors; fraud; violations of laws, regulations, and provisions of contracts and grant agreements; or abuse.
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. Our assessment of materiality is in relation to the respective audit objective.
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.
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: a deficiency in internal control; noncompliance with provisions of laws, regulations, contracts, or grant agreements; opportunities to improve programs and operations; or fraud.
<i>SOMCAFR</i>	<i>State of Michigan Comprehensive Annual Financial Report.</i>
Statewide Integrated Governmental Management Applications (SIGMA)	The State's enterprise resource planning business process and software implementation that support budgeting, accounting, purchasing, human resource management, and other financial management activities.
SWCAP	Statewide Cost Allocation Plan.
TACF	Transportation Administration Collection Fund.
Time, Expense, Leave, and Labor (TELL)	A component of SIGMA's Human Resource Management application which supports the State's payroll process.



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