

Office of the Auditor General
Performance Audit Report

Administration of Act 51-Related Funds
Michigan Department of Transportation

January 2022

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

Administration of Act 51-Related Funds

Michigan Department of Transportation (MDOT)

Report Number:
591-0410-21

Released:
January 2022

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 use of Act 51-related funds. In fiscal year 2020, deductions from and allocations of MTF totaled \$3.2 billion.

Audit Objective			Conclusion
Objective 1: To assess the accuracy of MDOT's allocation and distribution of Act 51-related funding.			Accurate, with exceptions
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
In fiscal years 2019 and 2020, MDOT: <ul style="list-style-type: none">Did not properly distribute MTF revenue totaling nearly \$16 million, resulting in underpayments to the Comprehensive Transportation Fund, State Trunkline Fund, and local units of government (local units).Miscalculated jurisdiction mileage, resulting in underpayments of \$2.5 million to cities.May have made payments for snow removal costs (snow payments) of nearly \$2 million to ineligible locals (Finding 1).		X	Agrees
Observations Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
The formula for calculating snow payments to local units has not been updated since 1987 and is based on outdated average snowfall totals from calendar years 1972 through 1987. Under the current snow payment methodology, 48% of county and 71% of city and village road miles are located in counties ineligible for partial reimbursement, although these local units incurred \$106 million in snow removal costs in fiscal year 2019 (Observation 1).	Not applicable for observations.		

Audit Objective			Conclusion
Objective 2: To assess the sufficiency of MDOT's processes for monitoring and reporting on the use of Act 51-related funding.			Sufficient, with exceptions
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
Opportunities exist for MDOT to make enhancements to its monitoring of local units for compliance with Act 51 requirements (Finding 2).		X	Disagrees
Local units did not report whether warranties had been obtained for 37% of relevant projects (Finding 3).		X	Agrees
For fiscal years 2018 and 2019, 43 and 32 local units, respectively, may have been in noncompliance with the requirement to spend 1% of MTF funds on nonmotorized transportation services and facilities (Finding 4).		X	Agrees
Observations Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
Information in the Act 51 Distribution and Reporting System (ADARS) describing the purpose of local units' Act 51 expenditures could be provided to the Legislature to offer additional insight on the use of MTF funds (Observation 2).	Not applicable for observations.		
Opportunities exist for MDOT to provide guidance related to posting of Act 51 reports on local units' Web sites to increase Statewide transparency and accountability related to transportation spending (Observation 3).	Not applicable for observations.		

Audit Objective			Conclusion
Objective 3: To assess the effectiveness of selected security and access controls over ADARS.			Effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
None reported.	Not applicable.		

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January 12, 2022

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

Dear Mr. Wyett and Mr. Ajegba:

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 to the State Budget Office upon completion of an audit. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, 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 1). Using this methodology, the Michigan Department of Transportation (MDOT):

- Allocates MTF funds 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 614 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 (snow payments*), engineering expenditures, and jurisdictional mileage transfers*.

AUDIT OBJECTIVE

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

CONCLUSION

Accurate, with exceptions.

FACTORS IMPACTING CONCLUSION

- MDOT ensured all statutorily designated revenue was deposited into MTF.
- MDOT appropriately issued the number of required payments to the 533 and 578 local units for fiscal years 2019 and 2020, respectively, that we reviewed.
- MDOT accurately applied population and mileage data in its Act 51 distribution calculation for local units.
- MDOT's formula for calculating the monthly distribution of MTF funds to local units was accurate.
- MDOT accurately distributed to local units the special General Fund/general purpose appropriation of \$182.7 million in Public Act 207 of 2018.
- MDOT correctly issued engineering payments to counties.
- MDOT completed most required allocations and distributions according to Act 51 for fiscal years 2019 and 2020.

* See glossary at end of report for definition.

- Reportable condition* related to the accuracy of the allocation and distribution of Act 51 funding to local units (Finding 1).
- Observation* related to revisions to the snow payment methodology (Observation 1).

* See glossary at end of report for definition.

FINDING 1

Improvements needed to ensure accurate MTF allocations and distributions to local units.

MDOT did not fully ensure the accuracy of the allocation and distribution of Act 51-related funding to local units, including certain annual one-time distributions. As a result, the Comprehensive Transportation Fund* (CTF), State Trunkline Fund* (STF), and local units did not always receive the proper amount of MTF funds.

Act 51 requires MDOT to:

- Distribute all revenue received in MTF (minus certain deductions) to the CTF, STF, and local units. After the required deductions, MDOT distributed \$2.9 billion and \$3.0 billion during fiscal years 2019 and 2020, respectively.
- Make annual one-time distributions for mileage transfers and snow payments. Mileage transfers are payments to local units based on the number of road miles of State highways (trunkline), county primary and local roads, and major and local streets transferred between jurisdictions. Snow payments are MTF funds paid to local units for partial reimbursement of snow removal costs and the purchase and maintenance of snow removal equipment. MDOT distributed \$7.3 million and \$8.0 million for mileage transfers and \$12.4 million and \$13.7 million for snow payments for fiscal years 2019 and 2020, respectively.

Our review of MDOT's distribution processes disclosed:

MDOT under distributed MTF funds by nearly \$10.0 million and \$6.0 million in fiscal years 2019 and 2020, respectively.

- a. MDOT did not ensure all MTF revenue collected at year-end was included in the monthly distribution. Consequently, MDOT did not distribute nearly \$10.0 million and \$6.0 million of MTF revenue in fiscal years 2019 and 2020, respectively, resulting in the following underpayments (in millions):

Fiscal Year	CTF	STF	Counties	Cities and Villages	Total
2019	\$1.0	\$3.5	\$3.5	\$2.0	\$10.0
2020	\$0.6	\$2.1	\$2.1	\$1.2	\$6.0

- b. MDOT incorrectly calculated the jurisdictional mileage transfer payment to 11 (26%) of 43 cities. The 11 cities should have received a total of \$1.2 million and \$1.3 million more in jurisdictional mileage transfer payments for fiscal years 2019 and 2020, respectively.

According to Section 247.660a(5) of the *Michigan Compiled Laws*, cities with a population greater than

* See glossary at end of report for definition.

25,000 are eligible to be paid for two times the miles transferred to the jurisdiction at the annually calculated per mile amount. The per mile rate for fiscal years 2019 and 2020 was \$25,652 and \$27,901, respectively. MDOT's calculation did not multiply the miles transferred by the two times factor and instead paid the 11 cities at the actual miles transferred as follows:

City	Actual Miles Transferred	Miles That Should Have Been Used in Calculation	Amount Underpaid by Fiscal Year	
			2019	2020
Battle Creek	5.8	11.6	\$ 149,038	\$ 162,106
Detroit	1.1	2.1	27,448	29,854
Flint	9.7	19.5	249,594	271,479
Grand Rapids	5.8	11.5	147,499	160,432
Holland	5.7	11.4	146,730	159,595
Jackson	0.9	1.8	23,087	25,111
Kalamazoo	13.7	27.3	350,150	380,852
Midland	0.3	0.5	6,413	6,975
Muskegon	2.5	5.0	64,130	69,753
Rochester Hills	2.0	4.1	52,074	56,640
Taylor	0.5	1.0	13,083	14,230
Total	48.0	95.8	\$1,229,246	\$1,337,026

MDOT needs clarification of the intended calculation for snow payments to ensure accurate implementation.

- c. MDOT may have incorrectly paid snow payments to 73 and 80 cities and villages in fiscal years 2019 and 2020, respectively. These entities' reported winter maintenance costs did not exceed the Statewide average of winter maintenance costs, thereby making them ineligible for the snow payments. Payments to the ineligible cities and villages totaled \$960,942 and \$1,015,143 for fiscal years 2019 and 2020, respectively.

To determine snow payment eligibility, MDOT calculated the Statewide average winter maintenance cost using total winter maintenance costs for all cities and villages divided by total MTF revenue distributed to cities and villages. MDOT's calculation resulted in a percentage of total MTF revenue spent on winter maintenance rather than an average winter maintenance cost. The *Michigan Compiled Laws* specify that the average winter maintenance cost should be used to calculate snow payment eligibility.

- d. MDOT inaccurately returned MTF funds as snow payments of \$614,193 to 105 cities and villages that should have been returned in the next monthly distribution to all cities and villages.

Section 247.663(2) of the *Michigan Compiled Laws* requires that if the calculated snow payment amount for cities and villages is less than the amount MDOT withheld

to make the snow payments, the difference should be paid in the next monthly distribution to all cities and villages. For fiscal year 2019, MDOT withheld \$3,752,915, as required by statute; however, the total that cities and villages were eligible to receive as snow payments was \$3,138,722, resulting in \$614,193 that should have been distributed to all 531 cities and villages in the next monthly distribution rather than to only 105 cities and villages as part of their snow payments.

As a result of the errors identified in parts c. and d., MDOT should have returned \$1,417,863 and \$833,611 of MTF funds for fiscal years 2019 and 2020, respectively, to all cities and villages.

RECOMMENDATIONS

We recommend that MDOT fully ensure the accuracy of the allocation and distribution of Act 51-related funding to local units, including certain annual one-time distributions.

We also recommend that MDOT obtain clarification of the intended calculation of the Statewide average winter maintenance cost used to determine city and village eligibility for receiving snow payments.

AGENCY PRELIMINARY RESPONSE

MDOT provided us with the following response:

MDOT agrees with the recommendations. MDOT will seek out cost effective remedies to ensure further accuracy in the allocation and one-time distributions.

MDOT will also seek out clarification regarding the calculation used for snow payment eligibility.

OBSERVATION 1

Opportunity to recommend revisions to the snow payment methodology.

The current snow payment formula is based on average snow payments between calendar years 1972 and 1987 to counties with snowfall of more than 80 inches.

For fiscal year 2019, MDOT made snow payments of \$12.4 million from MTF to eligible local units (see Exhibit 2). Act 51 requires MDOT to withhold MTF distributions from all counties, cities, and villages and distribute those funds back to only eligible local units for partial reimbursement of costs for snow removal purposes. Act 51 requirements include:

- Section 12
An amount equal to 1% of the total MTF distributions to all counties during the prior calendar year shall be withheld from the counties' November monthly distribution and shall be distributed to the counties for snow removal purposes.
- Section 12a
MTF monies withheld for snow payments shall be distributed to the counties based on each respective county's average percentage share of the total amount returned annually to all counties in the State in the 14 calendar years before 1987.
- Section 13
An amount equal to 0.7% of MTF distributions to all cities and villages during the previous calendar year shall be withheld from the December monthly distribution and distributed to partially reimburse cities and villages in counties who are eligible for snow payments and whose winter maintenance costs exceed the Statewide average.

Section 12a has not been amended since December 1987 and does not include a requirement for MDOT or any other organization to periodically review the snow payment calculation methodology.

A map of Michigan showing all 83 counties. The counties are colored based on their average annual snowfall percentage distribution. The legend indicates five categories: 0.0000 (white), 0.0001 to 1.9999 (yellow), 2.0000 to 3.9999 (pink), 4.0000 to 5.9999 (light green), and 6.0000 to 10.0000 (cyan). Counties like Keweenaw, Houghton, Marquette, and Cheboygan are cyan; Ontonagon, Gogebic, Baraga, Iron, Dickinson, Menominee, Delta, Schoolcraft, Mackinac, Luce, Chippewa, and Presque Isle are light green; Benzie, Grand Traverse, Kalkaska, Crawford, Oscoda, Alcona, Manistee, Wexford, Missaukee, Roscommon, Ogemaw, and Josco are pink; Mason, Lake, Osceola, Clare, Gladwin, Arenac, Huron, Tuscola, Sanilac, Muskegon, Montcalm, Gratiot, Saginaw, Genesee, Lapeer, St. Clair, Allegan, Barry, Eaton, Ingham, Livingston, Oakland, Macomb, Van Buren, Kalamazoo, Calhoun, Jackson, Washtenaw, Wayne, Berrien, Cass, St. Joseph, Branch, Hillsdale, Lenawee, and Monroe are yellow; and Leelanau, Antrim, Otsego, Montmorency, Alpena, Benzonia, Grand Haven, Spring Lake, and Holland are white. Source: MDOT Finance.

During fiscal year 2019, MDOT distributed \$8.6 million and \$3.8 million in snow payments to counties and cities and villages, respectively. The 30 (36%) unshaded counties in the map, and thereby the 289 cities and villages within those counties, were not eligible to receive snow payments.

The following tables identify the amount of winter maintenance costs, mileage, and populations for local units:

Counties		
<u>Snow Payments</u>		
Counties eligible and received snow payments (see Exhibit 2).	53	(64%)
Counties ineligible to receive a snow payment.	30	(36%)
<u>Reported Winter Maintenance Costs for Fiscal Year 2019</u>		
Total reported cost of winter maintenance for all counties.	\$155,951,143	
Total reported cost of winter maintenance for eligible counties.	\$ 91,135,796	(58%)
Total reported cost of winter maintenance for ineligible counties.	\$ 64,815,347	(42%)
<u>Miles</u>		
Total miles within counties.	107,166	
Total miles within counties eligible for snow payments.	55,551	(52%)
Total miles within counties not eligible for snow payments.	51,615	(48%)
<u>Population</u>		
Total county population*.	4,791,830	
Total population within counties eligible for snow payments.	1,734,349	(36%)
Total population within counties not eligible for snow payments.	3,057,481	(64%)

*County population represents individuals within a county who are not counted within a specific city or village.

Cities and Villages		
<u>Snow Payments</u>		
Cities and villages eligible and received snow payments (see Exhibit 2).	105	(43%)
Cities and villages located in county eligible to receive snow payments.	242	(46%)
Cities and villages not located in county eligible to receive snow payments.	289	(54%)
<u>Reported Winter Maintenance Costs for Fiscal Year 2019</u>		
Total reported cost of winter maintenance for all cities and villages.	\$73,145,160	
Reported winter maintenance costs for cities and villages in eligible county.	\$31,958,434	(44%)
Reported winter maintenance costs for cities and villages not located in eligible county.	\$41,186,727	(56%)
<u>Miles</u>		
Total miles within cities and villages.	21,372	
Miles within cities and villages in eligible county.	6,194	(29%)
Miles within cities and villages not located in eligible county.	15,178	(71%)
<u>Population</u>		
Total cities and villages population.	5,091,292	
Population within cities and villages in eligible county.	1,103,406	(22%)
Population within cities and villages not located in eligible county.	3,987,886	(78%)

36% of counties and 54% of cities and villages were not eligible for snow payments despite incurring more than \$106 million of snow removal costs in fiscal year 2019.

We obtained available county snowfall data and calculated the average annual snowfall amount from calendar years 2000 through 2020. We identified counties with an average snowfall of less than 80 inches during that time which continued to receive snow payments under the December 1987 formula. The current snow payment methodology resulted in a higher distribution percentage to counties recording snowfall of at least 80 inches routinely between calendar years 1972 and 1987 than those that may only periodically receive that level of snowfall. In addition, 48% of all county miles and 71% of all city and village miles are in areas ineligible to receive partial reimbursement toward snow removal costs. In total, 46% or \$106 million of winter maintenance costs incurred by local units in fiscal year 2019 were not eligible for partial reimbursement under the current methodology.

This represents an opportunity for MDOT, in conjunction with local units, to identify changes in weather conditions, snow removal equipment and technology, population shifts, and other relevant factors since 1972 and work with the Legislature to consider potential revisions to Section 12a.

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

BACKGROUND

Public Act 51 of 1951, as amended, provides conditions for the use and administration of MTF funds. During fiscal year 2020, MDOT distributed \$1.7 billion from MTF to local units (see Exhibits 3, 4, and 5).

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

AUDIT OBJECTIVE

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

CONCLUSION

Sufficient, with exceptions.

FACTORS IMPACTING CONCLUSION

- For 100% of attestation forms we reviewed, MDOT obtained the forms prior to the approval of the local unit's Act 51 report.
- 100% of the local units' certified mileage reports* we reviewed agreed with the mileage amounts in ADARS.
- For 100% of the local units we reviewed, MDOT properly withheld Act 51 funds when they did not submit their Act 51 report on time.
- For 100% of the Act 51 reports we reviewed, MDOT provided a reasonable explanation for the length of time it took to review, reject, approve, or grant an extension.
- MDOT complied with the selected Act 51 reporting requirements and prepared materially accurate reports.
- MDOT sufficiently monitored the use of STF funds for compliance with selected Act 51 requirements except for nonmotorized requirements.
- Reportable conditions related to enhanced monitoring of local units' MTF expenditures, improved collection of local unit warranty information, and compliance with nonmotorized transportation requirements (Findings 2 through 4).

* See glossary at end of report for definition.

- Observations related to additional expenditure information that may be useful to the Legislature and guidance to local units for posting Act 51 reports on their Web sites (Observations 2 and 3).

FINDING 2

Enhanced monitoring process for local units' MTF expenditures needed.

MDOT's monitoring compared Act 51 reports with audited financial statements that did not contain the same level of detail.

MDOT could enhance its monitoring process to better ensure local units expend MTF disbursements in accordance with Act 51 requirements. From October 1, 2018 through September 30, 2020, MDOT distributed \$3.4 billion of Act 51 funds to 614 local units.

Act 51 contains requirements and restrictions regarding how local units shall expend Act 51 funds as well as associated reporting requirements. Section 247.664(5) of the *Michigan Compiled Laws* provides MDOT the authority to withhold funding from local units that do not comply with Act 51 requirements. Local units self-report Act 51 amounts spent along with a signed attestation form stating the reported values were accurate and compliant with Act 51. Although the *Michigan Compiled Laws* do not specifically require MDOT to monitor the accuracy of reports submitted by local units, the requirement to withhold funds for noncompliance implies this expectation. Without monitoring, MDOT is unlikely to identify noncompliance.

To validate compliance, MDOT compares the reported amounts with the local units' audited financial statements. The Act 51 reports are more detailed than the audited financial statements, and therefore, MDOT cannot compare all the reported amounts. However, the local units' financial auditors do not provide an opinion on the local units' compliance with laws and regulations; therefore, the financial audits do not provide the necessary assurance to MDOT the local units spent Act 51 funds in accordance with statutory requirements. Attestation forms provide only some assurance on the accuracy of the information reported when signed by individuals who have a professional association with the local units.

In addition, MDOT's forms are not designed to collect all necessary information to verify compliance with Act 51 requirements. For example, the Act 51 report includes local units' expenditures from other sources, such as federal and local sources, and as a result, it is difficult to identify how Act 51 funds specifically were spent to verify compliance with requirements.

MDOT could enhance its monitoring process by:

- a. Expanding its verification of reported expenditures and revising the forms used to collect financial information related to local units' attestations (see Exhibit 6).

To address resource limitations in expanding its verification process, MDOT could use a risk-based approach to verify reported expenditures by considering previous noncompliance identified at local units, significance of the category of expenditure, amount expended, and lack of a corresponding value in the audited financial statements to tie to the Act 51 report amount. Also, revisions to the financial report format to

request only Act 51-related financial information could provide MDOT with more specific information to better evaluate local units' compliance with Act 51 requirements.

- b. Reviewing differences between the amounts in Act 51 reports and the local units audited financial statements.

We identified instances in which such differences occurred, and MDOT indicated it did not follow up with the local units to determine the reasons. Although the *Michigan Compiled Laws* do not specifically require these amounts to match, MDOT's process is to compare the two reports for reasonableness. In one example, the financial statements reported administrative expenses of approximately 16%, whereas amounts reported to MDOT were 10%. In another instance, the financial statements reported transfer of funds, but without sufficient detail for MDOT to ascertain compliance with Act 51 requirements.

MDOT informed us it is the local units' responsibility to follow Act 51 spending requirements. In addition, MDOT stated it is not statutorily required by Act 51 to monitor local units to identify potential noncompliance. However, as previously noted, MDOT does have the authority to monitor local units for potential noncompliance, as Act 51 provides MDOT the authority to withhold funding from local units that do not comply with Act 51 requirements. MDOT had staff within the Bureau of Finance and Administration to perform the financial monitoring process described above. MDOT stated that the costs associated with conducting additional verification of local units' spending would be unreasonable and, based on its available resources, MDOT chooses to not perform the additional steps that could identify noncompliance.

RECOMMENDATION

We recommend that MDOT enhance its monitoring process to better ensure local units expend MTF disbursements in accordance with Act 51 requirements.

AGENCY PRELIMINARY RESPONSE

MDOT provided us with the following response:

MDOT disagrees with the recommendation. MDOT verifies significant dollar amounts reported in local agency Act 51 reports by reconciling the dollar amounts reported to selected audited financial statement figures. Many of the requirements in Act 51 are based on dollar thresholds and MDOT can determine compliance by performing these calculations based on the information submitted in the Act 51 report, which reconcile to the audited figures. In addition, MDOT receives a signed assurance from the local units when they submit their Act 51 reports. This assurance is an attestation from the local unit that their financial report accurately reflects their revenues and expenditures and funds by systems and conforms with the requirements of Act 51. MDOT feels that these reviews, in addition to the attestation,

provide us with the necessary information to determine compliance with Act 51 and to avoid the unnecessary withholding of Act 51 funds to local agencies. If further compliance monitoring is required, considerable additional resources would be necessary either for MDOT to conduct the monitoring, or from the local agencies to ensure compliance to the expectation levels needed to avoid withholding Act 51 funds.

**AUDITOR'S
COMMENTS TO
AGENCY
PRELIMINARY
RESPONSE***

MDOT disagrees its monitoring procedures could be enhanced even though the audited financial statements it relies on for monitoring do not provide assurances related to compliance with laws and regulations and are not sufficiently detailed to validate local unit Act 51 reports. Also, we identified discrepancies between these reports that MDOT chose not to follow up. Enhancing its monitoring process would provide MDOT with additional assurance of local units' compliance with Act 51 requirements. Therefore, our finding remains unchanged.

* See glossary at end of report for definition.

FINDING 3

Improved collection of local unit warranty information needed.

MDOT could improve its collection of local unit warranty information to ensure it shares accurate and complete warranty information with program stakeholders, such as the Legislature, the County Road Association, and the public.

Sections 247.662(22) and 247.663(13) of the *Michigan Compiled Laws* require local units to provide a list of all warranties secured, indicate whether any of the warranties were redeemed, and list all pavement projects whose cost exceeds \$2 million for which a warranty was not secured. The Sections indicate, where possible, local units:

...shall secure pavement warranties for full replacement or appropriate repair for contracted construction work on pavement projects whose cost exceeds \$2,000,000.00 and projects for new construction or reconstruction undertaken after April 1, 2016, if allowed by the Federal Highway Administration and the department.

Local units submit their local road warranty program information to MDOT using the Investment Reporting Tool (IRT) System. Our analysis of IRT System data disclosed:

- 1,365 (11%) of 12,282 projects reported by local units did not have a response in the IRT System as to whether they obtained a warranty.
- 47 (37%) of 126 projects with costs exceeding \$2 million did not report the warranty status of the project.
- 70 (56%) of 126 projects with costs exceeding \$2 million reported as receiving no warranty. A warranty may not have been necessary because the pavement costs may have been under \$2 million or because the local unit may not have been able to secure a warranty.

MDOT asserted that warranties should be secured for any project after April 1, 2016 with pavement costs greater than \$2 million. However, the *Michigan Compiled Laws* state warranties should be secured for any project with pavement costs greater than \$2 million or any new construction or reconstruction projects after April 1, 2016 regardless of pavement costs.

The IRT System did not require warranty fields be completed or capture needed pavement cost data.

MDOT stated the IRT System does not require the data fields associated with warranty information to be completed and only captures the total project costs, rather than pavement costs that directly affect whether a warranty shall be secured. MDOT could consider updating the IRT System to require the completion of warranty fields, collection of pavement costs, and comments about why a warranty was not obtained to help ensure the completeness and accuracy of warranty data reported.

MDOT informed us it is the local units' responsibility to report accurate and complete warranty information. In addition, MDOT

is not statutorily required by Act 51 to monitor local units to identify when local units may have reported incomplete warranty information. However, MDOT does have the authority to monitor local units for potential noncompliance as Act 51 provides MDOT the authority to withhold funding from local units that do not comply. MDOT stated the costs associated with conducting additional verification of the warranty data would be unreasonable.

RECOMMENDATIONS

We recommend that MDOT improve its data collection process to ensure accuracy and completion of local unit warranty information.

We also recommend that MDOT obtain clarification from the Legislature for identifying the projects for which local units need warranties.

AGENCY PRELIMINARY RESPONSE

MDOT provided us with the following response:

MDOT agrees with the recommendations and will seek out cost effective remedies to capture complete and accurate information regarding local unit warranties.

MDOT will also obtain clarification from the Legislature regarding which projects require a local unit warranty.

FINDING 4

Process and improvements needed to ensure compliance with nonmotorized transportation requirements in Act 51.

MDOT should develop a process for verifying the State's compliance and improve its process for reviewing local units' compliance with the nonmotorized transportation services and facilities requirements in Act 51.

Section 247.660k(2) of the *Michigan Compiled Laws* requires at least 1% of Act 51 funds distributed to STF and local units be spent on the construction* or improvement of nonmotorized transportation services and facilities. Section 247.664(5) of the *Michigan Compiled Laws* provides MDOT the authority to withhold funding from local units that do not comply with Act 51 requirements. Our review disclosed:

- a. MDOT did not have a process in place to verify at least 1% of the Act 51 funds provided to STF were spent on nonmotorized transportation services and facilities. MDOT indicated the expenditures for multiple types of activities are combined on projects making it difficult to identify the specific amount spent on nonmotorized transportation activities.
- b. MDOT did not always follow its informal process when it identified local units in noncompliance with the nonmotorized transportation spending requirements. MDOT's process is to obtain a 3-year plan detailing the projects and expenditures the local units will complete to return to compliance and a signed resolution from the local unit's legislative body committing its support, rather than withholding Act 51 funds from the local units. MDOT indicated it will withhold Act 51 funds from the local units if they do not submit these documents within the requested time frame.

For local units' fiscal years 2018 and 2019, 43 and 32 local units, respectively, reported the 1% threshold had not been achieved. We sampled 11 of the 75 local units to determine whether they submitted a 3-year plan and signed resolution. Three (27%) of the 11 local units did not submit all required documentation to MDOT. MDOT's approval of these 3 local units was the result of administrative oversight or MDOT's acceptance of other forms of documentation.

RECOMMENDATION

We recommend that MDOT develop a process for verifying the State's compliance and improve its process for reviewing local units' compliance with the nonmotorized transportation requirements in Act 51.

* See glossary at end of report for definition.

**AGENCY
PRELIMINARY
RESPONSE**

MDOT provided us with the following response:

MDOT agrees with the recommendation and will seek out reporting options to verify State compliance. MDOT will also seek to identify improvements to our process for reviewing local units' compliance with the nonmotorized transportation requirements in Act 51.

OBSERVATION 2

Additional expenditure information may be useful to the Legislature.

Act 51 requires MDOT to submit an annual report to the Legislature that includes:

- Revenues credited to MTF
- Distributions under Act 51
- Interest earnings
- Allocations of each fund created or appropriated money under Act 51
- Distributions to local units
- Purposes for which the amounts were expended

MDOT fulfills its legislative reporting requirements through schedules A through D in the annual report, which contain all required information except the expenditure purposes. MDOT's schedule A presentation of how funds were expended was limited to the distribution amount made to the local units:

MTF Distributions	Fiscal Year	
	2018	2019
Counties	\$910,455,645	\$1,010,009,568
Cities and Villages	\$520,539,514	\$ 577,187,287

Local units report financial information in ADARS related to the spending of its revenue, including MTF funds. If requested, this information could be used to provide the Legislature with specific details about the purposes for which local units expended funds. The expenditure categories reported in ADARS provide useful insight into the activities for which local units use MTF distributions as follows:

- Construction/capacity improvement
- Preservation*/structural improvement
- Maintenance/winter maintenance
- Other (which may include categories such as administrative expenses, equipment, capital outlay, debt principal, and interest payments)

* See glossary at end of report for definition.

We summarized ADARS data for local units' fiscal years 2018 and 2019 to provide examples of the additional detail MDOT could provide to the Legislature as follows:

County MTF		
	Expenditures by Fiscal Year	
	2018	2019
Construction	\$ 58,488,596	\$ 47,646,864
Preservation	\$712,676,668	\$594,340,806
Maintenance	\$701,240,613	\$646,537,080
Other:		
Administrative	\$ 64,073,960	\$ 63,223,967
Equipment	\$ 16,445,242	\$ 22,254,090
Capital outlay	\$ 13,618,807	\$ 7,381,608
Debt principal and interest payments	\$ 11,501,501	\$ 8,934,599
Trunkline maintenance and non-maintenance	\$ 18,565,870	\$ 17,062,252

City and Village MTF		
	Expenditures by Fiscal Year	
	2018	2019
Construction	\$ 36,746,317	\$ 48,449,129
Preservation	\$570,180,853	\$595,906,999
Traffic services	\$ 41,153,260	\$ 47,225,515
Winter maintenance	\$ 75,775,651	\$ 72,512,741
Roadside parks	\$ 95,840	\$ 113,331
Administration, engineering, and recordkeeping	\$ 27,921,673	\$ 29,776,346
Trunkline preservation and construction	\$ 11,775,630	\$ 10,734,681
Miscellaneous	\$ 35,737,191	\$ 32,851,085
Debt principal, interest, and bank fees	\$ 40,556,603	\$ 35,928,992

Providing the Legislature with additional expenditure information such as this would enable them to better understand how local units spent MTF funds and could help the Legislature identify Act 51 spending requirements that could be revised.

OBSERVATION 3

Opportunity exists to remind local units of requirement to post Act 51 reports to their Web sites.

Section 247.664(3) of the *Michigan Compiled Laws* requires local units to post the Act 51 report on its Web site if the local unit has one.

MDOT did not have a process for reviewing the Web sites of the 614 local units to ensure the Act 51 reports are posted. The report provides financial information that is often more detailed than what is available in a local unit's audited financial statements.

For example, the report contains a statement of expenditures that captures the amount expended for categories such as construction, preservation, and maintenance. Within these categories, local units break down expenditures to reflect the amount expended on items such as roads, structures, roadside parks, special assessments, winter maintenance, traffic control, equipment, and capital outlay. The report captures detailed information, such as the number of road miles that preservation activities were performed upon, and the cost associated with common techniques, such as road reconstruction, resurfacing, gravel resurfacing, or paving gravel roads. In total, the report contains more than 250 lines of financial data.

Of the 25 local units we reviewed, 23 had a public Web site. We determined 18 (78%) of the 23 local units did not publish the report on their Web site.

Local units' compliance with the requirement to publicly post their Act 51 reports could help increase Statewide transparency and promote accountability related to spending of road funding. This represents an opportunity for MDOT to promote the value to the local units.

SELECTED SECURITY AND ACCESS CONTROLS OVER ADARS

BACKGROUND

Security* and access controls* limit or detect inappropriate access to computer resources, thereby protecting the resources from unauthorized modification, loss, and disclosure. This is important to ensure the availability*, confidentiality*, and integrity* of data. For access controls to be effective, they should be properly authorized, implemented, and maintained.

As of October 2020, ADARS had 659 user accounts. The 614 local units, several MDOT administrative staff, and local and State auditors require access to ADARS. MDOT developed a process to monitor user access to ADARS and disable user accounts that have not been accessed in 14 months.

AUDIT OBJECTIVE

To assess the effectiveness* of selected security and access controls over ADARS.

CONCLUSION

Effective.

FACTORS IMPACTING CONCLUSION

- MDOT appropriately granted individuals access to ADARS with a business need.
- MDOT limited local unit ADARS users access to only their applicable local unit's data.
- MDOT monitored ADARS user accounts and disabled access for users no longer having a business need.

* See glossary at end of report for definition.

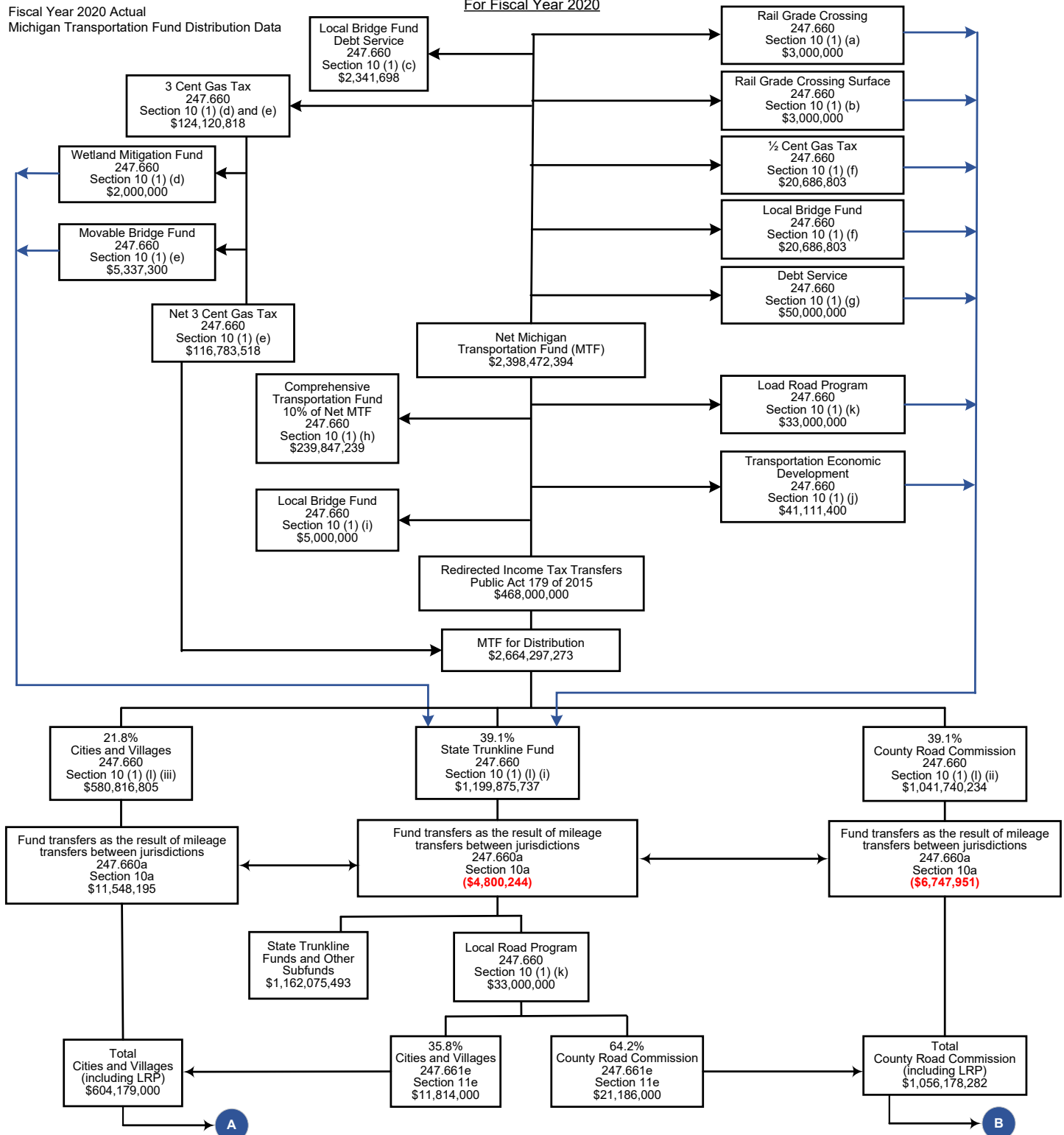
SUPPLEMENTAL INFORMATION

UNAUDITED
Exhibit 1



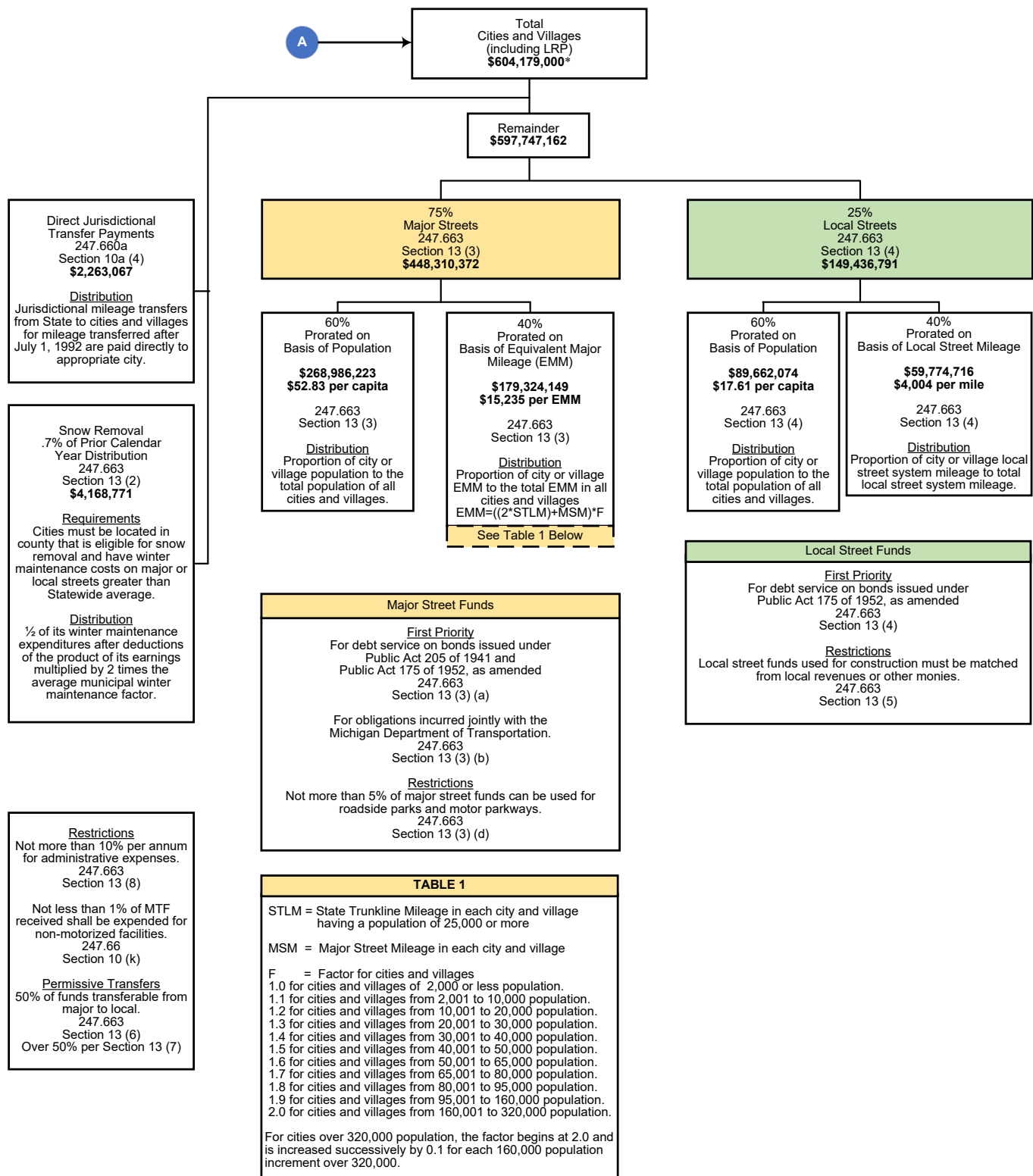
ADMINISTRATION OF ACT 51-RELATED FUNDS Michigan Department of Transportation

Flow Chart of Actual Michigan Transportation Fund Distribution Data
For Fiscal Year 2020



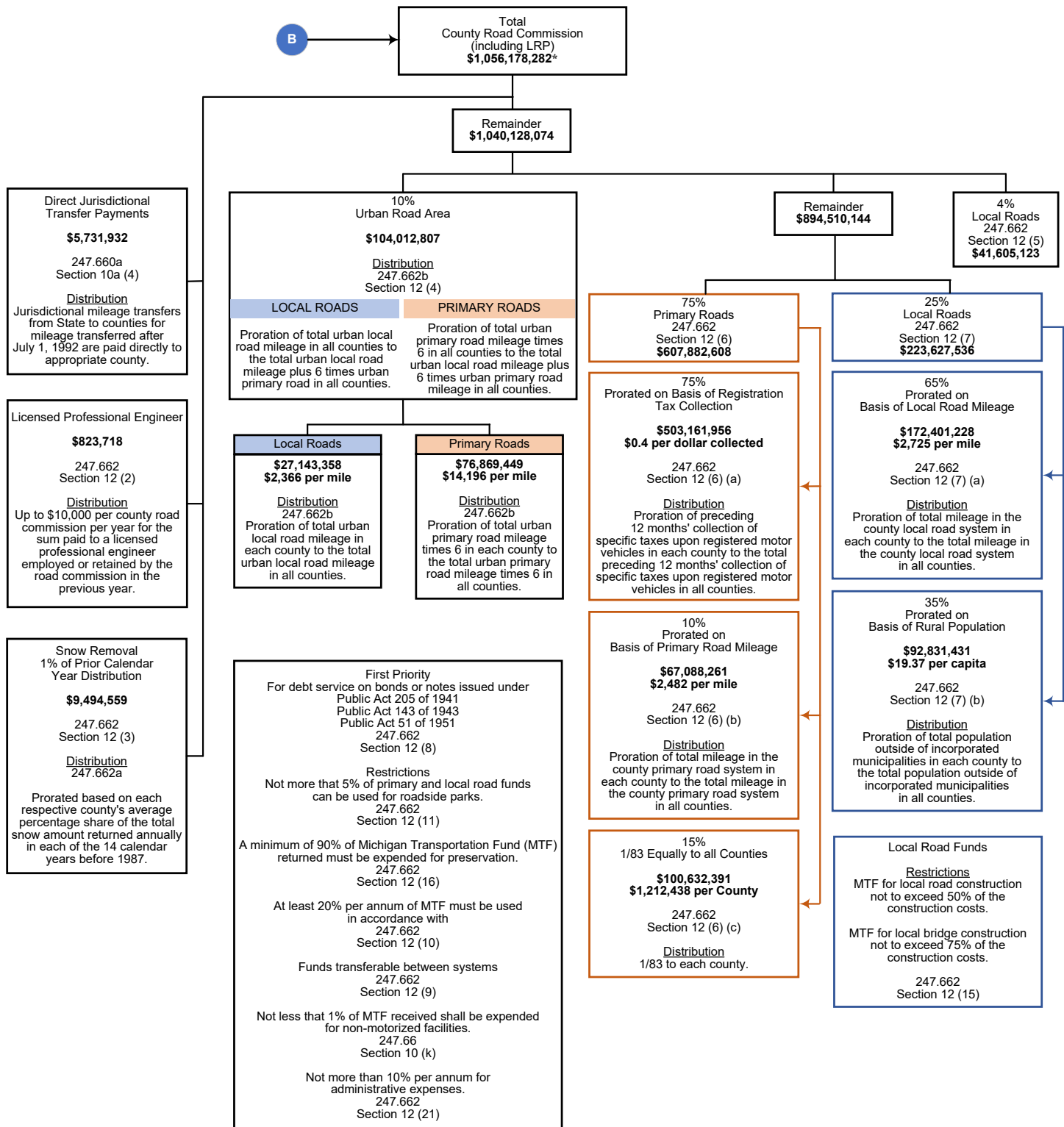
* All dollar amounts based on actual cash basis distribution, including Local Road Program, for the fiscal year of October 1, 2019 through September 30, 2020.

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* All dollar amounts based on actual cash basis distribution, including Local Road Program, for the fiscal year of October 1, 2019 through September 30, 2020.

This exhibit continued on next page.



* All dollar amounts based on actual cash basis distribution, including Local Road Program, for the fiscal year of October 1, 2019 through September 30, 2020.

Source: Financial Operations Division, Michigan Department of Transportation.

ADMINISTRATION OF ACT 51-RELATED FUNDS
Michigan Department of Transportation

Annual Snow Payments
Fiscal Years 2019 and 2020

County					
Payment Amount			Payment Amount		
	2019	2020		2019	2020
Alcona	\$ 29,077	\$ 32,073	Montcalm	\$ 362	\$ 399
Alger	387,699	427,635	Montmorency	44,554	49,144
Allegan	161,165	177,766	Muskegon	117,833	129,971
Alpena	35,929	39,630	Newaygo	51,096	56,360
Antrim	433,088	477,699	Oceana	173,268	191,116
Baraga	390,281	430,483	Ontonagon	451,174	497,647
Benzie	206,064	227,290	Osceola	35,990	39,697
Berrien	51,699	57,024	Oscoda	11,896	13,121
Cass	9,124	10,064	Otsego	315,152	347,614
Charlevoix	183,925	202,870	Ottawa	87,473	96,484
Cheboygan	189,812	209,364	Presque Isle	99,301	109,529
Chippewa	480,750	530,271	Roscommon	10,390	11,460
Clare	3,452	3,807	Schoolcraft	173,036	190,859
Crawford	89,229	98,421	Van Buren	71,867	79,270
Delta	46,879	51,707	Wexford	225,819	249,080
Dickinson	18,920	20,869			
Emmet	193,540	213,475	County Total	\$ 8,607,891	\$ 9,494,559
Gogebic	386,193	425,973			
Grand Traverse	240,375	265,135			
Hillsdale	3,176	3,503			
Houghton	798,209	880,430			
Huron	11,009	12,144			
Iosco	1,110	1,225			
Iron	126,019	139,000			
Kalamazoo	4,364	4,814			
Kalkaska	318,991	351,849			
Kent	14,091	15,543			
Keweenaw	185,104	204,171			
Lake	111,343	122,812			
Leelanau	252,418	278,418			
Luce	234,720	258,897			
Mackinac	140,859	155,369			
Manistee	198,928	219,419			
Marquette	559,607	617,250			
Mason	164,256	181,175			
Mecosta	16,329	18,011			
Menominee	3,572	3,940			
Missaukee	57,372	63,281			

This exhibit continued on next page.

City					
	Payment Amount			Payment Amount	
	2019	2020		2019	2020
Alpena	\$ 3,618	\$ 8,298	Newaygo	\$ 60	\$ 13,864
Bessemer	129,774	114,297	Norway	16,127	60,972
Big Rapids	0	15,052	Onaway	0	2,518
Boyne City	102,708	93,982	Petoskey	128,760	86,617
Bridgman	0	297	Reed City	0	3,333
Caspian	41,533	46,799	Rockford	0	427
Charlevoix	48,426	93,433	Rogers City	7,824	12,953
Cheboygan	6,294	8,791	Saugatuck	26,313	18,103
Crystal Falls	23,184	12,330	Sault Ste Marie	330,526	401,066
Douglas	30,781	37,861	Scottville	1,517	3,233
East Grand Rapids	112,932	80,772	South Haven	21,828	11,589
East Jordan	39,015	31,496	St. Ignace	29,326	37,960
East Tawas	339	6,431	St. Joseph	0	4,840
Escanaba	60,837	62,662	Stephenson	2,501	0
Evart	1,219	2,741	Traverse City	170,360	113,965
Frankfort	14,612	18,515	Wakefield	84,365	77,736
Gaastra	17,836	13,436	Walker	8,891	6,421
Gaylord	20,213	44,157	Whitehall	21,448	1,094
Gladstone	29	3,692	Zeeland	33,908	43,342
Grand Haven	60,707	58,597			
Grandville	21,366	40,749	City Total	\$ 2,987,257	\$ 3,223,159
Hancock	146,746	141,938			
Harbor Beach	13,231	3,248			
Harbor Springs	20,517	22,795			
Houghton	310,158	284,428			
Hudsonville	1,132	8,638			
Iron Mountain	16,916	49,438			
Iron River	0	8,912			
Ironwood	87,301	90,724			
Ishpeming	196,571	173,695			
Kingsford	63,392	88,262			
Lowell	10,807	10,913			
Ludington	0	1,217			
Manistique	20,759	52,932			
Marquette	125,385	339,047			
Menominee	33,135	25,933			
Montague	48,386	13,729			
Munising	99,629	56,634			
Muskegon Heights	74,409	22,661			
Negaunee	99,606	133,597			

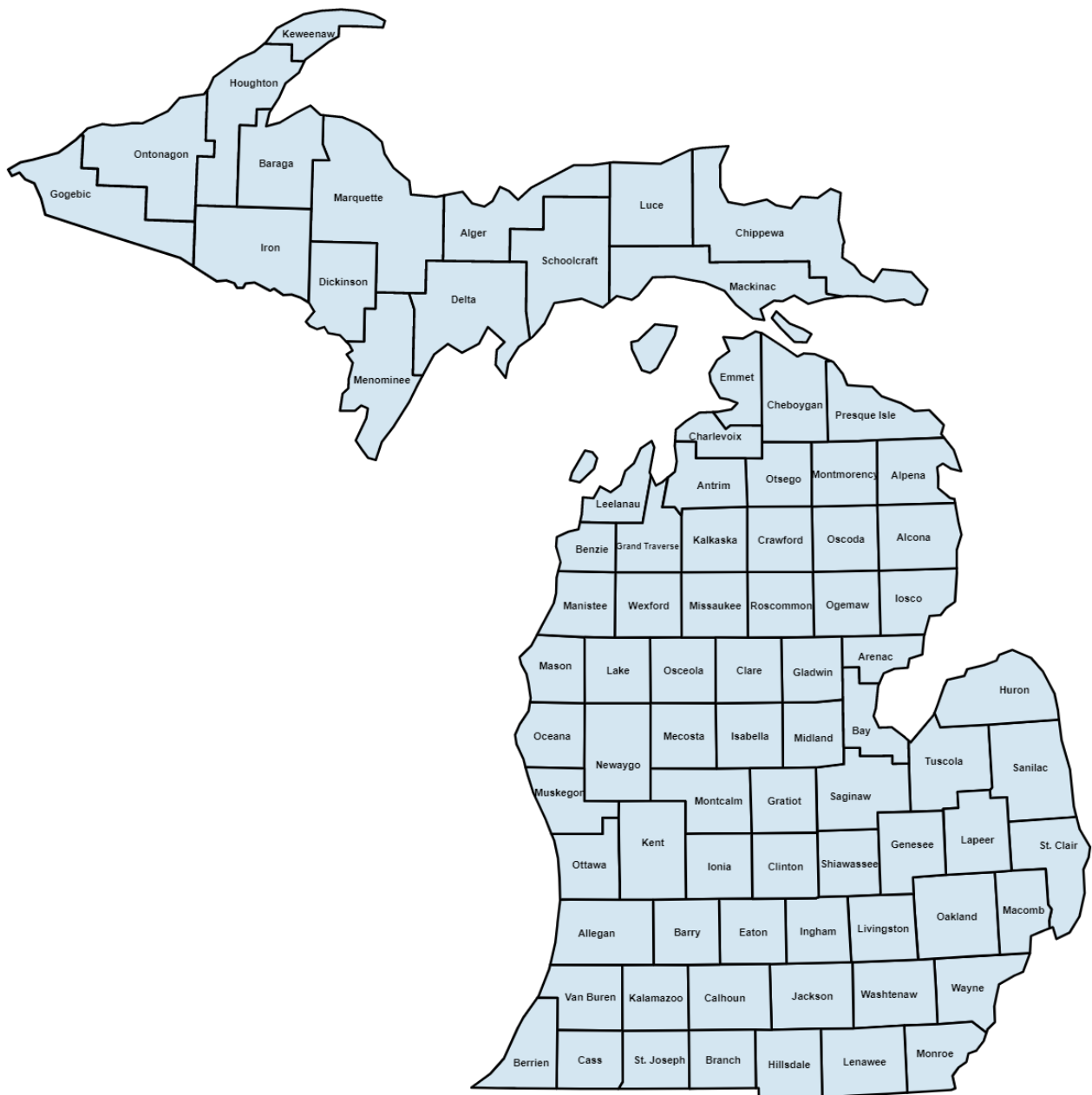
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Village					
Payment Amount			Payment Amount		
	2019	2020		2019	2020
Ahmeek	\$ 4,023	\$ 2,334	Lincoln	\$ 1,983	\$ 5,673
Baldwin	0	6,565	Luther	3,430	0
Baraga	6,797	25,225	Mackinaw City	21,353	54,531
Baroda	4,402	0	Mancelona	7,843	5,934
Bellaire	27,064	24,996	Martin	6,191	3,106
Benzonia	2,975	2,994	Mattawan	0	14,570
Beulah	10,931	4,104	McBride	1,786	1,367
Bloomington	3,475	3,485	Mesick	4,789	7,965
Boyne Falls	3,994	5,668	New Era	0	692
Breedsville	1,748	0	Newberry	13,795	11,406
Buckley	7,526	7,065	North Adams	2,852	1,064
Caledonia	7,885	6,990	Northport	8,583	12,258
Calumet	76,372	111,822	Ontonagon	41,003	24,207
Central Lake	15,505	18,905	Paw Paw	626	0
Copemish	2,032	664	Pentwater	11,801	15,942
Copper City	0	5,091	Pierson	20	0
De Tour	0	1,264	Port Hope	0	266
Elk Rapids	49,693	3,252	Roscommon	0	69
Ellsworth	19,852	25,290	Rothbury	0	341
Empire	20,806	12,261	Sand Lake	1,391	9,805
Farwell	14,230	12,412	Sebewaing	4,305	4,011
Fife Lake	9,896	29,269	Shelby	10,499	8,555
Free Soil	1,177	0	Shoreham	11,824	6,429
Fruitport	2,580	322	South Range	47,095	50,942
Garden	421	0	Spring Lake	833	0
Grand Beach	0	4,625	Stanwood	933	1,438
Hesperia	0	8,414	Suttons Bay	32,354	37,526
Honor	0	285	Three Oaks	0	3,692
Hopkins	2,022	3,070	Tustin	5,831	1,511
Kingsley	6,060	35,552	Ubly	0	2,210
Lake Ann	7,741	10,229	Walkerville	5,578	39,840
Lake Linden	52,760	48,505	Wolverine	808	1,699
Lakeview	1,594	6,545			
L'Anse	40,866	75,409	Village Total	\$ 765,658	\$ 945,611
Laurium	113,725	115,819			
Lawrence	0	132			

Source: The OAG prepared this exhibit from data obtained from MDOT.

ADMINISTRATION OF ACT 51-RELATED FUNDS
Michigan Department of Transportation

Map of County Population, Miles, and MTF Distributions
October 1, 2018 Through September 30, 2020



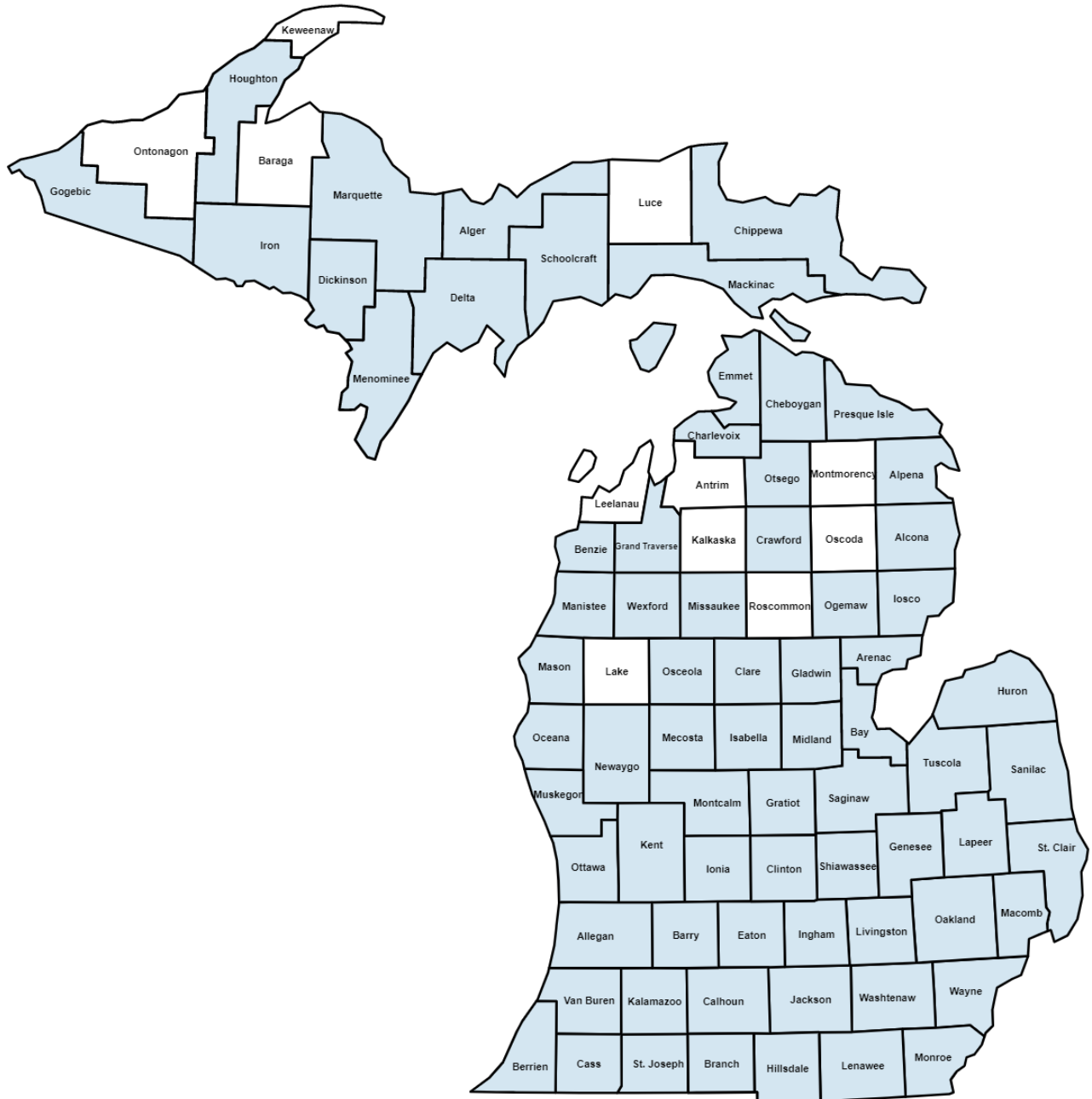
To view the interactive map: <https://audgen.michigan.gov/591041021.countymap.html>

Note: County population represents individuals who are not counted within a specific city or village.

Source: The OAG prepared this exhibit based on data compiled from MDOT.

ADMINISTRATION OF ACT 51-RELATED FUNDS
Michigan Department of Transportation

Map of City Population, Miles, and MTF Distributions
October 1, 2018 Through September 30, 2020



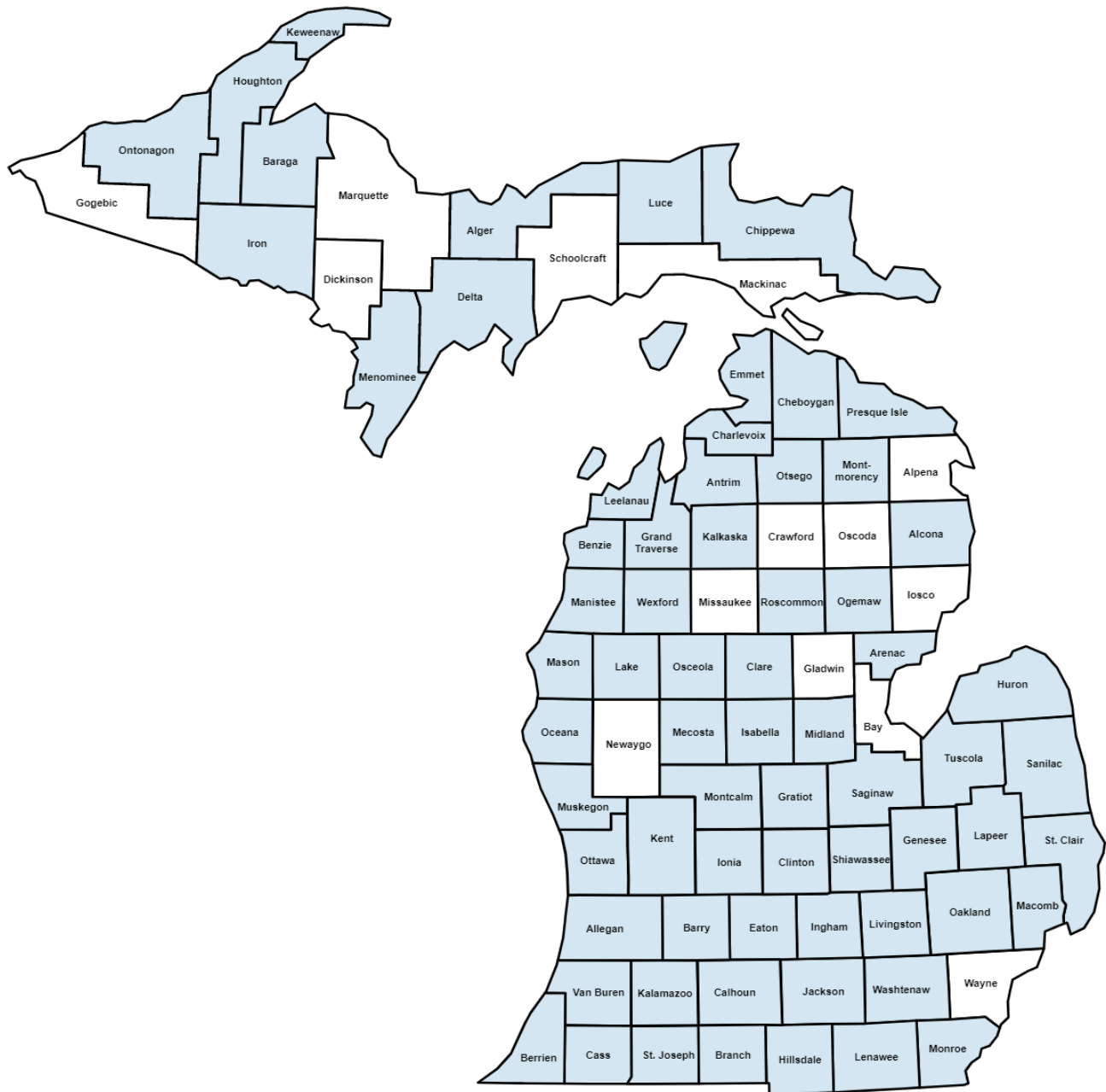
To view the interactive map: <https://audgen.michigan.gov/591041021.citymap.html>

Note: Shaded counties represent the areas where cities received MTF funding.

Source: The OAG prepared this exhibit based on data compiled from MDOT.

ADMINISTRATION OF ACT 51-RELATED FUNDS
Michigan Department of Transportation

Map of Village Population, Miles, and MTF Distributions
October 1, 2018 Through September 30, 2020



To view the interactive map: <https://audgen.michigan.gov/591041021.villagemap.html>

Note: Shaded counties represent the areas where villages received MTF funding.

Source: The OAG prepared this exhibit based on data compiled from MDOT.

ADMINISTRATION OF ACT 51-RELATED FUNDS
Michigan Department of Transportation

Selected Act 51 Requirements for Counties, Cities, and Villages

Summary of Significant Requirements for Counties	
Section of the <i>Michigan Compiled Laws</i>	Requirement
247.659a(11)	Shall annually report infrastructure conditions and investments to the transportation asset management council.
247.660k(2)	Not less than 1% of funds shall be expended for construction or improvement of nonmotorized transportation services and facilities.
247.662(9)	No more than 50% per year may be expended on county local road systems.
247.662(10)	No less than 20% per year shall be expended for snow and ice removal, the construction or reconstruction of a new highway or existing highway, and the acquisition of right of ways for highways.
247.662(11)	Not more than 5% per year shall be expended for maintenance, improvement, or acquisition of roadside parks and motor parkways.
247.662(12)	County shall deposit MTF funds in a designated county depository and interest accrued on those funds shall become part of that depository.
247.662(15)	MTF funds may be expended for construction of county local roads only to the extent matched by money from other sources. However, MTF funds may be expended for construction of bridges on county local roads not to exceed 75% of the cost of the construction.
247.662(16)	At least 90% of MTF funds shall be expended for preservation of highways, roads, streets, and bridges and any related debt-service costs.
247.662(17)	Shall expend at least 90% of federal revenue for highways, roads, streets, and bridges less the amount expended on urban routes and amounts expended for hard-surfacing gravel roads on the federal-aid system.
247.662(20)	Not more than 10% per year of funds returned to a county shall be expended for administrative expenses.
247.662(22)	Shall report a list of all warranties secured including any warranties that were redeemed, and a list of pavement projects costing more than \$2 million for which a warranty was not secured.

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Summary of Significant Requirements for Cities and Villages

Section of the <i>Michigan Compiled Laws</i>	Requirement
247.659a(11)	Shall annually report infrastructure conditions and investments to the transportation asset management council.
247.660k(2)	Not less than 1% of funds shall be expended for construction or improvement of nonmotorized transportation services and facilities.
247.663(5)	MTF funds shall not be expended for construction purposes on city and village local streets except to the extent matched by local revenues.
247.663(6) and 247.663(7)	MTF funds shall be used for major and local streets, with first priority for the major street systems. A city or village shall not transfer more than 50% of its major street funding to the local street system unless specific requirements are fulfilled.
247.663(8)	Not more than 10% per year of funds returned to a city or village shall be expended for administrative expenses.
247.663(11)	Interest earned on MTF funds shall be credited to the appropriate street fund.
247.663(13)	Shall report a list of all warranties secured, including any warranties that were redeemed, and a list of pavement projects costing more than \$2 million for which a warranty was not secured.

Note: MDOT utilizes the Act 51 report as its primary source of data for monitoring local units' compliance with expenditure related requirements.

Source: The OAG compiled the requirements from Public Act 51 of 1951.

ADMINISTRATION OF ACT 51-RELATED FUNDS
Michigan Department of Transportation

Available Transportation Dedicated Funds
October 1, 2018 Through September 30, 2020

	Fiscal Year Ended September 30		Two-Year Total
	2019	2020	
Receipts:			
Gasoline tax	\$ 1,216,847,241	\$ 1,088,125,839	\$ 2,304,973,080
Diesel fuel tax	221,812,288	218,200,156	440,012,444
Liquid petroleum gas tax	2,131,583	1,608,610	3,740,194
Total motor fuel taxes	<u>\$ 1,440,791,113</u>	<u>\$ 1,307,934,605</u>	<u>\$ 2,748,725,718</u>
Diesel carrier tax	\$ 22,046,348	\$ 10,559,390	\$ 32,605,737
Diesel dealer license	27,140	18,000	45,140
Total diesel taxes	<u>\$ 22,073,488</u>	<u>\$ 10,577,390</u>	<u>\$ 32,650,877</u>
Resident weight tax	\$ 1,261,266,939	\$ 1,260,193,659	\$ 2,521,460,598
Nonresident weight tax	84,991,816	79,564,962	164,556,778
Total weight taxes	<u>\$ 1,346,258,755</u>	<u>\$ 1,339,758,620</u>	<u>\$ 2,686,017,375</u>
Miscellaneous revenue	<u>\$ 43,070,069</u>	<u>\$ 36,285,421</u>	<u>\$ 79,355,490</u>
Interest earnings	<u>\$ 4,146,347</u>	<u>\$ 2,519,000</u>	<u>\$ 6,665,347</u>
Directed income tax transfer	<u>\$ 264,000,000</u>	<u>\$ 468,000,000</u>	<u>\$ 732,000,000</u>
Total gross receipts	<u><u>\$ 3,120,339,771</u></u>	<u><u>\$ 3,165,075,036</u></u>	<u><u>\$ 6,285,414,807</u></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, 2018 Through September 30, 2020

	<u>Fiscal Year Ended September 30</u>		<u>Two-Year Total</u>
	<u>2019</u>	<u>2020</u>	
Deductions:			
Recreation Fund*	\$ 24,282,047	\$ 21,707,421	\$ 45,989,468
Transportation Economic Development Fund*	\$ 41,096,200	\$ 41,111,400	\$ 82,207,600
State Trunkline Fund:			
Local Program Fund*	\$ 33,000,000	\$ 33,000,000	\$ 66,000,000
Local Bridge Fund*	30,621,570	28,028,501	58,650,070
Local Agency Wetland Mitigation Bank Fund	2,000,008	2,000,000	4,000,008
Movable Bridge Fund Program	5,222,500	5,337,300	10,559,800
Rail crossing	3,000,000	3,000,000	6,000,000
Rail crossing surface	3,000,000	3,000,000	6,000,000
Administrative grants	27,756,600	28,599,200	56,355,800
Debt service	50,000,000	50,000,000	100,000,000
Total State Trunkline Fund	\$ 154,600,678	\$ 152,965,001	\$ 307,565,678
General Fund:			
Department of State	\$ 20,000,000	\$ 20,000,000	\$ 40,000,000
Department of Treasury	2,744,900	2,754,800	5,499,700
Departments of Natural Resources and Environment, Great Lakes, and Energy**	1,367,600	1,383,000	2,750,600
Office of the Auditor General	322,100	322,100	644,200
Total General Fund	\$ 24,434,600	\$ 24,459,900	\$ 48,894,500
Total deductions	\$ 244,413,525	\$ 240,243,721	\$ 484,657,246
Allocations:			
State Trunkline Fund	\$ 1,035,219,070	\$ 1,057,626,793	\$ 2,092,845,863
Comprehensive Transportation Fund	253,510,322	239,847,239	493,357,561
Counties	1,010,009,568	1,034,992,282	2,045,001,850
Cities and villages	577,187,287	592,365,000	1,169,552,287
Total allocations	\$ 2,875,926,246	\$ 2,924,831,315	\$ 5,800,757,561
Total deductions and allocations	\$ 3,120,339,771	\$ 3,165,075,036	\$ 6,285,414,807

** Executive Order No. 2019-2, effective April 22, 2019, renamed the Department of Environmental Quality as the Department of Environment, Great Lakes, and Energy.

*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, 2018 Through September 30, 2020

<u>Top 5 County Distributions</u>			
	<u>Fiscal Year Ended September 30</u>		<u>Two-Year Total</u>
	<u>2019</u>	<u>2020</u>	
County:			
Oakland	\$ 103,292,968	\$ 106,495,017	\$ 209,787,986
Wayne	\$ 93,385,915	\$ 97,687,923	\$ 191,073,838
Macomb	\$ 65,614,763	\$ 68,687,345	\$ 134,302,108
Kent	\$ 48,686,235	\$ 51,644,513	\$ 100,330,747
Genesee	\$ 33,741,297	\$ 35,197,203	\$ 68,938,500

<u>Top 5 City and Village Distributions</u>			
	<u>Fiscal Year Ended September 30</u>		<u>Two-Year Total</u>
	<u>2019</u>	<u>2020</u>	
City or Village:			
Detroit	\$ 87,752,093	\$ 91,577,417	\$ 179,329,509
Grand Rapids	\$ 22,133,447	\$ 23,108,133	\$ 45,241,580
Flint	\$ 14,017,639	\$ 14,643,022	\$ 28,660,661
Warren	\$ 13,883,723	\$ 14,491,099	\$ 28,374,822
Lansing	\$ 13,680,303	\$ 14,278,693	\$ 27,958,996

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

DESCRIPTION

Public Act 51 of 1951, as amended (Sections 247.651 - 247.675 of the *Michigan Compiled Laws*), established MTF as the depository of 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 531 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 nonmotorized transportation services. Act 51 requires local units to report to MDOT on the use of funds through submission of the Act 51 reports.

From October 1, 2018 through September 30, 2020, \$6.3 billion in transportation dedicated funding was deposited into MTF (see Exhibit 7). For this time period, the amount of deductions from MTF and allocations to MDOT and local units equaled the funding amount (see Exhibit 8).

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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our second audit objective and corresponding audit procedures were directed toward concluding on MDOT's operations related to monitoring of local units' compliance with Act 51 and not to determine if local units followed Act 51 requirements. In addition, our audit objectives were not directed toward reaching a conclusion regarding the accuracy of the information in ADARS and, accordingly, we provide no such conclusion.

As part of the audit, we considered the five components of internal control (control environment, risk assessment, control activities, information and communication, and monitoring activities) relative to the audit objectives and determined that all components were significant.

PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered October 1, 2018 through September 30, 2020.

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 to obtain an understanding of the processes MDOT used to allocate, distribute, and monitor Act 51-related funds.
- Reviewed applicable State laws, appropriations, flow charts, and policies and procedures.
- Reviewed guidance provided by MDOT to local units including instructions for entering data into ADARS.
- Reviewed the ADARS data dictionary, user role descriptions, and instructions.

* See glossary at end of report for definition.

- Conducted an analytical review of the amounts provided to each county, city, and village during fiscal years 2019 and 2020.

OBJECTIVE 1

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

To accomplish this objective, we:

- Recalculated Act 51 revenue, distributions, and allocations for fiscal years 2019 and 2020.
- Verified the accuracy of population and mileage variables used in the distribution calculation for fiscal years 2019 and 2020.
- Recalculated MTF distributions for fiscal years 2019 and 2020 to determine the accuracy of:
 - Monthly distributions to local units.
 - One-time appropriation amounts to local units.
 - Annual snow payments to eligible local units.
 - Annual mileage transfer adjustments to applicable local units.
 - Annual engineering payments to counties.
- Compared the number of expected to actual payments made to the 614 local units and randomly sampled 11 of 102 and 4 of 40 local units whose actual number of payments received differed from the expected number for fiscal years 2019 and 2020, respectively, to determine if the local unit received the appropriate number of payments. Our sample was randomly selected to eliminate bias and enable us to project the results to the entire population.
- Calculated average snowfall amounts from calendar years 2000 to 2020 for counties with available data.

OBJECTIVE 2

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

To accomplish this objective, we:

- Reviewed MDOT's monitoring of its use of funds in STF for selected Act 51 requirements.

- Selected various Act 51 reporting requirements and evaluated reports prepared by MDOT for accuracy and compliance.
- Randomly and judgmentally sampled 25 of 614 local units to:
 - Verify local units' certified mileage reports for their fiscal years 2018, 2019, and 2020 matched MDOT's mileage amounts in ADARS and to assess compliance with Act 51 requirements.
 - Determine if the local units maintained a public Web site and posted their fiscal years 2018, 2019, and 2020 Act 51 reports on it.
 - Compare the local units' Act 51 report with their audited financial statements for their fiscal years 2018 through 2020.
- Obtained and analyzed local units' Act 51 report data from ADARS for reports due, submitted, or extended during MDOT's fiscal years 2019 and 2020.
- Completed a 100% review of Act 51 report data and, based on our data analysis, we sampled Act 51 reports submitted between October 1, 2018 and September 30, 2020, when:
 - MDOT did not review, approve, or reject the report within a reasonable period of the local units submitting it. We:
 - Randomly and judgmentally sampled 8 of 74 reports submitted by a local unit that had not been approved or rejected by MDOT for reasonableness to evaluate why MDOT had not reviewed the reports.
 - Judgmentally sampled 1 of 4 reports that MDOT had not rejected nor approved to determine if the local unit had not resubmitted its report or if MDOT had a reasonable explanation for not approving the report.
 - Randomly and judgmentally sampled 2 of 18 rejected reports that had been resubmitted and took MDOT more than 3 months to approve to determine if the length of time it took MDOT to approve was reasonable.
 - Reviewed 100% of the reports MDOT approved more than 1 year after the local

unit submitted the report to determine if the length of time it took MDOT to approve the report was reasonable.

- MDOT provided a local unit with an extension to submit its Act 51 report. We randomly and judgmentally sampled 7 of 62 county reports with extensions and 16 of 151 city and village reports with extensions that appeared to be more than 2 months beyond the due date to determine if the reason for the extension was reasonable.
- Local units did not submit their Act 51 report by the due date or had not submitted the required report as of September 30, 2020. For these instances, we reviewed the amount of time before MDOT withheld funds, if necessary, for not meeting the report submission requirements. We completed a 100% review of instances when:
 - County and city and village reports were received at least 5 or 6 months after the due date, respectively, to determine if MDOT withheld funds from the local units, if necessary, within the proper amount of time.
 - ADARS data indicated local units had not submitted their fiscal year 2019 report as of September 30, 2020 to determine if the report was late and MDOT properly withheld funds, if necessary.
- Obtained and analyzed data from 1,209 local units' Act 51 reports MDOT approved in ADARS for fiscal years 2018 and 2019 to replicate and validate MDOT's monitoring process. We compared local units self-reported amounts with their audited financial statements to identify compliance with various Act 51 requirements and other State laws and to determine the completeness of the reports. We:
 - Randomly and judgmentally sampled Act 51 reports in which potential local unit noncompliance was identified:
 - 11 of 75 reports in which potential noncompliance was identified related to the Act 51 nonmotorized expense requirements.

- 11 of 164 reports in which local units appeared to not follow the Act 51 administrative expense requirements.
 - 8 of 41 reports to assess compliance with Act 51 mileage transfer requirements and review supporting documentation.
- Judgmentally sampled Act 51 reports that appeared to be incomplete or inaccurate:
 - 4 of 19 reports indicated one of the local unit's funds where Act 51 revenue is recorded had a negative fund balance at year-end.
 - 5 of 33 reports that may not have included an accounts receivable balance.
 - 3 of 7 reports in which local units reported no winter maintenance expenditures.
- Completed a 100% review of Act 51 reports in which the local units made an emergency transfer from the local fund to primary fund or appeared to have not met the Act 51 local match requirement.
- Randomly and judgmentally sampled 25 of 614 local units to determine whether they submitted attestation forms and verify MDOT approved the local unit's Act 51 report for the local unit's fiscal years 2018, 2019, or 2020.
- Obtained an understanding of the local units' process to submit asset management and warranty information to MDOT and MDOT's process to review the information.

Our random samples were selected to eliminate any bias and enable us to project the results to the populations. For our judgmental samples and for our random and judgmental samples, we could not project the results to the respective populations.

OBJECTIVE 3

To assess the effectiveness of selected security and access controls over ADARS.

To accomplish this objective, we:

- Obtained an understanding of MDOT's process to verify an individual's business need for access to ADARS before granting access.

- Reviewed MDOT's process to monitor ADARS users and confirm access is still needed or if it should be removed.

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 4 findings and 6 corresponding recommendations. MDOT's preliminary response indicates that it agrees with 5 recommendations and disagrees with 1 recommendation.

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 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 to the State Budget Office upon completion of an audit. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, 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 July 2018 performance audit of the Administration of Act 51-Related Funds, Michigan Department of Transportation (591-0410-17):

Prior Audit Finding Number	Topic Area	Current Status	Current Finding Number
1	Security management and access controls of ADARS.	Complied	Not applicable
2	Processes related to conducting audits of the disposition of Act 51 funds.	No longer applicable.	

SUPPLEMENTAL INFORMATION

Our audit report includes supplemental information presented as Exhibits 1 through 8. Our audit was not directed toward expressing a conclusion on this information.

* See glossary at end of report for definition.

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 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 State (39.1%), counties (39.1%), and cities and villages (21.8%), and total adjustments for snow payments, engineering expenditures, and mileage transfers.
auditor's comments to agency preliminary response	Comments that the OAG includes in an audit report to comply with <i>Government Auditing Standards</i> . Auditors are required to evaluate the validity of the audited entity's response when it is inconsistent or in conflict with the findings, conclusions, or recommendations. If the auditors disagree with the response, they should explain in the report their reasons for disagreement.
availability	Timely and reliable access to data and information systems.
certified mileage report	Annual report prepared by local units certifying the length of roads under the jurisdiction of the local unit.
Comprehensive Transportation Fund (CTF)	A fund created by Act 51 to distribute funds to eligible authorities for public transportation purposes.
confidentiality	Protection of data from unauthorized viewing.
construction	New construction of highways, roads, streets, or bridges; a project that increases the capacity of a highway facility to accommodate that part of traffic having neither an origin nor destination within the

	local areas; widening of a lane width or more; or adding turn lanes of more than ½ mile in length.
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.
effectiveness	Success in achieving mission and goals.
integrity	Accuracy, completeness, and timeliness of data in an information system.
IRT	Investment Reporting Tool.
jurisdictional mileage transfer	Miles of State trunkline highways, county primary and local roads, and city and village major and local streets that are transferred between the State, county, city, or village jurisdiction.
Local Bridge Fund	A fund established in the Department of 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 set up in the STF to receive money from MTF and from STF. Funds received are to be distributed 64.2% to county road commissions and 35.8% to cities and villages.
local unit of government (local unit)	Any of the 83 county road commissions or 531 cities and villages of Michigan that receive Act 51 funds from MDOT.
LRP	Local Road Program.
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 Transportation Fund (MTF)

A fund established in the Department of 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.

observation

A commentary highlighting certain details or events that may be of interest to users of the report. An observation may not include all of the attributes (condition, effect, criteria, cause, and recommendation) that are presented in an audit finding.

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.

preservation

Activity undertaken to preserve the integrity of the existing roadway system. It does not include construction. It includes maintenance; capital preventative treatments; safety projects; reconstruction; resurfacing; restoration; rehabilitation; widening of less than the width of 1 lane; adding auxiliary weaving, climbing, or speed change lanes; modernizing intersections; addition auxiliary turning lanes of ½ mile or less; and installing traffic signs in new locations, installing signal devices in new locations, and replacing existing signal devices.

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: a deficiency in internal control; noncompliance with provisions of laws, regulations, contracts, or grant agreements; opportunities to improve programs and operations; or fraud.

security

Safeguarding an entity's data from unauthorized access or modification to ensure its availability, confidentiality, and integrity.

snow payments	Money returned to eligible local units for snow removal purposes, including the purchase and maintenance of equipment for snow removal.
State Trunkline Fund (STF)	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.



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