

Office of the Auditor General
Performance Audit Report

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

October 2023

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:
591-0105-23

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October 2023

Public Act 87 of 2021 and Public Act 166 of 2020 require State agencies which 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, Public Act 166 of 2020 required 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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October 31, 2023

Michael D. Hayes, Vice Chair
State Transportation Commission
and
Bradley C. Wieferich, PE, Director
Michigan Department of Transportation
Murray D. Van Wagoner Building
Lansing, Michigan

Vice Chair Hayes and Director Wieferich:

This is our performance audit report on 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 87 of 2021 and Public Act 166 of 2020 (the annual appropriations acts for the Michigan Department of Transportation [MDOT] for fiscal years 2022 and 2021, 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 XIII, Part 1, Sections 103 and 105 of Public Acts 87 of 2021 and 166 of 2020. 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 not covered under a contract and not specifically appropriated to the State agencies in Public Act 87 of 2021 and Public Act 166 of 2020.
- **Unreimbursed costs:** This section represents transportation-related costs incurred by the State agencies but 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 reflecting actual costs.
- MDOT conducted reviews to help ensure State agency charges to transportation funds were appropriate.

CONTRACTUAL AND REPORTING REQUIREMENTS

BACKGROUND

MDOT's annual appropriations acts for fiscal years 2022 and 2021 require:

- 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 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 two months after the publication of the *State of Michigan Annual Comprehensive Financial Report (SOMACFR)* 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 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 which 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>2022</u>	<u>2021</u>
CHARGES TO TRANSPORTATION FUNDS		
<u>Interdepartmental Contract Charges</u>		
State Trunkline Fund		
IT services and projects	\$ 38,484,200	\$ 37,826,500
Central support services	1,177,900	1,523,500
SIGMA user charges	764,900	888,700
State Aeronautics Fund		
IT services and projects	119,541	181,200
Central support services	28,000	37,500
SIGMA user charges	18,200	21,800
Comprehensive Transportation Fund		
IT services and projects	73,542	133,945
Central support services	34,500	48,100
SIGMA user charges	22,500	28,100
Blue Water Bridge Fund		
IT services and projects	35,478	32,743
Central support services	18,600	24,300
SIGMA user charges	12,100	14,200
Economic Development Fund		
IT services and projects	38,400	38,400
Total interdepartmental contract charges	<u>\$ 40,827,861</u>	<u>\$ 40,798,988</u>
<u>Miscellaneous Charges</u>		
State Trunkline Fund		
IT services and projects	\$ 18,894,127	\$ 14,173,346
Building occupancy charges	4,601,720	4,677,968
Motor Transport Fund	4,676,690	4,364,306
Risk Management Fund	1,706,077	1,497,190
Office Services Revolving Fund	753,170	634,685
Other fees and services	125,762	96,245
State Trunkline Bond Proceeds Fund	4,151	7,213
State Aeronautics Fund		
IT services and projects	65,923	33,680
Motor Transport Fund	40,074	32,584
Risk Management Fund	37,592	33,399
Office Services Revolving Fund	39,125	38,091

This exhibit continued on next page.

STATE AGENCIES' USE OF TRANSPORTATION-RELATED FUNDING

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

	<u>2022</u>	<u>2021</u>
CHARGES TO TRANSPORTATION FUNDS		
<u>Miscellaneous Charges (continued)</u>		
Comprehensive Transportation Fund		
IT services and projects	\$ 22,062	\$ 18,131
Motor Transport Fund	115,155	59,453
Risk Management Fund	510	508
Office Services Revolving Fund	1,042	557
Blue Water Bridge Fund		
IT services and projects	622,007	1,073,645
Motor Transport Fund	15,463	16,581
Office Services Revolving Fund	523	380
Risk Management Fund	510	508
Transportation Related Trust Funds		
IT services and projects		148,852
Office Services Revolving Fund		645
Economic Development Fund		
IT services and projects	1,476	2,716
Total miscellaneous charges	<u>\$ 31,723,159</u>	<u>\$ 26,910,683</u>
TOTAL CHARGES	<u>\$ 72,551,020</u>	<u>\$ 67,709,671</u>
UNREIMBURSED COSTS		
State Trunkline Fund		
Building occupancy charges*	\$ (1,271,467)	\$ (1,226,838)
Central support services	(305,553)	(374,158)
SIGMA user charges	(202,168)	(683,338)
State Aeronautics Fund		
Central support services	(7,264)	(9,122)
SIGMA user charges	(4,789)	(16,822)
Comprehensive Transportation Fund		
Central support services	(9,096)	(11,934)
SIGMA user charges	(5,920)	(21,633)
Blue Water Bridge Fund		
Central support services	(4,864)	(6,001)
SIGMA user charges	(3,196)	(10,902)
TOTAL UNREIMBURSED COSTS	<u>\$ (1,814,317)</u>	<u>\$ (2,360,748)</u>

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

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Notes to the Schedule of Transportation-Related Costs

- **Interdepartmental Contract Charges**

The Legislature appropriated \$39.0 million and \$39.1 million for IT services from transportation funds for fiscal years 2022 and 2021, respectively, to the Department of Technology, Management, and Budget (DTMB). DTMB incurred and encumbered transportation-related costs for administering and implementing IT services of \$38.8 million and \$38.2 million in fiscal years 2022 and 2021, respectively.

The Legislature also appropriated interdepartmental grants from transportation funds of \$1.2 million and \$1.6 million for central support costs to DTMB for fiscal years 2022 and 2021, respectively. In addition to the grants, the annual contract between DTMB and MDOT included \$0.8 million and \$1.0 million for Statewide Integrated Governmental Management Applications* (SIGMA) user charges for each of the fiscal years. DTMB incurred transportation-related costs of \$2.1 million and \$2.6 million for central support services and SIGMA user charges for fiscal years 2022 and 2021, respectively.

- **Miscellaneous Charges**

DTMB charged \$19.6 million and \$15.5 million in fiscal years 2022 and 2021, respectively, for additional IT projects, services, and equipment that DTMB provided to transportation funds but were not included in the general operating services in the interdepartmental grant.

Also, DTMB charged building occupancy costs of \$4.6 million and \$4.7 million for fiscal years 2022 and 2021, respectively, to the State Trunkline Fund for buildings occupied by MDOT personnel.

In addition, DTMB charged \$7.4 million and \$6.7 million for fiscal years 2022 and 2021, respectively, to the transportation funds for services provided by internal service funds, including:

- The Motor Transport Fund, which provides vehicle and travel services.
- The Risk Management Fund, which accounts for certain centralized risk management functions.
- The Office Services Revolving Fund, which 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 SIGMA security, parking, and miscellaneous operating projects, for fiscal years 2022 and 2021 combined.

- **Unreimbursed Costs**

DTMB did not report any unreimbursed costs related to IT services for fiscal years 2022 and 2021.

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

A comparison of actual Statewide Cost Allocation Plan (SWCAP) costs to amounts charged to transportation funds disclosed net unreimbursed costs for DTMB central support services, SIGMA user charges, and building occupancy costs of \$1.8 million and \$2.4 million, respectively, for fiscal years 2022 and 2021.

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

DTMB charged MDOT for costs associated with the delivery of IT services, central support services, 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 Resources Management Network 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.
- Office Automation (client service center, field, design and delivery, logistics, workstation, software, printer, e-mail, device, network access, file and print,

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

- 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.
 - 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 SIGMA security, parking, and miscellaneous operating projects) are based on actual expenditures.

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.

* See glossary at end of report for definition.

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

	<u>2022</u>	<u>2021</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	\$	\$
Total miscellaneous charges	<u>\$ 0</u>	<u>\$ 0</u>
TOTAL CHARGES	<u>\$ 20,000,000</u>	<u>\$ 20,000,000</u>
UNREIMBURSED COSTS		
Collection of transportation taxes and fees	<u>\$ (17,084,860)</u>	<u>\$ (15,629,233)</u>
TOTAL UNREIMBURSED COSTS	<u>\$ (17,084,860) *</u>	<u>\$ (15,629,233)</u>

*As of the end of audit fieldwork, the fiscal year 2022 cost allocation plan for the Department of State was not yet available. Therefore, we estimated the amount using the same methodology used to calculate fiscal year 2021.

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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 2022 and 2021. The Department charged \$20.0 million of transportation-related costs to MTF for each of fiscal years 2022 and 2021 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**

The Department did not report any miscellaneous charges for fiscal years 2022 and 2021.

- **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 \$17.1 million and \$15.6 million for administering and enforcing the collection of transportation taxes and fees for fiscal years 2022 and 2021, 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 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 sales fees collected in TACF can be used to pay the necessary expenses incurred by the Department in the administration and enforcement of collecting transportation taxes and fees.

The Department retains an independent consulting firm to conduct an annual cost allocation review to determine actual transportation-related costs from time-and-effort cost studies. The 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 FUNDINGMichigan Department of State Police Transportation-Related Costs
Fiscal Years Ended September 30

	<u>2022</u>	<u>2021</u>
CHARGES TO TRANSPORTATION FUNDS		
<u>Interdepartmental Contract Charges</u>		
<u>State Trunkline Fund</u>		
Commercial Vehicle Enforcement Division - Inspections and enforcement	\$ 5,741,204	\$ 6,847,072
Work project weigh station	5,706,407	1,895,432
Criminal Justice Information Center - Traffic safety	724,000	595,310
Special Operations Division - Special operations	603,586	504,700
IT services and projects	30,560	122,637
Training Division - Traffic services		4,900
Departmental services	2,396	2,398
Total interdepartmental contract charges	<u>\$ 12,808,153</u>	<u>\$ 9,972,449</u>
<u>Miscellaneous Charges</u>		
<u>State Trunkline Fund</u>		
Construction work zone patrols	\$ 340,327	\$ 205,654
Aircraft rental	1,765	2,940
Training	750	1,882
<u>State Trunkline Bond Proceeds Fund</u>		
Construction work zone patrols	172,762	61,742
Aircraft rental	434	
<u>State Aeronautics Fund</u>		
Aviation fuel	49,203	13,581
Total miscellaneous charges	<u>\$ 565,241</u>	<u>\$ 285,799</u>
TOTAL CHARGES	<u>\$ 13,373,394</u>	<u>\$ 10,258,248</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 \$12.2 million to the Michigan Department of State Police (MSP) for fiscal years 2022 and 2021. MSP charged transportation-related costs of \$12.8 million and \$10.0 million in fiscal years 2022 and 2021, respectively, primarily for safety inspections and enforcement activities of the Commercial Vehicle Enforcement Division.

• **Miscellaneous Charges**

MSP's miscellaneous expenditures totaled \$0.6 million and \$0.3 million for fiscal years 2022 and 2021, respectively. MSP charged miscellaneous expenditures related to construction work zone patrols, training, aircraft rentals, and aviation fuel based on actual costs. The requirement to review miscellaneous expenditures related to agency spending of transportation-related funding no longer exists; therefore, we did not review these expenditures.

• **Unreimbursed Costs**

MSP did not report unreimbursed amounts for fiscal years 2022 and 2021.

• **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), Department of Transportation Federal Motor Carrier Safety Administration grant, motor carrier fees, and the Truck Safety Fund.

Also, traffic services activities conducted by MSP's Special Operations Division and 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.

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 FUNDING

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

	<u>2022</u>	<u>2021</u>
CHARGES TO TRANSPORTATION FUNDS		
<u>Interdepartmental Contract Charges</u>		
Michigan Transportation Fund		
Tax processing	\$ 6,484,441	\$ 5,113,391
IFTA - Audit	3,636,749	3,290,108
State Finance Division	1,348,092	1,146,883
Treasury operations IT services and projects - Electronic Motor Fuel Compliance System	636,452	672,549
ORTA	127,682	161,495
Discovery	9,846	479
Tax policy	1,869	617
Treasury fees	8,600	
State Trunkline Fund		
Treasury fees	155,100	97,600
Comprehensive Transportation Fund		
Treasury fees	47,300	44,900
State Aeronautics Fund		
Tax processing	24,407	17,445
Treasury fees	12,100	5,200
State Finance Division	4,621	3,550
ORTA	437	502
Total interdepartmental contract charges	<u>\$ 12,497,696</u>	<u>\$ 10,554,718</u>
<u>Miscellaneous Charges</u>		
Economic Development Fund	\$ 21,700	\$ 26,100
Blue Water Bridge Fund	16,600	19,200
State Trunkline Bond Proceeds Fund	12,800	
Transportation Related Trust Funds		8,800
Comprehensive Transportation Bond Proceeds Fund		300
Total miscellaneous charges	<u>\$ 51,100</u>	<u>\$ 54,400</u>
TOTAL CHARGES	<u>\$ 12,548,796</u>	<u>\$ 10,609,118</u>

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STATE AGENCIES' USE OF TRANSPORTATION-RELATED FUNDING

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

	<u>2022</u>	<u>2021</u>
UNREIMBURSED COSTS		
Michigan Transportation Fund		
Tax processing	\$ 3,879,841	\$ 2,496,691
IFTA - Audit	3,636,749	3,290,108
State Finance Division	1,348,092	1,146,883
Treasury operations IT services and projects -		
Electronic Motor Fuel Compliance System	229,152	263,849
ORTA	127,682	161,495
Civil service revenue reduction	37,981	30,565
Discovery	9,846	479
Tax policy	1,869	617
State Aeronautics Fund		
Tax processing	17,218	8,691
ORTA	437	502
State Finance Division	4,621	3,550
TOTAL UNREIMBURSED COSTS	<u>\$ 9,293,488</u>	<u>\$ 7,403,430</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 \$3.3 million to the Michigan Department of Treasury (Treasury) for fiscal years 2022 and 2021. Treasury charged transportation-related costs of \$12.5 million and \$10.6 million in fiscal years 2022 and 2021, respectively, primarily for the collection of transportation-related taxes.

- **Miscellaneous Charges**

Treasury miscellaneous expenditures totaled \$0.1 million for fiscal years 2022 and 2021. The requirement to review miscellaneous expenditures related to agency spending of use of transportation-related funding no longer exists; therefore, we did not review these expenditures.

- **Unreimbursed Costs**

Treasury reported unreimbursed expenditures of \$9.3 million and \$7.4 million for fiscal years 2022 and 2021, respectively, for activities related to collecting transportation-related taxes.

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

Treasury is responsible for collecting transportation-related taxes. For expenditures directly related to the transportation-related tax collection process, the expenditures are reimbursed at 100%. This includes expenditures for the Special Taxes Division's* tax processing and the Electronic Motor Fuel Compliance System's* maintenance costs. The remainder of the appropriated funds is allocated to other areas for ancillary charges within Treasury associated with the collection of transportation-related taxes. These other areas include the International Fuel Tax Agreement* (IFTA) audit team, Discovery Division, Office of Revenue and Tax Analysis* (ORTA), and State Finance Division. A third-party consulting service derived the cost allocation methodology, which is currently based on Treasury's cost to collect the transportation taxes.

In addition, Treasury charges a fee to accurately reflect investment management costs associated with State restricted funds and is composed of investment and administrative fees. Both fees are added together and charged to each fund. The amounts are rounded to the nearest hundred and each department is billed for their portion of Treasury fees. The investment fee is calculated by multiplying the basis points, determined by activity level by the Bureau of Investments, and the total value of State-managed investments for each fund. The administrative fee includes overhead expenses and economic factors distributed over all funds, and the amount changes each fiscal year.

We did not perform a review of the cost allocation methodology for Treasury fees because expenditures totaled to \$0.3 million and \$0.2 million in fiscal years 2022 and 2021, respectively.

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

* See glossary at end of report for definition.

STATE AGENCIES' USE OF TRANSPORTATION-RELATED FUNDING

Summary of Agencies' Use of Transportation-Related Funding
 Fiscal Year Ended September 30, 2022

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	\$ 71,184,546	\$	\$ 348,455	\$ 269,312	\$ 704,681	\$	\$ 4,151	\$	\$ 39,876	\$	\$ 72,551,020
Department of State	113	20,000,000									20,000,113
Michigan Department of State Police	13,324,191		49,203								13,373,394
Department of Treasury	155,100	12,253,732	41,565	47,300	16,600		12,800		21,700		12,548,797
Civil Service Commission	5,571,124		105,773	171,807	69,286						5,917,990
Department of Attorney General	1,630,024		131,841	59,302							1,821,167
Department of Environment, Great Lakes, and Energy		1,467,337									1,467,337
Office of the Auditor General	556,990	350,200	33,800	43,200							984,190
Total for all agencies	\$ 92,422,088	\$ 34,071,269	\$ 710,637	\$ 590,921	\$ 790,567	\$ 0	\$ 16,951	\$ 0	\$ 61,576	\$ 0	\$ 128,664,008

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 FUNDING

Summary of Agencies' Use of Transportation-Related Funding
Fiscal Year Ended September 30, 2021

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	\$ 65,682,439	\$	\$ 378,254	\$ 288,793	\$ 1,162,357	\$	\$ 7,213	\$	\$ 41,116	\$ 149,497	\$ 67,709,670
Department of State	20	20,000,000									20,000,020
Michigan Department of State Police	10,244,677		13,581								10,258,258
Department of Treasury	97,600	10,385,522	26,696	44,900	19,200	300			26,100	8,800	10,609,118
Civil Service Commission	5,327,009		104,708	173,713	70,380						5,675,810
Department of Attorney General	1,841,780		130,217	55,262							2,027,260
Department of Environment, Great Lakes, and Energy	151,109	1,459,590	520								1,611,219
Office of the Auditor General	801,500	345,000	33,300	42,600							1,222,400
Total for all agencies	<u>\$ 84,146,134</u>	<u>\$ 32,190,112</u>	<u>\$ 687,276</u>	<u>\$ 605,269</u>	<u>\$ 1,251,937</u>	<u>\$ 300</u>	<u>\$ 7,213</u>	<u>\$ 0</u>	<u>\$ 67,216</u>	<u>\$ 158,297</u>	<u>\$ 119,113,755</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 fiscal year 2021 annual appropriations act requires the OAG to use a risk-based approach in developing an audit program for the use of transportation funds. This requirement was subsequently removed in Public Act 87 of 2021.

The Legislature appropriated transportation-related funding of \$48.6 million and \$48.9 million for fiscal years 2022 and 2021, respectively, with interdepartmental grants to the following eight State agencies:

- Department of Technology, Management, and Budget
- Department of State
- Michigan Department of State Police
- Department of Treasury
- Civil Service Commission
- Department of Attorney General
- Department of Environment, Great Lakes, and Energy
- Office of the Auditor General

The Legislature also appropriated \$39.5 million and \$39.6 million for fiscal years 2022 and 2021, respectively, for IT services and projects.

MDOT funded contractual and miscellaneous transportation-related charges of \$128.7 million and \$119.1 million for fiscal years 2022 and 2021, 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 which are considered transportation related in the *SOMACFR*. 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 Comprehensive Transportation Bond Proceeds Fund
- Combined State Trunkline Bond Proceeds Fund
- Combined State Trunkline Bond and Interest Redemption Fund
- Transportation Related Trust Funds

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

We conducted this performance audit* in accordance with generally accepted government auditing standards except 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.

Not all five internal control* components as defined by the COSO Framework* were significant to Objective 1.

* See glossary at end of report for definition.

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, 2020 through September 30, 2022.

METHODOLOGY

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

- Obtained and reviewed MDOT business processes 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
 - MSP
 - Department of Treasury

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 and judgmentally sampled 20 of 54,564 DTMB and IT transportation-related charges from October 1, 2020 through September 30, 2022 to determine whether the charges were appropriate.
 - Randomly and judgmentally sampled 10 of 78,525 MSP and 10 of 114,279 Department of State transportation-related charges from October 1, 2020 through September 30, 2022 to determine whether the charges were appropriate.
 - Reviewed Treasury documentation and verified the services charged on the use of transportation-related funding annual report were reasonable for fiscal years 2022 and 2021 in accordance with contract requirements. We traced Treasury's charges from the use of transportation-related funding annual report back to Treasury's cost allocation documentation to determine reasonableness for fiscal years 2022 and 2021.
 - Analyzed fiscal year 2022 and fiscal year 2021 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. We selected other samples judgmentally based on risk and could not project those results to the respective populations.

- Evaluated the selected State agencies' processes for allocating transportation-related costs to transportation funds.
- Reviewed the four non-selected agencies' expenditures to determine whether they were supported by SIGMA transactions or balances.
- 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, 2022 and September 30, 2021.

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 the reports included all information required by Article XIII, Part 2, Section 306 of both Public Act 87 of 2021 and Public Act 166 of 2020.

CONCLUSIONS

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

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 containing 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> recognized as a leading framework for designing, implementing, and evaluating internal control. The COSO Framework consists of 5 components and 20 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.
Electronic Motor Fuel Compliance System	A system which houses tobacco and motor fuel taxes.
internal control	The plan, policies, methods, and procedures adopted by management to meet its mission, strategic plan, 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.
International Fuel Tax Agreement (IFTA)	An agreement among jurisdictions (United States and Canadian provinces) to simplify the reporting of the fuel use taxes by interstate carriers.
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.
MSP	Michigan Department of State Police.

MTF	Michigan Transportation Fund.
objective	Specific outcome(s) a program or an entity seeks to achieve its goals.
Office of Revenue and Tax Analysis (ORTA)	An office responsible for preparing Michigan economic and revenue forecasts, legislative fiscal analysis, and the administration of many revenue sharing and grant programs.
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.
SOMACFR	<i>State of Michigan Annual Comprehensive Financial Report.</i>
Special Taxes Division	A division responsible for the processing of the motor fuel returns and the motor fuel compliance system.
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 Resources Management Network application which supports the State's payroll process.



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