

Office of the Auditor General

Performance Audit Report

Office of Rail

Michigan Department of Transportation

October 2026

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



OAG

Office of the Auditor General

Report Summary

Performance Audit

Office of Rail (OOR)

Michigan Department of Transportation (MDOT)

Report Number:
591-0195-26

Released:
October 2026

OOR is responsible for the management of 665 miles of State-owned rail lines, helping assure safety of more than 4,500 public at-grade railroad crossings, and supporting freight rail economic development and passenger rail services. OOR works in collaboration with federal and private entities to ensure Michigan's rail system meets the economic needs of the State and is safe for the motoring public, rail passengers, and railroad employees. OOR incurred expenditures of \$85.9 million in fiscal year 2025 and \$12.4 million from October 1, 2025 through February 28, 2026. Fiscal year 2025 included \$44.4 million in Amtrak-related expenditures.

Audit Objective			Conclusion
Objective 1: To assess the sufficiency of the Office of Rail's efforts to maintain and improve Michigan's rail system.			Sufficient, with exceptions
Findings Related to This Audit Objective	<u>Material Condition</u>	<u>Reportable Condition</u>	Agency Preliminary Response
OOR had not fully developed and implemented policies and procedures documenting many of its operational responsibilities and associated <u>internal controls</u> (<u>Finding 1</u>).	X		Agrees
OOR did not pay invoices in a timely manner for consultant services and local and trunkline crossing improvement and repair projects. It also miscalculated the retainage amount for 7 Freight Economic Development Program (FEDP) contracts resulting in overpayments of \$208,000 (<u>Finding 2</u>).		X	Agrees
Annual conflict-of-interest disclosure forms were not completed for all 10 of the sampled MDOT employees to help ensure the employees are not biased, in fact or appearance, when hiring contractors and awarding grants and loans (<u>Finding 3</u>).		X	Disagrees

Audit Objective			Conclusion
Objective 2: To assess the <u>effectiveness</u> of the Office of Rail's efforts to monitor contractor's performance related to the delivery of passenger rail service.			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
OOR did not ensure it received invoices for the State-supported services operating contract in a timely manner, which could result in penalties for each month past due (<u>Finding 4</u>).		X	Agrees
See <u>Finding 3</u> .	Not applicable.		

Audit Objective			Conclusion
Objective 3: To assess the sufficiency of the Office of Rail's efforts to ensure the safety of crossings within Michigan's rail system.			Sufficient, with exceptions
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
OOR did not verify corrective action was completed by the due date for 1,169 (55%) of 2,124 maintenance deficiencies at public at-grade highway railroad crossings. Timely correction of maintenance deficiencies helps maintain the safety and confidence of the traveling public (<u>Finding 5</u>).		X	Partially Agrees
See (<u>Finding 1</u>).	Not applicable.		
See (<u>Finding 3</u>).	Not applicable.		

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Doug A. Ringler, CPA, CIA
Auditor General

October 28, 2026

Heath E. Salisbury, Chair
State Transportation Commission
and
Bradley C. Wieferich, PE, Director
Michigan Department of Transportation
Murray D. Van Wagoner Building
Lansing, Michigan

Chair Salisbury and Director Wieferich:

This is our performance audit report on the Office of Rail, 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* require an audited agency to develop a plan to comply with the recommendations and submit it to the State Budget Office (SBO) upon audit completion. State administrative procedures require the audited agency to develop the plan as early as practicable and within 60 days after report issuance and submit the plan to the Office of Internal Audit Services (OIAS), SBO. Within 30 days of receipt, OIAS will 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

EFFORTS TO MAINTAIN AND IMPROVE MICHIGAN'S RAIL SYSTEM

BACKGROUND

Office of Rail (OOR) is responsible for administering State and federally funded projects to help maintain and improve Michigan's rail system. OOR's efforts include:

- Coordination of federal grant funding which includes the application for awards, allocation of resources, oversight of funding use, compliance with federal reporting requirements, and promptly submitting accurate reimbursement requests. From October 1, 2024 through March 19, 2026, OOR actively managed 12 federal grants totaling \$172.9 million. Federal grants provide funding for projects which include, but are not limited to, track rehabilitation, bridge replacements, grade crossing improvements, and rail corridor development.
- Management and administration of economic development financial assistance programs for improving rail system accessibility or existing infrastructure including:
 - Freight Economic Development Program (FEDP) grants providing up to \$2 million in assistance to projects which seek to ship goods via the rail system. FEDP grants cover up to 50% of applicable capital costs to establish or improve access to the freight rail system. From October 1, 2024 through March 24, 2026, OOR awarded \$8.0 million to 13 FEDP grants.
 - Michigan Rail Enhancement Program (MREP) grants provide assistance to railroad companies or other railroad infrastructure owners seeking to improve, expand, and rehabilitate freight rail corridors or facilities. OOR awarded \$20.4 million and \$15.2 million MREP grants in fiscal years 2025 and 2026, respectively.
 - Michigan Rail Loan Assistance Program (MiRLAP) provides no-interest loans to railroad companies seeking to improve, preserve, rebuild, rehabilitate, or construct rail corridors or facilities. In fiscal year 2025, OOR awarded \$8.1 million in new MiRLAP loans.
- Maintenance and improvement of Michigan's State-owned rail system. OOR contracts with railroad companies, consultants, and other contractors to assess needs and facilitate projects. Projects are identified through inspection, evaluation, and discussion with the operating railroads to utilize the State-owned infrastructure. Scope of the projects include, but are not limited to, track

replacement, installation of new crossing surfaces, active warning device upgrades, and bridge repairs.

AUDIT OBJECTIVE

To assess the sufficiency of the Office of Rail's efforts to maintain and improve Michigan's rail system.

CONCLUSION

Sufficient, with exceptions.

**FACTORS
IMPACTING
CONCLUSION**

- OOR appropriately awarded and paid MREP, FEDP, and MiRLAP awards.
 - All the sampled applications were appropriately awarded for MREP, FEDP, and MiRLAP.
 - All the sampled MREP and FEDP project completion invoices were properly reviewed and paid.
 - OOR properly ensured project completion and repayment for 100% of the sampled MiRLAP loans.
- OOR complied with the Federal Railroad Administration's reporting requirements for federal grants and submitted reimbursement requests for grants reviewed in a timely manner.
- As applicable, OOR documented identification, application, and authorization for all sampled contracts and work orders with railroad companies, consultants, and other contractors.
- OOR obtained complete and supported invoices for all sampled payments to railroad companies, consultants, and other contractors.
- Material condition* related to lack of policies and procedures outlining OOR's responsibilities and associated controls (Finding 1).
- Reportable condition* related to OOR financial accounting practices (Finding 2) and monitoring of OOR employees' conflict-of-interest disclosures (Finding 3).

* See glossary at end of report for definition.

FINDING 1

Policies and procedures needed to document OOR's responsibilities and associated controls.

OOR does not have fully documented or defined policies and procedures or internal controls for many of its operations.

OOR should fully develop and implement policies and procedures documenting its responsibilities and associated internal controls* to ensure OOR achieves its objectives and goals. Written policies and procedures will help ensure operational continuity in instances of OOR employee departures or retirements, establish clear expectations, improve consistency and efficiency*, and promote accountability.

Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States (Green Book) was adopted by the State of Michigan and sets internal control standards to achieve objectives related to operations, reporting, and compliance. Principles 10 and 12 of the Green Book require management to develop and implement policies to establish responsibilities and the associated control activities for operational processes and require periodic review of policies and procedures for continued relevance and effectiveness*.

OOR's operational responsibilities include, but are not limited to, on-site inspections* and Diagnostic Study Team Reviews* (DSTRs) for public at-grade highway railroad crossings*, administration of operating and maintenance agreements with Amtrak*, and oversight for various projects and contracts with external vendors. Our review noted OOR did not fully develop and document policies and procedures to define control activities associated with OOR operations.

OOR stated it documents policies and procedures as deemed necessary and uses external resources and department-wide policies to support operations. However, our review noted these resources were not all compiled or defined as applicable to OOR specific operations through written internal policies and procedures.

We consider this finding to be a material condition because several processes had no documented policies and procedures for internal staff to follow, which may result in inconsistent application of procedures designed to help ensure rail safety and maintain rail infrastructure. Also, the internal controls were undocumented, and other findings noted in this audit could have been mitigated by documented policies and procedures.

RECOMMENDATION

We recommend OOR develop and implement policies and procedures documenting its responsibilities and associated internal controls.

AGENCY PRELIMINARY RESPONSE

MDOT provided us with the following response:

MDOT agrees with the recommendation.

* See glossary at end of report for definition.

Utilizing a risk-based approach and associated internal controls, MDOT will review and assess current policies and procedures to determine where updates or documentation of additional policies and procedures are needed.

FINDING 2

Improvements needed to OOR financial accounting practices.

OOR should improve its financial accounting practices to ensure invoices are processed in a timely manner and prevent future overpayments from inaccurate retainage calculations.

Section 17.52 of the *Michigan Compiled Laws (MCL)* states each department shall take all steps necessary to ensure payment for goods or services is issued within 45 days of receipt of a complete invoice or contract, whichever is later. Also, *MCL* Section 18.1485 states each department shall establish and maintain an internal control system using generally accepted accounting principles. These controls should include a system of authorization and recordkeeping procedures to control assets, liabilities, revenues, and expenditures; a system of practices to be followed in the performance of duties; qualified personnel who maintain a level of competence; and effective and efficient internal control techniques. Each principal department head shall document the system and ensure the system functions as intended.

OOR coordinates funding and contracts with railroad companies, consultants, and other contractors to maintain and improve Michigan's rail system. OOR may employ consultants to provide survey, design, engineering, construction, or environmental assessment services. Also, State and federal funding may be administered by OOR to assist railroad companies and local road authorities' efforts to improve railways and intersecting roadways.

Our review of OOR's payments to external parties noted OOR did not:

- a. Pay or adequately document follow-up of unpaid invoices with a complete invoice package in a timely manner:
 - (1) For 10 (22%) of 45 sampled invoices for consultant services, OOR remitted payment between 2 and 81 days after the 45-day allowance for payment.
 - (2) For 5 (42%) of 12 sampled invoices for trunkline crossing improvement and repair projects, OOR remitted payment between 27 and 423 days after the 45-day allowance for payment.
 - (3) For 11 (33%) of 33 sampled invoices for local crossing improvement and repair projects. In 7 instances, OOR remitted payment between 5 and 670 days after the 45-day allowance for payment. Four of 11 untimely invoices had significant delays before OOR conducted a final inspection.

OOR informed us the payment processing can be delayed if it needs to conduct follow-up regarding incomplete invoice packages, questioned costs, or invoices exceeding

the initial authorized contract amount. Also, a final project invoice (for some projects) cannot be paid until the Michigan Department of Transportation (MDOT) completes an inspection of the work. However, we noted other delays, and OOR could not provide documentation of these conditions for the exceptions noted above.

- b. Accurately calculate the retainage amount for seven FEDP contracts with outstanding retainage balances as of March 24, 2026. Per the contracts, 5% of actual eligible costs are withheld after construction is completed. This retainage is paid to the recipient upon completion of a five-year reporting period. OOR miscalculated the retainage amount, resulting in overpayments of \$208,000. OOR did not invoice for, collect the overpaid retainage, or book a receivable to ensure its accounting records were accurate.

RECOMMENDATION

We recommend OOR improve its financial accounting practices to help ensure invoices are processed in a timely manner and prevent future overpayments from inaccurate retainage calculations.

AGENCY PRELIMINARY RESPONSE

MDOT provided us with the following response:

MDOT agrees with the recommendation.

For subparts a (1) through a (3) regarding timely payment and documentation of invoices, MDOT agrees and has already taken steps to ensure timely and accurate invoice processing.

For subpart b, MDOT agrees that the retainage amount for seven FEDP contracts was not initially calculated accurately. Prior to the start of this audit and at the end of FY 2022, MDOT identified the calculation error pertaining to these seven contracts. As a result, these seven grant recipients received a higher percentage of their grant funding in MDOT's first payment and will receive less at the end of their reporting period. Since that time, the seven projects/contracts have continued to be monitored and have met all reporting requirements to receive the remaining grant funds once their reporting period is complete. In addition, since that time, all withholding amounts for all grant projects and contracts have been properly calculated and tracked.

AUDITOR'S COMMENTS TO AGENCY PRELIMINARY RESPONSE

For subpart b., although MDOT addressed the error in the calculation, it did not indicate it would evaluate and address the accounting error. MDOT should have booked a receivable or prepaid expenditure for the unearned amounts along with monitoring the affected contracts.

FINDING 3

Conflict-of-interest disclosures need to be completed annually.

MDOT needs to confirm its employees complete conflict-of-interest disclosures annually. Doing so will help ensure conflicts are addressed and mitigated in a timely manner to safeguard the integrity of the department and maintain effective services.

Michigan Civil Service Commission rule 2-8.3 states employees shall disclose, at least annually, any interest in any business or entity with which the employee has direct contact while performing official duties. Michigan Civil Service Commission rule 2-8.7 requires agency standards to be as, or more, strict than the Civil Service disclosure requirements. Also, MDOT's Ethical Standards and Conduct policy states employees must submit an annual disclosure in February of each year and, in addition, disclose within 14 days any time a significant change occurs in the employee's relationship with either a business or entity.

OOR works in collaboration with various federal and private entities to ensure Michigan's rail system meets the economic needs of the State and is safe for the motoring public, rail passengers, and railroad employees. OOR meets these goals by hiring contractors, awarding grants and loans, and directing various responsible parties to facilitate improvements.

We requested conflict-of-interest disclosure documentation for 10 of 37 OOR employees. At a frequency of completing the disclosure annually, and depending on the date of hire, we determined OOR employees should have completed 20 disclosures during the audit period. MDOT was unable to provide any of them for these 10 employees. As of May 31, 2026, the 10 sampled employees had been employed by MDOT ranging from 3 years to over 30 years. Compliance with policies related to annual conflict-of-interest disclosures will help ensure OOR employees are not biased, in fact or appearance, and maintain transparency.

MDOT informed us its current practice involves having the employee certify during hiring and onboarding if they or any immediate family member does or does not have a conflict of interest. In addition, MDOT has a policy, form, and annual process in place to address when a conflict of interest exists, but the employee is not required to complete the form unless a conflict of interest exists.

RECOMMENDATION

We recommend MDOT confirm its employees complete annual conflict-of-interest disclosures.

AGENCY PRELIMINARY RESPONSE

MDOT's agency preliminary response and our auditor's comments to Finding 3 are presented on page 26.

EFFORTS TO MONITOR PASSENGER RAIL CONTRACTOR

BACKGROUND

OOR contracts with the National Railroad Passenger Corporation, known as Amtrak, to provide for a Michigan-based system of intercity railroad passenger trains in connection with Amtrak's nationwide system. Amtrak is a federally chartered corporation, operated and managed as a for-profit company with the U.S. government as its controlling shareholder. Amtrak was created by Congress in 1970 and provides intercity railroad passenger services in 46 states. The intercity rail passenger service in Michigan consists of daily round trips between three cities in Michigan and Chicago, Illinois. These routes include stops serving 22 station communities in Michigan.

OOR is responsible for the management of the annual State-supported service operating agreement with Amtrak. This agreement provides financial support from the State for the operational costs of intercity passenger rail services. Primarily, OOR makes monthly payments to provide operating subsidies and cover equipment-related costs in accordance with Section 209 of the Passenger Rail Investment and Improvement Act (PRIIA) of 2008. OOR participates in the State-Amtrak Intercity Passenger Rail Committee (SAIPRC) which oversees the standard implementation of the PRIIA Section 209 cost policy. The forecasted operating agreement amount was \$25.9 million and \$27.2 million in fiscal years 2025 and 2026, respectively.

Also, OOR maintains the Dispatch, Maintenance, Management, and Service Outcomes Agreement (DMMSOA) with Amtrak. This agreement outlines terms for State and federal funding to be made available for project authorizations to improve and manage the State-owned rail corridor between Kalamazoo and Dearborn. Currently, 23 DMMSOA projects are authorized or in progress, with estimated project costs of \$182.3 million. From October 1, 2024 through May 31, 2026, OOR expended \$41.6 million for DMMSOA projects. DMMSOA project authorizations provided rail and highway funding for items which include, but are not limited to, rail and tie procurement, bridge rehabilitation, signal upgrades, and project design reviews.

AUDIT OBJECTIVE

To assess the effectiveness of the Office of Rail's efforts to monitor its contractor's performance related to the delivery of passenger rail service.

CONCLUSION

Moderately effective.

FACTORS IMPACTING CONCLUSION

- OOR assessed appropriateness and completed follow ups in a timely manner on large fluctuations between operating agreement invoices and forecasts for October 1, 2024 through March 31, 2026.

- OOR obtained operational reports from the passenger rail contractor for all sampled months.
- OOR documented awards, revisions, monitoring, and approvals for all sampled DMMSOA projects.
- OOR documented its review to ensure invoices were for allowed costs and paid in a timely manner for all sampled DMMSOA projects and months.
- Reportable conditions related to the annual completion of conflict-of-interest disclosures (Finding 3) and timeliness and monitoring of passenger rail operating agreement contractor's billing practices (Finding 4).

FINDING 4

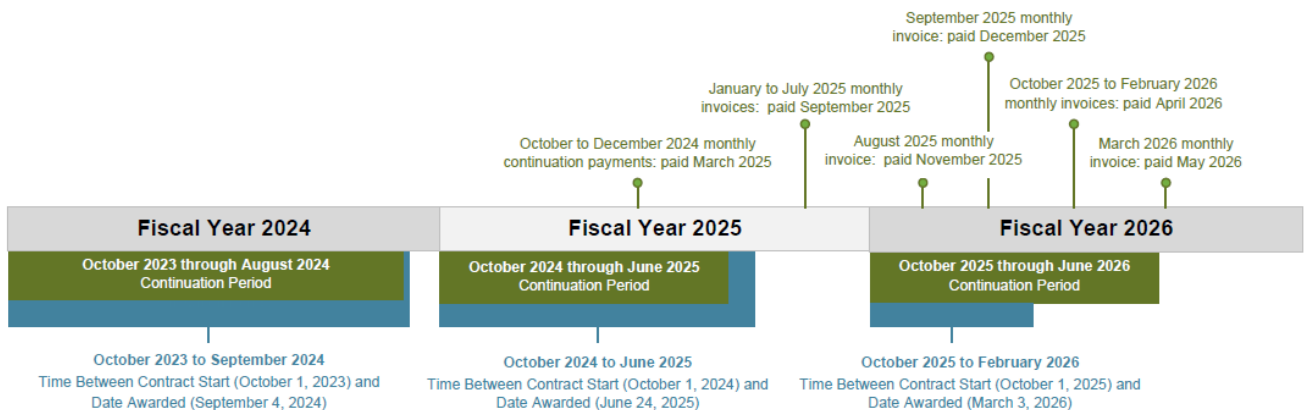
Monitoring of Amtrak contractor billing practices needs improvement.

OOR should improve its monitoring of Amtrak contractor billing practices to help ensure it receives invoices for the State-supported services operating contract in a timely manner. Improved oversight of contractor invoices provides real-time financial insights, helps to better manage cash flow, and supports accurate financial recordkeeping.

Contract monitoring best practices dictate OOR manage contracts in a fiscally responsible manner and ensure contractors meet contractual obligations. This includes ensuring all invoices comply with the terms and conditions of the contract.

Under the contract period, it requires the contractor to submit monthly invoices within 45 days of month end. OOR has the responsibility to remit payment within 30 days of receipt of an invoice. Also, the contract includes a provision known as the continuation period which supports continued operations between October 1 and June 30 of the subsequent contract year if a preceding contract expires before the superseding contract is executed. OOR is required to remit scheduled monthly payments of a fixed amount during the continuation period.

The contract operated under the continuation provision for 14 of 20 months from October 1, 2024 through May 31, 2026. Our review of invoices for services provided from October 1, 2024 through March 31, 2026 noted OOR did not ensure the contractor submitted monthly invoices in a timely manner during contract continuation periods. Instead, the contractor submitted invoices for actual costs after the execution of a new contract as illustrated in the following timeline:



The contract includes provisions which may put OOR at risk to owe penalties for 0.75% of the payment amount for each month past due. The forecasted operating agreement amount was \$25.9 million and \$27.2 million in fiscal years 2025 and 2026, respectively. Monthly payments are one-twelfth of the annual forecasted amount. Also, OOR may be at risk for the contractor

to discontinue any or all State-supported services because of OOR's failure to remit full payment when due.

OOR stated it would not remit payments without an accurate invoice and, therefore, did not consistently pay continuation payments. Further, OOR indicated it could not control the activities of the third-party vendor, including when the contractor submits the invoices to MDOT. However, we noted, OOR as the contract manager is responsible for ensuring vendors meet contractual obligations.

RECOMMENDATION

We recommend OOR improve its monitoring of Amtrak contractor billing practices.

AGENCY PRELIMINARY RESPONSE

MDOT provided us with the following response:

MDOT agrees with the recommendation.

MDOT cannot control the timeliness and accuracy of the invoices submitted by Amtrak to MDOT but will ensure that the Amtrak operating agreement aligns with current, agreed upon practices for invoicing and payment, including any continuation period. MDOT will also work with Amtrak to communicate and clarify the requirements of the operating agreement related to invoicing and payments.

EFFORTS TO ENSURE RAIL CROSSING SAFETY

BACKGROUND

The Rail Safety and Administration section within OOR works in collaboration with federal, local, and private entities to ensure the safety of more than 4,500 public at-grade highway railroad crossings within the State of Michigan.

Per the Michigan Railroad Code of 1993, OOR uses a risk, and an as needed approach, to plan and conduct DSTRs to assess the physical condition and safety needs of grade crossings of railroad tracks with public streets and highways or with nonmotorized trails. Diagnostic study teams are composed of various affected parties such as the operating railroad, local road authority, OOR inspectors and staff, and other officials as needed. A DSTR may result in a legally enforceable work order to be performed by railroad companies, road authorities, or other applicable parties.

Also, OOR conducts routine on-site inspections of the public at-grade highway railroad crossings at least every 24 to 30 months. On-site inspections include assessment of the approaching road condition, signage, warning devices, and sight distance along the railroad tracks. OOR inspectors may serve deficiency* notices if conditions require corrective action. The Michigan Rail Code of 1993 directs the railroads and road authorities to expeditiously correct the deficiencies and advise OOR in writing when the work is completed.

AUDIT OBJECTIVE

To assess the sufficiency of the Office of Rail's efforts to ensure the safety of crossings within Michigan's rail system.

CONCLUSION

Sufficient, with exceptions.

FACTORS IMPACTING CONCLUSION

- OOR completed over 99% of on-site inspections of public at-grade highway railroad crossings in a timely manner.
- OOR completed and documented on-site inspections for over 99% of sampled public at-grade highway railroad crossings.
- OOR issued reminders for all sampled maintenance deficiencies which were past due.
- OOR completed and documented DSTRs and verified completion of ordered work for all applicable sampled public at-grade highway railroad crossings.
- Under OOR oversight, 99% of DSTR work orders were closed in a timely manner.

* See glossary at end of report for definition.

- Material condition related to lack of policies and procedures outlining OOR's responsibilities and associated controls (Finding 1).
- Reportable condition related to the monitoring of corrected maintenance deficiencies (Finding 5) and monitoring of OOR employees' conflict-of-interest disclosures (Finding 3).

FINDING 5

Improved monitoring of corrected maintenance deficiencies needed.

OOR should improve and document its process to verify the timely correction of maintenance deficiencies identified at public at-grade highway railroad crossings to help maintain the safety and confidence of the traveling public.

Railroads and road authorities are required to maintain public at-grade highway railroad crossings for which they have responsibility under the Michigan Rail Code of 1993. *MCL* Section 462.301(5) requires railroads or road authorities to expeditiously correct deficiencies identified through routine inspections by OOR. When the work is completed, the party responsible shall advise OOR in writing.

OOR conducts on-site inspections of public at-grade highway railroad crossings every 24 to 30 months to review the traffic control system and crossing conditions. Inspectors may identify conditions which require corrective action and issue a deficiency notice to the responsible party. OOR issues a past-due letter to the responsible party if a deficiency has not been reported as complete by the due date.

Michigan has 4,528 public at-grade highway railroad crossings, of which 1,118 crossings contained 2,124 maintenance deficiencies discovered by inspections conducted from October 1, 2024 through April 3, 2026. Also, we sampled 45 OOR crossing inspections and reviewed the maintenance deficiency process and documentation. We noted OOR did not:

- a. Verify corrective action was completed by the due date for 1,169 (55%) of 2,124 maintenance deficiencies. OOR issues a past-due letter to the responsible party if a deficiency has not been reported as complete by the due date, but does not conduct additional monitoring or follow-up.

OOR indicated it relied on railroads and road authorities to submit written documentation and photos supporting the deficiency corrections; however, our review noted it did not enforce the submission of written affidavits and pictures. Also, OOR may independently verify the correction of deficiencies during the routine 24- to 30-month inspection cycle.

- b. Confirm or document confirmation of reported corrective action was completed before closing maintenance deficiencies for 4 (31%) of 13 crossing inspections with deficiencies.
- c. Document processes for conducting inspections and monitoring deficiencies.

OOR informed us MDOT cannot legally enforce the correction of deficiencies. If a deficiency remains uncorrected, OOR may reissue the past-due notice during the subsequent inspection.

OOR may convene a DSTR to convert the deficiency into a legally enforceable order if the issue is deemed chronic, significant, and/or has not been corrected.

We reported a similar condition in our April 2015 report.

RECOMMENDATION

We recommend OOR improve and document its process to verify the timely correction of maintenance deficiencies identified at public at-grade highway railroad crossings.

**AGENCY
PRELIMINARY
RESPONSE**

MDOT's preliminary agency response and our auditor's comments to Finding 5 are presented on page 28.

SUPPLEMENTAL INFORMATION

UNAUDITED
Exhibit 1

OFFICE OF RAIL Michigan Department of Transportation

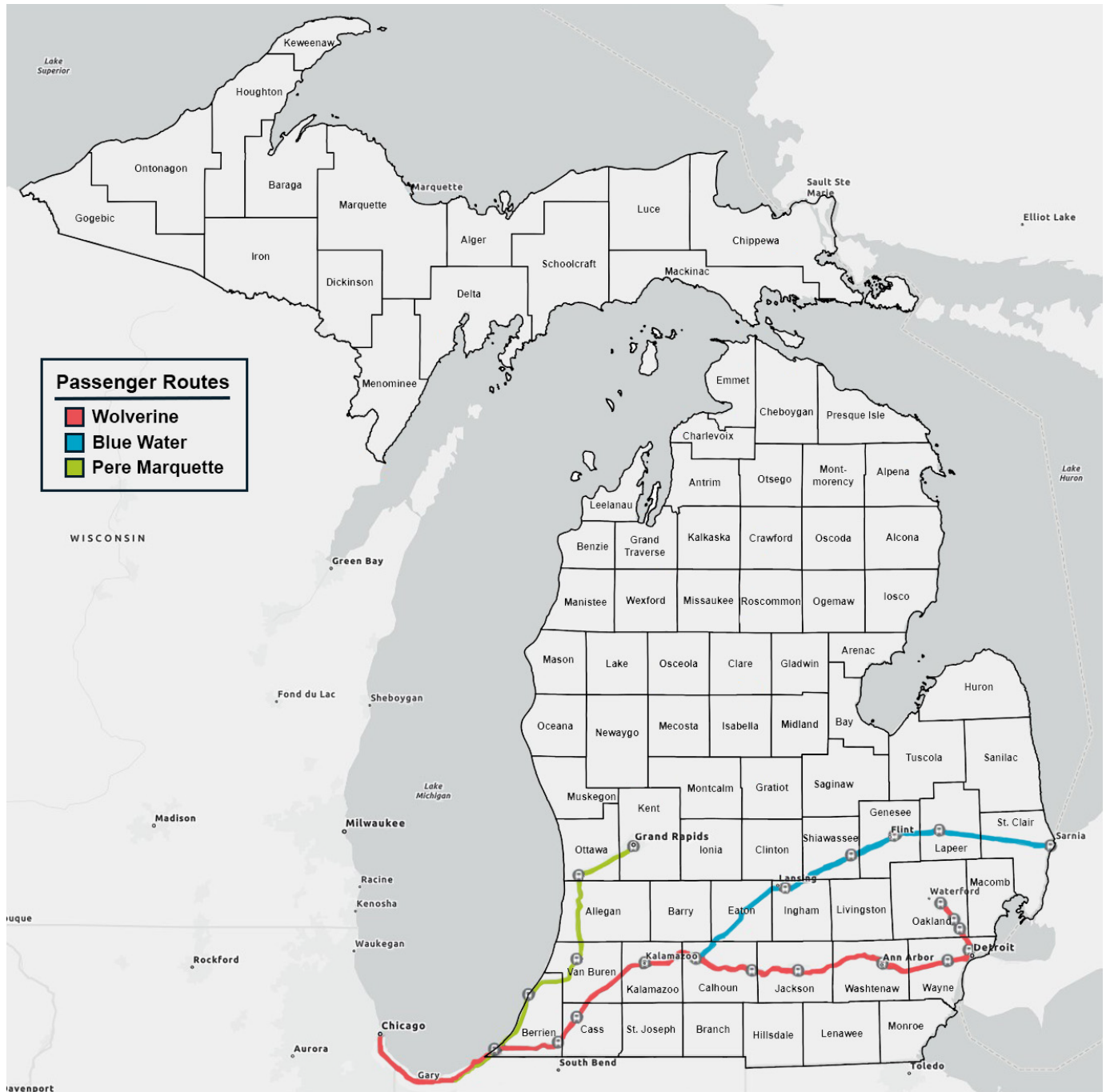
Map of Michigan Rail Networks - State-Owned Routes



Source: OAG created these maps using MDOT's ArcGIS maps from its website on September 2, 2026.

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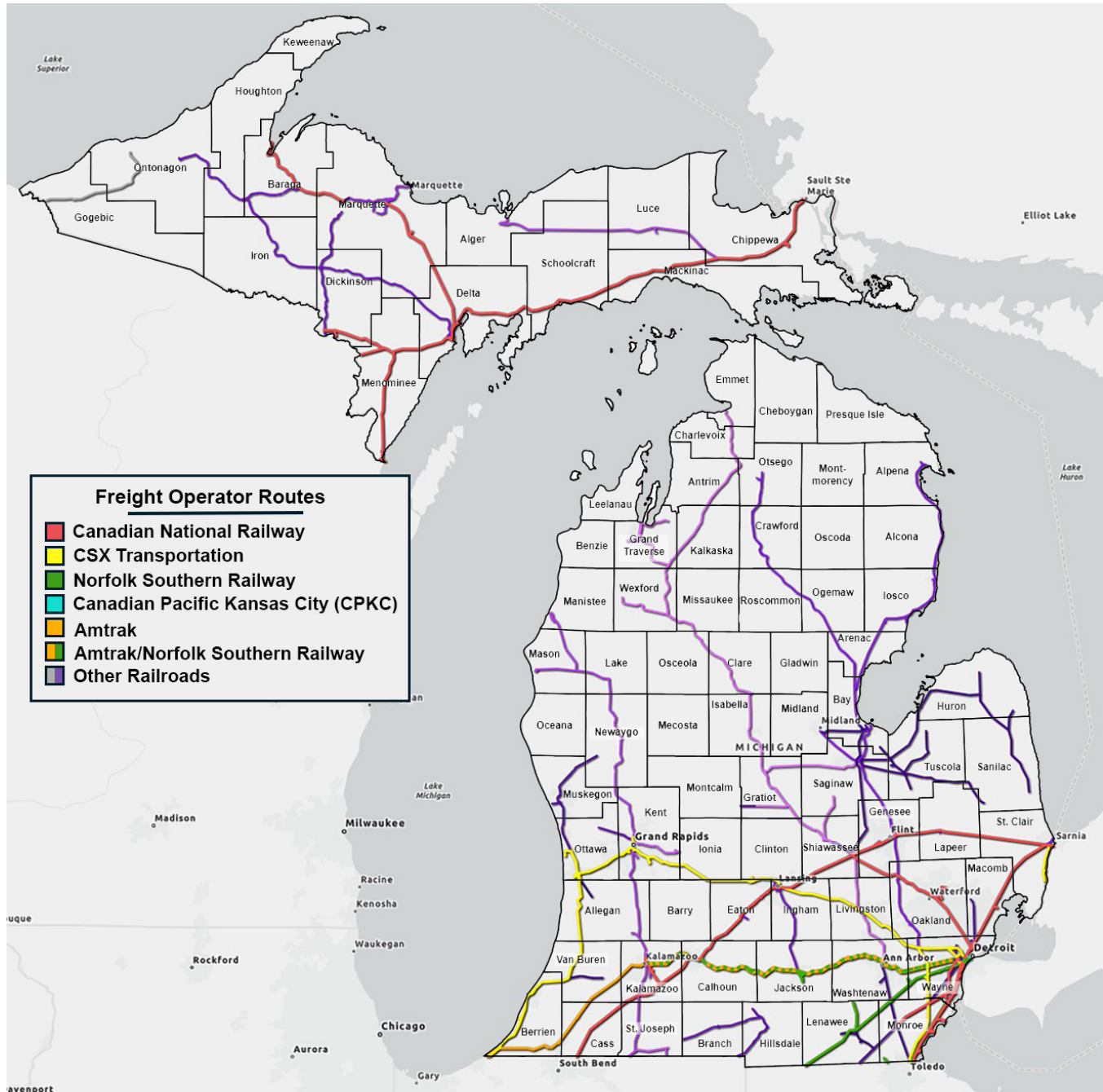
Map of Michigan Rail Networks - Passenger Routes



Source: OAG created these maps using MDOT's ArcGIS maps from its website on September 2, 2026.

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Michigan Department of Transportation

Map of Michigan Rail Networks - Freight Operator Routes



Source: OAG created these maps using MDOT's ArcGIS maps from its website on September 2, 2026.

AGENCY PRELIMINARY RESPONSE

OFFICE OF RAIL Michigan Department of Transportation

Finding 3 Agency Preliminary Response and Auditor's Comments to Agency Preliminary Response

This section contains MDOT's preliminary response to Finding 3 and our auditor's comments providing further clarification and context where necessary.

Overall Auditor's Comment

MDOT procures contracts for MDOT-let projects worth billions of dollars in State and federal funding, and as such, should require an annual, written attestation from its employees relating to conflicts of interest. Doing so will help ensure financial impartiality, avoid the appearance of preferential treatment, and help protect MDOT and the State of Michigan from legal and financial penalties. Transactions related to the expenditure of public funds require the highest degree of public trust and an impeccable standard of conduct. The general rule is to strictly avoid any conflict of interest or even the appearance of a conflict of interest in government-contractor relationships.

Finding 3: Conflict-of-interest disclosures need to be completed annually.

MDOT provided us with the following response:

AGENCY PRELIMINARY RESPONSE

MDOT disagrees with the recommendation.

Per Civil Service Commission Rule 2.8, an appointing authority has the ability to establish its procedures, forms, and times of disclosure, and MDOT, in coordination with its appointing authority, has an annual process for positive conflict of interest disclosures and also a process for positive and negative confirmation for employees at the time of hire.

AUDITOR'S COMMENTS TO AGENCY PRELIMINARY RESPONSE

MDOT's annual conflict of interest process does not result in positive confirmation. Instead, the process is to email Form 0039 to its employees in February each year. Employees sign, date, and return the form **only** if a conflict of interest exists. Therefore, if MDOT never receives a signed and dated form, it **assumes**, via negative assurance, the employee does not have a conflict despite receiving nothing from the employee. However, MDOT cannot attest its employees received or opened the annual email as evidence of negative assurance.

Further, MDOT's positive and negative confirmation at the time of hire refers to the disclosure of interest form CS-1783.

CS-1783
Rev 4/2004

State of Michigan
Department of Civil Service
400 South Pine Street
P.O. Box 30002
Lansing, Michigan 48909

Disclosure of Interest

Employee's Name: _____
(Please print or type)

I hereby certify that I have been notified that I must disclose potential conflicts of interest at least annually under Civil Service Commission Rule 2-8 and relevant departmental work rules and directives. I also certify that:

☐ Neither I nor any member of my immediate family* has any personal or financial interest in any business or entity with which I have direct contact while performing official duties as a classified employee.

OR

☐ I, or a member of my immediate family, have personal or financial interests in a business or entity with which I have direct contact while performing official duties as a classified employee, as summarized below:

Should my assignment, my interests, or the interests of my immediate family members change so that this no longer is accurate, I will submit the new information for review to my appointing authority within 14 calendar days.

Employee's Signature: _____

Date Signed: _____

*Immediate family means your grandparent, parent, parent-in-law, stepparent, sibling, spouse, child, or stepchild.

As noted in the Finding, for the 10 employees we reviewed during the audit period, 20 annual conflict-of-interest disclosures should exist. MDOT was unable to provide any of them. Also, four employees did not sign a conflict-of-interest disclosure at the time of hire. On average, over 16 years have passed since MDOT received an annual, signed conflict-of-interest disclosure from these 10 employees, with 4 of them not having signed a disclosure in the last 23 to 30 years.

Civil Service Commission Rule 2-8.7 states an appointing authority (MDOT) may issue agency work rules or other written directives to define, implement, and enforce ethical standards. MDOT can establish ethical standards for employees **stricter** than the basic standards established in this rule and the regulations. However, MDOT's ethical standards are inappropriately weaker than the civil service rule.

We considered the agency response and based on our comments above, the Finding stands as written.

[Go Back to Finding 3](#)

[Go to Finding 4](#)

OFFICE OF RAIL
Michigan Department of Transportation

Finding 5 Agency Preliminary Response and Auditor's Comments to Agency Preliminary Response

This section contains MDOT's preliminary response to Finding 5 and our auditor's comments providing further clarification and context where necessary.

Finding 5: Improved monitoring of corrected maintenance deficiencies needed.

The preliminary response MDOT provided for this Finding included duplicating points-of-fact already identified in the objective background or the Finding, in accordance with generally accepted auditing standards, we included a summarized version of MDOT's response below.

AGENCY PRELIMINARY RESPONSE

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

MDOT partially agrees with the recommendation.

For subparts a. and b., MDOT cannot legally enforce the correction of deficiencies; however, follow-up on deficiencies identified at these crossing inspections are communicated with the operating railroad or road authority, as appropriate, who have the responsibility to complete the work identified.

MCL section 462.301(5) allows MDOT to serve notice of necessary corrective action at public at-grade crossings. It further states the railroads or road authorities, or both, shall expeditiously correct the deficiency and advise the department in writing when the work is completed. Although no punitive action is prescribed, railroads and road authorities are legally required to correct deficiencies identified by MDOT.

In addition, due to the routine basis of inspections, MDOT is able to identify any uncompleted work within 18 to 24 months of the inspection. With finite resources, MDOT cannot both validate that deficiencies were addressed and perform the inspections at the current 18 to 24-month frequency. Therefore, MDOT has continued to prioritize the frequency of inspections rather than divert inspection resources to validate that asserted fixes occurred through unenforceable paper documentation. Such validations occur when each crossing receives its next routine inspection. MDOT will assess operational risks and resources to determine if adjustments are warranted.

MDOT deficiency notices instruct railroads and road authorities to submit a completed form with photographic support of the deficiency correction. However, MDOT does not enforce this process. If it had, less reliance on in-person verification and strain on available resources would occur.

Although MDOT has the ability to identify uncompleted work at subsequent inspections, 1 of the 4 exceptions noted in subpart b. was for a deficiency closed without documentation of the corrective action. At the subsequent inspection, the deficiency was determined to not have been corrected. Further, depending on the nature of the deficiency, waiting 18 to 24 months to address known maintenance deficiencies within a routine inspection could leave the public open to increased safety and travel risk for the extended timeframe.

For subpart c, MDOT agrees that documenting processes for conducting inspections and monitoring deficiencies can be improved. Utilizing a risk-based approach, MDOT will review and assess current processes and determine where updates or documentation would be beneficial.

We considered the agency response and based on our comments above, the Finding stands as written.

Go Back to Finding 5

PROGRAM DESCRIPTION

MDOT was organized under *MCL* Sections 16.450 - 16.458 of the (sections of the Executive Organization Act of 1965). The State Transportation Commission establishes policy for MDOT and is made up of six members who are appointed by the Governor with the advice and consent of the Senate. The MDOT director, who is appointed by the Governor, is responsible for administering and executing the policies established by the State Transportation Commission. MDOT's mission is serving and connecting people, communities, and the economy through transportation.

MDOT's OOR is responsible for the management of 665 miles of State-owned rail lines, helping assure the safety of more than 4,500 public at-grade railroad crossings and supporting freight rail economic development and passenger rail services. See Exhibits 1, 2, and 3 for illustration of the Michigan Rail Networks.

OOR works to ensure Michigan's rail system meets the economic needs of the state and is safe for the motoring public, rail passengers, and railroad employees. OOR is comprised of three sections:

- The Rail Safety and Administration Section has the regulatory responsibility to assess the physical condition and safety needs of more than 4,500 public at-grade railroads and ensure railroad worker safety related to clearances, sanitation, and shelter. Also, it oversees fixed rail safety oversight, OOR's budget, and contract management.
- The Freight and Passenger Development Section oversees agreements with four railroad companies which operate on State-owned freight rail lines and administers programs to provide financial assistance to freight railroad companies and rail customers to improve rail infrastructure and access. Also, it oversees the operating contract for the three, State-supported passenger rail lines operated by Amtrak.
- The Infrastructure and Asset Management Section is responsible for the planning, development, and oversight of capital projects on State-owned passenger and freight lines. Also, it is responsible for determining infrastructure projects and work scope for competitive federal grants available to fund projects.

OOR incurred expenditures of \$85.9 million in fiscal year 2025 and \$12.4 million from October 1, 2025 through February 28, 2026. Fiscal year 2025 included \$44.4 million in Amtrak-related expenditures.

AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

AUDIT SCOPE

To examine the records and processes of OOR. We conducted this performance audit* in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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 all components were significant.

PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality management, generally covered October 1, 2024 through May 31, 2026.

SUPPLEMENTAL INFORMATION

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

METHODOLOGY

We conducted a preliminary survey of OOR. During our preliminary survey, we:

- Interviewed OOR staff to gain an understanding of their organization structure, responsibilities, and procedures.
- Obtained an understanding of the applicable federal regulations, State statutes, and MDOT policies and contracts.
- Obtained an understanding of relevant OOR internal controls.
- Reviewed Amtrak operating cost activity between January 1, 2024 through February 28, 2026.
- Reviewed various financial coding and data from Statewide Integrated Governmental Management Applications for fiscal years 2024, 2025, and 2026 related to OOR activity.

* See glossary at end of report for definition.

OBJECTIVE 1

To assess the sufficiency of the Office of Rail's efforts to maintain and improve Michigan's rail system.

To accomplish this objective, we:

- Obtained an understanding of OOR's efforts to administer funding to railroad companies, consultants, and other contractors to maintain and improve Michigan's rail system.
- Randomly sampled 10 of 60 federal grant quarterly packages, due between October 1, 2024 and May 31, 2026, to determine if OOR submitted quarterly reports and federal reimbursement requests in a timely manner.
- Assessed selected application and award controls related to new contracts for OOR's economic development financial assistance programs from October 1, 2024 through March 24, 2026. Specifically, we randomly selected:
 - 3 of 13 new FEDP contracts.
 - 2 of 20 new MREP contracts.
 - 2 of 6 new MiRLAP contracts.
- Assessed selected payment controls related to OOR's economic development financial assistance programs from October 1, 2024 through March 24, 2026. Specifically, we randomly and judgmentally selected:
 - 4 of 36 FEDP contracts in repayment.
 - 2 of 6 MREP contracts completed.
 - 1 MiRLAP contract in repayment.
- Assessed inspection, identification, and authorization controls related to three project categories. Specifically, we:
 - Randomly sampled 8 of 77 authorized projects at public at-grade highway railroad crossings with local roads, between October 1, 2024 and May 31, 2026, to assess the completeness of applications and appropriate authorizations.
 - Randomly sampled 22 of 218 bridges which cross railroads to determine the completeness of inspections between May 5, 2025 and July 16, 2026.
 - Randomly and judgmentally sampled 2 of 4 authorized projects for bridges which cross

railroads to identify appropriate authorizations between October 1, 2024 and March 20, 2026.

- Randomly sampled 24 of 237 public at-grade highway railroad crossings with State trunklines inspected between April 19, 2023 and October 29, 2025 to assess the completeness of inspections.
- Randomly sampled 5 of 26 authorized projects at public at-grade highway railroad crossings with State trunklines to identify appropriate authorizations between October 1, 2024 and May 31, 2026.
- Assessed proper approvals, support, and timeliness for contractor payments made between October 1, 2024 and June 26, 2026. Specifically, we randomly sampled:
 - 33 of 512 projects at public at-grade highway railroad crossings with local roads and subsampled 1 invoice per sampled project.
 - 6 of 39 projects for bridges which cross railroads and subsampled 1 invoice per sampled project.
 - 12 of 112 projects at public at-grade highway railroad crossings with State trunklines and subsampled 1 invoice per sampled project.
- Randomly and judgmentally sampled 45 of 455 invoices paid to consultants, between October 1, 2024 and May 8, 2026, to determine if payments were made in a timely manner, used approved rates, and had proper approvals.
- Obtained and reviewed the reports submitted by OOR to the Legislature and confirmed all reports were submitted.
- Randomly sampled 10 of 37 OOR employees to determine compliance with Civil Service conflict-of-interest disclosure requirements.

Our random samples were selected to eliminate bias and enable us to project the results to the respective populations. We selected other samples judgmentally to ensure representativeness or based on risk and could not project those results to the respective populations.

OBJECTIVE 2

To assess the effectiveness of the Office of Rail's efforts to monitor its contractor's performance related to the delivery of passenger rail service.

To accomplish this objective, we:

- Obtained an understanding of the requirements set forth in the State-supported services operating contract and the DMMSOA between OOR and Amtrak.
- Determined whether OOR ensured submission and remittance of monthly invoices and continuation payments for the State-supported services operating contract were made in a timely manner between October 2024 and March 2026.
- Determined whether OOR ensured invoices were submitted in accordance with the approved methodology and verified if OOR investigated significant variances between October 2024 and March 2026.
- Randomly sampled 3 of 18 months between October 2024 and March 2026 to review the completeness of the MDOT Amtrak operational reporting packages.
- Randomly and judgmentally sampled 4 of 23 active DMMSOA project authorizations between October 2024 and May 2026 to determine if OOR complied with the application, award, and revision process.
- Reviewed documentation for 3 of 20 randomly sampled months between October 2024 and May 2026 for sampled DMMSOA project authorizations to determine invoice accuracy and timing, accounts receivable status, and status update meetings.

Our random samples were selected to eliminate bias and enable us to project the results to the respective populations. We selected other samples judgmentally to ensure representativeness or based on risk and could not project those results to the respective populations.

OBJECTIVE 3

To assess the sufficiency of the Office of Rail's efforts to ensure the safety of crossings within Michigan's rail system.

To accomplish this objective, we:

- Obtained an understanding of OOR's safety oversight for rail fixed guideway systems* in Michigan.
- Randomly sampled 45 of 4,528 at-grade rail crossings to determine whether on-site inspections were completed as of April 3, 2026.

* See glossary at end of report for definition.

- Assessed data for all 4,528 at-grade rail crossings, as of April 3, 2026, to determine whether on-site inspections were completed in a timely manner in accordance with OOR policy.
- Assessed data for all 2,124 inspection deficiencies, as of April 3, 2026, to determine if OOR verified deficiencies were corrected in a timely manner by the party responsible and had sent reminders for past-due deficiencies.
- Randomly sampled 12 of 103 DSTRs, conducted from October 1, 2024 through March 31, 2026, to determine whether DSTRs were completed and documented.
- Assessed data for all 549 DSTR orders, as of April 3, 2026, to determine if orders were completed in a timely manner or reminders were sent.
- Randomly sampled 1 of 3 railroad company employee or union member complaints submitted, from January 1, 2024 through February 28, 2026, to assess compliance with the Michigan Rail Code, *MCL* Section 462.402(3).

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

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 5 findings and 5 corresponding recommendations. MDOT's preliminary response indicates it agrees with 3 of the recommendations, partially agrees with 1 recommendation, and disagrees with 1 recommendation.

The agency preliminary response following 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* requires an audited agency to develop a plan to comply with the recommendations and submit it to SBO upon audit completion. The State of Michigan Financial Management Guide (Part VII, Chapter 3, Section 100) requires the audited agency to develop the plan as early as practicable and within 60 days after report issuance and submit the plan to OIAS, SBO. Within 30 days of receipt, OIAS will either accept the plan as final or contact the agency to take additional steps to finalize the plan.

PRIOR AUDIT FOLLOW-UP

The following is the status of the reported findings from our February 2015 performance audit of the [Office of Rail](#), Michigan Department of Transportation (591-0195-14):

Prior Audit Finding Number	Prior Finding Classification	Topic Area	Current Status	Current Finding Number
1	Material	Oversight of lease and refurbishment of cab and coach cars.	No longer applicable.	
2	Reportable	Establishment of comprehensive performance measures.	Complied	Not applicable
3	Reportable	Identification of capital and maintenance expenditures.	No longer applicable.	
4	Reportable	Timely requests for federal reimbursement.	Complied	Not applicable
5	Reportable	Implementation of formal processes to ensure timely routine maintenance inspections.	<u>Rewritten</u> *	1
6	Reportable	Implementation of formal processes to verify the timely correction of maintenance deficiencies.	Rewritten	5
7	Reportable	Development of database system to generate on-site inspection information.	Complied	Not applicable

* See glossary at end of report for definition.

GLOSSARY OF ABBREVIATIONS AND TERMS

Amtrak	A federally chartered corporation, also known as the National Railroad Passenger Corporation, created by Congress to provide efficient and effective intercity passenger rail services.
auditor's comments to agency preliminary response	Comments 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.
deficiency	Condition identified during on-site inspections which requires corrective action.
Diagnostic Study Team Review (DSTR)	A group of knowledgeable individuals from MDOT, road authorities, railroads, and other relevant affected parties who meet and, using highway-railroad grade crossing safety management principles, evaluate conditions at proposed or existing crossings and assist MDOT in making determinations concerning safety needs.
DMMSOA	Dispatch, Maintenance, Management, and Service Outcomes Agreement.
effectiveness	Success in achieving mission and goals.
efficiency	Achieving the most outputs and the most outcomes practical with the minimum amount of resources.
FEDP	Freight Economic Development Program.
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.

material condition	A matter, in the auditor's judgment, which 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.
MCL	<i>Michigan Compiled Laws.</i>
MDOT	Michigan Department of Transportation.
MiRLAP	Michigan Rail Loan Assistance Program.
MREP	Michigan Rail Enhancement Program.
OIAS	Office of Internal Audit Services.
on-site inspection	An assessment of a public at-grade highway railroad crossing which includes observation of the approaching road's condition, signage, warning devices, and sight distance along the railroad tracks.
OOR	Office of Rail.
performance audit	An audit which 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.
PRIAA	Passenger Rail Investment and Improvement Act.
public at-grade highway railroad crossings	The general area where a public right-of-way and a railroad right-of-way cross at the same level. This area includes the railroad tracks, roadway, and the traffic control devices.
rail fixed guideway system	Rail fixed guideway public transportation systems include, but are not limited to, a rapid rail, heavy rail, light rail, monorail, trolley, streetcar, inclined plane, funicular, and automated guideway system.

reportable condition	A matter, in the auditor's judgment, 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.
rewritten	The recurrence of similar conditions reported in a prior audit in combination with current conditions warranting the prior audit recommendation to be revised for the circumstances.
SAIPRC	State-Amtrak Intercity Passenger Rail Committee.
SBO	State Budget Office.

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