



STATE OF MICHIGAN
DEPARTMENT OF TRANSPORTATION
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

KIRK T. STEUDLE
DIRECTOR

December 30, 2009

TO: Transit Agencies and Certified Public Accountants Performing Public Transportation Audits

SUBJECT: FY 2010 and 2009 Audit Information for December 31st Year Ends

This letter supplements the revised Audit Guide for Transportation Authorities (Audit Guide) with annual percentages, clarifications, and other necessary information. The Audit Guide is available at: http://www.michigan.gov/documents/treasury/Audit_Guide_202115_7.pdf. Sections IV. D and E offer the option to provide an assurance rather than itemizing and explaining certain revenues. Section V. A has a new, very important requirement regarding the accuracy of your audit.

Please comply fully with this letter and the requirements in the Audit Guide. In order to better assist you, a checklist has been developed to help ensure compliance. Noncompliance with anything identified on this checklist (when applicable) can result in the immediate notification that the audit is insufficient with a 60-day period in which to have the audit corrected and resubmitted to us. This checklist is not intended to be all inclusive and should not be used as a substitute for reading and understanding the Audit Guide.

Both the Audit Guide and the checklist can be located at: <http://www.michigan.gov/mdotptd>. Find the "Resources" box, then click on "Audit/Accounting Information."

I. Reimbursement Percentages Necessary to Calculate State Operating Assistance

Based on the FY 2010 and FY 2009 budgeted distribution, nonurbanized areas and urbanized areas under 100,000 population were reimbursed at:

FY 2010:	35.0931 percent based on budget
FY 2009:	35.6166 percent based on budget

Urbanized areas over 100,000 population were reimbursed at:

FY 2010:	29.7424 percent based on budget
FY 2009:	30.1604 percent based on budget

The calculation of State Operating Assistance is explained on page 30 of the Audit Guide.

II. Information Necessary to Report and Calculate Federal Funding

- A. The calculation of Federal Section 5311 is explained on page 30 of the Audit Guide. The reimbursement percent for Section 5311 is 16 percent for both FY 2010 and FY 2009.
- B. Federal Transit Administration (FTA) Apportionments and Allocations can be located at:
FY 2010: Not yet available.
FY 2009:
http://www.fta.dot.gov/funding/apportionments/grants_financing_8994.html
- C. The website for the Catalog of Federal Domestic Assistance (CFDA) is on page 8 of the Audit Guide. This page also includes a summary of common transit CFDA numbers.

III. Necessary Columns on Schedule 3 “Operating and Contract Expenses” (The examples below are for a September 30th year end. See pages 27, 28 and 29 in the Audit Guide for transit agencies with a year end other than September 30th.)

- A. Expenses associated with operating contracts (e.g., Specialized Services, Section 5316 Job Access/Reverse Commute (JARC), and Section 5307 capital contracts that fund operating expenses) must be shown separately in the audit by grant/contract and by year. For example, Section 5307 capital contracts are executed yearly and usually cover a three year period. Therefore, each contract has to be identified separately by year.

	MI-90-x381 02-0049-z5 FY 04 <u>\$5307</u>	MI-90-x399 02-0049-z10 FY 05 <u>\$5307</u>	MI-90-x481 02-0049-z27 FY 06 <u>\$5307</u>	MI-90-x016 02-0049-z20 FY 06 <u>JARC</u>	• • •	<u>Total</u>
Expenses:						
Labor		\$77,938	\$29,400	\$23,259		\$Sum
Fringes		47,752	14,036	15,450		\$Sum
Tires	7,050	3,666				\$Sum
•						
•						
•						
Depreciation						
Total Oper. Exp.	\$ Sum	\$ Sum	\$ Sum	\$ Sum		\$Sum

Do not lump similar contracts together:

	§5307 Contracts	JARC Contract	• • • Total
Expenses:			
Labor	\$107,338	\$23,259	\$Sum
Fringes	61,788	15,450	\$Sum
Tires	10,716		\$Sum
•			
•			
•			
Depreciation			
Total Oper. Exp.	\$ Sum	\$ Sum	\$Sum

Do not confuse the reporting of expenses with the reporting of revenues discussed in Section IV. F of this letter.

B. Expenses associated with the State of Michigan’s Specialized Services Program must be reported on the schedule if the transit agency:

1. Is the direct recipient of both Specialized Services and State Operating Assistance funds, and
2. Actually provides the service or expenses pass-through funds on its books.

If the transit agency provides the service, then expenses must be allocated based on a Bureau of Passenger Transportation (BPT) approved cost allocation plan. A BPT approved cost allocation plan is required even if the transit agency only acts in a pass-through capacity. This pass-through cost allocation plan must state: (1) whether or not the pass-through funds are expenses on the transit agency’s books, and (2) that none of the program funds are used to pay for the administrative costs of the organization acting as a pass-through agency.

C. When a transit agency is hired by a Specialized Services subrecipient to provide service, a cost allocation plan is not required. The transit agency only has to subtract out the revenue received from the Specialized Services subrecipient as ineligible on both: (1) Operating Assistance Report (OAR) Schedule 4E (e.g., page 33 of the Audit Guide for an urban agency and page 37 for a nonurban agency), and (2) Schedule 5 “Operating Assistance Calculation” (page 40 of the Audit Guide).

D. JARC and New Freedom (NF)

Federal Section 5316 JARC and Section 5317 NF funds reimburse 50 percent of JARC and NF net deficit up to the contract maximum. Net deficit is defined as total eligible operating expenses less 40100 Passenger fares.

Cost overruns are eligible for State Operating Assistance, and should be reported on the Regular Service OAR. JARC and NF expenses must be:

1. Allocated in accordance with a BPT approved cost allocation plan.
2. Reported separately, by contract, on Schedule 3 "Operating and Contract Expenses" (that being, pages 27, 28 and 29 in the Audit Guide), and
3. Reported on its own OAR Schedule (e.g., see page 39 of the Audit Guide).

IV. Ineligible Expenses Reported on OAR Schedule 4E and Schedule 5 "Operating Assistance Calculation"

Ineligible expenses are explained in the FY 2010 Local Public Transit Revenue and Expense (R&E) Manual dated October 1, 2009, through September 30, 2010, and the FY 2009 Local Public Transit R&E Manual dated October 1, 2008, through September 30, 2009. These manuals are located at: <http://www.michigan.gov/mdotptd>. Find the "Resources" box and click on "Audit Accounting Information." Specifically note the following with regard to ineligible expenses.

- A. Money received from a Specialized Services subrecipient that originated from BPT is ineligible. Refer back to Section III.C. of this letter for further explanation.
- B. Capital money (e.g., Section 5307, Section 5309, Section 5310, and Section 5311) used to pay for operating expenses is ineligible.

Please note: Small Urban transit agencies may use Section 5307 Operating (see code 41302 on page 10 of the FY 2010 R&E Manual) to fund up to 50 percent of a transit agency's net deficit. These Section 5307 funds do not need to be subtracted out as ineligible. Net deficit is defined as total eligible operating expenses less 40100 Passenger Fares.

- C. Lobbying and Association Dues
 1. All expenses associated with lobbying are not eligible and should be subtracted out under 58005 Ineligible Lobbying Expense.
 2. If a transportation organization incurs lobbying expenses, a percentage of dues paid to that organization is not eligible and should be subtracted out under 55009 Ineligible Percent of Association Dues. The percentage of association dues ineligible for reimbursement under the State Operating Assistance Program and Section 5311 Operating Assistance Program for FY 2009 are:

	<u>FY 2009</u>
APTA	14.0 percent
CTAA	1.66 percent
MassTrans	9.1 percent
MPTA	7.1 percent

The percentage of association dues ineligible for FY 2010 are not available yet.

- D. Miscellaneous revenue must be itemized and explained so that ineligible expenses associated with the miscellaneous revenue can be identified. In lieu of itemizing and explaining, a lump sum "miscellaneous revenue" amount may be reported in the annual audit along with an assurance that any ineligible expenses associated with the miscellaneous revenue have been subtracted from total expenses as ineligible.
- E. Federal (PTMS code 413xx) and State (PTMS code 411xx) revenue codes must be identified separately by Federal grants and State contract and authorization numbers. In lieu of listing Federal and State grants/contract separately, a lump sum amount may be reported in the annual audit along with an assurance that any ineligible expenses associated with the Federal and State revenues have been subtracted from total expenses as ineligible. Do not confuse the reporting of revenues with the reporting of expenses discussed in Section III. A of this letter.

V. Additional Requirements and Information

- A. After the 2010 annual audit has been either submitted to BPT or posted to Treasury's website, the transit agency has up to 30 days in which to notify BPT of any inaccuracies in the 2010 annual audit. Thirty days of silence means that the transit agency has reviewed the submitted/posted 2010 annual audit and certifies that:
 - 1. The transit portion of the audit: (a) is correct, and (b) complies with the Audit Guide.
 - 2. All ineligible expenses, as defined by the R&E Manual, are properly reported and properly subtracted out as ineligible.
- B. For transit agencies that exceed \$500,000 or more in Federal funds, a copy of its annual audit must be sent to:

Federal Audit Clearinghouse*
1201 East 10th Street
Jeffersonville, Indiana 47132

*No contact person necessary

If the audit contains an audit finding and/or a status of prior audit findings relating to a Federal award, a copy of the annual audit must be sent to:

Derek Davis, Transportation Program Specialist
Federal Transit Administration
200 W. Adams Street, Suite 200
Chicago, Illinois 60606

- C. The expenditure information on Schedule 2 "Expenditures of Federal and State Awards" is used in the Michigan Department of Transportation's (MDOT) review of operating and capital contracts. Both Federal and State funding should be included. This information should be consistent with the fixed assets and the revenues in the financial statements.
- D. BPT reviews and approves all cost allocation plan methodologies. Page 13 of the Audit Guide requires cost allocation plans used in the preparation of the financial statements and the transit schedules to be identified by name.

To verify that the transit agency has an approved cost allocation plan, visit our website at: <http://www.michigan.gov/mdotptd>. In the "Resources" box, click on "Audit/Accounting Information." Then click on "cost allocation listing." This listing is updated periodically. It is possible that a transit agency's cost allocation plan was approved since the last listing was posted.

If you have any questions about cost allocation plans, please contact Sandy Lovell, Accountant, at (517) 335-2525 or at lovells@michigan.gov.

Please contact Trish D'Itri, Auditing Specialist, at ditrit@michigan.gov or at (517) 335-2535 with questions or if you need website information mailed to you.

Sincerely,



Sharon L. Edgar, Administrator
Bureau of Passenger Transportation

Enclosure