

Michigan Department of Transportation
Public Act 298 of 2012, formerly known as House Bill 5007
Act 51 of 1951, Section 247.662 (21) and Section 247.663 (12)

247.662 (21) In addition to the financial compliance audits required by law, the department may conduct performance audits and make investigations of the disposition of all state funds received by county road commissions, county boards of commissioners, or any other county governmental agency acting as the county road authority, for transportation purposes to determine compliance with the terms and conditions of this act. Performance audits shall be conducted according to government auditing standards issued by the United States general accounting office. The department shall develop performance audit procedures and reporting requirements sufficient to determine whether funds expended under this section were expended in compliance with this act by September 1, 2012 and shall report to the transportation committees of the senate and house of representatives no later than October 1, 2012 on the additional audit procedures and reporting requirements. The department shall provide notice to the county road commission, county board of commissioners, or any other county governmental agency acting as the county road authority, as applicable, of the standards to be used for audits performed under this subsection. The notice shall be provided 6 months prior to the fiscal year in which the audit is conducted. The department shall notify the county road commission, county board of commissioners, or any other county governmental agency acting as the county road authority of any subsequent changes to the standards. County road commissions, county boards of commissioners, or any other county governmental agencies acting as county road authorities, as applicable, shall make available to the department the pertinent records for the audit. Performance audits may be performed at the discretion of the department or upon receiving a request from the speaker of the house of representatives or the senate majority leader.

247.663 (12) In addition to the financial compliance audits required by law, the department may conduct performance audits and make investigations of the disposition of all state funds received by cities and villages for transportation purposes to determine compliance with the terms and conditions of this act. Performance audits shall be conducted according to government auditing standards issued by the United States general accounting office. The department shall develop all performance audit procedures and reporting requirements sufficient to determine whether funds expended under this section were expended in compliance with this act by September 1, 2012 and shall report to the transportation committees of the senate and house of representatives no later than October 1, 2012 on the additional audit procedures and reporting requirements. The audit procedures shall include a review of the road fund balance of the city or village. The cities and villages shall report their road fund balances by fund balance component. The department shall assist cities and villages to ensure that road fund balances are consistently classified and are in compliance with the audit and reporting requirements of this section. The department shall provide notice to cities and villages of the standards to be used for audits under this subsection prior to the fiscal year in which the audit is conducted. The department shall notify cities and villages of any subsequent changes to the standards. Cities and villages shall make available to the department the pertinent records for the audit. Performance audits may be performed at the discretion of the department or upon receiving a request from the speaker of the house of representatives or the senate majority leader.

Michigan Department of Transportation
Act 51 of 1951, Section 247.662 (21) and Section 247.663 (12)

The following information is being provided as required by these sections:

MDOT shall:

- Develop performance audit procedures and reporting requirements sufficient to determine whether funds expended under this section were expended in compliance with this act by September 1, 2012.
 - Completed
- Report to the transportation committees of the Senate and House of Representatives no later than October 1, 2012 on the additional audit procedures and reporting requirements.
 - See attachments A and B.
- Provide notice to the county road commission, county board of commissioners, or any other county governmental agency acting as the county road authority, as applicable, of the standards to be used for audits performed under this subsection.
 - Will be completed by 12/31/2012.
- Assist cities and villages to ensure that road fund balances are consistently classified and are in compliance with the audit and reporting requirements of this section.
 - Completed as needed.
- Give notice to cities and villages of the standards to be used for audits under this subsection prior to the fiscal year in which the audit is conducted.
 - Will be completed by 12/31/2012.
- Give notice to counties shall be provided 6 months prior to the fiscal year in which the audit is conducted.
 - Completed as needed.
- Notify the county road commission, county board of commissioners, or any other county governmental agency acting as the county road authority of any subsequent changes to the standards.
 - Completed as needed.
- Performed audits at the discretion of the department or upon receiving a request from the Speaker of the House of Representatives or the Senate Majority Leader.
 - Completed as needed.
- Notify cities and villages of any subsequent changes to the standards.
 - Completed as needed.

Public Act 298 of 2012, Reporting Requirements

Provide the following information upon notification of audit:

Detail general ledger that supports the Act 51 expenditures

Detail trial balance that supports the Act 51 expenditures

Detail Distribution Reports that support the Act 51 expenditures for:

County primary roads

County local roads

City/Village major streets

City/Village local streets

Detailed descriptions and documentation of key processes and critical internal controls over financial reporting and compliance with other matters applicable to Act 51 compliance

All Transfer Vouchers that transfer funds into or out of the above listed accounts.

Provide all documentation that supports the totals shown in the Act 51 Annual Financial Report for county road authorities and the Act 51 Street Financial Report for Cities and Villages.

Provide the necessary documentation upon request to facilitate tests of transactions. Examples of such documentation are:

Time reporting records, such as time cards, etc., that supports the Act 51 labor expenditures

Payroll records, such as payroll journals, quarterly payroll tax reports, etc.

Inventory records, such as road materials used on primary and local roads, etc.

Vendor purchase records, such as invoices for direct purchases for primary and local roads, etc.

Procedures for Performance Audits of County Road Commissions, county boards of commissioners, or any other county governmental agencies acting as county road authorities, and cities and villages.

Premise/Assumptions/Reliance
Report on Internal Control over Compliance.

County road commissions, boards of county commissioners, other county governmental agencies acting as county road authorities, cities and villages report the returns, which are the Michigan Transportation funds distributed in accordance with Act 51, and expenditures of the Michigan Transportation Fund to MDOT in their Act 51 Annual Financial Report through the MDOT Act 51 Distribution And Reporting System (a.k.a. ADARS).

In accordance with federal Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, CPA firms performing audits of the financial statements for the above mentioned entities also should include a review of the Act 51 Annual Financial Report and compliance with Public Act 51 of 1951, as amended by Public Act 298 of 2012, in their REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS if the Act 51 returns or expenditures are material to the entity's financial statements.

For county road commissions, county boards of commissioners, and any other county governmental agencies acting as county road authorities:

Objective 1: To determine whether funds expended under Section 12 of PA 51 of 1951, as amended by PA 298 of 2012, were expended in compliance with the Act.

1. Obtain Statement of Changes in Fund Balances (SCFB) from the Act 51 Annual Financial Report (AFR).
2. Verify the accuracy and completeness of the amounts in Lines 132 through 134 of the SCFB.
 - a. Review the detailed general ledger to verify that the accounting records support the amounts identified in Lines 132 through 134 of the SCFB.
 - b. Test the SCFB for completeness.
3. Determine whether the amounts in Lines 132 through 134 of the SCFB are in compliance with section 12(9) of Public Act 51 of 1951, as amended by Public Act 298 of 2012.
4. Obtain Schedule 8 from the Act 51 AFR.
5. Verify the accuracy and completeness of the amounts in Lines 232 through 241 of Schedule 8 of the AFR.
 - a. Review the detailed general ledger to verify that the accounting records support the amounts in Lines 232 through 241 of Schedule 8 of the AFR.
 - b. Test the AFR for completeness.
6. Determine whether the amounts in Lines 232 through 241 of schedule 8 of the AFR are in compliance with section 12(16) of Public Act 51 of 1951 as amended by Public Act 298 of 2012.

Procedures for Performance Audits of County Road Commissions, county boards of commissioners, or any other county governmental agencies acting as county road authorities, and cities and villages.

7. Determine whether the amount shown in Line 233 – Administrative Expense of the AFR is in compliance with section 12(20) of Public Act 51 of 1951 as amended by Public Act 298 of 2012.
8. Test the AFR
 - a. **Identify the expenditure population for testing.** The AFR expenditure population must include all Act 51 expenditures (consists of items constituting the account balance). If the entity's accounting system does not allow the auditor to separate Act 51 expenditures, then the auditor must include all expenditures in the population to be tested.
 - b. **Determine the samples' sizes.** Based on the auditor's understanding of the entity's processes and internal control, the auditor must determine the samples' sizes for each significant process. Review the account balances and the transactions making up the expenditures for each significant process and identify any individually significant transactions.

If a monetary unit sampling methodology is used, the individually significant transactions will be selected for testing. If another sampling methodology is used, ensure that the significant transactions are tested.

The American Association of Certified Public Accountants (AICPA) 2011 *Audit Guide: Government Auditing Standards and Circular A-133 Audits* shall be followed. For example, depending on the desired level of assurance (risk of material noncompliance), and population for a significant process, the auditor might select a sample of 40 or 60 transactions based on a moderate or high desired level of assurance, respectively (As stated in the *Guide*, very small populations might allow smaller sample sizes).

Sample sizes shall support the audit conclusions and auditors shall err on the side of over testing rather than under testing.

- c. **Determine the representativeness of the samples.** The samples shall be representative of the populations tested.
- d. **Determine testing attributes.** Determine whether the entity expended the Act 51 expenditures in compliance with Act 51 requirements. The testing attributes shall focus on the transactions related to the funding allocation. Specifically, the auditor shall design the testing attributes to ensure compliance with sections 12(16) and 12(20) of Public Act 51 of 1951 as amended by Public Act 298 of 2012.
- e. **Complete sample testing.** Complete and document testing results. Review the results of testing. Analyze the testing results to determine whether additional testing is warranted. For example, if preliminary risk assessments resulted in a selection of minimal sample sizes and the test results identified errors in excess of

Procedures for Performance Audits of County Road Commissions, county boards of commissioners, or any other county governmental agencies acting as county road authorities, and cities and villages.

tolerances, more testing might be warranted.

- f. **Conclude on entity's compliance.** Based on the auditor's testing results, the auditor shall conclude on the entity's compliance with Act 51 requirements.

For cities and villages:

Objective 2: To determine whether funds expended under Section 13 of PA 51 of 1951, as amended by PA 298 of 2012, were expended in compliance with the Act.

1. Obtain the Public Act 51 Street Financial Report for Cities and Villages, Statement of Revenues, Expenditures, and Changes in Fund Balance (SRECFB).
2. Verify the accuracy and completeness of the amount is Line 17a, Lines 25 through 32, and Lines 43 and 44 of the SRECFB.
 - a. Review of detailed general ledger to verify that the accounting records support the amounts in Line 17a, Lines 25 through 32, and Lines 43 and 44 of the SRECFB.
 - b. Test the SRECFB for completeness.
3. Determine whether the amounts in the lines identified in Step 2 are in compliance with sections 13(5) and 13(6) of Public Act 51 of 1951 as amended by Public Act 298 of 2012.
4. Determine whether the amount for administration costs, in Line 31-Administration, Engineering & Record Keeping of the SRECFB, is in compliance with section 13(8) of Public Act 51 of 1951 as amended by Public Act 298 of 2012.
5. Review Road Fund Balance contained in the SRECFB:
 - a. Verify that funds are recorded and reported by component.
 - b. Verify that funds are consistently classified.
6. Test
 - a. **Identify the expenditure population for testing.** The SRECFB expenditure population must include all Act 51 expenditures (consists of items constituting the account balance). If the entity's accounting system does not allow the auditor to separate Act 51 expenditures, then the auditor must include all expenditures in the population to be tested.
 - b. **Determine the sample size.** Based on the auditor's understanding of the entity's processes and internal control, the auditor must determine the samples' sizes for each significant process. Review the account balances and the transactions making up the expenditures for each significant process and identify any individually significant transactions.

If a monetary unit sampling methodology is used, the individually significant transactions will be selected for testing. If another sampling methodology is used, ensure that the significant transactions are tested.

The American Association of Certified Public Accountants (AICPA) 2011 *Audit Guide: Government Auditing Standards and Circular A-133 Audits* shall be followed. For example, depending on the desired level of assurance (risk of

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material noncompliance), and population for a significant process, the auditor might select a sample of 40 or 60 transactions based on a moderate or high desired level of assurance, respectively (As stated in the *Guide*, very small populations might allow smaller sample sizes).

Sample sizes shall support the audit conclusions and auditors shall err on the side of over testing rather than under testing.

- c. **Determine the representativeness of the samples.** The samples shall be representative of the populations tested.
- d. **Determine testing attributes.** Determine whether the entity expended the Act 51 expenditures in compliance with Act 51 requirements. The testing attributes shall focus on the transactions related to the funding allocation. Specifically, the auditor should design the testing attributes to ensure compliance with sections 13(5), (6), and (8) of Public Act 51 of 1951 as amended by Public Act 298 of 2012.
- e. **Complete sample testing.** Complete and document testing results. Review the results of testing. Analyze the testing results to determine whether additional testing is warranted. For example, if preliminary risk assessments resulted in a selection of minimal sample sizes and the test results identified errors in excess of tolerances, more testing might be warranted.
- f. **Conclude on entity's compliance.** Based on the auditor's testing results, the auditor should conclude on the entity's compliance with Act 51 requirements.

October 1, 2012

Honorable Mayor and City Council (or Members of the Board of County Road Commissioners)
City of Any Town (County of Any)
1234 Any Street
Any Town, Michigan 12345

Dear Council Members:

We have audited the compliance of the City of Any Town (Any County Road Commission) with the types of compliance requirements described in Public Act 51 of 1951, as amended, for the period ended September 30, 2012. Compliance with the requirements of laws, regulations, contracts, and grants is the responsibility of the City's (Any County Road Commission's) management. Our responsibility is to express an opinion on the City's (Any County Road Commission's) compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the preceding paragraph occurred. An audit includes examining, on a test basis, evidence about the City's (Any County Road Commission's) compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's (Any County Road Commission's) compliance with those requirements.

In our opinion, the City (Any County Road Commission) complied, in all material respects, with the compliance requirements referred to in the first paragraph for the period ended September 30, 2012. [IF NONCOMPLIANCE NOTED However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are described in the accompanying schedule of findings in Finding(s) X through X.]

This report is intended solely for the information and use of City council (Board of County Road Commissioners), management, and others within the City, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,