



STATE OF MICHIGAN
DEPARTMENT OF TRANSPORTATION
LANSING

RICK SNYDER
GOVERNOR

KIRK T. STEUDLE
DIRECTOR

December 19, 2017

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

Subject: FY 2018 and FY 2017 Audit Information for December 31st Year End

Audits completed for transit agencies with a local year end of December 31, 2017, must be submitted to the Office of Passenger Transportation (OPT) by June 30, 2018. It is preferred that the audit is uploaded to the Treasury's website at: http://michigan.gov/treasury/0,1607,7-121-1751_31038---,00.html

A hard copy of the audit (and management letter) may be mailed to me at: Trish D'Itri, Auditing Specialist, Michigan Department of Transportation, Office of Passenger Transportation/B425, P.O. Box 30050, Lansing, Michigan 48909.

The audit must comply with the Audit Guide for Transportation Authorities (Audit Guide), and the supplemental information provided in this letter. The Audit Guide and this letter can be located at: <http://www.michigan.gov/mdotptd>. Scroll down to the "Resources," and click on the drop down arrow associated with "Select a Resource." Select "Audit/Accounting Information," and click "go." **If the transit agency received a noncompliance letter or email relating to last year's audit (that being, the 12 months ending December 31, 2016), review that letter and take whatever steps necessary to ensure that the noncompliance issues are not repeated in the current year audit.** If the noncompliance letter/email cannot be located or to verify if one was issued, contact me at 517-335-2535 or at ditrit@michigan.gov.

Reimbursement Percentages for Federal and State Operating Assistance

The calculation of Federal Section 5311 and Act 51 Operating Assistance is explained on page 30 of the Audit Guide. The reimbursement percentages for FY 2018 and FY 2017 are as follows:

A. Federal Section 5311:

FY 2018: 18.5 percent
FY 2017: 18.5 percent

B. Act 51 State Formula:

- Nonurbanized areas (and urbanized areas under 100,000 population):

FY 2018: 39.1981 percent (based on budget)

FY 2017: 38.9955 percent (based on budget)

- Urbanized areas (population over 100,000):

FY 2018: 32.9303 percent (based on budget)

FY 2017: 32.7790 percent (based on budget)

Federal Transit Administration (FTA) Apportionments and Allocations

This information can be accessed at: <http://www.michigan.gov/mdotptd>. Scroll down to “Program & Data,” and click on the drop down arrow associated with “Select a Link.” Select “Program Data,” click “Go,” then scroll down to the “Federal Apportionments” section at the bottom of the page.

Other Audit Requirements

A. Assurances:

The annual audit must contain a statement for each subject listed below:

- Cost Allocation Plans
- Nonfinancial Methodology
- Capital Funds Used to Pay for Operating
- Depreciation
- Expenses associated with PTMS codes 406 & 407
- Retirement Benefits

Each of the six statements must either: (1) provide an assurance that the transit agency is in compliance with the requirements of the Local Public Transit Revenue and Expense (R&E) Manual and the Audit Guide, or (2) identify how the transit agency is not in compliance. The enclosure to this letter provides various examples as to how the assurances can be worded to accurately report the transit agency’s (non) compliance.

Optional Assurances that can be given in lieu of detail required by the R&E Manual

The R&E Manual requires:

1. Federal (PTMS code 41313) and State (PTMS code 41113) “Capital Contract Reimbursement for Administrative Expenses” revenue codes to be identified separately by Federal grant(s), State contract and authorization number(s).

In lieu of listing Federal and State grants/contracts 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 properly subtracted from total expenses as ineligible under PTMS code 57603 Ineligible Administrative Expense Paid by Capital Contract.

- Miscellaneous revenue to be itemized and explained such 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 properly subtracted from total expenses as ineligible.

B. Schedule 3 “Operating and Contract Expenses”:

- Expenses associated with operating contracts must be shown separately by grant/contract and by year as illustrated below.

	MI-95-X481 12-0049-Z27 <u>FY 2017</u> <u>§5307/JARC</u>	MI-95-X016 12-0049-Z20 <u>FY 2016</u> <u>JARC</u>	MI-95-X381 12-0049-Z5 <u>FY 2016 NF</u>	<u>Total</u>
Expenses:				
Labor	\$29,400	\$23,259	\$39,300	\$169,897
Fringes	\$14,036	\$15,450	\$23,903	\$101,141
Tires	_____	_____	_____	<u>\$ 10,716</u>
Total Operating Expenses	\$43,436	\$38,709	\$63,203	\$281,754

- Do not lump similar contracts together. Unfortunately, the example of Schedule 3 provided on page 27 of the revised Audit Guide does not properly label each individual operating contract by its master agreement and authorization number. This example also does not illustrate operating contracts that are executed yearly with an expiration date of greater than one year (e.g., §5307). This inadequate example may inappropriately indicate that operating contracts may be lumped together by category (e.g., §5307, Job Access Reverse Commute (JARC)) and reported as a single amount.

C. Schedule 2 “Expenditures of Federal and State Awards”:

The expenditure information on Schedule 2 “Expenditures of Federal and State Awards” (SEFA) is used in the Michigan Department of Transportation’s (MDOT) review of operating and capital contracts. Both Federal and State funding must be included on this schedule with the information provided being consistent with both the fixed assets and revenues in the financial statements.

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.

D. Operating Assistance Report (OAR):

Revenues and expenses must be properly reported on each of the required OARs.

1. OARs for JARC (§5307 or §5311) and New Freedom (NF) (§5310 or §5317) Activities

The Revenue Schedule (OAR Schedule 4R):

The most common revenue codes for JARC and NF include:

- *40100 Passenger Fares.* Fares earned for JARC and NF (including local service contracts specially for JARC and/or NF Programs) cannot be used as local match and must be subtracted out as ineligible under 55000 Ineligible JARC and NF Fares. If farebox is not collected/recorded separately for each individual operating program (e.g., Formula, JARC, NF, Specialized Services), then the allocation of farebox must be included in the JARC and/or NF OPT approved cost allocation plan.

The NF Program has the option to treat revenue from contracts to provide human service transportation (not paid on a per passenger basis) as: local match or a reduction to Total Eligible Expenses. The way the revenue is treated affects the calculation of the total eligible expenses, and therefore, the amount of NF operating assistance. This option allows a transit agency short on local funding a means to participate in the NF program. Addendum F (page 48) of the FY 2018 Local Public R&E Manual provides an example of the different calculations.

The Federal Transit Administration (FTA) program funds may not be used as a source of local match for other FTA programs, even when used to contract for service. For example, if a NF sub recipient has a service contract to buy service from a Section 5311 provider, the Section 5311 provider may not use the revenue from the NF service contract as local match for other FTA grants.

- *41399 Other Federal Transit Contracts.* JARC and 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 (which may include all or a portion of fares received from human service agencies – see above).

- *43000 Contributed Services*. Contributed Services is eligible to be counted toward local match for NF provided the source of the contributed service is approved by OPT along with any methodology to allocate the contributed service. Non-cash sources such as donations, volunteered services, or in-kind contributions are eligible to be counted toward the local match as long as: (1) the value of each is documented and supported, (2) the cost represents an otherwise eligible expense under the program, (3) the net project costs are included in the budget, and (4) the source has been approved by OPT along with any allocation methodology.

Other examples of sources of local match include: local appropriations; other non-Department of Transportation Federal funds; dedicated tax revenues; private donations; revenue from human service contracts; and net income generated from advertising and concessions.

The Expense Schedule (*OAR Schedule 4E*):

JARC and NF expenses (and possibly revenues) must be:

- Allocated in accordance with an OPT approved cost allocation plan; and
- Reported separately, by contract, on Schedule 3 “Operating and Contract Expenses.” Refer to Paragraph B.

2. Specialized Services OARs

Each annual audit must contain a Specialized Services OAR if the transit agency:

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

The Revenue Schedule (*OAR Schedule 4R*):

The most common revenue code for Specialized Services is *41199 other MDOT/OPT Transit Contracts*.

The Expense Schedule (*OAR Schedule 4E*):

Specialized Services expenses must be:

- Allocated in accordance with an OPT approved cost allocation plan if the transit agency provides the service. An OPT 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:
 - (a) Whether the pass-through funds are expensed on the transit agency’s books.

(b) That none of the program funds are used to pay for the administrative costs of the organization acting as a pass-through agency.

- Reported separately, by contract, on Schedule 3 “Operating and Contract Expenses.” Refer to Paragraph B.
- 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) 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).

3. Regular Service OARs

Cost overruns on JARC, NF, and Specialized Services may be reported on the Regular Service OAR. Enough JARC, NF, and Specialized Services expenses should be reported on the appropriate OAR to ensure full reimbursement under the contract. Any additional expenses not reimbursed by contract are eligible for State Operating Assistance, and should be reported on the Regular Service OAR.

Ineligible Expenses Reported on OAR Schedule 4E and Schedule 5 “Operating Assistance Calculation”

Ineligible expenses are explained in the FY 2018 R&E Manual dated October 1, 2017, through September 30, 2018, and FY 2017 R&E Manual dated October 1, 2016, through September 30, 2017. Both R&E Manuals are located at: <http://www.michigan.gov/mdotptd>. Scroll down to “Resources,” and click on the drop down arrow associated with “Select a Link.” Select “Audit/Accounting Information,” and click “Go.”

Specifically note the following with regard to ineligible expenses.

A. Lobbying and Association Dues:

All expenses associated with lobbying are ineligible and should be subtracted out under 58005 Ineligible Lobbying Expense.

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 Percentage of Association Dues. The percentages of association dues ineligible for reimbursement under the State Operating Assistance Program and Section 5311 Operating Assistance Program are:

	<u>FY 2018*</u>	<u>FY 2017</u>
APTA		18.9 percent
MassTrans		6.5 percent
MPTA		22.2 percent

* Not Yet Available.

- B. Expenses paid by a Specialized Services subrecipient with funds that originated from OPT (refer to Paragraph D.2) are ineligible, and must be subtracted out as ineligible under 55004 Other Ineligible State Contracts.
- C. Capital funds (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 and some large urban transit agencies may use Section 5307 Operating (see code 41302 on page 11 of the FY 2018 R&E Manual and/or page 12 of the FY 2017 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.

Additional Requirements and Information:

After the 2017 annual audit has been either submitted to OPT or posted to the Treasury's website, the transit agency has up to 30 days in which to notify OPT of any inaccuracies in the 2017 annual audit. Thirty days of silence means that the transit agency has reviewed the submitted/posted 2017 annual audit and certifies that:

- A. The transit portion of the audit: (a) is correct, and (b) complies with the Audit Guide (which means, in part, that the transit manager has verified that all of the required statements in Paragraph A on page 2 are present and accurately report the transit agency's level of compliance).
- B. All ineligible expenses, as defined by the R&E Manuals are properly reported and properly subtracted out as ineligible.

Transit agencies that expend more than \$750,000 in Federal funds must submit a copy of their Single Audit to the Federal Audit Clearinghouse. The Single Audit can be uploaded at:

<https://harvester.census.gov/facweb/default.aspx/>

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A hard copy can be put in the U.S. mail 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:

Matthew Dietrich, Financial Analyst
Federal Transit Administration
200 West Adams Street, Suite 320
Chicago, Illinois 60606

OPT reviews and approves all cost allocation plan methodologies. 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 me, at ditrit@michigan.gov or at 517-335-2535 with questions or if you need information from the website mailed to you.

Sincerely,

Trish D'Itri

Trish D'Itri, Auditing Specialist
Office of Passenger Transportation

Enclosure

Examples of Assurances

Listed below are examples of possible wording to be used when giving the required assurances. Most important is that the assurance actually reflects the present circumstances of the transit agency.

Cost Allocation - 2 part Assurance (Identify by Name & Adherence) – both parts are required:

Example 1:

The transit agency has two cost allocation plans (gasoline purchase and administrative costs) where the methodology has been approved by the Office of Passenger Transportation (OPT). These cost allocation plans were adhered to in the preparation of the financial statements.

Example 2:

The transit agency has prepared a JARC cost allocation plan that has yet to be approved by OPT. Although not yet approved by OPT, the JARC cost allocation plan was adhered to in the preparation of the financial statements.

Example 3:

No OPT approved cost allocation plans are required, and therefore, none were used in the preparation of the financial statements.

If an approved cost allocation plan is not used during the applicable financial period, do not list it.

Nonfinancial Methodology:

Example 1:

The methodology used for compiling miles for regular service has been reviewed and the recording method has been found to be adequate and reliable.

Example 2:

The methodology used for compiling miles for regular service and JARC service has been reviewed and the recording method has been found to be adequate and reliable.

Depreciation:

Example 1:

Depreciation expense included as eligible only includes assets purchased with local funds where the useful life of the asset was determined pursuant to Appendix A of the Local Public Transit Revenue and Expense Manual or approved by OPT.

Example 2:

The depreciation expense reported in 51300 equals the ineligible depreciation reported in 55007. Therefore, the depreciation assurance regarding approval of useful life is not required.

Example 3:

Eligible depreciation includes assets purchased with local funds prior to 2012 where the useful life was not approved by OPT. Since 2012, the transit agency has not purchased any assets with local funds. The depreciation of any future assets purchased with local funds will not be included in eligible depreciation unless the useful life of the asset is determined pursuant to Appendix A of the Local Public Transit Revenue and Expense Manual or approved by OPT.

If there are no useful life approvals on file with OPT, then the assurance should not state that “the useful life of the asset has been approved by OPT.”

Capital Used to Pay for Operating:

Example 1:

Operating expenses of \$x,xxx were subtracted out as ineligible under 57604 “Other Ineligible Operating Expense paid by Capital Contract” because these expenses were paid for with capital funds. No other operating expenses were paid for with capital funds.

Example 2:

No operating expenses are subtracted out as ineligible because no capital money was used to pay for operating expenses.

Expenses Associated with 406 & 407:

Example 1:

All expenses associated with 406xx Auxiliary Transportation Revenue and/or 407xx Non-transportation is subtracted out as ineligible under [then list the appropriate ineligible code] (e.g., 55010 Other Ineligible Expenses Associated with Auxiliary and Nontransportation Revenue, 56002 Ineligible Expenses Associated with Advertising Revenue, 56001 Ineligible Expenses Associated with the Sale of Maintenance Service, 56004 Ineligible Expenses Associated with Rentals, or 55008 Other Ineligible Expenses).

Example 2:

There are no expenses associated with 406xx Auxiliary Transportation Revenue and/or 407xx Non-transportation, and therefore, no expenses need to be subtracted out as ineligible. No expenses were incurred because [provide an explanation].

Retirement Benefits:

Example 1:

The only retirement benefit offered by the transit agency is a defined contribution plan. The entire amount of \$xx was expensed on the books and reported in 50210 DC Pensions. The entire sum of \$xx was paid (e.g., an out of pocket payment), and therefore, no DC pension expense is subtracted out under 58010 Ineligible DC Pensions. The transit agency did not incur, nor pay, any 50240 DC OPEB or 50250 DB OPEB.

Example 2:

The transit agency offers three pension compensation plans: a 457 defined contribution, a 401(k) Profit Sharing Plan and Trust, and a defined benefit Transportation Workers Pension Trust. Pension costs incurred for the 457 and 401(k) were \$x,xxx and \$y,yyy, respectively. These amounts were expensed on the books and reported in 50210 DC Pensions. The entire sum of \$z,zzz (\$x,xxx + \$y,yyy) was paid (e.g., an out of pocket payment) and therefore, no DC pension is subtracted out under 58010 Ineligible DC Pensions.

Pension costs incurred for the Transportation Workers Pension Trust were calculated pursuant to the MERS GASB 68 Implementation Guide. The total pension expense recognized as calculated in STEP 6 of the guide is \$u,uuu. The entire amount of \$ u,uuu was expensed on the books and is reported in 50220 DB Pensions. The transit agency paid (e.g., an out of pocket payment) \$v,vvv, therefore, \$w,www (\$u,uuu less the amount paid) is subtracted out under 58020 Ineligible DB Pension.

Example 3:

The transit agency incurred \$a,aaa in 50250 DB OPEB and expensed the entire amount on its books. Of the \$a,aaa incurred, \$bbb was paid. Therefore, \$c,ccc (\$a,aaa - \$bbb) was subtracted out as ineligible under 50850 Ineligible DB OPEB.

Upon the implementation of GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, expenses associated with other postemployment benefits (OPEB) are calculated pursuant to the MERS GASB 68 Implementation Guide for pension.