



STATE OF MICHIGAN
DEPARTMENT OF TRANSPORTATION
LANSING

RICK SNYDER
GOVERNOR

KIRK T. STEUDLE
DIRECTOR

September 28, 2018

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

Subject: FY 2018 Audit Information for September 30th Year End

Audits completed for transit agencies with a local year end of September 30, 2018, must be submitted to the Office of Passenger Transportation (OPT) by March 31, 2019. The audit should be uploaded to 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: 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."

The CPA audit cannot have transit schedules marked as "unaudited" without defining its meaning. Section 10h(2) of Public Act 51 of 1951, as amended, mandates an annual audit be performed in accordance with the Michigan Department of Treasury's Audit Guide. Marking transit schedules required by the Michigan Department of Treasury's Audit Guide as "unaudited" improperly suggests that the auditor takes no responsibility with regards to Michigan's audit requirements which includes the proper identification and classification of revenues, expenses, and most importantly ineligible expenses as required by the Revenue and Expense (R&E) Manual.

If the transit agency received a noncompliance letter or email relating to last year's audit (that being, the 12 months ending September 30, 2017), 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 are as follows:

- 18.50 percent for Federal Section 5311
- 39.1981 percent for Act 51 Non-urbanized areas (based on budget)
- 32.9303 percent for Act 51 Urbanized areas (population over 100,000, 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.

2. 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”:

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

	MI-2017-023 2017-0049-P3 <u>FY 2018</u> <u>\$5307/JARC</u>	MI-2017-023 2017-0049-P20 <u>FY 2017</u> <u>JARC</u>	MI-2017-070 2017-0049-P1 <u>FY 2017</u> <u>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

2. 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 for operating programs are explained in the FY 2018 R&E Manual dated October 1, 2017, through September 30, 2018. This manual is 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.”

Revenues and expenses for each operating program must be reported on its own OAR. Generally, those operating programs are: State Operating Assistance (e.g., Regular Service), JARC, New Freedom (NF), and Specialized Services. With regard to each operating program, consider the following:

1. 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 the contract are eligible for State Operating Assistance, and should be reported on the Regular Service OAR.

2. JARC and NF OARs

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., Regular Service, 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 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.

3. 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).

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

Ineligible expenses are explained on pages 28 through 32 in the FY 2018 R&E Manual. Because all Regular Service transit agencies share in the single pot of State Operating Assistance, every dollar improperly paid to one transit agency is wrongfully denied to all other transit agencies statewide. Thus, meticulous attention must be given to ineligible expenses. Specifically, please note:

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>
APTA	19.0 percent
MassTrans	13.7 percent
MPTA	22.7 percent

- B. Expenses paid by a Specialized Services subrecipient with funds that originated from OPT (refer to Paragraph D.3) 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) 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 2018 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 2018 annual audit. Thirty days of silence means that the transit agency has reviewed the submitted/posted 2018 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 assurances 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/>

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"

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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