RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TRANSPORTATION
LANSING

KIRK T. STEUDLE
DIRECTOR

July 16, 2015

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

Subject: FY 2015 – FY 2014 Audit Information for June 30th Year End

Audits completed for transit agencies with a local year end of June 30, 2015, must be submitted to the Office of Passenger Transportation (OPT) by December 31, 2015. It is preferred that the audit is 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."

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 2015 and FY 2014 are as follows:

A. Federal Section 5311:

FY 2015: 18.5 percent
FY 2014: 16 percent

B. Act 51 State Formula:

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

  FY 2015: 36.3426 percent (based on budget)
  FY 2014: 39.3 percent (reconciled)

- Urbanized areas (population over 100,000):

  FY 2015: 29.7299 percent (based on budget)
  FY 2014: 30.65 percent (reconciled)

Audit Guide 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 attachment 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) and 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. Note to Financial Statements:

For pension and OPEB plans that are based upon actuarial assumptions, the Notes to the Audited Financial Statements must include the schedule illustrated on this page. If the transit agency is part of a county or a city, the transit portion of the entire county or city must be reported separately in the audit.

	01 Jan 2014 Thru 09 Sep 2014	01 Oct 2014 Thru 31 Dec 2014	Total
Annual required contribution	$ 4,500	$ 6,400	$ 10,900
Interest on the prior year's net OPEB Obligation*	20	100	120
Adjustment to annual required contribution	0	0	0
Annual OPEB cost	$ 4,520	$ 6,500	$ 11,020
Amounts contributed:			
Payments of current premiums	0	0	0
Payments of prior year expenses	0	3,000	3,000
Payments to future expenses	0	0	0
Total Amount Paid	$ 0	$ 3,000	$ 3,000
Increase (Decrease) in net OPEB obligation	4,520	3,500	8,020
OPEB obligation – Beginning of year	17,070	40,630	57,700
OPEB obligation – End of year	21,590	44,130	65,720

*****This schedule uses OPEB as an example, but a similar schedule is also required for actuarially determined pension amounts.

C. 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-90-X481 02-0049-Z27 FY 2014 §5307/JARC	MI-90-X016 02-0049-Z20 FY 2013 JARC	MI-90-X381 02-0049-Z5 FY 2012 NF	Total
Expenses:				
Labor	$29,400	$23,259	$39,300	$169,897
Fringes	14,036	15,450	23,903	101,141
Tires	_____	_____	_____	10,716
Depreciation				
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 contract 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.

D. Schedule 2 "Expenditures of Federal and State Awards":

The expenditure information on Schedule 2 "Expenditures of Federal and State Awards" (SEFA) is used in MDOT's 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.

PLEASE NOTE: MDOT will verify all amounts reported on this schedule with its internal records. Each transit agency received MDOT's Record of Payments for federal and state disbursements for the twelve months ending June 30, 2015, that will be used to verify the SEFA. In order to minimize the need for inquiry after the annual audit has been promulgated, please obtain this schedule from the transit agency and footnote any discrepancies between the amounts reported on the SEFA and attached Record of Payments.

A summary sheet for Michigan's portion of the Federal Transit Administration (FTA) apportionments and allocations can be accessed at:

http://www.michigan.gov/mdot/0,4616,7-151-9625_21607---,00.html

In the "Program & Data" selection box, select "Program Data," then "Go," then scroll down to the "Federal Apportionments" section at the bottom of the page.

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.

E. New Capital Programs:

1. Section 5337 – State of Good Repair Program

This new grant program maintains public transportation systems in a state of good repair. It replaces the fixed guideway modernization program (Section 5309). Funding is limited to fixed guideway systems (including rail, bus rapid transit, and passenger ferries) and high intensity bus (high intensity bus refers to buses operating in high occupancy vehicle (HOV) lanes).

2. Section 5339 – Bus and Bus Facilities Program

This new formula grant program replaces the previous Section 5309 discretionary Bus and Bus Facilities program. It provides funding to replace, rehabilitate, and purchase buses and related equipment, and to construct bus-related facilities.

F. Operating Assistance Report (OAR):

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

1. <u>OARs for JARC (§5307, §5311, or §5316) and New Freedom (NF) (§5310 or §5317) Activities</u>

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

The most common revenue codes for JARC and NF include:

- *40100 Passenger 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 40100 Passenger Fares earned for the Federal Section JARC and Federal Section NF cannot be used as local match, but must be subtracted out as ineligible under 55000 Ineligible JARC and NF Fares.

- *40200 Contract Fares**.* If MDOT provides local match (which is usually the case with JARC), then all contract fares to provide human service transportation must be subtracted out as ineligible under 55000 Ineligible JARC and NF Fares.

  If MDOT does not provide local match (which is usually the case with NF) and an agency receives the full amount of the local match from their county's general fund and/or from a human service agency, then all contract fares to provide human service transportation must be subtracted out as ineligible under 55000 Ineligible JARC and NF Fares.

  If MDOT does not provide local match and an agency receives only a portion of the required local match, contract fares up to the amount needed for the local match will not need to be subtracted out as ineligible. In other words, any contract fares collected above the amount needed for the full local match will have to be subtracted out as ineligible.

  * **Beginning with the FY 2016 R&E Manual,** Code 40200 "Contract Fares" has been inactivated because of a definitional difference in the meaning as used by OPT and the National Transit Database (NTD). The FY 2016 requirements can be implemented in FY 2015.

- *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.

- *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-DOT 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 back to Paragraph C.

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 or not the pass-through funds are expenses 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 back to Paragraph 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) 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 2015 R&E Manual dated October 1, 2014, through September 30, 2015, and the FY 2014 R&E Manual dated October 1, 2013, through September 30, 2014. When reporting 50201 Pensions and the associated ineligible pension expense, consult the FY 2015 manual only. The pension language in the FY 2014 manual was retroactively changed after the manual was promulgated.

These 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 Resource." 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:

	FY 2015	FY 2014
APTA	11.8 percent	16.3 percent
MassTrans	8.7 percent	7.5 percent
MPTA	22.0 percent	17.0 percent

B. Expenses paid by a Specialized Services subrecipient with funds that originated from OPT (refer back to Paragraph E.2) are ineligible, and must be subtracted out as ineligible under 55004 Other Ineligible State Contracts.

C. 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 and some large urban transit agencies may use Section 5307 Operating (see code 41302 on page 10 of the FY 2014 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.

NEW ALLOWABLE USE OF CAPITAL FUNDS FOR OPERATING:

The Urbanized Area Formula Program (Section 5307) permits capital funds to be used to pay for fuel costs in vehicle operations (which include utility costs for the propulsion of vehicles). The capital reimbursement rate is 80 percent with a 20 percent match. Both the 80 percent and 20 percent match are ineligible for formula fund reimbursement.

Additional Requirements and Information:

After the FY 2015 annual audit has been either submitted to OPT or posted to Treasury's website, the transit agency has up to 30 days in which to notify OPT of any inaccuracies in the FY 2015 annual audit. Thirty days of silence means that the transit agency has reviewed the submitted/posted FY 2015 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 Manual, are properly reported and properly subtracted out as ineligible.

Transit agencies that expend more than $750,000 in Federal funds (for Single Audits performed after January 1, 2015), must submit a copy of its Single Audit to the Federal Audit Clearinghouse.

The Single Audit can be upload at: https://harvester.census.gov/facweb/default.aspx/

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

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

Sincerely,

Sharon L. Edgar, Administrator
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 has been 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 2007. Since 2007, 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 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:

During the fiscal year October 1, 2014, through September 30, 2015, [transit agency]:

- Paid $AA in 50210 DC Pensions. The entire amount was expensed on the books.
- Paid $YY in 50220 DB Pensions. Of the $YY, $XX paid the actuarial required contribution (ARC) and $ZZ ($YY - $XX) was paid in excess of the ARC. The entire amount of $YY was expensed on the books and reported in 50220 DB Pensions. Because eligible "defined benefit" pension expense is capped at the ARC, the $ZZ was subtracted out as ineligible under 58020 Ineligible DB Pensions.
- Incurred $WW in 50202 Other Post-Employment Benefits (OPEB) and expensed the entire amount on its books. Of the $WW incurred, $VV was paid. Therefore, $UU ($WW - $VV) was subtracted out as ineligible under 58030 Ineligible OPEB.

Example 2:

The only retirement benefit offered is a defined contribution plan. The entire amount of $ZZ was expensed on the books and is included in Dial-A-Ride's total eligible expenses. The transit agency did not incur, nor pay, any 50202 OPEB.