



STATE OF MICHIGAN
DEPARTMENT OF TRANSPORTATION
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

KIRK T. STEUDLE
DIRECTOR

September 28, 2007

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

SUBJECT: FY 2007 Audit Information for September 30th Year Ends

The Audit Guide for Transportation Authorities (Audit Guide) has been revised and can be located at: <http://www.michigan.gov/mdotpd>. Find the "Resources" box and click on "Audit/Accounting Information." This letter supplements the Audit Guide with annual percentages, clarifications, and other necessary information.

Please comply fully with the requirements in this revised Audit Guide. In order to better assist you, the checklist that will be used upon receipt of an annual transit audit is enclosed. Noncompliance with anything identified on this checklist (when applicable) will result in the immediate notification that the audit is insufficient with a thirty-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 revised Audit Guide.

I. Reimbursement Percentages Necessary to Calculate State Operating Assistance

Based on the FY 2007 budgeted distribution, nonurbanized areas and urbanized areas under 100,000 population receive 38.6208 percent of their eligible operating expenses.

Urbanized areas over 100,000 population receive 32.5231 percent of their eligible operating expenses.

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

II. Information Necessary to Report and Calculate Federal Funding

A. For FY 2007, the reimbursement percentage for Section 5311 is 17 percent. The calculation of Federal Section 5311 is explained on page 30 of the revised Audit Guide.

B. The FY 2007 FTA Apportionments and Allocations can be located at: <http://a257.g.akamaitech.net/7/257/2422/01jan20071800/edocket.access.gpo.gov/2007/pdf/07-1290.pdf>

C. The website for the Catalog of Federal Domestic Assistance (CFDA) is on page 8 of the revised Audit Guide. This page also includes a summary of common transit CFDA numbers.

For assistance to determine the amount of state, and some federal, revenue paid to transit agencies, contact Lisa Lubahn at: lubahl@michigan.gov or at 517-241-1893.

III. Necessary Columns on Schedule 3 "Operating and Contract Expenses" (page 19 in the revised Audit Guide for transit agencies with a September 30th year end)

A. Expenses associated with operating contracts (e.g., Specialized Services, Section 5316 (JARC), and Section 5307 capital contracts that fund operating expenses) must be shown separately in the audit by 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:

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

- B. Expenses associated with the State of Michigan's Specialized Services Program must be reported on this schedule if the transit agency:
1. Is the recipient of both Specialized Services funds 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 expensed 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 Service subrecipient as ineligible on both: (1) OAR Schedule 4E (e.g., page 33 of the revised Audit Guide for an urban agency and page 37 for a nonurban agency), and (2) Schedule 5 "Operating Assistance Calculation" (page 40 of the revised Audit Guide).

D. Job Access/Reverse Commute

Federal Section 5316 funds reimburse 50% of JARC operating expenses up to the contract maximum. BPT may or may not match the Federal JARC funds. If BPT:

1. Matches the Federal JARC money, then the expenses must be:
 - i. Allocated in accordance with a BPT approved cost allocation plan, and
 - ii. Reported on Schedule 3 "Operating and Contract Expenses" (that being, page 19 in the revised Audit Guide for transit agencies with a September 30th year end).
 - iii. JARC expenses must be reported on an individual OAR Schedule (e.g., see page 39 of the revised Audit Guide).
2. Does not match the Federal JARC money that a transit agency receives, then:
 - i. No BPT approved cost allocation plan is required, and

- ii. JARC expenses are included in both (1) OAR Schedule 4E (e.g., pages 32 & 33 of the revised Audit Guide for an urban agency and page 36 for a nonurban agency), and (2) Schedule 5 "Operating Assistance Calculation" (page 40 of the revised Audit Guide 36).
- iii. The Federal JARC funds received are subtracted out as ineligible on both: (1) OAR Schedule 4E (e.g., pages 33 of the revised Audit Guide for an urban agency and page 37 for a nonurban agency), and (2) Schedule 5 "Operating Assistance Calculation" (page 40 of the revised Audit Guide).

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

Ineligible expenses are explained in the Local Public Transit Revenue and Expense Manuals dated October 1, 2006 through September 30, 2007. This manual is located at: <http://www.michigan.gov/mdotptd>. Find the "Resources" box and click on "Audit/Accounting Information." Specifically note the following ineligible:

- A. Money received from a Specialized Services subrecipient that originated from BPT. Refer back to Section III. C. of this letter for further explanation.
- B. Federal Section 5316 (JARC) money received when BPT did not match the Federal funds. Refer back to Section III. D. of this letter for further explanation.
- C. Capital money (e.g., Section 5307 and Section 5311) used to pay for operating expenses.
- D. 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 the Section 5311 Operating Assistance Program is:

APTA:	10.0 percent
CTAA:	0.0 percent
MassTrans:	12.5 percent
MPTA:	7.05 percent

V. Additional Requirements and Information

- A. 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, IN 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

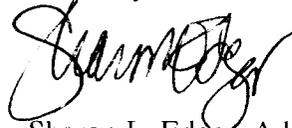
- B. The expenditure information on Schedule 2 "Expenditures of Federal and State Awards" is used in MDOT's review of operating and capital contracts. Both Federal and State funding should be included. **This information should be consistent with the fixed assets and the revenues and expenses in the financial statements.**
- C. BPT reviews and approves all cost allocation plan methodologies. Page 13 of the revised 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

Audit Guide Checklist

- ◇ All required cost allocation plans are identified by name (e.g., Urban/Nonurban Service, JARC Service, Charter Service, Rental Income, Outside Maintenance Service, Specialized Services) *[page 13 of the Audit Guide]*
- ◇ A statement that the above listed cost allocation plans were adhered to in the preparation of the financial statements *[page 13 of the Audit Guide]*
- ◇ A statement that the methodology used for compiling miles and other nonfinancial information used to allocate costs has been reviewed and the recording method has been found to be adequate and reliable *[pages 9 & 13 of the Audit Guide]*
- ◇ The required nonfinancial information is reported on the appropriate OAR (Schedule 4) *[pages 9 & 13 of the Audit Guide]*
- ◇ Grants are clearly identified (descriptive title, contract number, authorization number) on Schedule 2 - Federal and State Awards *[page 10 & page 17 for Sept 30 YE; or page 24 for YEs other than Sept 30]*
- ◇ Grants are clearly identified (descriptive title, contract number, authorization number) on Schedule 3 - Operating and Contract Expenses *[page 10 & page 19 for Sept 30 YE; or page 27 for YEs other than Sept 30]*
- ◇ A statement that depreciation expense included to be reimbursed with State Formula Funds only includes assets purchased with local funds where the useful life of the asset has been approved by BPT *[page 10 of the Audit Guide]*
- ◇ A statement that any capital money (e.g., Section 5307, Section 5311) used to pay for operating expenses are either subtracted out as ineligible or not included in total expenses to be reimbursed with State Formula Funds *[page 3, 18, & 25 of the Audit Guide]*
- ◇ A statement that expenses associated with 406xx and 407xx revenues are either: (1) subtracted out as ineligible and/or (2) do not need to be subtracted out as ineligible with an explanation as to why *[page 13 of the Audit Guide]*

MANDATORY SCHEDULES

- ◇ Schedule 1 - Local Revenues *[page 16 for Sept 30 YE; page 21 for YEs other than Sept 30]*
- ◇ Schedule 1A if the local year end is other than 9/30 *[page 22]*
- ◇ Schedule 2 - Federal and State Awards *[page 17 for Sept 30 YE; page 24 for YEs other than Sept 30]*
- ◇ Schedule 2A and 2B if the local year end is other than 9/30 *[page 26]*
- ◇ Schedule 3 - Operating and Contract Expenses *[page 19 for Sept 30 YE; page 27 for other YEs]*
- ◇ Schedule 3A and 3B if the local year end is other than 9/30 *[pages 28 & 29]*
- ◇ An OAR (Schedule 4) is present for each operating program in which the transit agency received funding *[pages 31 to 39]*
- ◇ Schedule 5 - Operating Assistance Calculation *[page 40]*
- ◇ Schedule 6 – Comments and Recommendations *[page 42]*