



STATE OF MICHIGAN
DEPARTMENT OF TRANSPORTATION
 LANSING

RICK SNYDER
 GOVERNOR

KIRK T. STEUDLE
 DIRECTOR

January 5, 2011

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

SUBJECT: FY 2011-2010 Audit Information for December 31st Year Ends

Audits completed for transit agencies with a local year end of December 31, 2010, must be submitted to the Bureau of Passenger Transportation (BPT) by June 30, 2011. 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 (MDOT)/BPT, P.O. Box 30050, Lansing, Michigan 48909.

The audit must comply with the revised 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.”

I. REIMBURSEMENT PERCENTAGES FOR FEDERAL AND STATE OPERATING ASSISTANCE

The calculation of Federal Section 5311 and Act 51 Operating Assistance are explained on page 30 of the Audit Guide. The reimbursement percentages for FY 2010 are as follows:

A. *Federal Section 5311:*

	<u>Operating Assistance</u>	<u>ARRA</u>
FY 2011:	18.5 percent	
FY 2010:	16 percent	2.5 percent of budgeted eligible expenses

B. *Act 51 State Formula:*

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

FY 2011: 37.1243 percent based on budget
 FY 2010: 35.0931 percent based on budget

2. Urbanized areas population over 100,000):
FY 2010: 31.4086 percent based on budget
FY 2011: 29.7424 percent based on budget

II. FEDERAL FUNDING INFORMATION

- A. Federal Transit Administration (FTA) Apportionments and Allocations can be located at:

FY 2011: Not yet available
FY 2010:
www.fta.dot.gov/funding/apportionments/grants_financing_11647.html
- B. 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.

III. AUDIT GUIDE REQUIREMENTS

- A. *Assurances:*
 1. The annual audit must contain a statement for each of the subject matters listed below:
 - i. Cost Allocation Plans
 - ii. Nonfinancial Methodology
 - iii. Capital Funds Used to Pay for Operating
 - iv. Depreciation
 - v. Expenses associated with PTMS codes 406 & 407

Each of the five 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. Enclosed is a checklist that provides various examples as to how the assurances can be worded to accurately report the transit agency's (non)compliance.

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

The R&E Manual requires:

- i. 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/contract 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.

- ii. 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 2 “Expenditures of Federal and State Awards”:

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 must be included on this schedule with the information provided being consistent with both the fixed assets and revenues in the financial statements.

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-x381	MI-90-x399	MI-90-x481	MI-90-x016	MI-90-x016	
	02-0049-z5	02-0049-z10	02-0049-z27	02-0049-z20	02-0049-z2	
	FY 08	FY 09	FY 10	FY 10	FY 10	
	<u>\$5307</u>	<u>\$5307</u>	<u>\$5307</u>	<u>JARC</u>	<u>NF</u>	<u>Total</u>
Expenses:						
Labor		\$77,938	\$29,400	\$23,259	\$39,300	\$Sum
Fringes		47,752	14,036	15,450	23,903	\$Sum
Tires	7,050	3,666				\$Sum
•						
•						
•						
Depreciation						
Total Oper. Exp.	\$ Sum	\$ Sum	\$ Sum	\$ Sum	\$ Sum	\$Sum

- 2. **Do not lump similar contracts together.** Unfortunately, the example of Schedule 3 provided on page 27 of the revised Audit Guide (enclosed)

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. *Operating Assistance Report (OAR):*

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

1. **OARs for the JARC (Section 5316) and New Freedom (NF Section 5317) Programs**

i. *OAR Schedule 4R*

The most common revenue codes for JARC and NF include:

- a. 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 BPT approved cost allocation plan.
- b. 41399 Other Federal Transit Contracts.
 - (1) JARC and NF funds reimburse 50 percent of JARC and NF net deficit up to the contract maximum.
 - (2) Net deficit is defined as total eligible operating expenses less 40100 Passenger fares.
- c. 43000 Contributed Services.

Some 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. Non-cash share such as donations, volunteered services, or in-kind contributions is eligible to be counted toward the local match as long as the value of each is documented and supported, represents a cost which would otherwise be eligible under the program, and is included in the net project costs in the budget.

- ii. *OAR Schedule 4E*
 JARC and NF expenses (and possibly revenues) must be:
 - a. Allocated in accordance with a BPT approved cost allocation plan.
 - b. Reported separately, by contract, on Schedule 3 "Operating and Contract Expenses." Refer back to Section III.C.1.
- iii. 40100 Passenger Fares earned for the Federal Section 5316 JARC and Federal Section 5317 NF cannot be used as local match, but must be subtracted out as ineligible under 57099 Other Ineligible Federal/State/Local.

2. **Specialized Services OARs**

- i. Each annual audit must contain a Specialized Services OAR if the transit agency:
 - a. Is the direct recipient of both Specialized Services and State Operating Assistance funds, and
 - b. Actually provides the service or expenses pass-through funds on its books.
- ii. *OAR Schedule 4R.* The most common revenue code for Specialized Services is 41199 Other MDOT/BPT Transit Contracts.
- iii. *OAR Schedule 4E.*

Specialized Services expenses must be:

- a. Allocated in accordance with a BPT approved cost allocation plan if the transit agency provides the service. 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 expenses 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.

- b. Reported separately, by contract, on Schedule 3 "Operating and Contract Expenses." Refer back to Section III.C.1.
- iv. 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) Operating Assistance Report (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.

IV. INELIGIBLE EXPENSES REPORTED ON OAR SCHEDULE 4E AND SCHEDULE 5 "OPERATING ASSISTANCE CALCULATION":

Ineligible expenses are explained in the FY 2010 R&E Manual dated October 1, 2009, through September 30, 2011, and FY 2010 R&E Manual dated October 1, 2009, through September 30, 2010. These R&E manuals are located at: <http://www.michigan.gov/mdot/ptd>. 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. Expenses paid by a Specialized Services subrecipient with funds that originated from BPT (refer back to Section III.D.2.iv) are ineligible, and must be subtracted out as ineligible under 55004 Other Ineligible State Contracts.
- B. 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 may use Section 5307 Operating (see code 41302 on page 10 of the FY 2010 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.

C. Lobbying and Association Dues:

1. All expenses associated with lobbying are ineligible 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 are not eligible and should be subtracted out under 55009 Ineligible Percentage of Association Dues. The percentage of association dues ineligible for reimbursement under the State Operating Assistance Program and Section 5311 Operating Assistance Program are:

	<u>FY 2010</u>
APTA	10.0 percent
CTAA	2.05 percent
MassTrans	8.05 percent
MPTA	7.0 percent

The percentage of association dues ineligible for FY 2011 are not available yet.

V. **WHAT IS NOT INELIGIBLE:**

American Recovery and Reinvestment Act (ARRA) operating funds do not need to be subtracted out as ineligible.

VI. **ADDITIONAL REQUIREMENTS AND INFORMATION:**

- A. After the 2011 annual audit has been either submitted to BPT or posted to Treasury's website, the transit agency has up to 30 days in which to notify BPT of any inaccuracies in the 2011 annual audit. Thirty days of silence means that the transit agency has reviewed the submitted/posted 2011 annual audit and certifies that:
 1. 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 Section III.A.1. are present and accurately report the transit agency's level of compliance).
 2. All ineligible expenses, as defined by the R&E Manual, are properly reported and properly subtracted out as ineligible.
- B. Transit agencies that expend more than \$500,000 in Federal funds, must submit a copy of its Single Audit 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:

Sharletha Johnson, Transportation Program Specialist
Federal Transit Administration
200 W. Adams Street, Suite 320
Chicago, Illinois 60606

- C. BPT 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
Bureau of Passenger Transportation

Enclosures

EXAMPLES OF ASSURANCES

SEE PAGE 2 OF THE AUDIT INFORMATION LETTER, SECTION III.A.1

Each annual audit must have a statement similar to the examples given for each checkbox.

COST ALLOCATION ASSURANCE – 2 PART ASSURANCE (IDENTIFY BY NAME & ADHERENCE):

EXAMPLE 1:

The transit agency has two (2) cost allocation plans (gasoline purchase and administrative costs) where the methodology has been approved by BPT. 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 BPT. Although not yet approved by BPT, the JARC cost allocation plan was adhered to in the preparation of the financial statements.

EXAMPLE 3:

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

NONFINANCIAL METHODOLOGY:

EXAMPLE 1:

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 BPT

EXAMPLE 2:

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 BPT.

EXAMPLE 3:

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.

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 fund. 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:

OAR Schedule 4R reports miscellaneous revenue of \$_,___. None of the miscellaneous revenue is applicable to the other 406/407 codes. All of the ineligible expenses associated with this miscellaneous revenue are subtracted out under 55008 Other Ineligible Expenses.

EXAMPLE 2:

All expenses associated with 406xx Auxiliary Transportation Revenue and/or 407xx Nontransportation are subtracted out as ineligible.

EXAMPLE 3:

There are no expenses associated with 406xx Auxiliary Transportation Revenue and/or 407xx Nontransportation, and therefore, no expenses need to be subtracted out as ineligible. No expenses were incurred because. . . .

SEE PAGE 3 OF THE AUDIT INFORMATION LETTER, SECTION III.C.2

**SCHEDULE 3
of Appendix B**

Dial-A-Ride Transit Operating and Contract Expenses For the Year Ended June 30, 2006					
<u>Expenses</u>	<u>Urban</u>	<u>Nonurban</u>	<u>Specialized Services</u>	<u>Operating Contractⁱⁱ</u>	<u>Total</u>
Labor	\$2,359,910	\$ 24,607			\$ 2,384,517
Fringe Benefits	412,592	15,230			427,822
Audit Cost	7,975	1,294			9,269
Services	145,764	18,848			164,612
Material and Supplies	463,445	11,191			474,636
Utilities	66,022	665			66,687
Insurance	62,297	585			62,882
Purchased Service	98,502		\$ 43,152		141,654
Miscellaneous	46,000	3,350			49,350
Interest	1,228				1,228
Operating Leases	27,460				27,460
Depreciation	220,772	26,094			246,866 ⁱⁱⁱ
Total Expenses	<u><u>\$3,911,967</u></u> ⁱ	<u><u>\$101,864</u></u> ⁱ	<u><u>\$ 43,152</u></u> ^{iv}	<u><u>\$ -</u></u>	<u><u>\$ 4,056,983</u></u> ^v

Footnotes:

- i* The total expenses Urban and Nonurban columns on Schedule 3A (Appendix B) has the same information.
- ii* The operating contract language associated with this operating program (e.g., JARC) will state how expenses are to be determined and reported. This operating program is also reported on Schedules 3A & 3B (Appendix B) split between the different year ends of the State of Michigan (which is September 30th) and the local year end of the transit agency which is either a June 30th year end or a December 31st year end.
- iii* Total Depreciation would agree with "Accumulated Depreciation Increases" reported in the Notes to the Financial Statements, if the example used in the notes was based on a June 30th year end.
- iv* Total Expense Specialized Services - because the transit agency does not provide the specialized service, the pass-through money recorded as an expense by the transit agency does not need to be split out in Schedule 3A (Appendix B). The total of \$43,152 reconciles with Specialized Services reported on Schedule 2 (Appendix B).
- v* The total expenses of \$4,056,983 must reconcile with the financial statements.