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GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TRANSPORTATION
LANSING

KIRK T. STEUDLE
DIRECTOR

July 6, 2010

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

SUBJECT: FY 2010 and 2009 Audit Information for June 30th Year Ends

Audits completed for transit agencies with a local year end of June 30, 2010, must be submitted to the Bureau of Passenger Transportation (BPT) by December 31, 2010. 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 and FY 2009 are as follows:

A. *Federal Section 5311:*

| | <u>Operating Assistance</u> | <u>ARRA</u> |
|----------|-----------------------------|------------------------------------|
| FY 2010: | 16% | 2.5% of budgeted eligible expenses |
| FY 2009: | 16% | n/a |

B. *Act 51 State Formula:*

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

FY 2010: 35.0931 percent based on budget

FY 2009: 36.9841 percent based on reconciled

2. Urbanized areas (population over 100,000):

FY 2010: 29.7424 percent based on budget
FY 2009: 31.3293 percent based on reconciled

II. FEDERAL FUNDING INFORMATION

- A. Federal Transit Administration (FTA) Apportionments and Allocations can be located at:
1. *FY 2010:*
www.fta.dot.gov/funding/apportionments/grants_financing_11647.html
 2. *FY 2009:*
www.fta.dot.gov/funding/apportionments/grants_financing_8994.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 413xx) and State (PTMS code 411xx) "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 02-0049-z5 FY 08 <u>\$5307</u> | MI-90-x399 02-0049-z10 FY 09 <u>\$5307</u> | MI-90-x481 02-0049-z27 FY 10 <u>\$5307</u> | MI-90-x016 02-0049-z20 FY 10 <u>JARC</u> | MI-90-x016 02-0049-z2 FY 10 <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
- 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

NF programs require the transit agency to provide a 50 percent match for operating assistance. The local match requirement can be satisfied through the use of donations, volunteer services, or in-kind contributions. The value of the contributed services is eligible to be counted toward the local match as long as the value is documented and supported, and is a cost which would otherwise be eligible under the program.

ii. *OAR Schedule 4E*

JARC and NF expenses 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.

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).

2. **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, 2010, and the FY 2009 R&E Manual dated October 1, 2008, through September 30, 2009. Both R&E Manuals are 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.” 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> | <u>FY 2009</u> |
|-----------|----------------|----------------|
| APTA | 10.0 percent | 14.0 percent |
| CTAA | 2.05 percent | 1.66 percent |
| MassTrans | 8.05 percent | 9.1 percent |
| MPTA | 7.0 percent | 7.1 percent |

V. ADDITIONAL REQUIREMENTS AND INFORMATION:

- A. After the 2010 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 2010 annual audit. Thirty days of silence means that the transit agency has reviewed the submitted/posted 2010 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

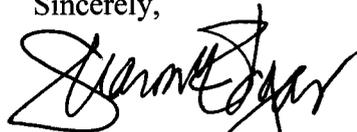
If the audit contains an audit finding and/or a status of prior audit findings relating to a Federal award, a copy of the annual audit must be sent to:

Derek Davis, Transportation Program Specialist
Federal Transit Administration
200 W. Adams Street, Suite 200
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.

EXAMPLES OF ASSURANCES

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. . . .

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>\$3,911,967</u> ⁱ | <u>\$101,864</u> ⁱ | <u>\$ 43,152</u> ^{iv} | <u>\$ -</u> | <u>\$ 4,056,983</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.