



STATE OF MICHIGAN
DEPARTMENT OF TRANSPORTATION
LANSING

GRETCHEN WHITMER
GOVERNOR

PAUL C. AJEGBA
DIRECTOR

October 24, 2019

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

From: Trish D'Itri, Auditing Specialist
Financial Management Unit
Office of Passenger Transportation

Subject: FY 2019 Audit Information for September 30th Year End

Audits completed for transit agencies with a local year end of September 30, 2019, must be in compliance with the Michigan Department of Treasury's Audit Guide for Transportation Authorities (Audit Guide)¹ as required by Section 10h(2)² of Public Act 51 of 1951, as amended. Page 1 of the Audit Guide states auditors are expected to develop their own financial and compliance audit programs, and shall consider the Audit Guide, referenced laws, and regulations in determining the compliance requirements that could have a direct and material effect on the Local Bus Operating Assistance (LBOA) Programs. The term "referenced laws" includes compliance with the Michigan Department of Transportation's FY 2019 Local Public Transit Revenue and Expense Manual (R&E Manual).³ The R&E Manual is promulgated annually pursuant to Rule 105(1) of the [Comprehensive Transportation Fund Administrative Rules](#) and has the full force and effect of law.⁴

The FY 2019 LBOA Program payouts totaled \$196,750,000 to all transit agencies statewide based on the audited eligible expenses reported in the FY 2019 annual certified public accountant (CPA) audit. The nature of the LBOA Program is that all transit agencies statewide share in the single pot of money; thus, any dollar wrongfully paid to one transit agency is wrongfully denied to all others. Compliance with the R&E Manual requirements, and in particular complete and proper reporting of ineligible expenses, has a direct and material effect on the LBOA Program. Completed audits must be submitted via the Michigan Department of Treasury's website at: https://www.michigan.gov/treasury/0,1607,7-121-1751_31038---,00.html.

¹ https://www.michigan.gov/documents/treasury/Audit_Guide_202115_7.pdf

² [http://www.legislature.mi.gov/\(S\(ydpndb0k24ekylvdurbf2lkp\)\)/mileg.aspx?page=getObject&objectName=mcl-247-660h](http://www.legislature.mi.gov/(S(ydpndb0k24ekylvdurbf2lkp))/mileg.aspx?page=getObject&objectName=mcl-247-660h)

³ https://www.michigan.gov/documents/mdot/FY2019RevenueAndExpenseManual_603073_7.pdf

These documents and others can be found at: <http://www.michigan.gov/mdotopt> under "Resources-Audit/Accounting Information" and "Laws and Regulation."

⁴ https://www.michigan.gov/documents/mdot/MDOT_ComprehensiveTransportationFund_398858_7.pdf

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.

Assurances

The annual audit must contain an assurance 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 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 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.

Schedule 3 “Operating and Contract Expenses”

Expenses associated with operating contracts must be listed individually by grant/contract/authorization number. Please note: the example of Schedule 3 provided on page 27 of the revised Audit Guide does not 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).

FY 2019 Percentage of Association Dues Ineligible for Federal and State Reimbursement

APTA	10.0 percent
MassTrans	14.9 percent
MPTA	20.1 percent

FY 2019 Reimbursement Percentages for Federal and State Operating Assistance

Federal Section 5311: 18.0 percent.

State LBOA Rural⁵: 38.0667 percent

State LBOA Urbanized⁶: 32.0376 percent

Federal Transit Administration (FTA) Apportionments and Allocations

This information can be accessed at the bottom of the Office of Passenger Transportation’s website under the “Federal Apportionments” section at the following page: https://www.michigan.gov/mdot/0,4616,7-151-9625_21607_54940_61135---,00.html

Silence as Acceptance:

After the 2019 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

⁵ Based on budget, includes urbanized areas with a population under 100,000

⁶ Based on budget, includes urbanized areas with a population over 100,000

2019 annual audit. Thirty days of silence means that the transit agency has reviewed the submitted/posted 2019 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.

2 CFR 200 Filing Requirement

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

Please contact me, at ditrit@michigan.gov or at 517-335-2535 with any questions you may have.

Sincerely,

Trish D'Itri

Trish D'Itri, Auditing Specialist
Office of Passenger Transportation

Examples of Assurances

Listed below are examples of recommended wording to be used when giving the required assurances. **Please note: the assurance should accurately reflect the present circumstances of the transit agency.**

Cost Allocation

Ideal wording if approved cost allocation plans are on file with OPT:

The transit agency has two cost allocation plans (outside maintenance and administrative costs) where the methodology has been approved by the Office of Passenger Transportation. These cost allocation plans were adhered to in the preparation of the financial statements.¹

Qualified wording:

The transit agency has prepared a JARC cost allocation plan that has yet to be approved by Office of Passenger Transportation. Although not yet approved, the JARC cost allocation plan was adhered to in the preparation of the financial statements.

Ideal wording if no cost allocation plans are required:

The transit agency has no currently required cost allocation plans; therefore, none were used in the preparation of the financial statements.

Nonfinancial Methodology

Ideal wording when no expenses are allocated based on an OPT approved cost allocation plan:

The methodology used for compiling miles for regular service has been reviewed and the recording method has been found to be adequate and reliable.²

Ideal wording when the transit agency provides two services and an OPT approved cost allocation plan is required:

The methodology used for compiling miles for regular service (that being, LBOA and JARC service) has been reviewed and the recording method has been found to be adequate and reliable.

¹ The assurance must include that the listed cost allocation plans were approved by OPT and were adhered to 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.

² The assurance must use the words “adequate and reliable.”

Depreciation

Ideal wording

Depreciation expense included as eligible only includes assets purchased with local funds where the useful life of the asset was determined pursuant to Appendix A of the Local Public Transit Revenue and Expense Manual or approved by Office of Passenger Transportation.³

or

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.

Qualified wording:

Eligible depreciation includes assets purchased with local funds prior to 2016 where the useful life was not approved by Office of Passenger Transportation. Since 2016, 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 determined pursuant to Appendix A of the Local Public Transit Revenue and Expense Manual or approved by Office of Passenger Transportation.

Capital Used to Pay for Operating

Ideal wording:

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.

or

No operating expenses are subtracted out as ineligible because no capital money was used to pay for operating expenses.

Expenses Associated with 406 & 407

Ideal wording

³ 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.”

All expenses associated with 406xx Auxiliary Transportation Revenue and/or 407xx Non-transportation are 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).⁴

or

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

Ideal wording:

The Transit offers a pension plan to all employees who work at least 70 hours a month through the County's pension plan. During the fiscal year ended September 30, 2019, the Transit paid \$49,400 in code 50220 DB pension expenditures. This amount is based on the actuarial required contribution (ARC) and does not include any excess contributions or expense based on the GASB 68 and 71 implementation. Therefore, such costs are eligible in accordance with Local Public Transit Revenue and Expense Manual. More detailed information can be found in Note 7. The Transit did not incur nor pay any 50202 other post-employment benefits.

or

The only retirement benefit offered by the transit agency is a defined contribution plan. The entire amount of \$xx was expensed on the books and reported in 50210 Defined Contribution (DC) Pensions. The entire sum of \$xx was paid (e.g., an out of pocket payment), and therefore, no DC pension expense is subtracted out under 58010 Ineligible DC Pensions. The transit agency did not incur, nor pay, any 50240 DC Other Post-Employment Benefits (OPEB) or 50250 Defined Benefits OPEB.⁴

⁴ The ineligibles listed in this assurance must agree with the ineligibles subtracted on OAR Schedule 4E and Schedule 5 – Operating Assistance Calculation.