



STATE OF MICHIGAN
DEPARTMENT OF TRANSPORTATION
LANSING

GRETCHEN WHITMER
GOVERNOR

PAUL C. AJEGBA
DIRECTOR

September 30, 2020

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 2020 Audit Information for September 30th Year End

Audits completed for transit agencies with a local year end of September 30, 2020, 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 2020³ Local Public Transit Revenue and Expense Manual (R&E Manual). 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 2020 LBOA Program pays out \$196,750,000 based on the audited eligible expenses reported in the 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.

The CPA audit cannot negate all responsibility for the transit portion of the CPA audit. For example, if the transit schedules required by the Audit Guide are listed under the

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/Final_FY_2020_RE_Manual_w_At_A_Glance_639109_7.pdf

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

subcategory of “Other Supplemental Information”, and then the Opinion Section states: “The schedules reported in the Table of Contents under ‘Other Supplemental Information’ have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.” Although this qualifying language typically relates to the GASB/FASB auditing procedures applied to the basic financial statements, it might improperly suggest that the auditor takes no responsibility with regards to the Audit Guide. Transit schedules that report nonfinancial data can be labelled “unaudited.”

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.

OPT’s “Audit/Accounting Information” Section of its Webpage

The “Audit/Accounting Information” Section is at: <http://www.michigan.gov/mdotptd>. Scroll down to the “Resources,” and click on the drop down arrow that says “Select a Resource.” Select “Audit/Accounting Information,” and click “go.”

To date, two emails on the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) funds have been posted, those being:

- “OAR Changes for CARES Act Funding” dated May 13, 2020
- “CARES Act Funding Guidelines: dated July 9, 2020

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

These assurances are applicable to specific compliance requirements in the Audit Guide and to ineligible expenses per the R&E Manual. All six assurances must be addressed in the annual CPA audit even if the assurance states “it’s not applicable.” Assurances that relate to ineligible expenses must state the dollar amount(s) such that the ineligible reported on the Expense Schedule be verified to the assurance. The enclosure to this letter provides various examples as to how the assurances can be worded.

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.” The total ineligible expense must be identified in the assurance such that it can be verified as subtracted out on the Expense Schedule.

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. The total ineligible expense must be identified in the assurance such that it can be verified as subtracted out on the Expense Schedule.

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).

Percentage of Association Dues Ineligible for Federal and State Reimbursement

	<u>FY 2020</u>
APTA	10.0 percent
MassTrans	18.6 percent
MPTA	18.5 percent

Reimbursement Percentages for Federal and State Operating Assistance

FY 2020

Federal Section 5311:	18.0 percent
State LBOA Rural ⁵ :	36.7916 percent
State LBOA Urbanized ⁶ :	30.9848 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 2020 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 2020 annual audit. Thirty days of silence means that the transit agency has reviewed the submitted/posted 2020 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 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/>

⁵ Includes urbanized areas with a population under 100,000. FY 2020 based on budget. FY 2019 based on reconciled.

⁶ Includes urbanized areas with a population over 100,000. FY 2020 based on budget. FY 2019 based on reconciled.

Transit Agencies & CPAs Performing Public Transportation Audits
Page 5
September 30, 2020

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 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

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 Outside maintenance expense of \$6,788 is subtracted out as ineligible under 56001 Ineligible Expenses Associated with the Sale of Maintenance Services. Administrative costs are \$10,056 and is subtracted out as ineligible under 55005 Ineligible Local Contracts.

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. The JARC expenses of \$34,700 is reported on Schedule 2 Expenditures of Federal and State Awards and Schedule 3 Operating and Contract Expenses.”

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

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

or

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

Typical wording

Eligible depreciation of \$3,347 (\$691,353 total depreciation reported in the Public Transportation Management System (PTMS) code 51300 for Urban, Nonurban, and JARC less ineligible depreciation of \$688,006 reported in PTMS code 55007 Ineligible Depreciation), includes only the depreciation of assets purchased with local funds where the useful life of the asset purchased 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

Operating expenses of \$5,530 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.

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."

Expenses Associated with 406 & 407

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

The transit agency has a 457(b) Deferred Compensation Plan. During the fiscal year ended September 30, 2021, total contribution (actually paid) was \$42,493 (expensed on the books and reported in 50210 Defined Contribution (DC) Pensions). Pension costs incurred for the defined benefit retirement plan administered by MERS were calculated pursuant to the MERS GASB 68 Implementation Guide. The total pension expense recognized as calculated in STEP 6 of the guide is \$1,128,354. The entire amount of \$1,128,354 was expensed on the books and is reported in 50220 Defined benefit pensions. Transit paid \$854,451, therefore \$273,903 (\$1,128,354 less the amount paid) is subtracted out under 58010 Ineligible defined benefit pensions. Transit did not incur, nor pay, any 50240 DC Other Post-Employment Benefits (OPEB) or 50250 Defined Benefits OPEB.

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