



STATE OF MICHIGAN  
DEPARTMENT OF TRANSPORTATION  
LANSING

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November 12, 2021

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 2021 Audit Information for September 30<sup>th</sup> Year End

### **Provisions in the FY 2022-2026 Master Agreement for Public Transportation Projects**

The FY 2022-2026 Master Agreement has contractual requirements for financial reporting in the annual certified public accountant (CPA) audit. Although some of the requirements are already required by the Michigan Department of Treasury's Audit Guide for Transportation Authorities (Audit Guide)<sup>1</sup>, the language in the Master Agreement provides OPT with contractual authority to ensure full compliance with the identification and detail requirements associated with project authorizations.

Listed below are sections of the Master Agreement that contain language applicable to FORMULA RECIPIENTS<sup>2</sup>. This list is not intended to be all-inclusive nor is it to be used as a substitute for reading the FY 2022-2026 Master Agreement.

- Paragraphs 18c. and 19d. give OPT the authority to disallow money paid on a project authorization if the expenses for that project authorization are also included in expenses to be reimbursed under Section 10e(4) of Public Act 51 of 1951, as amended (e.g., "Local Bus Operating Assistance (LBOA) Program"),
- Paragraph 25c requires the implementation of internal controls to identify and keep separate expenses incurred under PROJECT AUTHORIZATIONS from expenses incurred for 51 PA 1951 Section 10e(4) reimbursement.

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<sup>1</sup> [https://www.michigan.gov/documents/treasury/Audit\\_Guide\\_202115\\_7.pdf](https://www.michigan.gov/documents/treasury/Audit_Guide_202115_7.pdf)

<sup>2</sup> Defined in the Master Agreement to mean a recipient of funds pursuant to Section 10e(4) of Public Act 51 of 1951, as amended.

- Paragraph 27 requires urban agencies to engage its CPA to test and report on the internal controls implemented pursuant to Paragraph 25c. The report on internal controls will be submitted to MDOT's Auditing Specialist for the Office of Passenger Transportation (OPT).
- Paragraphs 29b.i., ii., & iii permit thirty (30) days from the issue of the audit to:
  - Report errors, omissions, deficiencies, and inconsistencies in the Schedule of Expenditures of Federal and State Awards (SEFA).
  - Submit a corrective action for audit findings that relate to deficiencies in the SEFA and/or the execution of a project authorization; and authorizes the loss of funds if the same audit finding is repeated in subsequent audits.
  - Submit a response to an opinion on internal controls that is qualified.

#### **Locating Information on the Internet**

The FY 2022-2026 Master Agreement is located at:

[https://www.michigan.gov/documents/mdot/PassTrans\\_Master\\_v8w\\_736882\\_7.pdf](https://www.michigan.gov/documents/mdot/PassTrans_Master_v8w_736882_7.pdf)

Audit and accounting information is located at: <http://www.michigan.gov/mdotopt>. Scroll down to "Resources," and click on the drop-down arrow that says, "Select a Link." Select "Audit/Accounting Information," and click "go."

#### **Scope of the Annual Certified Public Accountant (CPA) Audit**

Audits must be in compliance with the Audit Guide<sup>3</sup> as required by Section 10h(2)<sup>4</sup> 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 LBOA Program. The term "referenced laws" includes compliance with the Michigan Department of Transportation's FY 2021 Local Public Transit Revenue and Expense Manual<sup>5</sup> (R&E Manual). The R&E Manual is promulgated annually pursuant to Rule

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<sup>3</sup> [https://www.michigan.gov/documents/treasury/Audit\\_Guide\\_202115\\_7.pdf](https://www.michigan.gov/documents/treasury/Audit_Guide_202115_7.pdf)

<sup>4</sup> [http://www.legislature.mi.gov/\(S\(ydpndb0k24ekylvdurfb2lkp\)\)/mileg.aspx?page=getObject&objectName=mcl-247-660h](http://www.legislature.mi.gov/(S(ydpndb0k24ekylvdurfb2lkp))/mileg.aspx?page=getObject&objectName=mcl-247-660h)

<sup>5</sup> [https://www.michigan.gov/documents/mdot/Final\\_2021\\_RE\\_Manual\\_w\\_At\\_A\\_Glance\\_672400\\_7.pdf](https://www.michigan.gov/documents/mdot/Final_2021_RE_Manual_w_At_A_Glance_672400_7.pdf)

105(1) of the Comprehensive Transportation Fund Administrative Rules and has the full force and effect of law.<sup>6</sup>

The FY 2021 LBOA Program will pay out \$196,750,000 based on the audited eligible expenses reported in the annual 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, 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, when transit schedules required by the Audit Guide are listed under the subcategory of “Other Supplemental Information,” and have an Opinion Section that 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.”

#### **Amounts to be Reported in PTMS Operating Assistance Codes:**

##### **41101 State Operating Assistance**

For urban<sup>7</sup> agencies, report 31.6001% (percent) of total audited eligible expenses. For rural<sup>8</sup> agencies, report 37.5350% (percent) of total audited eligible expenses.

##### **41360 CARES Act Urban Lost Revenue Replacement/Rural CARES Flex**

For urban agencies, report the lost revenue replacement received directly from FTA. For rural agencies, report the CARES Flex operating revenue received from OPT\*. Payment may not be made on this project authorization, but the amount of 41360 funds received will not be greater than 8.7% of the total eligible expenses reported on each quarterly OAR.

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<sup>6</sup> [https://www.michigan.gov/documents/mdot/MDOT\\_ComprehensiveTransportationFund\\_398858\\_7.pdf](https://www.michigan.gov/documents/mdot/MDOT_ComprehensiveTransportationFund_398858_7.pdf)

<sup>7</sup> Includes urbanized areas with a population over 100,000. The percentage is based on budget.

<sup>8</sup> Includes urbanized areas with a population under 100,000. The percentage is based on budget.

### **41361 CARES Act**

For urban agencies, report the CARES Act revenue received directly from FTA. For rural agencies, report the CARES Act revenue received from OPT\*. Essentially, this amount should equal 36% of the total eligible expenses reported on the 1<sup>st</sup> and 2<sup>nd</sup> Quarterly OARs (that being, October 1, 2020 through December 31, 2020, and January 1, 2021 through March 31, 2021). However, the amount could be greater than 36% of the two quarters because OPT must exhaust all CARES Act funds before paying out the 41301 Section 5311 funds.

### **41301 Section 5311**

Report the amount of Section 5311 received from OPT (the remittance details the project authorization number and funding description). Essentially, this amount should equal 36% percent of total eligible expenses reported on the 3<sup>rd</sup> and 4<sup>th</sup> Quarterly OARs (that being, April 1, 2021, through June 30, 2021, and July 1, 2021, through September 30, 2021). However, the amount could be less than 36% of the two quarters, because OPT must exhaust all CARES Act funds before paying out the 41301 Section 5311 funds. The combined federal and state operating assistance (that being, 41101 + 41360 + 41361 + 41301) cannot exceed 100% of a transit agency's total audited eligible expenses. If this occurs, the calculated amount of 41301 Section 5311 must be reduced.

### **41302 Section 5307 Operating**

Report the revenue received directly from FTA. The combined federal and state operating assistance (that being, 41101 + 41360 + 41361+ 41302) cannot exceed 100% of a transit agency's total audited eligible expenses. If this occurs, the calculated amount of 41302 Section 5307 must be reduced. **Section 5307 recipients make their own reductions.** OPT recommends making the final ECHO draw for Section 5307 funds *after* the reconciled re-distribution of LBOA.

\*To obtain the amount paid by OPT through SIGMA for of the 41360 and 41361 CARES funds, the remittance details the project authorization number and funding description.

## **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](https://www.michigan.gov/mdot/0,4616,7-151-9625_21607_54940_61135---,00.html)

The Catalog of Federal Domestic Assistance (CFDA) number for CARES money is 20.509.

## **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 ineligibles 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. Please note this assurance *only* applies to administrative expenses (that being, *only* PTMS codes 41113 and 41313) charged to a 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.

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).

### **Ineligible Reimbursement Percentage for Association Dues**

APTA	10.0 percent
MASSTrans	31.18 percent
MPTA	16.7 percent

### **Silence as Acceptance**

After the 2021 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 errors/inconsistencies/inaccuracies in the 2021 annual audit. Thirty days of silence means that the transit agency has reviewed the submitted/posted 2021 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.

As stated on page 2 of this letter, beginning with the FY 2022 fiscal year, the Master Agreement has a “Thirty (30) Day Silence as Acceptance” contractual provision with regards to project authorizations required to be reported on the SEFA, and/or are the subject of an audit findings, and/or result in a qualified opinion on the internal controls that

ensure expenses reimbursed under a project authorization are not reimbursed with LBOA funds.

### Submission of Audits

A. State Transit Audits

Must be uploaded via the Michigan Department of Treasury's website at:  
[https://www.michigan.gov/treasury/0,1607,7-121-1751\\_31038---,00.html](https://www.michigan.gov/treasury/0,1607,7-121-1751_31038---,00.html).

B. Federal 2 CFR 200

Agencies expending a total of Seven Hundred Fifty Thousand Dollars (\$750,000.00) or more in FEDERAL funds from one or more funding sources in their fiscal year must have a single audit conducted for that year in accordance with Subpart F of PART 200. Submission requirements for the Single Audit are located at Section 200.512 "Report submission" of PART 200.

The Single Audit and the Section 200.512 of PART 200 reporting requirements must be:

1. Uploaded at: <https://harvester.census.gov/facweb/default.aspx/>, or 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

2. Send to the following address via email:

Michigan Department of Transportation  
Financial Operations Division  
Budget, Outreach and Program Support Section  
[MDOT-LocalAgencyAudit@michigan.gov](mailto:MDOT-LocalAgencyAudit@michigan.gov)

If the Single Audit contains a Section 200.516(a) "Audit Findings" and/or a status of prior audit findings relating to a FEDERAL award, an electronic copy of the annual

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audit must be sent to Mr. Matthew Dietrich, Financial Analyst Federal Transit Administration, at: [matthew.dietrich@dot.gov](mailto:matthew.dietrich@dot.gov).

Please contact me, at [ditrit@michigan.gov](mailto:ditrit@michigan.gov) or at 517-335-2535 with any questions.

Sincerely,

*Trish D'Itri*

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Financial Management Unit  
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