



STATE OF MICHIGAN
DEPARTMENT OF TRANSPORTATION
LANSING

GRETCHEN WHITMER
GOVERNOR

PAUL C. AJEGBA
DIRECTOR

June 30, 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 and FY 2020 Audit Information for June 30th Year End

OPT's "Audit/Accounting Information" Section of its Webpage

All audit and accounting information is located at: <https://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 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) Program. The term "referenced laws" includes compliance with the Michigan Department of Transportation's FY 2021³ and FY 2020⁴ Local Public Transit Revenue and Expense Manuals (R&E Manual). The R&E Manuals are promulgated annually pursuant to Rule 105(1) of the Comprehensive Transportation Fund Administrative Rules and has the full force and effect of law.⁵

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

² [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)

³ https://www.michigan.gov/documents/mdot/Final_2021_RE_Manual_w_At_A_Glance_672400_7.pdf

⁴ https://www.michigan.gov/documents/mdot/Final_FY_2020_RE_Manual_w_At_A_Glance_639109_7.pdf

⁵ https://www.michigan.gov/documents/mdot/MDOT_ComprehensiveTransportationFund_398858_7.pdf

The FY 2021 LBOA Program pays 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 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, 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.”

Submission of Audits

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.

Reimbursement Percentages for State and Federal Operating Assistance

	<u>FY 2021</u>	<u>FY 2020</u>
State LBOA Urbanized ⁶ :	31.6001 percent	35.2393 percent
State LBOA Rural ⁷ :	37.5350 percent	42.050916 percent
Federal Section 5311:	18.0 percent	18.0 percent
CARES Act (Code 41361):	18.0 percent	18.0 percent ⁸

⁶ Includes urbanized areas with a population over 100,000. The FY 2021 percentage is based on budget. The FY 2020 percentage is based on reconciled.

⁷ Includes urbanized areas with a population under 100,000. The FY 2021 percentage is based on budget. The FY 2020 percentage is based on reconciled.

⁸ For 2020, only applicable to the 3rd and 4th Quarter (that being April 1, 2020, through June 30, 2020, and July 1, 2020 through September 30, 2020).

New PTMS CARES Codes

For FY 2020:

URBAN

- *CARES Act Lost Revenue Replacement (Code 41360)*: This code is for Urban agencies only. Report the amount of lost revenue received from the federal government. Revenue reported in this code does not need to be subtracted out as ineligible.

URBAN & RURAL

- *CARES Act (Code 41361)*: Federal operating assistance revenue calculated as explained below. This revenue does not need to be subtracted out as ineligible.

For FY 2021, the 41360 code is renamed and includes rural transit agencies:

URBAN & RURAL

- *CARES Act Urban Lost Revenue Replacement/Rural CARES Flex (Code 41360)*: For Urban agencies, report the lost revenue replacement received directly from FTA. For Rural agencies, report the CARES Flex revenue received from OPT. The revenue reported in this code does not need to be subtracted out as ineligible.

To Calculate Section 5311 (Code 41301)⁹ and CARES Act (Code 41361)

To calculate the amount of federal 41361 CARES Act for the *state's fiscal year* (that being the twelve months ending September 30, 2020), multiply the Total Eligible Expenses for the 3rd and 4th quarters by 36%. For example:

<u>Quarter</u>	<u>3-Month Period</u>	<u>Total Elig. Exp.</u>	<u>Times 36%</u>	<u>Equals 41361</u>
1 st	10/01/19 - 12/31/19	\$36,460	n/a	
2 nd	01/01/20 – 03/31/20	\$35,258	n/a	
3 rd	04/01/20 – 06/30/20	\$26,103	X 0.36	\$9,397
4 th	07/01/20 – 09/30/20	<u>\$32,307</u>	X 0.36	<u>\$11,631</u>
		\$130,128		\$21,028

Federal revenue of \$21,028 is reported in PTMS code 41361 CARES Act.

To calculate the amount of federal 41301 Section 5311 multiply Total Eligible Expenses for the twelve months ending September 30, 2020 by 36% then subtract the amount reported in the 41361 CARES Act code.

⁹ This same calculation applies to Urban agencies that receive Section 5307.

$$\$130,128 \times 0.36 = \$46,846 - \$21,028 = \mathbf{\$25,818}$$

Federal revenue of \$25,818 is reported in PTMS code 41301 Section 5311.

CAP:

The sum of state and federal assistance cannot exceed total eligible operating expenses. To continue with the above example, the revenue schedule is:

41101 State Operating Assistance	\$48,116
41301 Section 5311 ¹⁰	\$25,818
41361 CARES Act	<u>\$21,028</u>
TOTAL	\$94,962

The sum of \$94,962 does not exceed total eligible expenses of \$130,128, thus no reduction is required. For the Urban calculation, sum 41101 State Operating Assistance, 41302 Section 5307 Operating, and 4131 CARES Act (41360 CARES Act Lost Revenue Replacement is not included in the calculation).

For Section 5311 agencies, if the sum of the identified codes exceeds total eligible expenses, MDOT will reduce the 41361 CARES Act funds. Section 5307 recipients make its own reduction. OPT recommends making the final ECHO draw for Section 5307 funds *after* the reconciled re-distribution of LBOA.

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

The Assistance Listing 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

¹⁰ If this were an Urban agency, the PTMS code would be 41302 Section 5307 Operating.

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.

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 2021</u>	<u>FY 2020</u>
APTA	10.0 percent	10.0 percent
MassTrans	31.18 percent	18.6 percent
MPTA	16.7 percent	18.5 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.

2 CFR 200 Filing Requirement

Transit agencies that expend more than \$750,000 in Federal funds must upload an electronic copy of their Single Audit to the Federal Audit Clearinghouse at:
<https://harvester.census.gov/facweb/default.aspx/>

If the audit contains an audit finding and/or a status of prior audit findings relating to a Federal award, an electronic copy of the annual audit must be sent to:
matthew.dietrich@dot.gov

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Please contact me, at ditrit@michigan.gov or at (517) 898-4169 with any questions.

Sincerely,

Trish D'Itri

Trish D'Itri, Auditing Specialist
Financial Management Unit
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.