



STATE OF MICHIGAN
DEPARTMENT OF TRANSPORTATION
LANSING

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July 6, 2022

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

From: Cindy Swain, Auditing Specialist
Financial Management Unit
Office of Passenger Transportation

Subject: FY 2022 and FY 2021 Audit Information for June 30th 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)¹, 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 RECIPIENTS². 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.
- 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:

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

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

- 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

Audit and accounting information is located at: <http://www.michigan.gov/mdotopt>. Scroll down to “Resources”, Select “Audit/Accounting Information”.

Scope of the Annual Certified Public Accountant (CPA) Audit

Audits must be in compliance with the Audit Guide³ as required by Section 10h(2)⁴ 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 2022⁵ and 2021⁶ Local Public Transit Revenue and Expense Manuals (R&E Manual). These 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.⁷

Both the FY 2022 and FY 2021 LBOA Programs 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.

³ [Microsoft Word - Audit Guide v4.0.DOC \(michigan.gov\)](#)

⁴ [Act 51 michigan.gov](#)[http://www.legislature.mi.gov/\(S\(ydpndb0k24eky/vdurbf2lkp\)\)/mileg.aspx?page=getObject&objectName=mc-247-660h](http://www.legislature.mi.gov/(S(ydpndb0k24eky/vdurbf2lkp))/mileg.aspx?page=getObject&objectName=mc-247-660h)

⁵ [FY 2022 Local Public Transit Revenue and Expense Manual \(michigan.gov\)](#)

⁶ [FY 2021 Local Public Transit Revenue and Expense Manual](#)

⁷ [MDOT_ComprehensiveTransporationFund \(michigan.gov\)](#)

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 Report (OAR) Codes:

The twelve-month calendar year ending on June 30, 2022, is broken out as:

One (1) quarter (July- Sept 2021) are included in the State’s FY 2021 fiscal year end; and

Three (3) quarters (Oct- Dec 2021, Jan-Mar 2022, April-June 2022) are included in the State’s FY 2022 Fiscal Year End.

Note: for PTMS OAR Code definitions see the appropriate fiscal year Revenue and Expense Manual located at: [Audit & Accounting Information \(michigan.gov\)](https://www.michigan.gov/audit)

41101 State Operating Assistance

URBAN AGENCIES:

FY 2021

- For the three (3) months beginning July 2021 through Sept 2021, multiply the total audited eligible expenses by 35.2382%⁸.

FY 2022

- For the nine (9) months beginning October 2021 through June 2022, multiply the total audited eligible expenses by 29.5143%.

RURAL AGENCIES:

FY 2021

- For the three (3) months beginning July 2021 through September 2021, multiply the total audited eligible expenses by 42.0118%.

⁸ Includes urbanized areas with a population over 100,000. The FY 2021 percentage is based on reconciled; the FY 2022 percentage is based on budget.

FY 2022

- For the nine (9) months beginning October 2021 through June 2022, multiply the total audited eligible expenses by 34.9854%.

41301 Section 5311

OPT must exhaust all CARES funds before paying out §5311 funds. Thus, the reporting of CARES funds and §5311 operating assistance for each quarter will most likely be:

Oct 1 - Dec 31, 2021– By this quarter, all CARES funds are probably exhausted. If not, report the CARES funds received in 41361. Verify the TA met or exceeded its budgeted expenses. If “yes” the agency would have earned the entire authorization funding comprised of eligible expenses reimbursed at 18% CARES and 18% Section 5311 for a total of 36%. If the agency has not met their budgeted eligible expenses, multiply total eligible expenses by 36% and subtract out the amount paid in 41361 CARES Act funding. Report the calculated amount in 41301.

Jan 1 - June 30, 2022 – Beginning FY 2022, all federal rural operating assistance will be under 41362 CRRSA funding. Multiply the total audited eligible expenses by 40% and report in 41362 CRRSA.

Maximum federal and state reimbursement amount (“Caps”)

FY 2021

- The combined federal and state operating assistance (that being, 41101 + 41301 + 41360 + 41361) cannot exceed 100% of total audited eligible expenses (the “Cap”). If the transit agency exceeds its Cap, either 41301 Section 5311 will be reduced accordingly. NOTE: The 41360 and 41361 revenues do not need to be subtracted out as ineligible; however, these revenues *are* included in the Cap calculation.

FY 2022

- For the three (9) months beginning October 2021 through June 2022, multiply the total audited eligible expenses by 40%. The calculation cannot exceed the amount of CRRSA revenue received from OPT. Thus, in FY 2022 there are two “cap” calculations:

1. The CRRSA cap calculation is:

$$41301 \text{ Section 5311 revenue} = \text{CRRSA} - 40\% \text{ of audited eligible expenses}$$

If the CRRSA cap calculation results in a zero or negative number, the transit agency will not receive any 41301 Section 5311 revenue.

2. The combined federal and state operating assistance (that being, 41101 + 41301 + 41360 + 41361) cannot exceed 100% of total audited eligible expenses. If this

occurs, 41301 Section 5311 will be reduced accordingly. NOTE: The 41360 and 41361 revenues do not need to be subtracted out as ineligible, however, these revenues are included in this “cap” calculation.

41302 Section 5307 Operating:

Report the revenue received directly from FTA. The amount received is the audited amount.

The combined federal and state operating assistance (that being, 41101 + 41302 + 41360 + 41361) 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.

41360 CARES Act Urban Lost Revenue Replacement/Rural CARES Flex

FY 2021 & FY2022

- For urban agencies, report the amount received directly from FTA.
- For rural agencies, report the amount received directly from OPT. Consult the grid on page 4 of this letter.

41361 CARES Act

FY 2021 & FY2022

- For urban agencies, report the amount received directly from FTA.
- For rural agencies, report the amount received directly from OPT.
- The amount “received” is the audited amount. Consult the grid on page 4 of this letter.

41362 CRRSA Act

FY2022

- For urban agencies, report the amount received directly from FTA.
- For rural agencies report the amount received directly from OPT.

OTHER COVID FUNDING

Transit agencies also received covid relief funding from sources other than FTA and MDOT. The same covid expense cannot be reimbursed under two different funding sources. Agencies must inform OPT in writing of the non-FTA/MDOT covid relief funding. OPT will determine if the non-FTA/MDOT covid funding must be subtracted out as ineligible. If a written approval is not on record, the covid funding must be subtracted out as ineligible.

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 Catalog of Federal Domestic Assistance (CFDA) number for CARES funding 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).

Enclosed is a November 3, 2021, memo that further clarifies how to document contract grants/authorizations.

Eliminating Columns on the OAR Expense Schedule

OPT has discontinued the “function” columns (Operations, Maintenance and Gen. Admin reporting) on the expense schedule of the OAR. Urban agencies will have to break out the LH and DR expense amounts per code.

Ineligible Reimbursement Percentage for Association Dues

| | <u>FY 2022*</u> | <u>FY 2021</u> |
|-----------|-----------------|----------------|
| APTA | | 11.00 percent |
| MASSTrans | | 43.93 percent |
| MPTA | | 16.7 percent |

*Not Yet Available

Silence as Acceptance

After the 2022 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 it. 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://treas-secure.state.mi.us/LAFDocSearch>

B. Federal 2 CFR 200

Agencies expending a total of Seven Hundred Fifty Thousand Dollars (\$750,000) 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

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

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Please contact me, at swainc@michigan.gov or at 517-335-2535 with any questions.

Sincerely,

Cindy Swain

Cindy Swain, Auditing Specialist
Financial Management Unit
Office of Passenger Transportation