



STATE OF MICHIGAN
DEPARTMENT OF TRANSPORTATION
LANSING

GRETCHEN WHITMER
GOVERNOR

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DIRECTOR

October 1, 2023

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 2023 Audit Information for September 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.
- 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.

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.

- 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 2023⁵ 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.⁶

The FY 2023 LBOA Programs will pay out \$201,750,000 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 Report (OAR) Codes:

The data for the PTMS FY 2023 OAR should include the twelve-month calendar year beginning on 10/1/22 and ending on 9/30/23.

³ https://www.michigan.gov/documents/treasury/Audit_Guide_202115_7.pdf

⁴ [Act 51 michigan.gov](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](http://www.legislature.mi.gov/(S(ydpndb0k24ekylvdurbf2lkp))/mileg.aspx?page=getObject&objectName=mcl-247-660h)

⁵ [FY 2023 Local Public Transit Revenue and Expense Manual \(michigan.gov\)](http://www.michigan.gov)

⁶ [Program Data \(michigan.gov\)](http://www.michigan.gov)[DOT Comprehensive Transportation Fund \(michigan.gov\)](http://www.michigan.gov)

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

FY 2023

41101 State Operating Assistance: Report the State Operating Assistance revenue earned by multiplying the budget percentages of 29.2015 percent for urbanized areas over 100,000 population, and 34.5849 percent for the nonurbanized areas and urbanized areas under 100,000 population times Total Eligible Expenses reported on the reconciled OAR.

41302 Section 5307 Operating:

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

41301 Section 5311, and 41363 ARPA Act:

The TAs will be reimbursed at 36% (18% from each fund) of eligible expenses, capped at the authorization amount. The funding source varies per each TA and will need to be obtained from them.

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).

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 2023</u>
APTA	11.00 percent
MASSTrans	23.30 percent
MPTA	13.60 percent

Silence as Acceptance

After the 2023 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 2023 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 2023 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.

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