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GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TRANSPORTATION
LANSING

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DIRECTOR

October 2, 2024

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 2024 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 State of Michigan Local Bus Operating Assistance (Formula) recipients[2]. 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.

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.

- 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

Audit and accounting information is located at: Public transportation (michigan.gov) 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 Guide as required by Section 10h(2)[3] 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 2024 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.

The FY 2024 LBOA Programs will pay out $261,750,000.00 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

[3] hhttp://www.michigan.gov/mdotoptrbf2lkp))/mileg.aspx?page=getObject&objectName=mcl-247-660h

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 September 30, 2024, is broken out as:

2nd Quarter	3rd Quarter	4th Quarter	1st Quarter
Jan 1 – Mar 31	April 1 – June 30	July 1 – Sept 30	Oct 1 – Dec 31

All four quarters are included in the State's FY 2024 Fiscal Year.

The data for the PTMS FY 2024 OAR should include the twelve-month calendar year beginning on 10/1/23 and ending on 9/30/24.

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

41101[4] State Operating Assistance

URBAN (50% group) AGENCIES:

Multiply the total audited eligible expenses by 33.8553%[5].

RURAL(60% group) AGENCIES:

Multiply the total audited eligible expenses by 40.2993%.

4 For the definition of this code, see page 11 in FY 2024 R&E Manual.

5 The 2024 LBOA percentage is based on the budget distribution
.

41301 Section 5311:

Multiply the total audited eligible expenses by 18%.

41302 Section 5307 Operating:

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

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

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 assurances, 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

	FY 2024*
APTA	13.00 Percent
MASSTrans	19.65 Percent
MPTA	13.30 Percent

Silence as Acceptance

After the 2024 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 2024 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: The Federal Audit Clearinghouse (fac.gov) 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@dpt.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

Examples of Assurances

Listed below are examples of recommended wording to be used when giving the required assurances. **Please note:** the assurance should accurately reflect the present circumstances of the transit agency.

1. Cost Allocation:

Ideal 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]

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.

Ideal 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.

2. Nonfinancial Methodology:

Ideal wording when no expenses are allocated based on an OPT approved cost allocation plan:

> 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]

Ideal wording when the transit agency provides two services and an OPT approved cost allocation plan is required:

> 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.”

3. Depreciation:

Ideal wording

Depreciation expense included as eligible only includes assets purchased with local funds where the useful life of the asset was determined pursuant to Appendix A of the Local Public Transit Revenue and Expense Manual or approved by Office of Passenger Transportation.[3]

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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.

4. Capital Used to Pay for Operating:

Ideal wording:

Operating expenses of $x,xxx 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.

Expenses Associated with 406 & 407:

Ideal wording

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.”

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 Non-transportation 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]

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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].

5. Retirement Benefits:

Ideal wording:

The Transit offers a pension plan to all employees who work at least 70 hours a month through the County's pension plan. During the fiscal year ended September 30, 2019, the Transit paid $49,400 in code 50220 DB pension expenditures. This amount is based on the actuarial required contribution (ARC) and does not include any excess contributions or expense based on the GASB 68 and 71 implementation. Therefore, such costs are eligible in accordance with Local Public Transit Revenue and Expense Manual. More detailed information can be found in Note 7. The Transit did not incur nor pay any 50202 other post-employment benefits.

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The only retirement benefit offered by the transit agency is a defined contribution plan. The entire amount of $xx was expensed on the books and reported in 50210 Defined Contribution (DC) Pensions. The entire sum of $xx was paid (e.g., an out of pocket payment), and therefore, no DC pension expense is subtracted out under 58010 Ineligible DC Pensions. The transit agency did not incur, nor pay, any 50240 DC Other Post-Employment Benefits (OPEB) or 50250 Defined Benefits OPEB.[4]

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