



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

– Article IV, Section 53 of the Michigan Constitution

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Michigan *Office of the Auditor General* **REPORT SUMMARY**

Performance Audit

Use of Transportation-Related Funding

Report Number:
591-0105-10

Released:
March 2011

Act 275, P.A. 2008, and Act 129, P.A. 2007, require State agencies that are appropriated funding from transportation funds for providing tax and fee collection and other services to contract with the Michigan Department of Transportation (MDOT). These agencies are also required to annually report the amount of funding contracted with MDOT, funds expended, funds returned, and unreimbursed costs incurred but not billed to the transportation funds. The Office of the Auditor General is required to report on the use of transportation-related funding.

Audit Objective:

To determine the appropriateness of selected State agencies' charges to transportation funds.

Audit Conclusion:

We determined that the charges to transportation funds were generally appropriate for 4 of the 5 selected State agencies. However, we noted one reportable condition (Finding 1).

Reportable Condition:

The Department of Treasury could not document that its allocation of expenditures to the Michigan Transportation Fund and the State Aeronautics Fund was based on the level of activity necessary to administer and enforce the Motor Fuel Tax Act. In addition, MDOT needs to improve its review and approval of the cost allocation methodologies developed by State agencies to help ensure that costs for transportation-related activities are accurately identified and equitably

allocated to transportation funds. (Finding 1)

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Audit Objective:

To determine compliance with selected State agencies' contractual and reporting requirements for transportation-related funding.

Audit Conclusion:

We determined that the selected State agencies generally complied with contractual and reporting requirements for transportation-related funding. Our audit report does not include any reportable conditions related to this audit objective.

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Audit Objective:

To report charges to transportation funds, the cost allocation methodologies used in determining the level of funding, and unreimbursed costs.

Audit Conclusion:

We reported the charges to transportation funds, the cost allocation methodologies used in determining the level of funding, and the unreimbursed costs as supplemental information in this audit report. Our audit report does not include any reportable conditions related to this audit objective.

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Agency Response:

Our audit report contains 1 finding and 2 corresponding recommendations. The Department of Treasury's preliminary response indicated that it generally agreed with the first recommendation but added that applying a different cost allocation methodology would not improve the accuracy of the current process. MDOT's preliminary response indicated that it generally agreed with the second recommendation.

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obtained by calling 517.334.8050
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March 4, 2011

The Honorable Roger Kahn, Chair
Senate Appropriations Committee
Michigan Senate
and
The Honorable Charles Moss, Chair
House Appropriations Committee
Michigan House of Representatives
State Capitol
Lansing, Michigan

Dear Senator Kahn and Representative Moss:

This is our report on the performance audit of the Use of Transportation-Related Funding for the period October 1, 2007 through September 30, 2009, as required by Section 306 of both Act 275, P.A. 2008, and Act 129, P.A. 2007.

This report contains our report summary; description of funding requirements; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, finding, recommendations, and agency preliminary response; detailed reviews by State agency and summaries of charges to transportation funds, services provided, and cost allocation methodologies; and a glossary of acronyms and terms.

Our comments, finding, and recommendations are organized by audit objective. The agency preliminary response was taken from the agencies' responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agencies develop a plan to address the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We appreciate the courtesy and cooperation extended to us by the agencies reviewed during this audit.

AUDITOR GENERAL

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Description of Funding Requirements

Act 275, P.A. 2008, and Act 129, P.A. 2007 (the annual appropriations acts for the Michigan Department of Transportation [MDOT] for fiscal years 2008-09 and 2007-08, respectively) require State agencies that are appropriated funding from transportation funds for providing tax and fee collection and other services to contract with MDOT. The contracts must include estimated costs to be recovered from transportation funds, a description of the services financed by transportation funds, and detailed cost allocation methodologies that are appropriate to the types of services being provided and the activities financed with transportation funds. MDOT's annual appropriations act also requires these agencies to annually report the amount of funding contracted with MDOT, funds expended, funds returned, and unreimbursed costs incurred but not billed to the transportation funds.

MDOT's annual appropriations act requires the Office of the Auditor General to conduct a biennial audit of charges to transportation funds by State departments and to prepare a report with recommendations and conclusions. We identified "transportation funds" as those funds classified under "Special Revenue Funds" as "Transportation Related" in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*. Transportation funds include the State Aeronautics Fund, State Trunkline Fund (including the Blue Water Bridge Fund and the Economic Development Fund), Michigan Transportation Fund, Comprehensive Transportation Fund, Combined State Trunkline Bond Proceeds Fund, Combined Comprehensive Transportation Bond Proceeds Fund, and Transportation Related Trust Funds. Our audit report includes all contractual and miscellaneous charges from State departments and agencies to these transportation funds.

The Legislature appropriated transportation-related funding of \$49.0 million and \$47.3 million for fiscal years 2008-09 and 2007-08, respectively, with interdepartmental grants to the following nine State agencies: the Department of State; the Michigan Department of State Police; the Department of Management and Budget; the Department of Treasury; the Civil Service Commission; the Department of Attorney General; the Department of Environmental Quality; the Office of the Auditor General; and the Department of History, Arts and Libraries.

The Legislature also appropriated \$28.5 million each year for fiscal years 2008-09 and 2007-08 for the Michigan Department of Information Technology. In addition, the

Legislature appropriated \$4.9 million each year for fiscal years 2008-09 and 2007-08 for welcome center operations, which were provided primarily by the Michigan Economic Development Corporation.

MDOT funded contractual and miscellaneous transportation-related charges of \$100.3 million and \$99.9 million for fiscal years 2008-09 and 2007-08, respectively (see Exhibits 6 and 7).

Subsequent to our audit period, various departments were merged or abolished:

- Executive Order No. 2009-55 renamed the Department of Management and Budget as the Department of Technology, Management & Budget (DTMB), effective March 21, 2010. It also transferred all of the authority, powers, duties, functions, responsibilities, records, personnel, property, equipment, and appropriations of the Michigan Department of Information Technology (MDIT) to DTMB by a Type III transfer and abolished MDIT.
- Executive Order No. 2009-45 created the Department of Natural Resources and Environment (DNRE), effective January 17, 2010. It transferred all of the authority, powers, duties, functions, responsibilities, records, personnel, property, equipment, and budgetary resources of the Department of Natural Resources (DNR) and the Department of Environmental Quality (DEQ) to DNRE by a Type II transfer and abolished DNR and DEQ. Executive Order No. 2011-1 (effective March 13, 2011), subsequently abolished DNRE and reestablished DNR and DEQ.
- Executive Order No. 2009-36 transferred all of the authority, powers, duties, functions, responsibilities, records, personnel, property, equipment, and budgetary resources of the Department of History, Arts and Libraries (HAL) to various State departments and agencies by Type I, II, and III transfers, effective October 1, 2009, and abolished HAL.

Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

Audit Objectives

Our performance audit* of the Use of Transportation-Related Funding had the following objectives:

1. To determine the appropriateness of selected State agencies' charges to transportation funds.
2. To determine compliance with selected State agencies' contractual and reporting requirements for transportation-related funding.
3. To report charges to transportation funds, the cost allocation methodologies used in determining the level of funding, and unreimbursed costs.

Audit Scope

Our audit was required by Section 306, Act 275, P.A. 2008. Our audit scope was to examine the records supporting transportation-related charges to transportation funds. Our audit included all contractual and miscellaneous charges from State departments and agencies to transportation funds classified under "Special Revenue Funds" as "Transportation Related" in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*. We conducted this performance audit in accordance with generally accepted government auditing standards except that we were not independent in regard to the Office of the Auditor General. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives. Our audit procedures, conducted primarily from February through May 2010, included examination of records and activities for the period October 1, 2007 through September 30, 2009.

In connection with our audit, we compiled exhibits of State agencies' use of transportation-related funding based on information provided by the Michigan Administrative Information Network* (MAIN), the State agencies, and the Michigan Department of Transportation (MDOT).

* See glossary at end of report for definition.

Audit Methodology

Based on a risk analysis, we selected five State agencies (the Michigan Department of Information Technology, Department of State, Michigan Department of State Police, Department of Management and Budget, and Department of Treasury) to review. To determine the appropriateness of selected State agencies' charges to transportation funds, we reviewed the five selected State agencies' charges for transportation-related expenditures. In addition, we examined the selected State agencies' processes for allocating transportation-related costs to transportation funds.

To determine compliance with selected State agencies' contractual and reporting requirements for transportation-related funding, we reviewed the five selected State agencies' contracts and annual reports to verify whether they included all of the information required by Sections 306(1) and 306(2) of both Act 275, P.A. 2008, and Act 127, P.A. 2007.

To report the charges to transportation funds, the cost allocation methodologies used in determining the level of funding, and unreimbursed costs, we obtained and reviewed financial data and other information from State agency reports, annual contracts, appropriations acts, MDOT expenditure summaries, and MAIN accounting records.

We reported the transportation-related costs and unreimbursed costs of State agencies by transportation fund (see Exhibits 6 through 8). We also reported the types of services provided and the cost allocation methodologies of each State agency (see Exhibit 9).

Agency Responses and Prior Audit Follow-Up

Our audit report contains 1 finding and 2 corresponding recommendations. The Department of Treasury's preliminary response indicated that it generally agreed with the first recommendation but added that applying a different cost allocation methodology would not improve the accuracy of the current process. MDOT's preliminary response indicated that it generally agreed with the second recommendation.

The agency preliminary response that follows the recommendation in our report was taken from the agencies' written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require the audited agencies to develop a plan to address the audit recommendations and submit it within

60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services will review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We released our prior performance audit of the Use of Transportation-Related Funding (591-0105-08) in September 2008. Within the scope of this audit, we followed up both prior audit recommendations. The Department of Treasury and MDOT did not comply with the prior audit recommendations directed at them.

COMMENTS, FINDING, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSE

CHARGES TO TRANSPORTATION FUNDS

COMMENT

Audit Objective: To determine the appropriateness of selected State agencies' charges to transportation funds.

Audit Conclusion: We determined that the charges to transportation funds were generally appropriate for 4 of the 5 selected State agencies. However, our audit disclosed a reportable condition* regarding the cost allocation methodology for the Department of Treasury (Finding 1).

FINDING

1. Cost Allocation Methodology for the Department of Treasury

The Department of Treasury could not document that its allocation of expenditures to the Michigan Transportation Fund (MTF) and the State Aeronautics Fund (SAF) was based on the level of activity necessary to administer and enforce the Motor Fuel Tax Act (Sections 270.1001 - 270.1170 of the *Michigan Compiled Laws*). In addition, the Michigan Department of Transportation (MDOT) needs to improve its review and approval of the cost allocation methodologies developed by State agencies to help ensure that costs for transportation-related activities are accurately identified and equitably allocated to transportation funds. As a result, neither the Department of Treasury nor MDOT could ensure that the payments made to the Department of Treasury were based on actual transportation-related costs.

MDOT's appropriations acts for fiscal years 2007-08 and 2008-09 require that the annual contracts between MDOT and the various State agencies receiving transportation-related funding include detailed cost allocation methodologies that are appropriate to the types of services being provided and the activities financed with transportation funds. Section 247.660(1) of the *Michigan Compiled Laws* (a section of Act 51, P.A. 1951) requires that funds appropriated for necessary expenses be based upon established cost allocation methodologies that reflect actual costs.

* See glossary at end of report for definition.

The Department of Treasury provides tax collection services to administer and enforce the Motor Fuel Tax Act. The Department's cost allocation methodology appropriately identified the actual costs it incurred related to its tax collection responsibilities, which included all of the taxes collected by the Department. However, the Department allocated these expenditures to MTF and SAF based on the percentage of transportation-related tax revenue collections to total tax revenue collections.

The Department is responsible for collecting numerous types of taxes, including sales taxes, use taxes, income taxes, cigarette taxes, and motor fuel taxes. The Department's allocation methodology presumes that its efforts to collect all of the different types of taxes are the same for each type of tax collected. However, the Department could not demonstrate that the charges to MTF and SAF were based on the proportion of the Department's collection efforts (costs) that relate to administering and enforcing the Motor Fuel Tax Act. As a result, the Department could not document that it used an appropriate cost allocation methodology to allocate costs of \$6,574,771 and \$6,545,472 to MTF and \$30,678 and \$38,427 to SAF for fiscal years 2008-09 and 2007-08, respectively.

We reported similar conditions in our two prior audit reports. In response to the prior audit report, the Department of Treasury responded that it agreed that charges to MTF and SAF should be based on the proportion of the Department's costs that relate to administering and enforcing the Motor Fuel Tax Act. The Department added that it believes that allocating expenditures based on the percentage of transportation-related collections to total tax collections is a reasonable allocation methodology based on the way that the Department's tax-related functions are organized. MDOT also responded that it agreed and stated that it continues to improve the review and approval process of State agencies' cost allocation methodologies. However, the Department of Treasury and MDOT did not implement any changes in the Department of Treasury's cost allocation methodology.

RECOMMENDATIONS

WE AGAIN RECOMMEND THAT THE DEPARTMENT OF TREASURY DOCUMENT THAT ITS ALLOCATION OF EXPENDITURES TO MTF AND SAF WAS BASED ON THE LEVEL OF ACTIVITY NECESSARY TO ADMINISTER AND ENFORCE THE MOTOR FUEL TAX ACT.

WE ALSO AGAIN RECOMMEND THAT MDOT IMPROVE ITS REVIEW AND APPROVAL OF THE COST ALLOCATION METHODOLOGIES DEVELOPED BY STATE AGENCIES TO HELP ENSURE THAT COSTS FOR TRANSPORTATION-RELATED ACTIVITIES ARE ACCURATELY IDENTIFIED AND EQUITABLY ALLOCATED TO TRANSPORTATION FUNDS.

AGENCY PRELIMINARY RESPONSE

With regard to the first recommendation, the Department of Treasury agreed that charges to MTF and SAF should be based on the proportion of the Department's costs that relate to administering and enforcing the Motor Fuel Tax Act. The Department believes that allocating expenditures based on the percentage of transportation-related collections to total tax collections is a reasonable allocation methodology based on the way that the Department's tax-related functions are organized. In response to prior audit findings, the Department has met with the State's recognized knowledgeable resource for cost allocation methodology. The Department has explored suggested ideas for the process related to the allocation of these costs. It was determined that applying a different cost allocation methodology would not improve the accuracy of the current process. The Department believes that capturing time data for 800 to 1,000 staff who may be working on motor fuel tax returns and resolving issues related to those returns would not be cost effective.

With regard to the second recommendation, MDOT agreed that a properly supported cost allocation methodology is necessary. As a result, MDOT stated that it continues to annually review and approve the cost allocation methodologies of agencies providing services to MDOT and that each State agency that receives transportation-related funding signs a memorandum of understanding (MOU) with MDOT. The MOU includes the estimated costs to be reimbursed, a description of the services financed by transportation funds, and a detailed cost allocation methodology, which describes the services being provided and the activities financed with transportation funds. MDOT reviews the document for accuracy and completeness and to help ensure estimated costs for transportation-related activities are identified and that the allocation method is reasonable, prior to signing the MOU. Additionally, MDOT stated that it ensures that billed costs are no more than the amount appropriated for these services.

MDOT added that the Department of Treasury has continued to conclude that a different cost allocation methodology would not improve the accuracy over the current process. MDOT stated that there is no further action that it can take to improve the review and approval process if the Department of Treasury continues to use the current methodology and does not agree to track the cost of collection efforts specifically attributable to MDOT taxes.

OFFICE OF THE AUDITOR GENERAL EPILOGUE

In its response to the first recommendation, the Department of Treasury stated that "allocating expenditures based on the percentage of transportation-related collections to total tax collections is a reasonable allocation methodology based on the way that the Department's tax-related functions are organized" and that "applying a different cost allocation methodology would not **improve the accuracy of the current process** [emphasis added]."

However, the Department of Treasury has not provided any documentation that allocating expenditures based on total tax revenues reflects the actual costs to collect motor fuel taxes. This must be done before considering ways to "improve the accuracy of the current process." As stated in the finding, Section 247.660(1) of the *Michigan Compiled Laws* requires that funds appropriated for necessary expenses be based upon cost allocation methodologies that reflect actual costs. The Department of Treasury has not documented that its current cost allocation methodology reflects its actual costs to administer and enforce the Motor Fuel Tax Act.

Detailed Reviews by State Agency (Exhibits 1 through 5)

We compiled Exhibits 1 through 5 from information contained in the Michigan Administrative Information Network (MAIN), State agencies' records, and MDOT's records related to State agencies' use of transportation-related funding for the fiscal years ended September 30, 2009 and September 30, 2008. Each detailed review by State agency includes the following information:

- **Interdepartmental Contract Charges:** This section represents State agencies' expenditures and encumbrances charged to transportation funds for services contracted between MDOT and State agencies and appropriated in Sections 103, 106, and 107 of both Act 275, P.A. 2008, and Act 129, P.A. 2007. In addition, this section includes State agencies' revenue transactions to fund the Civil Service Commission for transportation-funded employees.
- **Miscellaneous Charges:** This section represents the transportation-related expenditures charged to transportation funds that were not specifically appropriated to State agencies in Act 275, P.A. 2008, and Act 129, P.A. 2007.
- **Unreimbursed Costs:** This section includes underreimbursed transportation-related costs, which are costs that were incurred by a State agency but were not reimbursed by transportation revenue. The section also includes overreimbursed transportation-related costs, which occur when transportation revenue is received by a State agency in excess of transportation-related costs.

Michigan Department of Information Technology
Fiscal Years Ended September 30

	<u>2009</u>	<u>2008</u>
CHARGES TO TRANSPORTATION FUNDS		
<u>Interdepartmental Contract Charges</u>		
State Trunkline Fund		
Information technology services and contracts	\$ 27,645,361	\$ 26,599,783
State Aeronautics Fund		
Information technology services and contracts	91,579	115,353
Comprehensive Transportation Fund		
Information technology services and contracts	68,322	183,500
Blue Water Bridge Fund		
Information technology services and contracts	40,225	46,800
Economic Development Fund		
Information technology services and contracts	36,517	12,676
Total interdepartmental contract charges	<u>\$ 27,882,003</u>	<u>\$ 26,958,112</u>
<u>Miscellaneous Charges</u>		
State Trunkline Fund		
Information technology services and contracts	\$ 8,016,653	\$ 5,693,597
State Aeronautics Fund		
Information technology services and contracts	27,737	24,666
Comprehensive Transportation Fund		
Information technology services and contracts	90,291	23,194
Blue Water Bridge Fund		
Information technology services and contracts	9,692	3,525
Economic Development Fund		
Information technology services and contracts	6,723	13,971
Total miscellaneous charges	<u>\$ 8,151,096</u>	<u>\$ 5,758,953</u>
TOTAL CHARGES	<u><u>\$ 36,033,099</u></u>	<u><u>\$ 32,717,065</u></u>
UNREIMBURSED COSTS		
TOTAL UNREIMBURSED COSTS	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

Appropriateness of Charges

- **Interdepartmental Contract Charges**

The Legislature appropriated information technology (IT) services from transportation funds of \$28.5 million each year for fiscal years 2008-09 and 2007-08 to the Michigan Department of Information Technology (MDIT). MDIT incurred and encumbered transportation-related costs for administering and implementing IT services of \$27.9 million (including encumbrances of \$3.4 million) and \$27.0 million (including encumbrances of \$1.9 million) in fiscal years 2008-09 and 2007-08, respectively.

MDIT charged the Michigan Department of Transportation (MDOT) for various costs associated with the delivery of IT services using the cost allocation methodologies described below:

- Center for Shared Solutions (leadership, technical expertise, and policy) costs are allocated based on actual payroll hours at a specified rate.
- Data center services (mainframe operations, centralized servers, data warehouses and exchange gateways, and disaster recovery) are allocated based on actual costs for specific functions or usage of service at a specified rate.
- Direct agency charges, such as IT equipment, software, and contractual services, are based on actual vendor invoice costs.
- MDIT 900 Fee costs (standards, policy development, and strategic planning) are based on 0.5% of prior year agency expenditures.
- Administrative services and contract management costs are based on 1.55% of prior year agency expenditures.
- Enterprise Security (computer security management) costs are based on actual payroll costs based on a time-and-effort reporting system and a share of managers' costs.
- Information Officer Services (maintaining the business relationships between MDIT and its agency customers) costs are actual payroll costs based on a time-and-effort reporting system.

- Michigan Business One Stop costs are a specified amount based on initial utilization estimates.
- Michigan Public Safety Communications System (Statewide radio communication for public safety) costs are actual payroll costs based on a time-and-effort reporting system.
- Michigan.gov (Internet and infrastructure services) costs are allocated based on 75% content and 25% page views or actual hours at a specified rate for Web development.
- Office Automation (support desktop computing environment and other equipment) costs for actual desktop equipment or wireless devices at a specified rate.
- Technical Services (servers and server support) costs are based on usage of service at a specified rate.
- Telecommunications (voice and data services) costs are based on usage of service at a specified rate.

We determined that MDIT charges for IT services were appropriate.

- **Miscellaneous Charges**

MDIT charged \$8.2 million and \$5.8 million in fiscal years 2008-09 and 2007-08, respectively, for additional IT projects, services, and equipment that MDIT provided that were not included in the general operating services in the interdepartmental grant. These additional IT projects, services, and equipment were charged using the same methodologies as the interdepartmental contract charges.

- **Unreimbursed Costs**

MDIT did not report any unreimbursed costs for fiscal years 2008-09 and 2007-08.

Executive Order

Subsequent to our audit period, Executive Order No. 2009-55 renamed the Department of Management and Budget as the Department of Technology, Management & Budget (DTMB), effective March 21, 2010. It also transferred all of the authority, powers, duties, functions, responsibilities, records, personnel, property, equipment, and appropriations of MDIT to DTMB by a Type III transfer and abolished MDIT.

Department of State
Fiscal Years Ended September 30

	<u>2009</u>	<u>2008</u>
CHARGES TO TRANSPORTATION FUNDS		
<u>Interdepartmental Contract Charges</u>		
Michigan Transportation Fund		
Collection of transportation taxes and fees	\$ 20,000,000	\$ 20,000,000
Reissue license plates*		2,990,595
Total interdepartmental contract charges	<u>\$ 20,000,000</u>	<u>\$ 22,990,595</u>
<u>Miscellaneous Charges</u>		
State Trunkline Fund		
Application fees	\$ 63	\$ 170
Total miscellaneous charges	<u>\$ 63</u>	<u>\$ 170</u>
TOTAL CHARGES	<u><u>\$ 20,000,063</u></u>	<u><u>\$ 22,990,765</u></u>
 UNREIMBURSED COSTS		
Collection of transportation taxes and fees	<u>\$ (1,408,971)</u>	<u>\$ (528,462)</u>
TOTAL UNREIMBURSED COSTS	<u><u>\$ (1,408,971)</u></u>	<u><u>\$ (528,462)</u></u>

* The Legislature appropriated \$11.0 million in fiscal year 2005-06 as a work project. The Department expended \$2,990,595, \$2,957,306, and \$3,457,673 in fiscal years 2007-08, 2006-07, and 2005-06, respectively. The remaining unexpended balance of \$1,594,425 was returned to MDOT.

Appropriateness of Charges

- **Interdepartmental Contract Charges**

The Legislature appropriated interdepartmental grants from the Michigan Transportation Fund (MTF) of \$20.0 million annually to the Department of State for fiscal years 2008-09 and 2007-08, respectively. The Department charged transportation-related costs to MTF of \$20.0 million for each of fiscal years 2008-09 and 2007-08 for administering and enforcing the collection of transportation taxes and fees identified in the Michigan Vehicle Code (Sections 257.801 - 257.810 of the *Michigan Compiled Laws*). Section 247.660(1) of the *Michigan Compiled Laws* limits total appropriations to the Department, relating to its interdepartmental contract with the Michigan Department of Transportation (MDOT), to

\$20.0 million per fiscal year except for fiscal year 2005-06. For fiscal year 2005-06, the Legislature appropriated an additional \$11.0 million as a work project for reissuing license plates. MDOT transferred the \$11.0 million to the Department in fiscal year 2005-06. The Department expended a total of \$9.4 million during fiscal years 2007-08, 2006-07 and 2005-06. The remaining balance of \$1.6 million was returned to MTF.

The Department has two sources of funding for transportation-related costs: its interdepartmental contract with MDOT, which is funded from MTF and transportation fees collected in the Transportation Administration Collection Fund (TACF). The transportation fees in TACF are collected under Sections 257.801 - 257.810 of the *Michigan Compiled Laws* and, upon appropriation, are to be spent to pay the necessary expenses incurred by the Department in the administration and enforcement of collecting transportation taxes and fees. In addition, Department revenue from look-up and list fees collected in TACF can be used to pay the necessary expenses incurred by the Department in the administration and enforcement of collecting transportation taxes and fees.

The Department retains an independent consulting firm to conduct an annual cost allocation review to determine actual transportation-related costs from time-and-effort cost studies. The cost allocation review is an after-the-fact analysis used to support the costs charged to MTF and to establish future funding levels.

We determined that the Department's costs charged to MTF for administering and enforcing the collection of transportation taxes and fees for fiscal years 2008-09 and 2007-08 were for appropriate charges.

- **Miscellaneous Charges**

Miscellaneous charges included fees for vehicle title and notary applications.

- **Unreimbursed Costs**

The Department's cost allocation review disclosed unreimbursed costs of \$1,408,971 and \$528,462 for administering and enforcing the collection of transportation taxes and fees for fiscal years 2008-09 and 2007-08, respectively. Unreimbursed costs are transportation-related costs that exceed the combined transportation revenue from MTF and the transportation fees from TACF.

Michigan Department of State Police
Fiscal Years Ended September 30

	2009	2008
CHARGES TO TRANSPORTATION FUNDS		
<u>Interdepartmental Contract Charges</u>		
State Trunkline Fund		
Traffic Safety Division - Inspections, enforcement, and services	\$ 8,232,000	\$ 8,046,455
Criminal Justice Information Center - Traffic accident database	781,799	639,821
Support services	6,700	
Information technology services	120,600	170,500
Total interdepartmental contract charges	<u>\$ 9,141,099</u>	<u>\$ 8,856,776</u>
<u>Miscellaneous Charges</u>		
State Trunkline Fund		
Construction zone work patrols	\$ 536,554	\$ 410,071
Training	15,012	12,838
Grants expended by the Michigan Department of State Police	35,400	139,862
Grants passed through to State and local agencies	264,433	655,159
Aerial surveys	4,293	1,510
State Aeronautics Fund		
Aviation fuel and rental	80,184	108,746
Total miscellaneous charges	<u>\$ 935,876</u>	<u>\$ 1,328,186</u>
TOTAL CHARGES	<u><u>\$ 10,076,975</u></u>	<u><u>\$ 10,184,962</u></u>
UNREIMBURSED COSTS		
Desktop equipment service charges	<u>\$ (18,416)</u>	<u>\$ (16,477)</u>
TOTAL UNREIMBURSED COSTS	<u><u>\$ (18,416)</u></u>	<u><u>\$ (16,477)</u></u>

Appropriateness of Charges

- **Interdepartmental Contract Charges**

The Legislature appropriated interdepartmental grants from the State Trunkline Fund of \$9.6 million to the Michigan Department of State Police (MSP) for each of fiscal years 2008-09 and 2007-08. MSP charged transportation-related costs of \$9.1 million (including encumbrances of \$0.5 million) and \$8.9 million (including encumbrances of \$0.7 million) in fiscal years 2008-09 and 2007-08, respectively, primarily for safety inspections and enforcement activities by the Traffic Safety Division (formerly the Motor Carrier Division).

MSP used its Officer Daily Automated System to identify the percentage of Traffic Safety Division officers' time spent on safety inspections and enforcement activities. These percentages were applied to payroll and indirect costs to determine chargeable expenditures for time spent on safety inspections and enforcement activities for commercial vehicles. These expenditures were then allocated to the three allowable funding sources for these activities: transportation-related funding (through MSP's interdepartmental contract with the Michigan Department of Transportation [MDOT]), motor carrier fees, and a federal grant. MSP allocated costs for traffic services as a percentage of staff funded by the State Trunkline Fund.

MSP allocated personnel and operating costs for the Criminal Justice Information Center to three primary user departments, including MDOT, based on each department's usage of traffic accident records data and proportionally shared costs for administrative functions.

MSP allocated Michigan Department of Information Technology (MDIT) direct agency charges in the same percentage as enforcement activities in the Traffic Safety Division.

MSP allocated the support services expenditures for internal audit services equally to each division and then applied the same percentage as enforcement activities for the Traffic Safety Division. MSP allocated the support services expenditures for telecommunication services using the MDIT rate for full-time equated positions.

We determined that MSP's expenditures for safety inspections, enforcement activities, traffic services, the Criminal Justice Information Center, IT services, and support services were appropriate charges to transportation-related funding.

- **Miscellaneous Charges**

MSP charged expenditures of \$0.9 million and \$1.3 million based on costs or established fees in fiscal years 2008-09 and 2007-08, respectively, for miscellaneous charges for construction zone work patrols, training, grants expended by MSP, grants passed through to State and local agencies, aerial surveys, and aviation fuel and rental.

- **Unreimbursed Costs**

MSP had \$18,416 and \$16,477 in unreimbursed costs relating to desktop equipment service charges for fiscal years 2008-09 and 2007-08, respectively.

Department of Management and Budget
Fiscal Years Ended September 30

	2009	2008
CHARGES TO TRANSPORTATION FUNDS		
<u>Interdepartmental Contract Charges</u>		
State Trunkline Fund		
Central support services	\$ 1,424,000	\$ 1,502,200
MAIN user charges	1,147,100	1,286,400
Michigan Transportation Fund		
MAIN user charges	41,000	176,700
State Aeronautics Fund		
Central support services	31,900	38,700
MAIN user charges	25,600	33,100
Comprehensive Transportation Fund		
Central support services	50,600	62,100
MAIN user charges	40,700	53,100
Blue Water Bridge Fund		
Central support services	16,100	*
MAIN user charges	13,100	*
Total interdepartmental contract charges	<u>\$ 2,790,100</u>	<u>\$ 3,152,300</u>
<u>Miscellaneous Charges</u>		
State Trunkline Fund		
Building occupancy charges	\$ 5,388,936	\$ 6,683,315
Motor Transport Fund	817,831	1,013,394
Office Services Revolving Fund	544,232	648,128
Risk Management Fund	704,920	623,475
Other fees and services	641,925	873,932
State Aeronautics Fund		
Motor Transport Fund	16,331	24,000
Office Services Revolving Fund	33,510	37,076
Risk Management Fund	48,700	64,746
Other fees and services		1,507
Comprehensive Transportation Fund		
Motor Transport Fund	39,370	54,386
Office Services Revolving Fund	10,658	20,656
Risk Management Fund	11,096	12,058
Other fees and services	10,453	8,283
Blue Water Bridge Fund		
Motor Transport Fund	3,238	7,598
Office Services Revolving Fund	442	283
Risk Management Fund	6,139	5,852
Combined Comprehensive Transportation Bond Proceeds Fund		
Other fees and services	25,988	

Department of Management and Budget
Fiscal Years Ended September 30

	2009	2008
Economic Development Fund		
Motor Transport Fund	\$ 622	\$ 1,243
Office Services Revolving Fund	313	44
Total miscellaneous charges	\$ 8,304,700	\$ 10,079,975
TOTAL CHARGES	\$ 11,094,800	\$ 13,232,275
UNREIMBURSED COSTS		
State Trunkline Fund		
Central support services	\$ (50,842)	\$ 129,662
MAIN user charges	24,669	231,301
Building occupancy charges **	(1,813,405)	(114,956)
Michigan Transportation Fund		
MAIN user charges	(16,429)	123,993
State Aeronautics Fund		
Central support services	(1,273)	7,304
MAIN user charges	354	8,966
Comprehensive Transportation Fund		
Central support services	3,773	15,478
MAIN user charges	5,062	17,261
Blue Water Bridge Fund		
Central support services	(3,049)	(18,010)
MAIN user charges	(1,473)	(13,845)
Combined Comprehensive Transportation Bond Proceeds Fund		
Central support services	(145)	(341)
MAIN user charges	(110)	(263)
Combined State Trunkline Bond Proceeds Fund		
Central support services	(15,383)	(35,528)
MAIN user charges	(11,711)	(27,313)
Transportation Related Trust Funds		
Central support services	(3,204)	(3,289)
MAIN user charges	(2,439)	(2,529)
TOTAL UNREIMBURSED COSTS	\$ (1,885,605)	\$ 317,891

* The Blue Water Bridge Fund was added to the interdepartmental contract beginning in fiscal year 2008-09. The charges were funded from the Blue Water Bridge Fund general purpose appropriation rather than an interdepartmental grant appropriation.

** Unreimbursed costs for building occupancy charges are the difference between federally allowable expenditures and budgetary allowable expenditures.

Appropriateness of Charges

- **Interdepartmental Contract Charges**

The Legislature appropriated interdepartmental grants from transportation funds of \$1.5 million and \$1.6 million for central support costs to the Department of Management and Budget (DMB) for fiscal years 2008-09 and 2007-08, respectively. In addition to the appropriated interdepartmental grant amounts, the annual contract between DMB and the Michigan Department of Transportation (MDOT) included \$1.4 million and \$1.5 million for Michigan Administration Information Network (MAIN) user charges, which are appropriated Statewide, for fiscal years 2008-09 and 2007-08, respectively. DMB incurred transportation-related costs of \$2.8 million and \$3.2 million for fiscal years 2008-09 and 2007-08, respectively, for central support services and MAIN user charges. Central support services included financial management, real estate, mail and delivery, purchasing, State employer services, and budgetary services. DMB used the most recent Statewide Cost Allocation Plan* (SWCAP) to allocate estimated costs for central support services and MAIN user charges to the transportation funds. We determined that DMB costs for central support services and MAIN user charges were appropriate charges to transportation-related funding.

- **Miscellaneous Charges**

DMB charged building occupancy costs of \$5.4 million and \$6.7 million for fiscal years 2008-09 and 2007-08, respectively, to the State Trunkline Fund for all buildings occupied by MDOT personnel. Building occupancy costs are allocated through SWCAP based on estimated costs per square foot. We determined that DMB costs for building occupancy charged to transportation funds were for appropriate charges.

DMB charged actual costs of \$2.2 million and \$2.5 million to the transportation funds for services provided by internal service funds for fiscal years 2008-09 and 2007-08, respectively. The Motor Transport Fund provides vehicle and travel services. The Office Services Revolving Fund provides services such as printing, reproduction, mailing, microfilm, distribution of surplus property, and materials management. The Risk Management Fund accounts for certain centralized risk management functions. DMB charged actual expenditures of \$0.7 million and \$0.9 million for other fees and services, including project supervision, parking, and facility management, for fiscal years 2008-09 and 2007-08, respectively.

- **Unreimbursed Costs**

A comparison of actual SWCAP costs to amounts charged to transportation funds disclosed net underreimbursed costs for DMB central support services, MAIN user

charges, and building occupancy costs of \$1,885,605 for fiscal year 2008-09 and net overreimbursed costs for DMB central support services, MAIN user charges, and building occupancy costs of \$317,891 for fiscal year 2007-08.

Executive Orders

Subsequent to our audit period, Executive Order No. 2009-55 renamed the Department of Management and Budget as the Department of Technology, Management & Budget (DTMB), effective March 21, 2010. It also transferred all of the authority, powers, duties, functions, responsibilities, records, personnel, property, equipment, and appropriations of the Michigan Department of Information Technology (MDIT) to DTMB by a Type III transfer and abolished MDIT. In addition, Executive Order No. 2009-36 transferred all of the authority, powers, duties, functions, responsibilities, records, personnel, property, equipment, and budgetary resources of the Department of History, Arts and Libraries (HAL) to various State departments and agencies by Type I, II, and III transfers, effective October, 1, 2009, and abolished HAL. The State records management program was transferred from HAL to DMB.

Department of Treasury
Fiscal Years Ended September 30

	<u>2009</u>	<u>2008</u>
CHARGES TO TRANSPORTATION FUNDS		
<u>Interdepartmental Contract Charges</u>		
State Trunkline Fund		
Investment services	\$ 180,200	\$ 199,500
Michigan Transportation Fund		
Collection and audit activities of motor fuel taxes	6,574,771	6,545,472
Information technology services	454,900	454,900
Investment services	3,100	4,300
State Aeronautics Fund		
Collection and audit activities of aviation fuel taxes	30,678	38,427
Investment services	4,400	6,300
Comprehensive Transportation Fund		
Investment services	1,600	1,300
Total interdepartmental contract charges	<u>\$ 7,249,649</u>	<u>\$ 7,250,199</u>
<u>Miscellaneous Charges</u>		
State Trunkline Fund		
Investment services	\$ 100	\$
Manual warrant fees	90	
Blue Water Bridge Fund		
Investment services	1,600	6,300
Combined Comprehensive Transportation Bond Proceeds Fund		
Investment services	19,700	23,800
Combined State Trunkline Bond Proceeds Fund		
Investment services	22,600	32,400
Total miscellaneous charges	<u>\$ 44,090</u>	<u>\$ 62,500</u>
TOTAL CHARGES	<u>\$ 7,293,739</u>	<u>\$ 7,312,699</u>
UNREIMBURSED COSTS		
TOTAL UNREIMBURSED COSTS	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

Appropriateness of Charges

- **Interdepartmental Contract Charges**

The Legislature appropriated interdepartmental grants from transportation funds of \$7.4 million and \$8.2 million to the Department of Treasury for fiscal years 2008-09 and 2007-08, respectively. The Department incurred and encumbered transportation-related costs of \$7.3 million (including encumbrances of \$244) and \$7.3 million (including encumbrances of \$2,625) in fiscal years 2008-09 and 2007-08, respectively, for administering and enforcing the Motor Fuel Tax Act for the Michigan Department of Transportation (MDOT).

The Department appropriately identified the actual costs it incurred related to its tax collection responsibilities, which included all of the taxes collected by the Department. However, the Department allocated these expenditures to the Michigan Transportation Fund (MTF) and the State Aeronautics Fund (SAF) based on the percentage of transportation-related tax revenue collections to total tax revenue collections. The Department is responsible for collecting numerous types of taxes, including sales taxes, use taxes, income taxes, cigarette taxes, and motor fuel taxes. The Department's allocation methodology presumes that its efforts to collect all of the different types of taxes are the same for each type of tax collected. Charges to MTF and SAF should be based on the proportion of the Department's collection efforts (costs) that relate to administering and enforcing the Motor Fuel Tax Act. As a result, the Department could not document that its allocation of expenditures to MTF of \$6,574,771 and \$6,545,472 and to SAF of \$30,678 and \$38,427 was based on the level of activity necessary to administer and enforce the Motor Fuel Tax Act for fiscal years 2008-09 and 2007-08, respectively (Finding 1).

Charges for investment services were allocated based on the transportation funds' investment balances and the investing activity. We determined that the charges for investment services were appropriate.

The Department charged actual costs for information technology services, which related to the motor fuel diesel simplification project.

- **Miscellaneous Charges**

The Department charged costs of \$44,090 and \$62,500 in fiscal years 2008-09 and 2007-08, respectively, for investment services and manual warrant fees. We determined that the charges for investment services were appropriate.

- **Unreimbursed Costs**

The Department did not report unreimbursed costs for fiscal years 2008-09 and 2007-08.

CONTRACTUAL AND REPORTING REQUIREMENTS

COMMENT

Audit Objective: To determine compliance with selected State agencies' contractual and reporting requirements for transportation-related funding.

Audit Conclusion: We determined that the selected State agencies generally complied with contractual and reporting requirements for transportation-related funding. Our audit report does not include any reportable conditions related to this audit objective.

TRANSPORTATION FUND CHARGES, COST ALLOCATION METHODOLOGIES, AND UNREIMBURSED COSTS

COMMENT

Audit Objective: To report charges to transportation funds, the cost allocation methodologies used in determining the level of funding, and unreimbursed costs.

Audit Conclusion: We reported the charges to transportation funds, the cost allocation methodologies used in determining the level of funding, and the unreimbursed costs in Exhibits 6 through 9. Our audit report does not include any reportable conditions related to this audit objective.

Summaries of Charges to Transportation Funds, Services Provided, and Cost Allocation Methodologies (Exhibits 6 through 9)

We compiled Exhibits 6 through 9 from information contained in the Michigan Administrative Information Network (MAIN), State agencies' records, and MDOT's records related to State agencies' use of transportation-related funding for the fiscal years ended September 30, 2009 and September 30, 2008:

- Summary of State Agencies' Use of Transportation-Related Funding: These exhibits summarize total transportation-related charges by State agency and by transportation fund (Exhibits 6 and 7).
- Summary of Unreimbursed Transportation-Related Costs by State Agency: This exhibit summarizes underreimbursed and overreimbursed transportation-related costs (Exhibit 8).
- Summary of Types of Services Provided and Cost Allocation Methodologies: This exhibit describes the types of services provided by the State agencies and the cost allocation methodologies used by the State agencies to allocate transportation-related costs (Exhibit 9).

Summary of State Agencies' Use of Transportation-Related Funding
Fiscal Year Ended September 30, 2009

Receiving State Agency	Charges Paid by Fund				
	State Trunkline	Michigan Transportation	State Aeronautics	Comprehensive Transportation	Blue Water Bridge
Michigan Department of Information Technology*	\$ 35,662,014	\$	\$ 119,315	\$ 158,613	\$ 49,917
Department of State	63	20,000,000			
Michigan Department of State Police	9,996,791		80,184		
Department of Management and Budget*	10,668,943	41,000	156,041	162,876	39,018
Department of Treasury	180,390	7,032,771	35,078	1,600	1,600
Michigan Economic Development Corporation	4,702,711				
Civil Service Commission	4,588,869		55,248	93,723	55,666
Department of Attorney General	1,848,961		110,665	96,935	
Department of Natural Resources**	9,530				
Department of Environmental Quality**	111,148	1,059,460	14,265		
Office of the Auditor General	718,248	92,799	44,959	32,693	
Department of History, Arts and Libraries and Mackinac Island State Park Commission ***	201,869		69,650	3,900	
Department of Corrections	497,030		2,880		
Department of Energy, Labor & Economic Growth	1,245,186			2,095	1,470
Michigan Department of Agriculture	2,976				
Judiciary	1,925				
Legislative Service Bureau					
Total for State agencies	<u>\$ 70,436,654</u>	<u>\$ 28,226,030</u>	<u>\$ 688,285</u>	<u>\$ 552,434</u>	<u>\$ 147,671</u>

* Effective March 21, 2010, the Department of Information Technology was combined with the Department of Management and Budget by Executive Order No. 2009-55. During our audit period, these were two separate entities; therefore, we reported them separately for the purposes of our report.

** Effective January 17, 2010, the Department of Natural Resources (DNR) was combined with the Department of Environmental Quality (DEQ) by Executive Order No. 2009-45, forming the Department of Natural Resources and Environment (DNRE). During our audit period, these were two separate entities; therefore, for the purposes of our report, we reported them separately. Effective March 13, 2011, Executive Order No. 2011-1 subsequently abolished DNRE and reestablished DNR and DEQ.

*** Effective October 1, 2009, the Department of History, Arts and Libraries was abolished by Executive Order No. 2009-36. This executive order also transferred the State records management program to the Department of Management and Budget and the Mackinac Island State Park Commission to the Department of Natural Resources.

Exhibit 6

Combined Comprehensive Transportation Bond Proceeds	Combined State Trunkline Bond Proceeds	Economic Development	Transportation Related Trust	Agency Total
\$	\$	\$ 43,240	\$	\$ 36,033,099
				20,000,063
				10,076,975
25,988		935		11,094,800
19,700	22,600			7,293,739
				4,702,711
				4,793,506
				2,056,561
			153,317	162,847
				1,184,873
				888,699
			27,014	302,432
				499,910
				1,248,751
				2,976
				1,925
300				300
\$ 45,988	\$ 22,600	\$ 44,175	\$ 180,331	\$ 100,344,167

Summary of State Agencies' Use of Transportation-Related Funding
Fiscal Year Ended September 30, 2008

Receiving State Agency	Charges Paid by Fund				
	State Trunkline	Michigan Transportation	State Aeronautics	Comprehensive Transportation	Blue Water Bridge
Michigan Department of Information Technology*	\$ 32,293,380	\$	\$ 140,019	\$ 206,694	\$ 50,325
Department of State	170	22,990,595			
Michigan Department of State Police	10,076,216		108,746		
Department of Management and Budget*	12,630,844	176,700	199,128	210,583	13,733
Department of Treasury	199,500	7,004,672	44,727	1,300	6,300
Michigan Economic Development Corporation	4,534,681				
Civil Service Commission	2,404,503		48,097	66,876	25,686
Department of Attorney General	2,040,877		109,215	97,713	
Department of Natural Resources**	21,758				
Department of Environmental Quality**	135,460	945,486	22,001		
Office of the Auditor General	371,948	175,791	19,600	25,200	
Department of History, Arts and Libraries and Mackinac Island State Park Commission***	286,805		135,300	3,800	
Department of Corrections	681,207		2,160		1,782
Department of Energy, Labor & Economic Growth	409,294			1,442	725
Michigan Department of Agriculture	1,896				
Judiciary	4,250				
Legislative Service Bureau					
Total for State agencies	<u>\$ 66,092,789</u>	<u>\$ 31,293,244</u>	<u>\$ 828,994</u>	<u>\$ 613,607</u>	<u>\$ 98,551</u>

* Effective March 21, 2010, the Department of Information Technology was combined with the Department of Management and Budget by Executive Order No. 2009-55. During our audit period, these were two separate entities; therefore, we reported them separately for the purposes of our report.

** Effective January 17, 2010, the Department of Natural Resources (DNR) was combined with the Department of Environmental Quality (DEQ) by Executive Order No. 2009-45, forming the Department of Natural Resources and Environment (DNRE). During our audit period, these were two separate entities; therefore, for the purposes of our report, we reported them separately. Effective March 13, 2011, Executive Order No. 2011-1 subsequently abolished DNRE and reestablished DNR and DEQ.

*** Effective October 1, 2009, the Department of History, Arts and Libraries was abolished by Executive Order No. 2009-36. This executive order also transferred the State records management program to the Department of Management and Budget and the Mackinac Island State Park Commission to the Department of Natural Resources.

Exhibit 7

Combined Comprehensive Transportation Bond Proceeds	Combined State Trunkline Bond Proceeds	Economic Development	Transportation Related Trust	Agency Total
\$	\$	\$ 26,647	\$	\$ 32,717,065
				22,990,765
				10,184,962
		1,287		13,232,275
23,800	32,400			7,312,699
				4,534,681
				2,545,162
				2,247,806
			914,579	936,336
				1,102,947
				592,538
				425,905
				685,149
				411,461
				1,896
				4,250
				0
<u>\$ 23,800</u>	<u>\$ 32,400</u>	<u>\$ 27,934</u>	<u>\$ 914,579</u>	<u>\$ 99,925,898</u>

Summary of Unreimbursed Transportation-Related Costs by State Agency
Fiscal Years Ended September 30

<u>Receiving State Agency</u>	<u>2009</u>	<u>2008</u>
Department of State	\$ (1,408,971)	\$ (528,462)
Michigan Department of State Police	(18,416)	(16,477)
Department of Management and Budget	(1,885,605)	317,891
Department of History, Arts and Libraries	<u>(57,860)</u>	<u>54,476</u>
Total for State agencies	<u><u>\$ (3,370,852)</u></u>	<u><u>\$ (172,572)</u></u>

Summary of Types of Services Provided and Cost Allocation Methodologies
Fiscal Years Ended September 30, 2009 and September 30, 2008

Michigan Department of Information Technology (MDIT)

MDIT charged the Michigan Department of Transportation (MDOT) for various costs associated with the delivery of information technology (IT) services.

Center for Shared Solutions (leadership, technical expertise, and policy) costs are allocated based on actual payroll hours at a specified rate. Data center services (mainframe operations, centralized servers, data warehouses and exchange gateways, and disaster recovery) are allocated based on actual costs for specific functions or usage of service at a specified rate. Direct agency charges, such as IT equipment, software, and contractual services, are based on actual vendor invoice costs. MDIT 900 Fee costs (standards, policy development, and strategic planning) are based on 0.5% of prior year agency expenditures. Administrative services and contract management costs are based on 1.55% of prior year agency expenditures. Enterprise Security (computer security management) costs are based on actual payroll costs based on a time-and-effort reporting system and a share of managers' costs. Information Officer Services (maintaining the business relationships between MDIT and its agency customers) costs are actual payroll costs based on a time-and-effort reporting system. Michigan Business One Stop costs are a specified amount based on initial utilization estimates. Michigan Public Safety Communications System (Statewide radio communication for public safety) costs are actual payroll costs based on a time-and-effort reporting system. Michigan.gov (Internet and infrastructure services) costs are allocated based on 75% content and 25% page views or actual hours at a specified rate for Web development. Office Automation (support desktop computing environment and other equipment) costs for actual desktop equipment or wireless devices at a specified rate. Technical Services (servers and server support) costs are based on usage of service at a specified rate. Telecommunications (voice and data services) costs are based on usage of service at a specified rate.

Department of State

The Department of State charged transportation-related costs to the Michigan Transportation Fund (MTF) for administering and enforcing the collection of transportation taxes and fees identified in the Michigan Vehicle Code (Sections 257.801 - 257.810 of the *Michigan Compiled Laws*). The Department retains an independent consulting firm to conduct an annual cost allocation review to determine actual transportation-related costs from time-and-effort cost studies. The cost allocation review is an after-the-fact analysis used to support the costs charged to MTF and to establish future funding levels.

In addition, the Department charged fees for vehicle title and notary applications to transportation funds.

Michigan Department of State Police (MSP)

MSP's Traffic Safety Division (formerly the Motor Carrier Division) conducted safety inspections and enforcement activities for commercial vehicles. MSP used its Officer Daily Automated System to identify the percentage of Traffic Safety Division officers' time spent on safety inspections and enforcement activities. These percentages were applied to payroll and indirect costs to determine chargeable expenditures for time spent on safety inspections and enforcement activities for commercial vehicles. These expenditures were then allocated to the three allowable funding sources for these activities: transportation-related funding (through MSP's interdepartmental contract with MDOT), motor carrier fees, and a federal grant. MSP allocated costs for traffic services as a percentage of staff funded by the State Trunkline Fund.

MSP allocated personnel and operating costs for the Criminal Justice Information Center to three primary user departments, including MDOT, based on each department's usage of traffic accident records data and proportionally shared costs for administrative functions. MSP allocated MDIT direct agency charges in the same percentage as enforcement activities in the Traffic Safety Division.

MSP allocated the support services expenditures for internal audit services equally to each division and then applied the same percentage as enforcement activities for the Traffic Safety Division. MSP allocated the support services expenditures for telecommunication services using the MDIT rate for full-time equated positions.

MSP also charged for miscellaneous expenditures related to construction zone work patrols, training, grants expended by MSP, grants passed through to State and local agencies, aerial surveys, and aviation fuel and rental.

Department of Management and Budget (DMB)

DMB provided central support services and Michigan Administrative Information Network (MAIN) user charges. Central support services included financial management, real estate, mail and delivery, purchasing, State employer services, and budgetary services. DMB used the most recent Statewide Cost Allocation Plan (SWCAP) to allocate estimated costs for central support services and MAIN user charges to the transportation funds.

DMB also provided building occupancy services for all buildings occupied by MDOT personnel. Building occupancy costs are allocated through SWCAP based on estimated costs per square foot.

In addition, DMB provided services from internal service funds. Charges for these services are based on costs. These services included vehicle and travel services from the Motor Transport Fund; printing, reproduction, mailing, microfilm, distribution of surplus property, and materials management from the Office Services Revolving Fund; and centralized risk management functions from the Risk Management Fund.

Further, DMB provided other services for which charges were based on actual expenditures, including project supervision, parking, and facility management.

Department of Treasury

The Department of Treasury provided collection and auditing of motor and aviation fuel taxes for the administration and enforcement of the Motor Fuel Tax Act to MTF and the State Aeronautics Fund. The Department allocated the administration and enforcement costs as a percentage of transportation-related tax revenue collections to total tax revenue collections applied to total costs for administration and enforcement activities for all taxes.

The Department also provided investment services. Investment services were allocated based on the transportation funds' investment balances and the investing activity.

In addition, the Department charged actual costs for IT services, which related to the motor fuel diesel simplification project. Further, the Department charged costs for manual warrant fees.

Michigan Economic Development Corporation

The Michigan Economic Development Corporation provided administration for the daily operations of the State welcome centers, including staffing; travel; vehicles, equipment, and supplies for facility and grounds operations; utilities; telecommunications; and contractual services, supplies, and materials for maintenance. The Michigan Economic Development Corporation's charges were based on actual costs for these services.

Civil Service Commission

The Civil Service Commission provided assistance and support for classified State employees. The Commission allocated these costs based on the constitutionally required minimum of 1% of the aggregate payroll of the preceding year associated with the transportation funds.

The Commission also charged user fees for its Human Resources Service Center, which is the central information source for personnel and human resource questions or transaction processing. User fees were allocated to departments proportionally based on their share of total State employees.

In addition, the Commission charged expenditures for training and administrative costs for flexible spending accounts based on costs or established fees.

Department of Attorney General

The Department of Attorney General provided legal consultation, representation, and other services. The salaries, insurance, retirement costs, and computer support charges of the attorneys assigned to the Transportation Division were allocated to the transportation funds based on an annual time study of legal work performed.

Also, the Department of Attorney General charged and was reimbursed for travel costs for its Transportation Division attorneys.

Department of Natural Resources

The Department of Natural Resources was reimbursed for expenditures for land sales and grants, timber sales, easement considerations, and conference center rental based on costs or established fees.

Department of Environmental Quality

The Department of Environmental Quality was reimbursed for the cost of fees and for services related to providing, expediting, and coordinating environmental permits for construction, maintenance, or improvement of a public transportation facility or public airport. Salaries and fringe benefits for program staff were allocated based on a time-and-effort system for direct activities and a proportionate share for administrative activities. Travel, supplies, equipment, and training for program staff assigned to transportation projects were allocated based on actual costs. Overhead costs for district offices, civil service charges, terminal leave costs, and MDIT charges were allocated based on the proportion of program staff assigned to transportation projects.

In addition, the Department of Environmental Quality provided various services and charged fees to MDOT transportation funds for water and environmental testing, issuance of permits, rent, dues, and MDOT employee training and examinations. The charges for these services were based on costs or established fees.

Office of the Auditor General

The Office of the Auditor General conducted audits of transportation programs and funds. The Office of the Auditor General allocated charges based on a time-and-effort reporting system that identified the actual hours spent on transportation audits, adjusted for audit costs carried forward from the prior year.

Department of History, Arts and Libraries (HAL) and Mackinac Island State Park Commission

HAL provided storage and retrieval of inactive records for the State records management program. HAL used the most recent SWCAP to allocate estimated records management costs to the transportation funds. Records management costs are allocated based on total storage volume and the number of records retrieved.

In addition, MDOT contracted with HAL and the Mackinac Island State Park Commission to manage various transportation projects, maintain Mackinac Island roads, and maintain the Mackinac Island airport. Charges for contracted amounts were based on historical costs, actual costs, or a portion of the costs for joint projects. HAL also provided services for microfilm records management based on costs or established fees.

Department of Corrections

The Department of Corrections was reimbursed for MDOT purchases from the Correctional Industries Revolving Fund based on costs or established fees.

Department of Energy, Labor & Economic Growth

The Department of Energy, Labor & Economic Growth was reimbursed for services provided to MDOT for permits, licenses, inspections, plan reviews, administrative hearings, and consulting services based on costs or established fees.

Michigan Department of Agriculture

The Michigan Department of Agriculture was reimbursed for expenditures for licenses, seed analysis, and certifications based on costs or established fees.

Judiciary

The Judiciary was reimbursed for expenditures for filing appeals to courts based on costs or established fees.

Legislative Service Bureau

The Legislative Service Bureau was reimbursed for expenditures for copies of Act 51, P.A. 1951, based on costs or established fees.

GLOSSARY

Glossary of Acronyms and Terms

DEQ	Department of Environmental Quality.
DMB	Department of Management and Budget.
DNR	Department of Natural Resources.
DNRE	Department of Natural Resources and Environment.
DTMB	Department of Technology, Management & Budget.
HAL	Department of History, Arts and Libraries.
IT	information technology.
MDIT	Michigan Department of Information Technology.
MDOT	Michigan Department of Transportation.
Michigan Administrative Information Network (MAIN)	The State's automated administrative management system that supports accounting, purchasing, and other financial management activities. MAIN consists of three major components: MAIN Enterprise Information System (EIS); MAIN Financial Administration and Control System (FACS); and MAIN Management Information Database (MIDB).
MOU	memorandum of understanding.
MSP	Michigan Department of State Police.
MTF	Michigan Transportation Fund.

performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve program operations, to facilitate decision making by parties responsible for overseeing or initiating corrective action, and to improve public accountability.
reportable condition	A matter that, in the auditor's judgment, falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the objectives of the audit; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.
SAF	State Aeronautics Fund.
Statewide Cost Allocation Plan (SWCAP)	The official cost allocation methodology accepted by federal grantor agencies for the State's negotiated indirect cost rate.
TACF	Transportation Administration Collection Fund.

