



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TRANSPORTATION
LANSING

KIRK T. STEUDLE
DIRECTOR

April 20, 2009

Mr. Robert Emerson
State Budget Director
Department of Management and Budget
111 South Capitol, 6th Floor
Lansing, Michigan 48909

Dear Mr. Emerson:

In accordance with the State of Michigan, Financial Management Guide, Part VII, enclosed is a summary table identifying our responses and corrective action plan to address the recommendation contained within the Office of the Auditor General's Performance Audit of the Use of Transportation-Related Funding report, covering the period from October 1, 2005 through September 30, 2007. The Office of Financial Management approved distribution of the plan.

Questions regarding the summary table or corrective action plan should be directed to Myron G. Frierson, Bureau of Finance and Administration, at 517-373-2117 or Jerry J. Jones, Commission Auditor, at 517-373-2384.

Sincerely,
Signature Redacted

Kirk T. Steudle
Director

Enclosure

cc: The Hon. Jennifer Granholm, Executive Office
The Hon. George Cushingberry, Jr., House Appropriations Committee
The Hon. Ron Jelinek, Senate Appropriations Committee
The Hon. Pam Byrnes, House Transportation Committee
The Hon. Jud Gilbert, Senate Transportation Committee
Mr. Thomas McTavish, Auditor General
Mr. Mitchell Bean, House Fiscal Agency
Mr. Gary Olson, Senate Fiscal Agency
Ms. Lisa Webb Sharp, Director, DMB

**Michigan Department of Transportation
Bureau of Finance and Administration
Summary of Agency Responses to Recommendations
Auditor General's Performance Audit of the Use of Transportation-Related Funding
October 1, 2005 through September 30, 2007**

1. Audit recommendations the agency complied with:

None.

2. Audit recommendations the agency agrees with and will comply:

FINDING

1. **Cost Allocation Methodology**

RECOMMENDATION

We again also 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 RESPONSE

MDOT agrees with the recommendation and will continue to improve the review and approval process of state agencies' cost allocation methodologies. 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 appropriate to the type of services being provided and the activities financed with transportation funds. Prior to signing the MOU, MDOT reviews the document for accuracy and completeness. Since the prior audit, MDOT has discussed improvements to the methodology with the Department of Treasury. The Department of Treasury concluded that a different cost allocation methodology would not improve the accuracy over the current process. MDOT has no basis to dispute or support the Department of Treasury's assertions that it cannot develop a more accurate process for determining costs related to services provided for transportation purposes.

The State of Michigan, along with MDOT, is in litigation over the propriety of the cost allocation methodologies. The ultimate outcome of this litigation will also help determine cost allocation methodologies used by MDOT with its service providers. MDOT will continue to require that cost methodologies be part of the MOU and will continue to review and approve the information contained within the MOU before signing it.

3. Audit recommendations the agency disagrees with:

None.