

EXECUTIVE DIGEST

MICHIGAN DEPARTMENT OF TRANSPORTATION

INTRODUCTION

This report contains the results of our financial audit*, including the provisions of the Single Audit Act, of the Michigan Department of Transportation (MDOT) for the period October 1, 1996 through September 30, 1998.

AUDIT PURPOSE

This financial audit of MDOT was conducted as part of the constitutional responsibility of the Office of the Auditor General and is required on a biennial basis by Act 251, P.A. 1986, to satisfy the requirements of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

BACKGROUND

MDOT's mission* is to provide the people of Michigan with the highest quality transportation services for economic benefit and improved quality of life. The Bureau of Finance and Administration is responsible for MDOT's accounting and financial reporting. The responsibilities for federal grant management are shared by the bureaus that carry out the grant activities.

MDOT's major sources of funding are tax revenues dedicated for transportation purposes and federal funds. During fiscal year 1997-98, MDOT's revenue totaled

approximately \$2.65 billion and expenditures totaled \$2.60 billion. As of September 30, 1998, MDOT had 3,200 employees.

AUDIT OBJECTIVES
AND CONCLUSIONS

Audit Objective: To audit MDOT's financial statements, including the schedule of expenditures of federal awards, for the fiscal years ended September 30, 1998 and September 30, 1997.

Conclusion: We expressed an unqualified opinion on MDOT's financial statements. In addition, we expressed an unqualified opinion on MDOT's schedule of expenditures of federal awards, and its other supplemental financial schedules, in relation to the financial statements taken as a whole.

Audit Objective: To assess and report on MDOT's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial statements, and on its internal control* over financial reporting, based on our audit of the financial statements.

Conclusion: Our assessment of compliance disclosed an instance of noncompliance related to requests for additional spending authority that could have a direct and material effect on the financial statements (Finding 2). However, our assessment of internal control over financial reporting did not disclose any material weaknesses*. We did identify reportable conditions* related to accounting practices, requests for additional spending authority, operating transfers, annual physical inventories, payroll controls, and procurement cards* (Findings 1 through 6).

In addition, our assessment indicated that MDOT was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.

Audit Objective: To assess and report on MDOT's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with OMB Circular A-133.

Conclusion: Our assessment of compliance applicable to each major federal program did not disclose any instances of noncompliance that are required to be reported in accordance with OMB Circular A-133. Also, our assessment of internal control over compliance applicable to each major federal program did not disclose any material weaknesses. However, we identified a reportable condition related to payroll controls (Finding 7).

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Michigan Department of Transportation for the period October 1, 1996 through September 30, 1998. Our audit was conducted in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

**AGENCY RESPONSES
AND PRIOR AUDIT
FOLLOW-UP**

Our audit report contains 7 findings and 7 corresponding recommendations. MDOT's corrective action plan indicates that it agrees with the recommendations and plans to implement them.

As disclosed in MDOT's summary schedule of prior audit findings, MDOT complied with 4 of 5 prior Single Audit* recommendations related to the 4 prior audit findings. The remaining prior recommendation is repeated in this report.