A Report
to the
Montana
Legislature

Financial-Compliance Audit

Montana Department of Transportation

For the Two Fiscal Years Ended June 30, 2011

October 2011

Legislative Audit
Division

11-17

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Financial-Compliance Audits

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

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Room 277, State Capitol
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October 2011

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana Department of Transportation (department) for fiscal years 2010-11 and 2009-10. Included in this report are ten recommendations concerning improper recruitment and selection practices, controls over conflicts of interest, internal controls over federal program requirements, infrastructure transactions, accounting errors, and other less significant internal control deficiencies. The department's written response to audit recommendations is included in the back of the report.

We thank the director and department personnel for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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Appointed and Administrative Officials

			Term Expires
Montana Transportation Commission	S. Kevin Howlett, Chair	Arlee	2015
	Rick Griffith	Butte	2013
	Carol Lambert	Broadus	2015
	Diane Seymore-Winterburn	Helena	2013
	Barb Skelton	Billings	2013
Montana Aeronautics Board	Tricia McKenna, Chair	Bozeman	2013
	Ted Schye, Vice Chair	Fort Peck	2013
	Roger Lincoln, Secretary	Gilford	2013
	Robert Buckles	Bozeman	2015
	A. Christopher Edwards	Billings	2015
	Bill Hunt Jr.	Shelby	2013
	Fred Lark	Lewistown	2015
	Fred Leistiko	Kallispell	2013
	Charles J. Manning	Lakeside	2015

Montana Department of Transportation

Tim Reardon, Director, effective August 11, 2011
Jim Lynch, Director, through August 11, 2011
Vacant, Deputy Director
Tim Reardon, Chief Counsel, Legal Services, through August 11, 2011
Jennifer Jensen, Chief Human Resource Officer, through August 15, 2011
Renee McDaniel, Acting Administrator, Human Resources Division, effective August 15, 2011
Dwane Kailey, Acting Administrator, Highways and Engineering Division
Mike Bousliman, Administrator, Information Services Division
Vickie Murphy, Internal Audit Manager
Larry Flynn, Administrator, Administration Division
Debbie Alke, Administrator, Aeronautics Division
Jon Swartz, Administrator, Maintenance Division
Duane Williams, Administrator, Motor Carrier Services Division
Lynn Zanto, Administrator, Rail, Transit & Planning Division

District Administrators

Doug Moeller - Missoula
Jeff Ebert - Butte
Mick Johnson - Great Falls
Stefan Streeter - Billings
Shane Mintz - Glendive

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Montana Legislative Audit Division

Financial-Compliance Audit
Montana Department of Transportation
For the Two Fiscal Years Ended June 30, 2011

October 2011 11-17 Report Summary

The Montana Department of Transportation (department) spent approximately $206.6 million in American Recovery & Reinvestment Act funds in fiscal years 2010-11 and 2009-10 for planning, designing, building, and maintaining approximately 25,000 miles of highways, without hiring additional staff. The department is one of the largest employing agencies in state government with 2,242 authorized positions in fiscal years 2010-11 and 2009-10. Our audit identified several areas for improvement, including the recruitment and selection of employees and controls over conflicts of interest.

Context

The department's primary funding sources are federal highway planning and construction and state motor fuel tax revenues. In fiscal year 2009-10 the department received approximately $828 million in total revenues. Federal special revenues were approximately $486 million and state special revenues were approximately $292 million.

The Highways and Engineering Program, and Maintenance Program account for approximately $668 million of the $793 million total expenditures in fiscal year 2009-10. The single largest expenditure is approximately $518 million, which represents the network of highways completed during fiscal year 2009-10.

Results

The current audit report contains ten recommendations. Recommendations included in the report relate to improper recruitment and selection of employees, controls over conflicts of interest, deficient internal controls over federal program requirements, and infrastructure transactions. The report includes unqualified opinions on each of the financial schedules for fiscal years 2010-11 and 2009-10.

The prior audit report for the two fiscal years ended June 30, 2009, contained four recommendations to the department. Two of the prior audit recommendations were fully implemented, one was partially implemented, and the fourth relates to the fuel purchasing cards and will be followed up on as part of our performance audit (10P-02).

Recommendation Concurrence	
Concur	9
Partially Concur	1
Do Not Concur	0

Source: Agency audit response included in final report.

For a complete copy of the report (11-17) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at http://leg.mt.gov/audit
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Call toll-free 1-800-222-4446, or e-mail lad@mt.gov.

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Montana Department of Transportation (department) for the two fiscal years ended June 30, 2011. The objectives of the audit were to:

1. Determine if the department complied with selected state and federal laws and regulations during the audit period.
2. Obtain an understanding of the department's control systems to the extent necessary to support our audit of the department's financial schedules and, if appropriate, make recommendations for improvements in management and internal controls of the department.
3. Determine the implementation status of prior audit recommendations.
4. Determine if the department's financial schedules present fairly the results of operations and changes in fund balances and property held in trust for each of the fiscal years ended June 30, 2011, and 2010.

As required by §17-8-101(6), MCA, we reviewed the fees and charges for services and the fund equity balances for the department's two Internal Service funds. We found the fees and charges for services were commensurate with costs and fund equity was reasonable for the Motor Pool and Equipment Internal Service funds as of June 30, 2011, and 2010. The fund equity balances include fleet and equipment assets.

This report contains ten recommendations to the department. In accordance with §5-13-307, MCA, we analyzed the costs to implement the recommendations in this report and believe the costs are not significant.

Background

The department is responsible for administering the multimodal transportation network in Montana. The department plans, designs, builds, and maintains the statewide network of highways. It is responsible for collecting and distributing highway user fees and fuel taxes. The department enforces state and federal laws for commercial motor carriers and registers interstate fleet vehicles. The department also facilitates the operation and the infrastructure of airports and airways in Montana, registers aircraft and pilots, and maintains several state-owned airports. The department represents Montana interests in railroad planning issues and supports local entities in overall transportation planning and transit assistance.

The department is under the direction of the director, who is appointed by the Governor and confirmed by the Senate. The director or his designee acts as liaison

between the Transportation Commission and the department. The commission is comprised of five members appointed by the Governor and confirmed by the Senate for four-year terms. The commission determines construction priorities, selects construction projects, awards construction contracts, and allocates funding to state, local, and national highway system projects. It also classifies highways as federal aid, primary, and off-system in the state maintenance system.

The department was authorized 2,242.26 full-time equivalent (FTE) positions during fiscal year 2010-11. The department's primary sources of funding are federal funds and state motor fuel taxes. Department activities are organized under the Director's Office and seven divisions as described below:

Director's Office (68.00 FTE) - provides overall direction and management to the department. Included under the Director's Office are Legal Services, Internal Audit, Public Information, and Human Resources.

Administration (64.82 FTE) - provides administrative support services including accounting, budgeting, financial planning, and purchasing. The Administration Division administers motor fuel tax laws and collects motor fuel taxes.

Aeronautics (11.00 FTE) - facilitates the maintenance of airports, registers aircraft and pilots, and coordinates and supervises aerial search and rescue operations. The Aeronautics Board decides whether to approve airport grant and loan requests, and advises the division on matters pertaining to aeronautics.

Highways and Engineering (912.72 FTE) - is responsible for highway construction project planning and development from the time a project is included in the long-range work plan through the actual construction of the project. This includes project design, right-of-way acquisitions, issuing contract bid requests, awarding contracts, and administering construction contracts. Personnel in five districts (Billings, Butte, Glendive, Great Falls, and Missoula) and in Helena supervise and monitor work done by private contractors.

Information Services (65.55 FTE) - provides department-wide information technology services including network operations, application development, user support, records management, and printing.

Maintenance (894.67 FTE) - is responsible for maintaining the state's highway systems and its related facilities, equipment and motor pool vehicles, and road condition information and reports.

Motor Carrier Services (123.00 FTE) - enforces state and federal commercial motor carrier laws including laws on vehicle size and weight, insurance, licensing, fuel, and vehicle and driver safety; registers interstate fleet vehicles; issues commercial vehicle licenses and oversize/overweight permits; collects and distributes fees and taxes; and operates a statewide weigh station and mobile enforcement program. It inspects commercial vehicles for compliance with state and federal safety, registration, fuel, insurance, and size/weight laws and conducts commercial motor carrier safety compliance reviews and safety audits.

Rail, Transit and Planning (102.50 FTE) - provides technical and monetary assistance to local communities and transit authorities for planning, organizing, operating, and funding public transportation systems and highway traffic safety programs. The division also addresses environmental activities on highway projects.

Prior Audit Recommendations

The prior audit for the two fiscal years ended June 30, 2009, contained four recommendations to the department. The department fully implemented two and partially implemented one. The other recommendation is related to fuel purchasing cards and will be followed up on as part of our performance audit (10P-02). The recommendation partially implemented is related to internal controls at fiscal year-end and because of the significant progress made by the department we are not making a recommendation at this time.

Chapter II – Findings and Recommendations

Improper Recruitment and Selection Practices

Department management circumvented the state Recruitment and Selection Policy when filling four positions, which resulted in the hiring of unqualified individuals, state law violations, and noncompliance with state and department Recruitment and Selection Policy.

During our audit we reviewed five recruitment files we identified as high risk and found three did not comply with state and department Recruitment and Selection Policy. We found one instance of the department not complying with state law with respect to short-term employees and two instances of violations with the state's record retention schedule. The paragraphs below further describe our findings.

Minimum Qualifications

In three of the five recruitment files reviewed, the applicants hired for the positions did not meet the minimum qualifications required. We compared the information submitted by the applicants to the minimum qualifications included in the position descriptions. Because the applicants did not meet the minimum qualifications they should not have been considered for the positions. In all three recruitment files there was evidence of several other qualified applicants. Two of the three individuals were hired for management positions. State policy requires agency managers and individuals involved in the selection process to evaluate the applicant's qualifications against the job requirements and minimum qualifications. It also requires managers to select from any of the most qualified group of applicants. Department policy requires only qualified applicants to advance through the recruitment process. The policy also states, "For management positions the most qualified applicants are advanced to the next step in the process which usually includes a behavioral interview."

A hiring committee is required by department policy and states, "A committee of at least three members is recommended. The role of the selection committee is to assist the hiring manager with all aspects of the recruitment and selection process, including development of selection criteria. Committee members are to participate in all aspects of the recruitment selection process." Department personnel told us that former management circumvented the hiring committees' recommendations and placed individuals that were not qualified in the positions. It was apparent from our review of the recruitment files a hiring committee was assigned in all cases, but the committee did not participate in all aspects of the recruitment selection process. For example, in one case the hiring committee made the decision not to advance an individual because that person did not meet the minimum qualifications, yet the

individual was interviewed and ultimately hired for the position. Based on our review of the recruitment files, personal, family, or other relationships was likely the reason the individuals were placed in their positions.

Scoring of Applicants

We found two of the five recruitment files did not contain documentation as to the scoring of applicants during the interview process. The department used the state's online recruitment system for recruiting, which retains scoring for these positions, but no scoring existed on the system. The hardcopy recruiting files included documentation of the interviews, but the scoring was also missing from the files. The records retention schedule for recruitment and selection files is three years after the selection. To comply with state law, the department should have retained the records through December 2013.

Short-term Worker

One of the five files reviewed was that of a short-term worker. Section 2-18-101(23), MCA, states in part:

> *"Short-term worker means a person who: a) is hired by an agency for an hourly wage established by the agency; b) may not work for the agency for more than 90 days in a continuous 12-month period; c) is not eligible for permanent status; d) may not be hired into another position by the agency without a competitive selection process; and e) is not eligible to earn the leave and holiday benefits or group insurance benefits…"*

Upon review of this individual's personnel records, we found the employee exceeded the 90-days in a continuous 12-month period by close to three months. A member of management said she expressed her concerns about this state law violation and was told to change the status of the employee to a temporary worker because the department needed someone to fill the position anyway. Extending a short-term employee beyond 90-days in a continuous 12-month period and changing the employee's status from short-term to temporary without having gone through the competitive process is a direct violation of state law.

Summary

Management's circumvention of state and department Recruitment and Selection Policy resulted in hiring unqualified individuals, noncompliance with policy, and state law violations. State and department policy is to provide for equitable and consistent treatment of applicants and to prevent the hiring of unqualified individuals.

Department management indicated there may be more employees that were hired where the department did not follow state or department policy. The department should identify any known questionable hiring decisions and address the risks associated with placing unqualified individuals in positions. Some of the risks the department should consider with hiring unqualified employees include whether they are capable of performing the job duties and risks related to litigation.

Recommendation #1

We recommend the department:

A. *Identify and address the employment risks related to the employment and placement of these unqualified individuals and consider the potential risks of any other known questionable hiring decisions.*

B. *Comply with state laws and state and department policy for recruitment and selection of employees to provide for equitable and consistent treatment of applicants.*

Controls Over Conflicts of Interest

The department has no formal process in place to resolve potential conflicts of interest to achieve proper segregation of duties.

In June 2011, the department implemented a conflict of interest policy that all employees are required to sign. The policy requires employees to disclose any potential conflicts of interest to management. However, the department does not have a formal process in place to resolve potential conflicts of interest. Employees can disclose conflicts of interest to any member of management and management can determine whether a conflict exists and whether or not to further communicate the conflict to others. The department's Accounting Controls Bureau works to ensure employees' duties are segregated and computer access rights are restricted where conflicts of interest exist. However, the Accounting Controls Bureau is not always made aware of potential conflicts of interest.

During our audit, we identified a situation where a division administrator used, and authorized the use of, a private business, in which their spouse is part owner, to provide goods and services to the department. The division paid the business $15,750 and $16,289 in fiscal years 2010-11 and 2009-10, respectively. Goods and services provided include performing repairs and maintenance, providing charter services, and

providing fuel to the division. Without proper segregation of duties where a conflict of interest exists, there is risk that the department pays for services not performed or goods not received.

State accounting policy states management is responsible for establishing and maintaining agency internal controls. Internal controls include a coordinated set of policies and procedures used by managers and workers to ensure that the department's programs functions operate efficiently and effectively in conformance with applicable laws and regulations, and that the related transactions are accurate, properly recorded and executed in accordance with management's directives.

Personnel in the department's Accounting Controls Bureau stated they were not aware of the relationship we identified as a conflict of interest. Department management indicated some members of management were aware and did not believe a conflict existed so the information was not communicated to the Accounting Controls Bureau. We believe employees should not be involved in transactions where this type of conflict of interest exists. By not having a formal process in place to resolve potential conflicts of interest, department personnel responsible for ensuring proper segregation of duties and restricting computer access rights are not able to address any risks associated with the conflict. The Accounting Controls Bureau's role in segregating duties and restricting computer access where potential conflicts of interest exist is vital for a department that employs a large number of contractors and over 2,000 employees.

Recommendation #2

We recommend the department revise its conflict of interest policy to ensure the Accounting Controls Bureau is made aware of all potential conflicts of interest.

Internal Control Over Federal Transit and Highway Planning and Construction Programs

An internal control structure includes a coordinated set of policies and procedures used by managers and their employees to ensure programs or functions operate efficiently and effectively in accordance with applicable laws and regulations. Internal controls are designed to provide management with reasonable assurance it will achieve its programs' or functions' objectives.

Federal regulations require the department to maintain internal control over federal programs to provide reasonable assurance the department is managing federal awards in compliance with laws, regulations and provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

The following sections include instances where the department can improve internal control procedures to ensure compliance with federal regulations related to the Federal Transit and Highway Planning and Construction programs. Noncompliance with federal regulations can result in decreased funding.

Vehicle Purchases

The department's internal control procedures over vehicles purchased with federal funds, including American Recovery and Reinvestment Act (ARRA) funds, are deficient.

In fiscal years 2009-10 and 2010-11 the department received approximately $21 million in federal funding to provide for transit assistance in rural areas across the state. With this funding, the department issued a total of 17 solicitations for vehicle purchases to be used for public transportation services. Federal regulations require the bidder to certify that it will comply with the Buy America requirements and that each transit vehicle manufacturer, as a condition of being authorized to bid, certify that it has complied with the requirements of the Disadvantaged Business Enterprise. We reviewed one purchase order for three vehicles and found the department did not have the required certifications signed before the contract was awarded. Department controls were not designed to ensure the certifications were signed as required. Upon our request for the certifications, the department had the vendor sign the certifications. The certifications were signed four and a half months after the contract was awarded and three weeks after delivery of the vehicles. Without adequate controls, there is risk the vendors may not have complied with the Buy America and Disadvantaged Business Enterprise requirements.

As a result of the lack of signed certifications we identified, department management had staff review each purchase to determine the extent of the problem and to ensure they had the required certifications. Department management found three additional solicitations that did not contain the required certifications. In some cases the certifications were signed after the fact and in other cases the file did not include the certifications. Department management responded by making changes to its internal control procedures in April 2011. However, we did not test the new controls.

Recommendation #3

We recommend the department:

A. *Implement controls to ensure compliance with federal Buy America and Disadvantaged Business Enterprise certification requirements, and*

B. *Comply with the federal Buy America and Disadvantaged Business Enterprise certification requirements.*

Subrecipient Monitoring

The department's internal control over subrecipient monitoring related to wage requirements, audit requirements, and equipment and real property management is deficient.

The department receives federal funding to provide for transit assistance, and subgrants transit program funds to entities across the state to provide for rural transportation assistance. Federal regulations require the department to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provision of contracts or grant agreements. The following paragraphs describe instances where we identified internal control procedures were deficient with respect to subrecipient monitoring.

Davis-Bacon Act Requirements

The department has assigned responsibility to its Civil Rights Bureau for the receipt of weekly payroll from its contractors that certify Davis-Bacon wages were paid for projects funded with federal grants. The department chose to monitor all subrecipients prevailing wage payments to ensure compliance with Davis-Bacon requirements. We found the system for communicating improper wage payments identified by the Civil Rights Bureau to Transit Program staff was not effective. The communications are not made to Transit Program staff responsible for reducing or stopping payment and did not occur prior to payment. We found one instance where the Civil Rights Bureau identified a wage discrepancy with a contractor after the contractor had already been paid in full. Once the department received additional information from the contractor, it was determined proper wages were paid to employees. However, internal control procedures are not designed to stop or reduce payments made to contractors for wage discrepancies on a timely basis.

Audit Requirements

Federal regulations require nonfederal entities that expend $500,000 or more in a year in federal awards have an audit. Federal regulations state the audit shall be completed and the reporting required within the earlier of 30 days after receipt of the auditor's report or nine months after the end of the audit period, unless a longer period is agreed to in advance by the federal agency that provided the funding. Federal regulations also require, in cases of continued inability or unwillingness to have an audit conducted in accordance with this part, federal agencies and pass-through entities to take appropriate action using sanctions such as:

- Withholding a percentage of federal awards until the audit is completed satisfactorily;
- Withholding or disallowing overhead costs;
- Suspending federal awards until the audit is conducted; or
- Terminating the federal award.

The department does not receive audits from its subrecipients in a timely manner and does not sanction subrecipients when audit reports are not received timely. The department does not always know the date an audit is to be completed because the spreadsheet used to track this information is not accurate.

Department management indicated they reserve the right to sanction its subrecipients, but have chosen not to use sanctions, which is not in compliance with federal regulations. When audits are not submitted timely, the department cannot ensure subrecipients are complying with federal requirements and take timely and appropriate corrective action on audit findings. Department management stated in many cases subrecipients submitted their audits to the federal audit database but not to the department. Instead of retrieving the audit from the federal database, the department waited for the subrecipient to send the audit. As a result, the department did not have the results of the audits in a timely manner.

Equipment and Real Property Management

With federal approval, subrecipients are allowed to transfer, sell, or lease property, equipment, or supplies acquired with Federal Transit funds which are no longer needed for transit purposes. The federal regulations state, "The net income from asset sales, uses, or leases…shall be used by the recipients to reduce the gross project cost of other capital projects carried out under this chapter." The department does not have monitoring controls in place to determine whether subrecipients comply with these requirements or take appropriate action when they do not comply. Transit program management indicated they were not aware of the requirement and no vehicles were

sold during fiscal years 2010-11 and 2009-10, but if vehicles were sold, the proceeds would likely go back into program operations because recipients have limited funding. However, since the department was unaware of the requirement and does not have controls in place to ensure compliance, there is a potential for improper use of the funds resulting in unallowable costs.

Summary

Each of the above sections identifies deficiencies in internal control procedures related to the Federal Transit Program. Federal regulations require the department to monitor the activities of subrecipients as necessary to ensure federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements.

Recommendation #4

We recommend the department improve its internal controls to ensure Federal Transit Program subrecipients are monitored in accordance with federal regulations.

Reporting Requirements

The department does not verify the accuracy or completeness of the local operating assistance information it obtains from its subrecipients for reporting purposes.

Federal regulations require the department, as the pass-through agency, to submit annual reports to the National Transit Database. Information required to be submitted by subrecipients for these reports includes: annual expenses, fare revenues, contract revenues, local funds, state funds, federal assistance, asset information, and trip information. The department is responsible for collecting and submitting this data on behalf of each of its subrecipients. The department does not have procedures in place to verify the completeness and accuracy of the information included on the annual subrecipient reports for local funds. Local funds consist of financial assistance from local entities that support the operation of the transit system. Local funds include tax levies, general funds, and donations. The department relies on its subrecipients to provide it with the amount of local funds to report. The federal grantor agency considers the local operating assistance to be critical information. Therefore, the information submitted should be complete and accurate. Without procedures in place to ensure the accuracy and completeness of reported local funds, the department

could contribute to an incomplete or inaccurate representation of the federal role in funding of rural transit systems. The department does not know whether the local funds amounts reported to the National Transit Database annually are complete or accurate for fiscal years 2010-11 and 2009-10. Department management stated they did not have procedures in place to verify this information during the audit period, but will start verifying local funds.

Recommendation #5

We recommend the department implement controls to ensure the amount of local funds reported on behalf of subrecipients is complete and accurate, in accordance with federal regulations.

Identifying Grant Information

The department's internal controls related to providing required identifying grant information to its subrecipients are deficient.

Federal regulations require the department to separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the federal award number, Catalog of Federal Domestic Assistance (CFDA) number, and amount of recovery act funds for its American Recovery and Reinvestment Act (ARRA) recipients. In addition, federal regulations require the department to identify federal awards made by informing each subrecipient of CFDA title and number and award name and number for its nonARRA recipients.

Department procedures do not include providing subrecipients with the CFDA number and the federal grant award number upon disbursement of ARRA funds, as well as providing federal grant numbers for nonARRA grant funds. Department personnel said system limitations prohibited them from providing all the information they wanted to provide to the subrecipients and they chose to eliminate the CFDA and federal grant award numbers. By not providing the subrecipient with the required CFDA number and federal grant award number, the department increases the risk that recipients may not know the source of funds they are receiving. ARRA funds have additional requirements; if subrecipients are not aware of the source of funding, the risks for noncompliance with the additional ARRA federal requirements is greater.

Recommendation #6

We recommend the department modify its procedures to ensure it provides subrecipients with the identifying grant information, as required by federal regulations.

Prevailing Wage Controls

The department's internal control procedures are not adequate to ensure proper wages are paid by the Highway Planning and Construction Program.

An internal control deficiency exists when the control does not allow management to prevent or detect noncompliance on a timely basis. Federal regulations require all federal aid projects to pay mechanics and laborers the prevailing wage rate for similar work performed within the same geographic area. Federal regulations also require the contractor to submit a copy of the certified weekly payrolls. Department Engineering Project Managers complete an initial review of certified weekly payrolls funded by federal grants, including the Federal Highway Planning and Construction Program. The Civil Rights Bureau also reviews the certified weekly payrolls and is ultimately responsible for the department's compliance with the Davis-Bacon Act requirements. During our audit, we reviewed 15 highway projects, consisting of multiple contractors, for compliance with Davis-Bacon Act requirements. We found three indications of incorrect wage payments despite the department's dual review process. As a result, department personnel obtained additional documentation from the three contractors in question and determined two of the three had made incorrect wage payments to employees. In the two instances of noncompliance with Davis-Bacon Act requirements contractors were underpaid by $79.

We evaluated the effect the internal control deficiency had on the total Federal Highway Planning and Construction Program in relation to the total expended for the 15 projects and estimated the total potential underpayment of Davis-Bacon wages to be between $200,000 and $350,000. Department management indicated they were not sure why internal control procedures did not detect the errors, but it is likely due to the increased workload with ARRA funds. The department took on additional workload with existing staff. While we agree the department has an increased workload due to ARRA funds that may lead to undetected errors, there are potential unallowable costs related to the underpayment of wages that the department may not recover from contractors.

Recommendation #7

We recommend the department follow its procedures to ensure compliance with Davis-Bacon Act requirements.

Infrastructure Transactions

The department made errors when reclassifying infrastructure costs in fiscal years 2010-11 and 2009-10.

There are many costs related to the construction of roads, such as personal services and various operating expenses. State accounting policy requires the full cost of roads to be recorded as infrastructure assets once the roads are complete. At fiscal year-end the department reclassifies personal services and operating expenses associated with the construction of roads as capital outlay expenditures. During fiscal years 2010-11 and 2009-10 the department made errors in recording these reclassifications.

In fiscal year 2010-11 the department made two errors in reclassifying personal services and operating costs to capital outlay. One error overstated capital outlay by $128,802,509 and the other understated it by $134,619,202. As a result of these two errors, capital outlay in the GAAP Adjustments Program on the Schedule of Total Expenditures & Transfers-Out is understated by $5,810,693.

In fiscal year 2009-10 the department improperly reclassified $15,812,830 of capital outlay expenditures to the Highways & Engineering Program when the expenditures belonged in various other programs. Department personnel also found they erroneously recorded an asset of $858,407 that had already been recorded in the previous fiscal year.

The following table summarizes the fiscal year 2009-10 misstatements on the Schedule of Total Expenditures & Transfers-Out as shown on page A-8.

Table 1
Capital Outlay Over/(Under) Statements
Fiscal Year 2009-10

Expenditures	Highways & Engineering	Maintenance	Rail, Transit, &Planning	General Operations
Personal Services and Operating Expenses	$(15,812,830)	$14,588,539	$233,165	$991,122
Capital Outlay	$15,812,830	$(14,588,539)	$(233,165)	$(991,122)

Source: Compiled by the Legislative Audit Division from SABHRS and department records.

Department personnel stated this is a time intensive process that is done during the fiscal year-end period. Staff have a short period of time to determine and make the reclassification entries. We agree this is a labor intensive process and staff have a short period of time to make the entries but the department could consider estimating the reclassification entries prior to fiscal year-end to allow for more time.

Recommendation #8

We recommend the department record capital outlay expenditures in accordance with state accounting policy.

Accounting Errors

The department did not follow state accounting policy when recording fuel tax accruals, special revenue fund activity, and gas tax allocations and distributions.

Section 17-1-102(4), MCA, requires the department to input all necessary transactions before the end of the fiscal year to present the receipt, use, and disposition of all money and property, for which it is accountable, in accordance with generally accepted accounting principles.

The following sections describe instances where the department recorded transactions that did not comply with state law or accounting policy and resulted in misstatements on the state's accounting records.

Fuel Tax Accruals

State law allows for fuel tax refunds to be issued to agricultural taxpayers, special fuel users, and International Fuel Tax Agreement members. Fuel tax refunds are not accrued at fiscal year-end, as required by state accounting policy. Instead, fuel tax refunds are recorded in the fiscal year in which the refund was requested and not in the year in which the original revenue was received or generated. Department management indicated they chose not to estimate the fuel tax refunds because the fuel tax users can request the refunds for the three years prior and did not believe an accrual was appropriate. Department management said the accruals would never be material so they use the refund request date as the year in which the transactions should be recorded. State accounting policy states, "…for those revenues subject to refund… the agencies should record an estimated liability and corresponding reduction in revenue for refunds that are associated with the revenue accrued and expected to be paid in the next fiscal year." As a result, the department should accrue fuel tax refunds at fiscal year-end by increasing its liability and decreasing its tax revenue.

We requested department staff estimate the accrual for fiscal year 2009-10. Department staff estimated the accrual to be $564,344. Given the amount of the accrual estimated, we believe an accrual should be recorded on the state's accounting system. As a result, taxes in the State Special Revenue Fund on the Schedule of Total Revenues & Transfers-In in fiscal year 2009-10 are overstated by an estimated $564,344.

The Aeronautics Division receives a $.04 per gallon tax on aviation fuel. Section 67-1-301(3), MCA, requires the revenue to be split into two funds, the Aeronautical Grant Account and the Aeronautics Division. In fiscal year 2009-10, the department recorded an accrual in the Aeronautics Division fund, but not in the Aeronautical Grant Account. The accrual for aviation fuel tax should take into consideration both accounts in which revenue is deposited. Department management stated they realized they needed to do an accrual at fiscal year-end but procedures were not designed to include both accounts. Department management stated this was the first time they made the accrual so it was recorded in error. As a result, there should have been a $61,786 tax revenue accrual recorded in the Aeronautical Grant Account on the state's accounting system in fiscal year 2009-10. Once we identified the deficiency in procedures, department management revised its procedures.

Improper Fund Use

In fiscal year 2009-10 the department was responsible for holding the American Association of Highway and Transportation Officials (AASHTO) Information Systems subcommittee conference. The department incorrectly recorded AASHTO conference activity in an Investment Trust Fund in fiscal year 2009-10, rather

than a State Special Revenue Fund. The department requested the Department of Administration establish a fund to account for the expenses of holding the conference and revenues received from other states. The Department of Administration set up an Investment Trust Fund rather than a State Special Revenue Fund.

The AASHTO conference activity does not meet the definition of an Investment Trust Fund. As a result, Investment Trust Fund revenues are overstated by $76,124, expenditures are overstated by $24,859, and the State Special Revenue Fund is understated by the same amounts.

Department personnel indicated they did not identify the fund they were using was the wrong fund type because the fund number closely resembled that of the correct fund type. The Department of Administration identified the error in fiscal year 2010-11. Department internal controls were not designed to detect the error in a timely manner. The department should have verified the proper fund type was in use prior to fiscal year-end.

Gas Tax Allocations and Distributions

State law requires gasoline dealers' license tax revenues be allocated based on ratios established in state law. Section 60-3-201(1)(b), MCA, requires gas tax to be distributed to the Snowmobile Account in the amount of 15/28 of 1 percent of the gas tax. The law then requires several partial percentages be allocated amongst various accounts leaving 86 percent to go into the Snowmobile Account. The department erroneously allocated 87 percent of the funds to the Snowmobile Account, when it should have allocated 86 percent in fiscal year 2009-10. Department personnel stated they set up a spreadsheet to use to make the allocations but made an error in the formulas. As a result, tax revenues in the Snowmobile Account is overstated by $7,198, and understated in the Restricted Highway Special Revenue Account by the same amount in fiscal year 2009-10.

State law allows for the department to enter into motor fuel tax cooperative agreements with the tribes. Six of the seven tribes have a gas tax distribution agreement with the state. The distribution is calculated each fiscal year based on the prior year's gas tax collections. The department did not calculate the distribution to the tribes in accordance with the agreements, for fiscal years 2009-10 and 2010-11 through April. Department personnel said this was a clerical error. As a result, the tribes did not receive the appropriate distributions. Collectively, the six tribes received an extra $234 in fiscal year 2009-10, and were owed an additional $7,494 for the first three quarters in fiscal year 2010-11.

Recommendation #9

We recommend the department record fuel tax accruals, special revenue fund conference activity, and gas tax allocations and distributions in accordance with state accounting policy and law.

Other Less Significant Internal Control Deficiencies

Controls are not adequate over lease agreements, a storage room, and cash collection and reconciliation functions.

Per state accounting policy, management is responsible for establishing and maintaining agency internal controls. Internal control is defined as a coordinated set of policies and procedures used by managers and workers to ensure that the department's programs or functions operate efficiently and effectively in conformance with applicable laws and regulations, and that the related transactions are accurate, properly recorded, and executed in accordance with management's directives.

The following three examples show where improvements can be made in the department's internal controls.

Controls Over Lease Agreements

The department has many lease agreements where it is the party obtaining legal rights to land access. We reviewed eight lease agreements in the Aeronautics Division and found three of these leases, totaling $1,550, were expired. By not having a signed lease in effect, the department is putting itself at risk of not being able to use the property for its beacon lights or that the beacon lights may stop running. If the department does not have a valid contract for continued operation and easement access rights, the landowners could deny access or disengage the beacons lights. Beacon lights operate for safety purposes and if they are not operating, the department's liability could increase.

Department personnel cited several reasons for having expired leases. One lease expiration date was changed by the landowner from the year 2015 to 2010 when it was signed; one lessor creates the agreement and the department was waiting for the lessor to provide a new agreement; and the final lease was overlooked. The department's internal controls over monitoring lease agreements in the Aeronautics Division are not designed to ensure new lease agreements are signed prior to, or upon, expiration of the existing lease.

Controls Over a Storage Room

During our audit we observed a basement inventory storage room was unlocked and the door was wide open for several months. This room contained many general building maintenance items, such as an unlocked flame-proof cabinet with aerosol cans of paint and cleaners, furnace filters, hand tools, and nuts and bolts. A recent remodel has resulted in increased employee, as well as nonemployee, traffic flow throughout the basement, due to conferences, contract opening, and trainings. An audit staff member was able to remove items undetected and immediately present these to department staff to demonstrate the control deficiency. The unlocked open door could result in loss or theft of state assets. The department should restrict access to the storage room to minimize the risk of loss or theft of assets. The contents of the room are estimated to be valued at $4,531.

Department staff indicated they need quick access to the storage room and its contents. The department does not believe there is risk because the Maintenance Division is located in close proximity to the storage room and because of cameras located at the department entrances and exits. However, the Maintenance Division office is not within view of the storage room and cameras are not located anywhere near the storage room, so they would not detect theft unless the item was too large to conceal.

Segregation of Duties

The Aeronautics Division sells a Montana aviation book, a Montana aviation map, and an airport directory. Cash is occasionally used to purchase the items, but the division does not have a process to match sales with cash receipts. The division's accounting staff can physically handle the assets and enter transactions into the accounting system. In addition, the Aeronautics Division employee responsible for preparing bank deposits also reconciles the deposits to the state's accounting system, and is responsible for cash collection.

State accounting policy states that the authorization of transactions and managing the custody or disposal of the related assets or records are incompatible duties. State accounting policy states individuals who receive cash or make deposits should not be involved in reconciling the bank accounts.

As a result, cash is more susceptible to theft, revenue could be incomplete, and assets could be given away without cash being recorded on the accounting system. Department personnel stated the division is small and has a limited number of staff so it's difficult to segregate duties. However, the department is large and some of the duties could be performed by the central office to ensure proper segregation of duties exists.

Recommendation #10

We recommend the department implement internal controls over lease agreements, storage room access, and Aeronautics Division cash collection.

Independent Auditor's Report and Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors
Cindy Jorgenson
Angie Grove

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Transportation for each of the fiscal years ended June 30, 2011, and 2010. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express opinions on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in note 1, these financial schedules are prepared on the basis of Montana state accounting policy, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities, and cash flows.

In our opinion the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances and property held in trust of the Department of Transportation for each of the fiscal years ended June 30, 2011, and 2010, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor

September 19, 2011

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DEPARTMENT OF TRANSPORTATION
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Investment Trust Fund	Private Purpose Trust Fund
FUND BALANCE: July 1, 2010	$ (40,731)	$ 125,709,007	$ 0	$ 0	$ 3,027,779	$ 71,424,072	$ 0	$ 51,265	$ 285,649
PROPERTY HELD IN TRUST: July 1, 2010							$ 223,583		
ADDITIONS									
Budgeted Revenues & Transfers-In	472,331	277,748,414	481,348,722		205,572	30,949,436			
Nonbudgeted Revenues & Transfers-In		5,407,519		15,977,019	37	368,878			870
Prior Year Revenues & Transfers-In Adjustments	52	(556,557)				9,281			
Direct Entries to Fund Balance	(143,755)	(29,274,088)				329,287		(51,265)	
Additions to Property Held in Trust							1,064,091		
Total Additions	328,628	253,325,288	481,348,722	15,977,019	205,609	31,656,882	1,064,091	(51,265)	870
REDUCTIONS									
Budgeted Expenditures & Transfers-Out	2,133,809	246,854,530	439,413,699		210,877	28,980,423			
Nonbudgeted Expenditures & Transfers-Out		7,047,112	43,172,468	15,977,019	169,614	3,594,370			727
Prior Year Expenditures & Transfers-Out Adjustments		(4,905)				8,657			
Reductions in Property Held in Trust							968,277		
Total Reductions	2,133,809	253,896,737	482,586,167	15,977,019	380,491	32,583,450	968,277	0	727
FUND BALANCE: June 30, 2011	$ (1,845,912)	$ 125,137,558	$ (1,237,445)	$ 0	$ 2,852,897	$ 70,497,504	$ 0	$ 0	$ 285,792
PROPERTY HELD IN TRUST: June 30, 2011							$ 319,397		

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF TRANSPORTATION
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Investment Trust Fund	Private Purpose Trust Fund
FUND BALANCE: July 1, 2009	$ (74,517)	$ 120,675,839	$ 1	$ 0	$ 3,124,250	$ 68,465,753	$ 0	$ 0	$ 285,494
PROPERTY HELD IN TRUST: July 1, 2009							$ 225,384		
ADDITIONS									
Budgeted Revenues & Transfers-In	515,715	288,173,710	487,099,652		276,704	31,842,111			
Nonbudgeted Revenues & Transfers-In		5,035,875		15,981,281	37	518,727		76,124	935
Prior Year Revenues & Transfers-In Adjustments		(706,673)	(740,973)			6,536			
Direct Entries to Fund Balance	(272,202)	(26,807,854)				850			
Additions to Property Held in Trust							1,031,024		
Total Additions	243,513	265,695,058	486,358,679	15,981,281	276,741	32,368,224	1,031,024	76,124	935
REDUCTIONS									
Budgeted Expenditures & Transfers-Out	209,727	246,214,947	435,035,489		232,764	32,179,890			
Nonbudgeted Expenditures & Transfers-Out		9,489,670	52,074,007	15,981,281	140,448	(2,886,597)		24,859	780
Prior Year Expenditures & Transfers-Out Adjustments		4,957,273	(750,816)			116,612			
Reductions in Property Held in Trust							1,032,825		
Total Reductions	209,727	260,661,890	486,358,680	15,981,281	373,212	29,409,905	1,032,825	24,859	780
FUND BALANCE: June 30, 2010	$ (40,731)	$ 125,709,007	$ 0	$ 0	$ 3,027,779	$ 71,424,072	$ 0	$ 51,265	$ 285,649
PROPERTY HELD IN TRUST: June 30, 2010							$ 223,583		

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Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF TRANSPORTATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS									
Licenses and Permits	$ 461,427	$ 18,751,483							$ 19,212,910
Taxes	10,955	209,384,591			$ 37	$ 353			209,395,936
Charges for Services		3,520,264			38,578	29,194,354			32,753,196
Investment Earnings		256,415					$ 48	$ 870	257,333
Fines and Forfeits		710,618				670			711,288
Capital Contributions						1,575,896			1,575,896
Sale of Documents, Merchandise and Property		251,589				350,571			602,160
Rentals, Leases and Royalties	1	304,840			106,574				411,415
Grants, Contracts, and Donations		483,456			20,000				503,456
Transfers-in		4,186,384	$ 159,183	$ 15,977,019	2,709				20,325,295
Intra-entity Revenue		161,564							161,564
Capital Asset Sale Proceeds		542,000							542,000
Federal Indirect Cost Recoveries		43,176,666							43,176,666
Miscellaneous		869,103			37,711	205,751	(48)		1,112,517
Federal		403	481,189,539						481,189,942
Total Revenues & Transfers-In	472,383	282,599,376	481,348,722	15,977,019	205,609	31,327,595	0	870	811,931,574
Less: Nonbudgeted Revenues & Transfers-In		5,407,519		15,977,019	37	368,878		870	21,754,323
Prior Year Revenues & Transfers-In Adjustments	52	(556,557)				9,281			(547,224)
Actual Budgeted Revenues & Transfers-In	472,331	277,748,414	481,348,722	0	205,572	30,949,436	0	0	790,724,475
Estimated Revenues & Transfers-In	554,335	304,754,165	445,256,102		258,002	37,755,403			788,578,007
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (82,004)	$ (27,005,751)	$ 36,092,620	$ 0	$ (52,430)	$ (6,805,967)	$ 0	$ 0	$ 2,146,468
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS									
Licenses and Permits	$ (2,057)	$ (12,327,258)							$ (12,329,315)
Taxes	(1,545)	14,142,271							14,140,726
Charges for Services		(140,758)			$ 9,578	$ (7,407,292)			(7,538,472)
Investment Earnings		(125,851)							(125,851)
Fines and Forfeits		(154,802)							(154,802)
Capital Contributions		(175,000)			(1)	575,896			400,895
Sale of Documents, Merchandise and Property		(123,682)				(8,946)			(132,628)
Rentals, Leases and Royalties		112,253			(52,726)				59,527
Grants, Contracts, and Donations		(494,440)							(494,440)
Transfers-in	(78,402)	(4,106,560)			(10,991)	(1)			(4,195,954)
Intra-entity Revenue		11,564							11,564
Bond Proceeds		(1)							(1)
Federal Indirect Cost Recoveries		(23,713,467)			(1)				(23,713,468)
Miscellaneous		90,383	$ (1)		1,713	34,376			126,471
Federal		(403)	36,092,621		(2)				36,092,216
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (82,004)	$ (27,005,751)	$ 36,092,620	$ 0	$ (52,430)	$ (6,805,967)	$ 0	$ 0	$ 2,146,468

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF TRANSPORTATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Investment Trust Fund	Private Purpose Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS										
Licenses and Permits	$ 504,164	$ 19,481,492								$ 19,985,656
Taxes	11,550	204,413,161			$ 37	$ 153				204,424,901
Charges for Services		5,983,308			34,040	30,642,080				36,659,428
Investment Earnings		212,648					$ 63		$ 935	213,646
Fines and Forfeits		488,579								488,579
Capital Contributions					119,040	1,007,817				1,126,857
Sale of Documents, Merchandise and Property		316,674				526,120				842,794
Rentals, Leases and Royalties	1	279,314			91,599					370,914
Grants, Contracts, and Donations		93,157								93,157
Transfers-in		4,120,034		$ 15,981,281						20,101,315
Capital Asset Sale Proceeds		382,000								382,000
Federal Indirect Cost Recoveries		55,747,407								55,747,407
Miscellaneous		985,138	$ 800		32,025	191,204	(63)	$ 76,124		1,285,228
Federal			486,357,879							486,357,879
Total Revenues & Transfers-In	515,715	292,502,912	486,358,679	15,981,281	276,741	32,367,374	0	76,124	935	828,079,761
Less: Nonbudgeted Revenues & Transfers-In		5,035,875		15,981,281	37	518,727		76,124	935	21,612,979
Prior Year Revenues & Transfers-In Adjustments		(706,673)	(740,973)			6,536				(1,441,110)
Actual Budgeted Revenues & Transfers-In	515,715	288,173,710	487,099,652	0	276,704	31,842,111	0	0	0	807,907,892
Estimated Revenues & Transfers-In	554,335	302,959,026	469,648,482		254,902	38,361,575				811,778,320
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (38,620)	$ (14,785,316)	$ 17,451,170	$ 0	$ 21,802	$ (6,519,464)	$ 0	$ 0	$ 0	$ (3,870,428)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS										
Licenses and Permits	$ 40,732	$ (10,449,762)								$ (10,409,030)
Taxes	(950)	7,624,434								7,623,484
Charges for Services		2,264,642			$ 3,040	$ (6,565,686)				(4,298,004)
Investment Earnings		(296,225)								(296,225)
Fines and Forfeits		(166,248)								(166,248)
Capital Contributions		(165,000)			119,039	7,817				(38,144)
Sale of Documents, Merchandise and Property		(41,565)				(9,574)				(51,139)
Rentals, Leases and Royalties		93,827			(63,501)					30,326
Grants, Contracts, and Donations		(636,034)			(20,000)					(656,034)
Transfers-in	(78,402)	(4,106,560)	$ (1)		(13,700)	(1)				(4,198,664)
Bond Proceeds		(1)								(1)
Federal Indirect Cost Recoveries		(9,105,511)			(1)					(9,105,512)
Miscellaneous		198,687	(14,800)		(3,073)	47,980				228,794
Federal			17,465,971		(2)					17,465,969
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (38,620)	$ (14,785,316)	$ 17,451,170	$ 0	$ 21,802	$ (6,519,464)	$ 0	$ 0	$ 0	$ (3,870,428)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF TRANSPORTATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Aeronautics Program	Equipment Program	General Operations Program	Highways & Engineering	Maintenance Program	Motor Carrier Services Division	Rail, Transit & Planning	State Motor Pool	GAAP Adjustments	Total
Personal Services										
Salaries	$ 545,041	$ 5,268,738	$ 9,367,062	$ 48,315,639	$ 34,384,785	$ 5,370,605	$ 5,359,849	$ 256,588	$ (52,596,311)	$ 56,271,996
Hourly Wages					800					800
Other Compensation	1,850		7,903	2,500						12,253
Employee Benefits	173,287	2,202,135	2,513,961	15,016,520	13,598,429	1,959,499	1,681,243	105,545		37,250,619
Personal Services-Other	2,196	63,900						(12,379)		53,717
Total	722,374	7,534,773	11,888,926	63,334,659	47,984,014	7,330,104	7,041,092	349,754	(52,596,311)	93,589,385
Operating Expenses										
Other Services	78,534	303,935	7,031,784	354,770,170	32,478,305	628,853	2,922,495	315,654	(332,225,523)	66,304,207
Supplies & Materials	48,002	9,471,303	2,567,816	961,138	1,163,801	98,579	338,874	1,575,657		16,225,170
Communications	14,465	7,529	2,005,201	405,847	392,006	94,234	93,835	1,384		3,014,501
Travel	14,378	16,687	354,462	1,085,908	133,484	172,538	176,391	185		1,954,033
Rent	25,821	17,247	(78,550)	3,054,463	19,598,038	387,580	204,600	64,800		23,273,999
Utilities	49,737	70,692		121,304	3,706,575	98,805	2,719	8,303		4,058,135
Repair & Maintenance	34,732	4,347,074	1,278,735	2,438,377	21,646,203	30,780	94,481	358,821		30,229,203
Other Expenses	172,267	6,335,971	3,487,580	38,761,536	1,463,893	444,234	2,961,237	2,103,571		55,730,289
Goods Purchased For Resale	16,409									16,409
Total	454,345	20,570,438	16,647,028	401,598,743	80,582,305	1,955,603	6,794,632	4,428,375	(332,225,523)	200,805,946
Equipment & Intangible Assets										
Equipment	119,040	(826,526)	183,623	1,157,806	(59,320)	8,382	28,940			611,945
Intangible Assets			66,687		177,000					243,687
Total	119,040	(826,526)	250,310	1,157,806	117,680	8,382	28,940			855,632
Capital Outlay										
Land & Interest In Land				9,322,231	1,000				384,821,834	394,145,065
Buildings				250	973,393					973,643
Other Improvements				1,442,948						1,442,948
Total				10,765,429	974,393				384,821,834	396,561,656
Local Assistance										
From other sources			3,862,773							3,862,773
Total			3,862,773							3,862,773
Grants										
From State Sources	461,185		16,741,000	215,884			3,772,255			21,190,324
From Federal Sources			942,380	11,970,861			17,245,399			30,158,640
From Other Sources							472,269			472,269
Total	461,185		17,683,380	12,186,745			21,489,923			51,821,233
Transfers-out										
Fund transfers	2,709		4,758,939	38,297			1,495,496			6,295,441
Mandatory Transfers				15,977,019	611,900					16,588,919
Intra-Entity Expense				364,475						364,475
Total	2,709		4,758,939	16,379,791	611,900		1,495,496			23,248,835
Debt Service										
Bonds				15,977,019						15,977,019
Loans								133,530		133,530
Capital Leases			302,824							302,824
Total			302,824	15,977,019				133,530		16,413,373
Other Post Employment Benefits										
Other Post Employment Benefits	6,461	375,008						18,098		399,567
Total	6,461	375,008						18,098		399,567
Total Expenditures & Transfers-Out	$ 1,766,114	$ 27,653,693	$ 55,394,180	$ 521,400,192	$ 130,270,292	$ 9,294,089	$ 36,850,083	$ 4,929,757	$ 0	$ 787,558,400
EXPENDITURES & TRANSFERS-OUT BY FUND										
General Fund			$ 2,133,809							$ 2,133,809
State Special Revenue Fund	$ 1,384,682		50,600,959	$ 69,934,300	$ 119,805,797	$ 6,940,802	$ 5,230,197			253,896,737
Federal Special Revenue Fund	941		2,659,412	435,488,873	10,464,495	2,353,287	31,619,159			482,586,167
Debt Service Fund				15,977,019						15,977,019
Enterprise Fund	380,491									380,491
Internal Service Fund		$ 27,653,693						$ 4,929,757		32,583,450
Private Purpose Trust Fund							727			727
Total Expenditures & Transfers-Out	1,766,114	27,653,693	55,394,180	521,400,192	130,270,292	9,294,089	36,850,083	4,929,757	0	787,558,400
Less: Nonbudgeted Expenditures & Transfers-Out	(77,444)	1,542,865	6,914,957	54,991,381	1,351,961	278,423	2,907,661	2,051,505		69,961,309
Prior Year Expenditures & Transfers-Out Adjustments	558	8,009	(254)			(5,209)		648		3,752
Actual Budgeted Expenditures & Transfers-Out	1,843,000	26,102,819	48,479,477	466,408,811	128,918,331	9,020,875	33,942,422	2,877,604	0	717,593,339
Budget Authority	2,391,480	27,435,600	51,304,808	592,707,737	142,051,453	12,925,479	42,353,910	6,562,958		877,733,425
Unspent Budget Authority	$ 548,480	$ 1,332,781	$ 2,825,331	$ 126,298,926	$ 13,133,122	$ 3,904,604	$ 8,411,488	$ 3,685,354	$ 0	$ 160,140,086
UNSPENT BUDGET AUTHORITY BY FUND										
General Fund				$ 12,114	$ 62,858					$ 74,972
State Special Revenue Fund	$ 312,171		$ 2,379,517	48,266,951	12,714,508	$ 1,345,383	$ 842,120			65,860,650
Federal Special Revenue Fund	206,087		445,814	78,019,861	355,756	2,559,221	7,569,368			89,156,107
Enterprise Fund	30,222									30,222
Internal Service Fund		$ 1,332,781						$ 3,685,354		5,018,135
Unspent Budget Authority	$ 548,480	$ 1,332,781	$ 2,825,331	$ 126,298,926	$ 13,133,122	$ 3,904,604	$ 8,411,488	$ 3,685,354	$ 0	$ 160,140,086

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF TRANSPORTATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	AERONAUTICS PROGRAM	EQUIPMENT PROGRAM	GENERAL OPERATIONS PROGRAM	HIGHWAYS & ENGINEERING	MAINTENANCE PROGRAM	MOTOR CARRIER SERVICES DIV.	RAIL, TRANSIT & PLANNING	STATE MOTOR POOL	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT									
Personal Services									
Salaries	$ 580,668	$ 5,182,409	$ 9,670,344	$ (3,862,665)	$ 32,484,600	$ 5,591,314	$ 5,477,845	$ 229,600	$ 55,354,115
Other Compensation	1,750		6,282	(258)					7,774
Employee Benefits	177,383	2,035,046	2,542,802	(943,791)	12,650,140	1,981,034	1,654,624	93,205	20,190,443
Personal Services-Other	3,902	(75,220)						(3,911)	(75,229)
Total	763,703	7,142,235	12,219,428	(4,806,714)	45,134,740	7,572,348	7,132,469	318,894	75,477,103
Operating Expenses									
Other Services	286,923	419,064	5,182,402	(9,271,996)	22,080,020	1,213,571	3,309,137	433,716	23,652,837
Supplies & Materials	62,211	6,632,882	2,199,951	(53,390)	718,033	106,040	402,853	1,499,403	11,567,983
Communications	13,265	5,713	2,011,333	(36,454)	367,014	85,051	85,297	1,434	2,532,653
Travel	16,543	10,480	357,558	(35,537)	110,649	191,090	219,086	51	869,920
Rent	15,909	14,854	271,827	(220,414)	20,289,824	420,059	212,245	64,800	21,069,104
Utilities	49,465	74,162		(7,650)	3,411,111	96,229	2,454	10,075	3,635,846
Repair & Maintenance	54,404	4,014,267	975,326	(177,929)	22,702,821	37,124	109,601	283,648	27,999,262
Other Expenses	468,061	6,278,947	3,259,247	(569,173)	1,653,448	695,319	3,394,164	2,524,546	17,704,559
Goods Purchased For Resale	12,857								12,857
Total	979,638	17,450,369	14,257,644	(10,372,543)	71,332,920	2,844,483	7,734,837	4,817,673	109,045,021
Equipment & Intangible Assets									
Equipment		(810,469)	62,770	1,809,536	1,008,578		58,757	(47,998)	2,081,174
Intangible Assets				20,000					20,000
Total		(810,469)	62,770	1,829,536	1,008,578		58,757	(47,998)	2,101,174
Capital Outlay									
Land & Interest In Land				518,504,406	29,240				518,533,646
Buildings				750	1,269,459				1,270,209
Other Improvements				2,978,135	10,774				2,988,909
Total				521,483,291	1,309,473				522,792,764
Local Assistance									
From other sources			3,460,725						3,460,725
Total			3,460,725						3,460,725
Grants									
From State Sources	502,171		16,741,000	100,000			2,225,477		19,568,648
From Federal Sources			833,269	8,511,271			13,102,172		22,446,712
From Other Sources							780		780
Total	502,171		17,574,269	8,611,271			15,328,429		42,016,140
Transfers-out									
Fund transfers			3,598,292				1,408,043		5,006,335
Mandatory Transfers				15,981,281	614,100				16,595,381
Total			3,598,292	15,981,281	614,100		1,408,043		21,601,716
Debt Service									
Bonds				15,981,281					15,981,281
Loans								198,320	198,320
Total				15,981,281				198,320	16,179,601
Other Post Employment Benefits									
Other Post Employment Benefits	5,209	325,421						15,460	346,090
Total	5,209	325,421						15,460	346,090
Total Expenditures & Transfers-Out	$ 2,250,721	$ 24,107,556	$ 51,173,128	$ 548,707,403	$ 119,399,811	$ 10,416,831	$ 31,662,535	$ 5,302,349	$ 793,020,334
EXPENDITURES & TRANSFERS-OUT BY FUND									
General Fund			$ 209,727						$ 209,727
State Special Revenue Fund	$ 1,538,845		48,278,060	$ 88,504,178	$ 110,601,624	$ 7,085,225	$ 4,653,958		260,661,890
Federal Special Revenue Fund	338,664		2,660,482	444,221,944	8,798,187	3,331,606	27,007,797		486,358,680
Debt Service Fund				15,981,281					15,981,281
Enterprise Fund	373,212								373,212
Internal Service Fund		$ 24,107,556						$ 5,302,349	29,409,905
Investment Trust Fund			24,859						24,859
Private Purpose Trust Fund							780		780
Total Expenditures & Transfers-Out	2,250,721	24,107,556	51,173,128	548,707,403	119,399,811	10,416,831	31,662,535	5,302,349	793,020,334
Less: Nonbudgeted Expenditures & Transfers-Out	1,743	(2,473,251)	5,760,875	66,674,924	1,380,531	544,236	3,348,735	(413,347)	74,824,446
Prior Year Expenditures & Transfers-Out Adjustments	(12,701)	60,418	(17,859)	4,823,439	62,496	253	(649,170)	56,194	4,323,070
Actual Budgeted Expenditures & Transfers-Out	2,261,679	26,520,389	45,430,112	477,209,040	117,956,784	9,872,342	28,962,970	5,659,502	713,872,818
Budget Authority	3,543,402	28,254,168	65,552,321	577,614,241	125,321,022	12,721,751	37,383,777	6,415,190	856,805,872
Unspent Budget Authority	$ 1,281,723	$ 1,733,779	$ 20,122,209	$ 100,405,201	$ 7,364,238	$ 2,849,409	$ 8,420,807	$ 755,688	$ 142,933,054
UNSPENT BUDGET AUTHORITY BY FUND									
General Fund			$ 2,395,773	$ 12,114	$ 62,858				$ 2,470,745
State Special Revenue Fund	$ 1,057,996		13,931,460	39,973,168	6,536,842	$ 1,198,757	$ 1,804,633		64,502,856
Federal Special Revenue Fund	207,028		3,794,976	60,419,919	764,538	1,650,652	6,616,174		73,453,287
Enterprise Fund	16,699								16,699
Internal Service Fund		$ 1,733,779						$ 755,688	2,489,467
Unspent Budget Authority	$ 1,281,723	$ 1,733,779	$ 20,122,209	$ 100,405,201	$ 7,364,238	$ 2,849,409	$ 8,420,807	$ 755,688	$ 142,933,054

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

Montana Department of Transportation
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2011

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, and Debt Service) and certain liabilities of defined benefit pension plans and certain post-employment healthcare plans. In applying the modified accrual basis, the department records:

- Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary (Investment Trust, Private-Purpose Trust and Agency) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order dated June 30th or earlier, but not received as of fiscal year-end; and equipment ordered with a purchase order dated June 30th or earlier.

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

Governmental Fund Category

- **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. The State Special Revenue Fund includes the restricted highway revenue, nonrestricted highway revenue, Series 2005 and 2008 Grant Anticipation Notes, petroleum storage tank, Uniform Carrier Registration, fuel tax distributed to other state agencies and tribal governments, and Aeronautics Division accounts.
- **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. The Federal Special Revenue Fund includes activity such as federal highway planning and construction, highway traffic safety, transit administration, aviation administration, and motor carrier services grants. Also included are the American Recovery & Reinvestment Act (ARRA) funds received by the department.
- **Debt Service Fund** – to account for accumulated resources for the payment of general long-term debt principal and interest. The Debt Service Fund includes activity for the Series 2005 and 2008 Grant Anticipation Notes.

Proprietary Fund Category

- **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. The Enterprise Fund includes the financial activity of the West Yellowstone Airport.
- **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. The Internal Service Fund includes the State Motor Pool and the Highway Equipment Programs.

Fiduciary Fund Category

- **Agency Fund –** to account for resources held by the state in a custodial capacity. Agency funds may be used on a limited basis for internal (to the State) clearing account activity but these must have a zero balance at fiscal year-end. The Agency Fund includes union pension activity and the Fort Belknap and Blackfeet Tribes Improvement or Service fees.
- **Investment Trust Fund –** to account for situations where legally separate governments commingle their investments in a pool for the benefit of all

participants. In fiscal year 2010, the department requested a fund to account for the American Association of Highway and Transportation Officials (AASHTO) Information Systems subcommittee conference. The account was incorrectly established as an Investment Trust Fund. In fiscal year 2011, the fund type was corrected and the activity was moved to a NonBudgeted State Special Revenue Fund.

- **Private-Purpose Trust Fund** – to account for activity of any trust arrangement not properly reported in a pension fund or an investment trust fund where the principal and income benefit individuals, private organizations, or other governments. The Private-Purpose Trust Fund includes the Woodville Hill Abandonment and Moore-Sipple Connector activity.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for the two fiscal years ended June 30, 2011. The balance reflects the results of the activity of the department and not the fund balance of the statewide General Fund.

3. Direct Entries to Fund Balance

Direct entries to fund balances in the General and State Special Revenue funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

Direct entries to fund balances in the General, State Special Revenue, and Internal Service funds also include correction of an error from a previous period that occurred at least two fiscal years prior and entries to adjust fund balance designations in accordance with GASB 54.

4. Intra-agency Activity

During the normal course of operations, the department has transactions within funds and between funds to provide services and service debt. The following describes the activity for the two fiscal years ended June 30, 2011.

Equipment Program

The Equipment Program, which is part of the Internal Service Fund, maintains a fleet of equipment and vehicles for use within the department. Costs are recovered through

user fees charged to other programs within the department. Charges for Services revenues are recorded in the Internal Service Fund for the rent of the equipment and the user program records rent expense. Maintenance, Highway & Engineering, and Motor Carrier Services are the major programs that use the equipment and vehicles. The Charges for Services revenue for the Equipment Program was approximately $23.8 million in fiscal year 2010 and $22.7 million in fiscal year 2011.

Transfers

During fiscal years 2010 and 2011 approximately $16 million was transferred in each fiscal year from the Highway & Engineering Program in the Federal Special Revenue Fund to the Debt Service Fund US 93 bond accounts for the debt service payments.

5. Highway Construction Commitments

At June 30, 2010 and June 30, 2011, the department had contractual commitments of approximately $261.1 million and $316.4 million, respectively, for the construction of various highway projects. Funding for these highway projects is to be provided from federal Highway Planning and Construction grants and matched with State Special Revenue Funds.

6. Capital Outlay Adjustment

The department adjusted expenditures on SABHRS in the Highways & Engineering Program at fiscal year-end 2010 to properly classify capital outlay expenditures for the department's infrastructure in accordance with state policy, while also maintaining compliance with budgetary law. The expenditures were originally budgeted by the Montana Legislature as personal services, operating expenses, equipment and grants. Total expenditures in the program were unaffected. The following table reflects the adjustments for fiscal year 2010.

Category	FY 2010 Highway & Engineering Program
Personal Services	$ (68,436,489.20)
Operating Expenses	$ (424,867,400.95)
Capital Outlay	$ 493,303,890.15

Since state policy changed in September 2007, the department has been working with the Department of Administration, State Accounting Division in order for the department to determine a more transparent way to reflect the capital outlay

nonbudgeted expenditure adjustment for infrastructure on the department's financial schedules. As a result in fiscal year 2011, a new program titled GAAP Adjustments was established to classify the capital outlay nonbudgeted expenditures in accordance with state policy. Within that new program, two new accounts were established to reflect the amount of personal services and operating expenditures outlays that were offset. Expenditures in this new program are used strictly for GAAP adjustment purposes, and should not be used in department expenditure analysis.

7. American Recovery and Reinvestment Act

The department was awarded approximately $228.6 million from the Federal Highway Administration (FHWA) and Federal Transit Administration (FTA). Approximately, $4.3 million was designated to the Metropolitan Planning Organizations (MPO). Of the remaining $224.3 million, the department expended $120 million in fiscal year 2010 and $96.4 million in fiscal year 2011. Total expended to date is approximately $218.6 million.

8. County Collection Revenue

On a monthly basis, the counties submit revenue they have collected on the state's behalf to the Department of Justice (DOJ). The DOJ records the revenue due the department under their business unit rather than under the department's business unit. Although the revenue is properly recorded on the state's accounting records, it is not reflected on the department's financial schedules. During fiscal years 2010 and 2011, approximately $10 million and $11 million, respectively, of gross vehicle weight revenue under Licenses & Permits and $565,000 and $580,000, respectively, of driver license reinstatement fees under Charges for Services are not reflected in the State Special Revenue Fund on the department's financial schedules.

9. Unspent Budgeted Expenditure Authority

The following narrative provides information regarding unspent budgeted expenditure authority in fiscal years 2010 and 2011 for the Highways & Engineering, Rail, Transit & Planning, and Maintenance Programs.

Highways & Engineering and Rail, Transit & Planning Programs

Budgeted expenditure authority of state special and federal special revenue funds for the Construction Program is based on departmental estimates of multi-year authorizations of federal-aid funding and the corresponding highway construction plan. This plan is finalized between six months and one year prior to the start of the new biennium.

Highway construction in Montana is a seasonal industry where weather plays a large factor in construction progress. One month of bad weather can affect contractor payments by as much as $30 million. The department must have ample budget authority available to meet the best of conditions. The Legislature has consistently recognized this issue by granting the department with continuing appropriation authority for these programs.

Maintenance Program

The Maintenance Program is responsible for the repair, maintenance and preservation of approximately 25,000 lane miles of roadways. Activities include but are not limited to: winter maintenance, reactive and preventive pavement preservation, pavement marking, signing, roadway striping, noxious weed control, traveler information, and other necessary roadway and roadside repairs and maintenance.

Again weather plays a large factor in maintenance activities that can be completed. The department must have ample budget authority available to meet the best of conditions. The Legislature has consistently recognized this issue by granting the department with continuing appropriation authority for this program.

Montana Department of Transportation

Department Response

MDT

Montana Department of Transportation
2701 Prospect Avenue
PO Box 201001
Helena MT 59620-1001

Timothy W. Reardon, Director
Brian Schweitzer, Governor

October 13, 2011

Tori Hunthausen, Legislative Auditor
Legislative Audit Division
State Capitol Room 160
Helena, MT 59620-1705

Dear Ms. Hunthausen:

We appreciate the opportunity to respond to the audit recommendations in the Financial Compliance Audit Report of the Montana Department of Transportation (MDT) for the two fiscal years ended June 30, 2011.

We have attached our response including the timeline for implementing the recommendations. We appreciated your staff's hard work and professionalism during the audit. MDT is committed to complying with state and federal laws, implementing and monitoring effective internal controls, and ensuring complete and accurate financial information is recorded on the state's accounting records. MDT views the audit process as an opportunity for improvement and appreciates your input.

Sincerely,

Tim Reardon
Director

Attachment

MONTANA MDT DEPARTMENT OF TRANSPORTATION

October 13, 2011

Corrective Action Plan
MDT Financial-Compliance Audit #11-17
For the Two Fiscal Years Ended June 30, 2011

Audit Recommendation #	Does this affect a federal program?	Management View	Corrective Action Plan	Responsible Area	Target Date
Recommendation #1 We recommend the department: A. Identify and address the employment risks related to the employment and placement of these unqualified individuals and consider the potential risks of any other known questionable hiring decisions. B. Comply with state laws and state and department policy for recruitment and selection of employees to provide equitable and consistent treatment of applicants.	No	Concur	MDT will identify all positions that were filled over the last two years and determine which of these positions need to be reviewed further (October 2011). Hiring files will be reviewed to determine if the hiring practices were followed and identify those incumbents hired to ensure they meet the minimum requirements of the position (November 2011). MDT will determine the actions necessary to mitigate risk for positions identified during the review (December 2011). MDT reviewed the existing recruitment policy and procedures with the HR specialists. MDT will require that all members of the interview selection committee sign that the candidates selected for interviews meet the minimum qualifications for the position. The interview selection committee will also document that the required process was followed and the successful applicant is considered qualified and the best fit for the position.	Director's Office, Human Resources Division and Internal Audit Unit	December 2011
Recommendation #2 We recommend the department revise its conflict of interest policy to ensure the Accounting Controls Bureau is made aware of all potential conflicts of interest.	No	Partially Concur	MDT agrees that our policies need to be strengthened to ensure identified conflicts of interest are resolved and the proper personnel are notified. However, we do not feel that all conflicts of interest should be sent to the Accounting Controls Bureau. MDT management will ensure that a documented evaluation will identify all individuals that are involved in financial activities and those conflicts will be formally reported to the Accounting Controls Bureau.	Director's Office and Human Resources Division	December 2011
Recommendation #3 We recommend the department: A. Implement controls to ensure compliance with the federal Buy America and Disadvantaged Business Enterprise certification requirements, and B. Comply with the federal Buy America and Disadvantaged Business Enterprise certification requirements.	Yes	Concur	MDT strengthened procedures in April 2011 to ensure required certifications are obtained from the successful bidder prior to awarding any Transit vehicle purchase orders. As part of the procedures, an individual from the Administration Division and an individual from the Rail, Transit and Planning Division open the Transit vehicle bid responses together. A checklist was developed to assist staff in verifying all required documents are included in the bid response.	Administration Division and Rail, Transit and Planning Division	Complete

MONTANA MDT DEPARTMENT OF TRANSPORTATION

Corrective Action Plan
MDT Financial-Compliance Audit #11-17
For the Two Fiscal Years Ended June 30, 2011

Audit Recommendation #	Does this affect a federal program?	Management View	Corrective Action Plan	Responsible Area	Target Date
Recommendation #4 We recommend the department improve its internal controls to ensure Federal Transit Program subrecipients are monitored in accordance with federal regulations.	Yes	Concur	**Davis-Bacon Act Requirements** MDT established procedures in April 2011 to verify the certification of Davis-Bacon wages is complete prior to making payments to a contractor. **Audit Requirements** MDT verifies through the Federal Clearinghouse if a subrecipient meets the threshold for a Single Audit. In addition to obtaining the subrecipient's Single Audit reports, MDT implemented procedures to routinely access the Federal Clearinghouse to verify subrecipients are submitting the required information timely. MDT emphasized the Single Audit reporting requirements as part of the October 2011 mandatory training for all transit providers. MDT has established procedures to send out a letter to notify subrecipients that audit reports are due within nine months following the end of their fiscal year. If audit reports are not received by the required date, MDT personnel will contact the subrecipient to request the audit report immediately. **Equipment and Real Property Management** MDT has established procedures requiring subrecipients to submit information on equipment that has been sold and certify that the funds have gone back into the Transit Program. A lien release is completed once a vehicle has reached its useful life and deemed by the Federal Transit Administration to have no value. MDT developed a form in March 2011 that is included with the lien release for the subrecipient to sign stating any proceeds from the sale of the vehicle will go back into the program.	Human Resources Division and Rail, Transit and Planning Division	Complete
Recommendation #5 We recommend the department implement controls to ensure the amount of local funds reported on behalf of subrecipients is complete and accurate, in accordance with federal regulations.	Yes	Concur	MDT implemented a new Public Transportation Management Information System (PTMS) and trained subrecipients on its use in October 2011. Subrecipients are required to submit information verifying local funding through the system. PTMS information will be reviewed by MDT personnel on a quarterly basis.	Rail, Transit and Planning Division	November 2011
Recommendation #6 We recommend the department modify its procedures to ensure it provides subrecipients with the identifying grant information, as required by federal regulations.	Yes	Concur	MDT includes the CFDA number and title in all subrecipient contracts. Starting in May 2011, MDT has also included the federal grant award in the subrecipient contracts. The initial ARRA payments included the CFDA and federal award numbers and stated the disbursement was from ARRA funds. However, the amount of information caused confusion with some of the subrecipients so MDT deleted the CFDA and federal award number and only included that the funds were ARRA. In February 2011, MDT went back to including the CFDA and federal award number in addition to the ARRA reference on the payment advice.	Rail, Transit and Planning Division	Complete
Recommendation #7 We recommend the department follow its procedures to ensure compliance with Davis-Bacon Act requirements.	Yes	Concur	MDT strengthened procedures to include a detailed review of the first full payroll of every construction project to ensure compliance with Davis-Bacon and related Acts. MDT has also scheduled an internal audit over this area to help identify ways to improve this process by making it more effective and efficient.	Human Resources Division and Internal Audit Unit	June 2012

MONTANA MDT DEPARTMENT OF TRANSPORTATION

Corrective Action Plan
MDT Financial-Compliance Audit #11-17
For the Two Fiscal Years Ended June 30, 2011

Audit Recommendation #	Does this affect a federal program?	Management View	Corrective Action Plan	Responsible Area	Target Date
Recommendation #8 We recommend the department record capital outlay expenditures in accordance with state accounting policy.	No	Concur	MDT updated the procedures in October 2011 to contain more detailed instructions for recording the infrastructure transactions at fiscal year-end. Additionally, MDT developed a checklist for use during the review process. In fiscal year 2011, MDT worked with the Department of Administration and the Legislative Audit Division to determine a more transparent way to reflect the capital outlay non-budgeted expenditures on MDT's financial schedules. As a result, a new program titled GAAP Adjustments was established to classify the capital outlay non-budgeted expenditures in accordance with state policy. In addition, specific non-budgeted expenditure accounts were created in the personal services and other services categories to separately identify this activity.	Administration Division	Complete
Recommendation #9 We recommend the department record fuel tax accruals, special revenue fund conference activity, and gas tax allocations and distributions in accordance with state accounting policy and law.	No	Concur	**Fuel Tax Accruals** MDT did record an accrual for fuel tax refunds at fiscal year-end 2011 in accordance with state policy. The procedures for recording the aviation fuel tax accrual at fiscal year-end were updated to include the Aeronautical Grant Account. An accrual was established in both funds at fiscal year-end 2011. **Improper Fund Use** In the future, MDT will verify all requests for new funds are set up by the Department of Administration in the correct fund type. **Gas Tax Allocations and Distributions** The gas tax distribution spreadsheet formula was updated in fiscal year 2011 with the correct percentage and the fiscal year 2011 gas tax distribution was made in accordance with state law. MDT corrected the fiscal year 2010 distribution in May 2011. Also in May 2011, the fiscal year 2011 under payment of $7,494 was distributed to the tribes. Additionally, MDT implemented procedures to include a review of the tribal gas tax distribution calculation prior to payments being made.	Administration Division	Complete
Recommendation #10 We recommend the department implement internal controls over lease agreements, storage room access, and Aeronautics Division cash collection.	No	Concur	**Controls Over Lease Agreements Controls** MDT established procedures in July 2011 to track leases by expiration date and to notify appropriate staff prior to the lease expiring. **Controls Over a Storage Room** In May 2011, MDT installed an automatic door closure on the storeroom's locked door to restrict access to the storeroom. **Segregation of Duties** In July 2011, MDT strengthened controls over the Aeronautics Division deposits by transferring the reconciliation duties to the Accounting Controls Bureau; thereby eliminating the segregation of duties issue.	Aeronautics Division and Maintenance Division	Complete