A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Montana Department of Transportation

For the Two Fiscal Years Ended June 30, 2013

OCTOBER 2013

LEGISLATIVE AUDIT
DIVISION

13-17

Financial-Compliance Audits

Financial-compliance audits are conducted by the Legislative Audit Division to determine whether 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) licenses.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2011, was issued March 29, 2012. The Single Audit Report for the two fiscal years ended June 30, 2013, will be issued by March 31, 2014. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
Room 277, State Capitol
P.O. Box 200802
Helena, MT 59620-0802

Legislative Audit Division
Room 160, State Capitol
P.O. Box 201705
Helena, MT 59620-1705

Audit Staff

David Brammer
Chris G. Darragh
Graham Kilgariff
Vanessa Shaw
Jeff Clarke
Jennifer Erdahl
Alexa O'Dell
William Soller

Reports can be found in electronic format at:
http://leg.mt.gov/audit

Fraud Hotline
(Statewide)
1-800-222-4446
(in Helena)
444-4446
ladhotline@mt.gov

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors
Cindy Jorgenson
Angus Maciver

October 2013

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana Department of Transportation (department) for the two fiscal years ended June 30, 2013. Included in this report are seven recommendations. Three recommendations relate to internal controls over information system access, accounting procedures, and infrastructure transactions; and four recommendations relate to compliance with department and state policies, as well as state law. The report also contains a disclosure issue related to changes in employee position numbers when no change in job duties occurred.

This report includes the department's financial schedules. The financial schedule presentation is intended to provide the legislative body with information necessary for decision-making purposes; it is not intended to conform to the financial reporting requirements established in generally accepted accounting principles (GAAP). The financial schedule presentation has not changed, but audit reporting standards have changed. Auditing standards require us to clearly communicate that the financial schedule presentation is not intended to, and does not, conform to GAAP reporting requirements. The Independent Auditor's Report on page A-1 contains language to this effect in the section titled "Adverse Opinions on U.S. Generally Accepted Accounting Principles." This section does not imply the amounts presented on the department's financial schedules are not fairly stated. Page A-1 also communicates the extent to which the user can rely on the information contained in the financial schedules in the sections titled "Qualified Opinion on Regulatory Basis of Accounting" and "Unmodified Opinions on Regulatory Basis of Accounting."

The department's written response to the audit recommendations is included in the audit report on page B-1. We thank the director and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

Room 160 • State Capitol Building • PO Box 201705 • Helena, MT • 59620-1705
Phone (406) 444-3122 • FAX (406) 444-9784 • E-Mail lad@mt.gov

Table of Contents

Figures and Tables

Tables

Appointed and Administrative Officials

			Term Expires
Montana Transportation Commission	S. Kevin Howlett, Chair	Arlee	2015
	John Cobb	Augusta	2017
	Rick Griffith	Butte	2017
	Carol Lambert	Broadus	2015
	Barb Skelton	Billings	2017
Montana Aeronautics Board	Tricia McKenna, Chair	Bozeman	2017
	A. Christopher Edwards, Vice Chair	Billings	2015
	Roger Lincoln, Secretary	Gilford	2017
	Robert Buckles	Bozeman	2015
	Bill Hunt Jr.	Shelby	2017
	Fred Lark	Lewistown	2015
	Fred Leistiko	Kalispell	2017
	Charles J. Manning	Lakeside	2015
	Walt McNutt	Sidney	2017

Montana Department of Transportation

Mike Tooley, Director

Pat Wise, Deputy Director

Larry Flynn, Administrator, Administration Division

Debbie Alke, Administrator, Aeronautics Division

Dwane Kailey, Administrator, Highways & Engineering Division

Brent Rabe, Administrator, Human Resources Division

Mike Bousliman, Administrator, Information Services Division

Jon Swartz, Administrator, Maintenance Division

Duane Williams, Administrator, Motor Carrier Services Division

Lynn Zanto, Administrator, Rail, Transit & Planning Division

Tim Reardon, Chief Legal Counsel

Vickie Murphy, Internal Audit Manager

District Administrators

Ed Toavs - Missoula
Jeff Ebert - Butte
Dave Hand - Great Falls
Stefan Streeter - Billings
Shane Mintz - Glendive

For additional information concerning the Montana Department of Transportation, contact:

Lori Ryan
2701 Prospect Avenue
P.O. Box 201001
Helena, MT 59620-1001

e-mail: lryan@mt.gov

Montana Legislative Audit Division

Financial-Compliance Audit
Montana Department of Transportation
For the Two Fiscal Years Ended June 30, 2013

October 2013 13-17 Report Summary

The Montana Department of Transportation (department) spent over $300 million each fiscal year for planning, designing, constructing, and maintaining approximately 25,000 lane miles of roadways. The department is one of the largest employing agencies in state government with 2,242 authorized employees in fiscal year 2012-13. In addition to areas for improvement, the report contains a disclosure issue related to changes in employee position numbers when no change in job duties occurred.

Context

The department's primary funding sources are federal highway planning and construction funds and state motor fuel tax revenues. In fiscal year 2012-13, the department received approximately $782 million in total revenues. Federal special revenues accounted for over $435 million, or 55 percent of department revenues, while state special revenues exceeded $294 million, or 37 percent of department revenues.

Expenditures in the Highways & Engineering and Maintenance programs accounted for over $486 million and $134 million, respectively, in fiscal year 2012-13. The department spent approximately $370 million on highway construction and improvement projects during this time.

Results

The current audit report contains seven recommendations. Three recommendations relate to ways the department can improve internal controls, and four recommendations relate to compliance with state law and department and state policies.

One internal control weakness resulted in infrastructure re-allocation errors totaling $213.7 and $25.9 million in fiscal years 2012-13 and 2011-12, respectively. These errors resulted in a qualified opinion on the department's financial schedules for fiscal year 2012-13.

The audit report for the two fiscal years ended June 30, 2011, contained ten recommendations. The department implemented eight recommendations and did not implement two recommendations. The two recommendations not implemented are discussed in the current report.

Recommendation Concurrence	
Concur	6
Partially Concur	1
Do Not Concur	0
Source: Agency audit response included in final report.	

For a complete copy of the report (13-17) 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
Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE
Call toll-free 1-800-222-4446, or e-mail ladhotline@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, 2013. 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 equity and property held in trust for each of the fiscal years ended June 30, 2013, and 2012.

Auditing standards require us to communicate, in writing, deficiencies in internal control we identified as a result of audit objective #2 above and considered to be significant or material. A deficiency in internal control exists when the design or operation of a control does not allow management or employees to prevent or detect and correct misstatements on a timely basis. A material weakness is one or more deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected on a timely basis. A significant deficiency is one or more deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Table 1 outlines the status of significant deficiencies and material weaknesses we identified during this audit.

Table 1
Summary of Deficiencies in Internal Control

Subject	Type of Deficiency	Page
Fuel Tax System	Significant	5
Infrastructure Transactions	Material Weakness	6

Our consideration of internal control was not for the purpose of expressing an opinion on the effectiveness of internal controls. Therefore, material weaknesses or significant deficiencies may exist that were not identified.

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. The fund equity balances for department internal service funds include long-term assets such as vehicles and equipment. Based on our analysis, we found the charges for services were commensurate with costs and fund equity was reasonable for the Equipment Internal Service Fund as of June 30, 2013, and 2012. Motor Pool Internal Service Fund charges for services were commensurate with costs for each fiscal year 2012-13 and 2011-12. However, fund equity exceeded the 60-day working capital limit as of June 30, 2013. The department analyzes and projects Motor Pool activity on a quarterly basis, but did not anticipate the high volume of Motor Pool revenues during the last quarter of fiscal year 2012-13. Motor Pool fund equity was reasonable as of June 30, 2012. Because the department has a process to monitor internal service fund activity, we make no recommendation at this time.

This report contains seven recommendations to the department.

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 (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 full-time equivalent (FTE) positions during fiscal year 2012-13. 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 (44.50 FTE) - provides overall direction and management to the department. Included under the Director's Office are Legal Services, Internal Audit, and Public Information.

Administration (63.82 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 (911.72 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.

Human Resources (21.50 FTE) - is responsible for maintaining department policies and assisting with and monitoring all areas of human resources, including recruitment and selection processes.

Information Services (68.55 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 (103.50 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, 2011, contained ten recommendations to the department. The department fully implemented eight and did not implement two recommendations. One recommendation not implemented is related to infrastructure activity, and is further addressed in the report beginning on page 6.

The second recommendation not implemented relates to following established internal control procedures to ensure compliance with prevailing wage rates for the department's Federal Highway Planning and Construction Program. Based on our review, the department followed established internal control procedures. However, we identified two instances of incorrect wage payments which resulted in worker underpayments totaling $116. While the department is following its procedures, errors in paid wages continue to exist. We make no further recommendation at this time.

Chapter II – Findings and Recommendations

Internal Controls

According to state accounting policy, management is responsible for establishing and maintaining policies and procedures to ensure the Montana Department of Transportation (department) functions operate efficiently and effectively in conformance with applicable laws and regulations, and that related transactions are accurate, properly recorded and executed in accordance with management directives. Policy further specifies duties be segregated to ensure individuals are not in a position to initiate, approve, undertake, and review the same action. In addition, internal controls are required in the administration of federal awards.

Our audit identified areas for improvement in department internal controls. Those areas are discussed in recommendations 1 through 3 below.

Fuel Tax System

Weak access controls over the department's fuel tax accounting and reporting system put data integrity at risk.

Fuel tax revenues collected by the department exceed $200 million annually. The department uses two systems, the Motor Fuels System (MFS) and the Vehicle Information System for Tax Apportionment (VISTA), to maintain records on fuel distribution and related taxes due the state. MFS was developed and is managed by the department, and is used to accumulate fuel tax return data. In contrast, the department contracts for use of the VISTA system, which is used to process the fuel tax payments and analyze fuel usage reported by licensed distributors.

Change management and system access processes are addressed in the department documentation. Department staff request system changes, which are logged and given a tracking number. Prior to implementing a change in the system, the department approves the change in a test environment. While the department also requests VISTA system access via the contractor by specifying which of the user profiles to assign to each employee, department procedures do not include routine review of the access granted.

During the audit, we requested a list of VISTA users. Although a list was provided, the department had to request the list from the contractor. In addition, the request took over one month to fill. Once available, we reviewed the information provided to determine whether employee access was appropriate based on job responsibilities. We noted three department employees with assigned capabilities to over 20 of the user profiles available. In addition, we noted the user profile titles used by the department to request access did not agree with user profiles to which employees had access. When asked for assistance in our evaluation, department staff were unable to describe the capabilities associated with certain user roles. Because this information was not readily available, we performed additional audit work to evaluate the system capabilities for certain employees.

We requested one supervisor to enter a transaction, and then observed the supervisor approve the same transaction. According to state accounting policy, enter and approve capabilities should be segregated. In addition, we noted that adjustments to VISTA transactions and tax reports can be entered without approval. Without adequate controls over systems access, which includes proper assignment of approval capabilities, department employees and contractors could manipulate underlying fuel tax data or process inappropriate adjustments or refunds to distributor accounts. In some instances, the department established compensating controls. However, for at least one situation no compensating control currently exists.

Based on the above, we concluded department employees were not assigned appropriate access to the VISTA system and additional incompatibilities related to user profiles likely exist.

Recommendation #1

We recommend the department:

A. *Determine and document VISTA security roles and user profiles.*

B. *For current VISTA access, identify and correct incompatible duties within employee profiles.*

C. *For ongoing VISTA access, establish internal controls to timely identify and correct, and to prevent incompatible duties, in accordance with state accounting policy.*

Infrastructure Transactions

The department incurs many costs associated with the construction of roads, including personal services and various operating expenses. Our audit included a review of personal services and operating costs, and we concluded the initial transactions recorded by the department were reasonable. State accounting policy, which provides for consistent accounting and reporting in accordance with generally accepted accounting principles, requires the full cost be recorded as infrastructure assets on the state's accounting records as roads are completed. Recording costs as infrastructure assets requires reclassification of the original transactions. The size and nature of the department's infrastructure-related activities render these entries among the most complex transactions processed in state government. In addition, due to the availability of year-end data, transactions must be calculated and executed within a four-day period. The department uses a 32-page procedures document to facilitate the reclassification and capitalization process. The following two sections discuss errors identified in the department's infrastructure-related transactions.

Capital Outlay

The department miscalculated the reclassification of costs associated with infrastructure, resulting in accounting errors exceeding $213 million and $25 million in fiscal years 2012-13 and 2011-12, respectively.

At fiscal year-end, the department reclassifies personal services and operating expenses associated with the construction of roads as capital outlay expenditures. The department established the "GAAP Adjustments" program to distinguish these adjustments. Because the reclassification and capitalization process is complex, department staff follow documented step-by-step procedures. In response to our prior audit recommendation, the department made changes to the documented procedures, but did not include a step to verify the reclassification calculation agrees to related current year expenditures. As a result, in each fiscal year of the audit period the department used an amount other than current year expenditures to calculate the reclassification amount. These errors resulted in understated capital outlay expenditures and overstated personal services and operating expenses in the "GAAP Adjustments" program on the Schedules of Total Expenditures and Transfers-Out. Table 2 summarizes errors identified by our audit.

Table 2

GAAP Adjustments Program Over/(Under) Statements

	FY 2012-13	FY 2011-12
Personal Services	$30,450,243	$3,120,784
Operating Expenses	183,273,905	22,841,265
Capital Outlay	(213,724,148)	(25,962,049)

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

Staff have a short period of time to calculate and make the reclassification entries. However, the information to support the reclassification is identified as part of the department's fiscal year-end process. This issue resulted in the qualified opinion on the department's financial schedules on page A-1.

Previously Capitalized Assets

In fiscal years 2012-13 and 2011-12, the department did not make adjustments for assets previously capitalized, resulting in overstatements of asset balances and depreciation expense.

According to department policy, capital asset costs are classified as infrastructure when the construction project is 96 percent complete. The percentage completion is based on cumulative expenditures incurred as compared to total contract value. When projects are less than 96 percent complete, the associated costs are recorded as Construction Work in Process (CWIP). Due to project modifications, there are times when projected project costs are increased after some project costs have been capitalized and recorded as infrastructure.

Because the percentage calculation is conducted once annually, there are times when a project previously capitalized as infrastructure no longer qualifies for this classification due to increases in the projected project costs. When this happens, department and state accounting policy requires the amount be reclassified as CWIP.

In fiscal years 2012-13 and 2011-12, some projects experienced modifications requiring a change from completed to CWIP status. We verified the department is including cumulative costs for these projects in the CWIP category at fiscal year-end. However, in each fiscal year, the department did not make adjustments to reduce infrastructure for costs incurred and capitalized in previous fiscal years. As a result, department assets are cumulatively overstated by $22.9 million at fiscal year-end 2012-13. In addition, department depreciation expenses are cumulatively overstated by $3.5 million over the two-year audit period, and errors in fund equity exist in the ledger that supports the state's Basic Financial Statements; these errors do not result in errors in the department's financial schedules included in this report.

Although department procedures direct staff to make adjustments for previously capitalized assets, the adjustments were not made for either fiscal year.

Summary

In four of the last five audits of the department, we identified errors in infrastructure-related transactions. While the department was responsive to our recommendations, the department should re-evaluate its process to identify and address areas of highest risk. Due to the size and frequency in infrastructure errors, we consider there to be material weakness in the department's internal controls.

RECOMMENDATION #2

We recommend the department:

A. *Record capital outlay expenditures based on qualifying current year expenditures, in accordance with state accounting policy.*

B. *Re-evaluate its process and record appropriate adjustments to infrastructure transactions on the state's accounting records.*

Duplicate Payment

The department processed two reimbursement payments to the same employee.

Department policy provides for financial assistance to employees who are relocated for business reasons. Compliance with this policy is further discussed on page 11. During the audit, we reviewed relocation expense reimbursements and noted two payments, each for $7,050, to the same employee dated November 2012 and May 2013. When we requested support for these transactions, the department concluded the second payment was a duplicate. The department experienced turnover in the position responsible for approving payments in accordance with relocation agreements, and when the request for payment was received, the new employee did not find evidence of the initial payment, so authorized the May transaction. After we brought this to the department's attention, they requested and received reimbursement from the employee.

RECOMMENDATION #3

We recommend the department establish internal controls to avoid duplicate relocation assistance payments.

Compliance

The department is subject to a variety of rules and regulations, including state and federal laws, and state and department policies. The following four sections discuss how the department can improve compliance with certain requirements.

Recruitment and Selection

The department has not complied with the state's recruitment and selection polices for temporary staff reassignments.

State policy specifies agency managers may reassign, for a period not to exceed two years, current employees to temporary assignments without going through a competitive selection process. Policy also requires a competitive process when recruiting internally to fill permanent positions.

As of April 2013, nine department employees were in temporary assignment status. Temporary assignments include temporary promotions. We determined two of these employees had exceeded the two year limit for temporary assignments allowed by state policy.

- One employee was temporarily promoted in May 2005, and returned to the original position in July 2013 after exceeding limitations in policy by over six years.
- Another employee received a temporary promotion in August 2010. As of August 2013, the employee maintained this temporary status, thus exceeding the time limit in state policy by at least one year.

In addition, in October 2010, a director's office employee was reassigned to a position in the department's planning division without going through an internal competitive process. Permanent reassignment is not permitted under state policy. As of August 2013, the employee remained in the new position, but the department developed a plan to address the situation.

Our prior audit identified issues with other department recruitment and selection processes. Management focused on addressing the previously identified issues, and in January 2013 began to identify and address other employee-related matters. However, the department identified the specific instances described above as of March 2013 and is still working to resolve them.

Recommendation #4

We recommend the department make temporary and permanent employment decisions in accordance with state recruitment and selection policy.

Relocation Reimbursement

The department has not complied with requirements of its relocation policy.

The department's relocation policy outlines circumstances under which the department will consider reimbursement for relocation costs incurred by employees. The relocation policy specifies reimbursements are permitted when existing employees fill a vacant permanent position that requires relocation to a geographical working location more than 50 miles away from their current working location.

We reviewed records related to 17 of the 26 employees who were reimbursed during the audit period, and noted five types of violations within these files.

- Costs incurred in early January were reimbursed for a relocation agreement signed in late February. Policy states expenses incurred prior to execution of the agreement are not eligible for reimbursement.
- Department policy indicates transfers initiated by the employee are not eligible for relocation reimbursement. Eleven employees received reimbursement for relocation expenses after they applied for and were the successful candidates for positions located in other geographic regions. Because these employees applied for the positions, we believe the transfer was initiated by the employee.
- Policy indicates allowable expenses are limited to those incurred within 30 days after the relocation agreement is signed, and allows an additional 90 days in cases of undue hardship. Elsewhere policy specifies relocation expenses incurred more than 90 days after execution of the agreement are not allowed, except for expenses associated with sale of real property which has a 180-day limit in policy. We noted two instances where extensions were granted beyond the 90-day limit.
- To promote consistency throughout the department, policy requires the human resources division administrator approve all relocation agreements. Approval duties were delegated to another staff person within the human resources division, which violates department policy. In one instance, approval from the human resources division was not documented but relocation expenses were still reimbursed.
- Unless a difficult recruitment situation has been documented and approved, new employees are not eligible for reimbursement of relocation expenses. We identified two instances where a difficult recruitment situation was either not documented or inadequately supported for newly hired employees. Payments related to these situations totaled $2,773.

Department staff indicate they are in the process of reviewing and modifying all personnel policies. Until such time the relocation policy is amended or modified, the department should comply with the requirements. In addition, the department should address inconsistencies in its relocation policy.

RECOMMENDATION #5

We recommend the department comply with the requirements of its relocation reimbursement policy.

System Passwords

Passwords required to access certain department computer systems do not meet minimum requirements outlined in state policy.

Processing highway and construction contractor payments, maintenance of employee time records, and tracking contracts are among the various activities initially recorded to the department's 135 Oracle-based systems, including systems for vendor and employee payments.

State policy requires passwords be a minimum of six characters long, contain at least one numeric and one alphabetic character, and be changed at least every 60 days. The department allows a single digit password for users to access Oracle systems, and users have 10 attempts to enter the correct password before being locked out for a period of time. By using single digit passwords, the department is not complying with state policy. In addition, the department does not require employees to periodically change these passwords.

Department staff indicated the main log-on passwords authenticate the user. However, current department practices do not address times when computers could be unattended and subject to unauthorized use. Unauthorized use could lead to unauthorized contractor, vendor, or employee payments. Although a limited number of employees have access to enter or approve payments, which mitigates the risk of unauthorized use, the department needs to address the password requirements for its Oracle systems.

RECOMMENDATION #6

We recommend the department modify password requirements to comply with requirements outlined in state policy.

Tax Penalty

Administrative Rules of Montana regarding fuel license taxes conflict with state law.

State law requires the assessment of a 10 percent penalty on delinquent fuel license taxes, but allows the department to waive a penalty upon showing of good cause by the distributor. Administrative Rules of Montana (ARMs) conflict with state law, permitting suspension of a portion of the penalty depending on the frequency with which the distributor has failed to meet payment deadlines. State law, as written, does not allow for a portion of the penalty to be suspended.

According to department personnel, there have been no penalties assessed during the audit period. However, if fuel license taxes were not paid timely, the department is at risk of noncompliance with state law if following ARMs.

Recommendation #7

We recommend the department amend Administrative Rules of Montana to require the same penalty specified in state law for delinquent fuel license taxes.

Chapter III – Disclosure Issue

Vacant Position Rotation

The Montana Department of Transportation (department) rotates current employees into vacant position numbers to minimize the impact of the vacant positions report.

The department maintains employee records on the Statewide Accounting Budgeting and Human Resources System (SABHRS). In SABHRS, each employee is assigned a position number. The position number is a tool used to attach legislatively authorized funding to personnel costs incurred by the department.

During each legislative session, the department's budget is reviewed and authorized by the legislature. According to the department, in past sessions the legislature used a report listing positions vacant for a specific period of time as the basis to eliminate positions and reduce the department's budget. During the audit, we noted department administrators routinely record activity for existing employees to vacant position numbers.

We identified for the pay period ending in April 2012, the department rotated position numbers for 53 employees. For example, an employee hired as an accounting technician was rotated into a vacant position number for a compliance technician, but the employee's job duties did not change. During the next pay period, the employee was rotated back to the original position number. Similar rotation in position numbers was also applied to the other 52 employees. As a result of this ongoing process, activity is recorded on SABHRS in the vacant position number, which eliminates the position number from being reported on the vacant positions report.

We discussed this with department management, who indicated the process is conducted in an effort to protect vacant positions from being eliminated through the legislative process. Department management noted the legislature use of the vacant position report cost the department 26 positions in the 2009 Legislative Session, which had a significant impact on the department's ability to achieve the required vacancy savings. However, rotating employee position numbers results in misleading information being provided to the legislature.

State policies and procedures do not prohibit rotating employee position numbers. Therefore, we report this for informational purposes only and make no recommendation at this time.

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
Angus Maciver

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction
We have audited the accompanying Schedules of Changes in Fund Equity & 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, 2013, and 2012, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules
Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy, and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the department's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles
As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, liabilities, and cash flows.

Room 160 • State Capitol Building • PO Box 201705 • Helena, MT • 59620-1705
Phone (406) 444-3122 • FAX (406) 444-9784 • E-Mail lad@mt.gov

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinions on U.S. Generally Accepted Accounting Principles
In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Department of Transportation as of June 30, 2013, and June 30, 2012, or changes in financial position or cash flows for the years then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting
The department did not identify and reclassify all capitalizable highway-related costs as required by state accounting policy. As a result, personal services and operating expenditures are overstated while capital outlay expenditures are understated in the Schedule of Total Expenditures and Transfers-Out, "GAAP Adjustments" program, in fiscal year 2012-13, as summarized below.

Personal Services	$ 30,450,243
Operating Expenses	$183,273,905
Capital Outlay	($213,724,148)

Qualified Opinion on Regulatory Basis of Accounting
In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on Regulatory Basis of Accounting" paragraph, the Schedule of Total Expenditures and Transfers-Out for the fiscal year ended June 30, 2013, presents fairly, in all material respects, the results of operations of the Department of Transportation for the fiscal year ended June 30, 2013, in conformity with the basis of accounting described in Note 1.

Unmodified Opinions on Regulatory Basis of Accounting
In our opinion, the Schedules of Changes in Fund Equity & Property Held in Trust for each of the fiscal years ended June 30, 2013, and 2012, the Schedules of Total Revenues & Transfers-In for each of the fiscal years ended June 30, 2013, and 2012, and the Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2012, present fairly, in all material respects, the results of operations and changes in fund equity and property held in trust of the Department of Transportation, in conformity with the basis of accounting described in Note 1.

Emphasis of Matter
As discussed in Note 6 to the financial schedules, budgeted personal services and operating expenses related to infrastructure are initially recorded to various department programs. The "GAAP Adjustments" program on the Schedules of Total Expenditures and Transfers-Out is used to reclassify these expenses as capital outlay nonbudgeted expenditures in accordance with state accounting policy and does not constitute a departure from the regulatory format prescribed by the Legislative Audit Committee. Our opinion is not modified with respect to this matter.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

September 20, 2013

DEPARTMENT OF TRANSPORTATION
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund
FUND EQUITY: July 1, 2012	$ (14)	$ 98,685,270	$ (3,571,642)	$ 0	$ 2,732,543	$ 73,145,243	$ 0	$ 285,934
PROPERTY HELD IN TRUST: July 1, 2012							$ 265,694	
ADDITIONS								
Budgeted Revenues & Transfers-In	466,496	287,995,146	435,607,853		199,483	35,023,818		
Nonbudgeted Revenues & Transfers-In		6,638,346		15,585,361		560,303		716
Prior Year Revenues & Transfers-In Adjustments		182,486						
Direct Entries to Fund Equity	(466,482)	(31,416,821)				30,449		
Additions to Property Held in Trust							968,352	
Total Additions	14	263,399,157	435,607,853	15,585,361	199,483	35,614,570	968,352	716
REDUCTIONS								
Budgeted Expenditures & Transfers-Out		260,625,331	391,082,948		188,889	31,028,080		
Nonbudgeted Expenditures & Transfers-Out		7,998,186	41,877,744	15,585,361	149,091	2,550,640		560
Prior Year Expenditures & Transfers-Out Adjustments		(11,439)				(1,651)		
Reductions in Property Held in Trust							1,049,998	
Total Reductions	0	268,612,078	432,960,692	15,585,361	337,980	33,577,069	1,049,998	560
FUND EQUITY: June 30, 2013	$ 0	$ 93,472,349	$ (924,481)	$ 0	$ 2,594,046	$ 75,182,744	$ 0	$ 286,090
PROPERTY HELD IN TRUST: June 30, 2013							$ 184,048	

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 EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund
FUND EQUITY July 1, 2011	$ (1,845,912)	$ 125,137,558	$ (1,237,445)	$ 0	$ 2,852,897	$ 70,497,504	$ 0	$ 285,792
PROPERTY HELD IN TRUST: July 1, 2011							$ 319,397	
ADDITIONS								
Budgeted Revenues & Transfers-In	491,720	341,055,792	495,356,133		217,318	35,688,048		
Nonbudgeted Revenues & Transfers-In		5,848,868		15,977,131		399,202		857
Prior Year Revenues & Transfers-In Adjustments	4	(161,869)	419,260					
Direct Entries to Fund Equity	(341,807)	(27,903,323)						
Additions to Property Held in Trust							1,079,375	
Total Additions	149,917	318,839,465	495,775,393	15,977,131	217,318	36,087,250	1,079,375	857
REDUCTIONS								
Budgeted Expenditures & Transfers-Out		277,539,793	457,134,673		196,828	33,372,267		
Nonbudgeted Expenditures & Transfers-Out		66,776,650	41,124,698	15,977,131	140,249	25,134		715
Prior Year Expenditures & Transfers-Out Adjustments	(1,695,981)	975,310	(149,781)		596	42,110		
Reductions in Property Held in Trust							1,133,078	
Total Reductions	(1,695,981)	345,291,753	498,109,590	15,977,131	337,672	33,439,511	1,133,078	715
FUND EQUITY June 30, 2012	$ (14)	$ 98,685,270	$ (3,571,642)	$ 0	$ 2,732,543	$ 73,145,243	$ 0	$ 285,934
PROPERTY HELD IN TRUST: June 30, 2012							$ 265,694	

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, 2013

	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	$ 456,030	$ 24,643,670							$ 25,099,700
Taxes	10,465	216,088,808							216,099,273
Charges for Services		3,603,451			$ 55,906	$ 33,172,478			36,831,835
Investment Earnings		50,950					$ 1	$ 716	51,667
Fines and Forfeits		1,426,560				4,536			1,431,096
Capital Contributions						1,821,373			1,821,373
Sale of Documents, Merchandise and Property		162,817				549,708			712,525
Rentals, Leases and Royalties	1	309,695			125,148				434,844
Grants, Contracts, and Donations		488,604			1,644				490,248
Transfers-in		4,727,742	$ 255,019	$ 15,585,361	7,253				20,575,375
Capital Asset Sale Proceeds		120,780							120,780
Inception of Lease/Installment Contract		423,282							423,282
Federal Indirect Cost Recoveries		41,877,744							41,877,744
Miscellaneous		891,875			9,532	36,026	(1)		937,432
Federal			435,352,834						435,352,834
Total Revenues & Transfers-In	466,496	294,815,978	435,607,853	15,585,361	199,483	35,584,121	0	716	782,260,008
Less: Nonbudgeted Revenues & Transfers-In		6,638,346		15,585,361		560,303		716	22,784,726
Prior Year Revenues & Transfers-In Adjustments		182,486							182,486
Actual Budgeted Revenues & Transfers-In	466,496	287,995,146	435,607,853	0	199,483	35,023,818	0	0	759,292,796
Estimated Revenues & Transfers-In	509,673	300,499,873	432,267,434		183,354	33,689,507			767,149,841
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (43,177)	$ (12,504,727)	$ 3,340,419	$ 0	$ 16,129	$ 1,334,311	$ 0	$ 0	$ (7,857,045)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS									
Licenses and Permits	$ (31,142)	$ (6,991,350)							$ (7,022,492)
Taxes	(12,035)	6,672,985							6,660,950
Charges for Services		(1,252,600)			$ 16,575	$ (387,028)			(1,623,053)
Investment Earnings		(128,985)							(128,985)
Fines and Forfeits		(294,714)							(294,714)
Capital Contributions						1,821,372			1,821,372
Sale of Documents, Merchandise and Property		(177,033)				36			(176,997)
Rentals, Leases and Royalties		28,399			27,448				55,847
Grants, Contracts, and Donations		(51,398)			(1,358)				(52,756)
Transfers-in		(4,231,560)	$ (3)		(3,566)				(4,235,129)
Federal Indirect Cost Recoveries		(6,314,328)							(6,314,328)
Miscellaneous		236,257			(22,970)	(100,068)			113,218
Federal		(400)	3,340,422						3,340,022
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (43,177)	$ (12,504,727)	$ 3,340,419	$ 0	$ 16,129	$ 1,334,311	$ 0	$ 0	$ (7,857,045)

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, 2012

	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	$ 481,818	$ 23,445,431							$ 23,927,249
Taxes	9,905	211,966,821	$ 164						211,976,889
Charges for Services		3,587,483			$ 55,537	$ 33,614,653			37,257,673
Investment Earnings		184,716					$ 43	$ 857	185,616
Fines and Forfeits		1,294,727				25,485			1,320,212
Capital Contributions						1,847,963			1,847,963
Sale of Documents, Merchandise and Property		152,859				379,708			532,567
Rentals, Leases and Royalties	1	294,735			117,124				411,860
Grants, Contracts, and Donations		298,457							298,457
Transfers-in		4,440,371	633,573	$ 15,977,131	7,479				21,058,554
Bond Proceeds		8,002,836							8,002,836
Capital Asset Sale Proceeds		161,768							161,768
Proceeds of Refunding Bonds		50,915,000							50,915,000
Federal Indirect Cost Recoveries		41,102,126							41,102,126
Miscellaneous		895,266			37,178	219,441	(43)		1,151,842
Federal		195	495,141,657						495,141,852
Total Revenues & Transfers-In	491,724	346,742,791	495,775,393	15,977,131	217,318	36,087,250	0	857	895,292,464
Less: Nonbudgeted Revenues & Transfers-In		5,848,868		15,977,131		399,202		857	22,226,058
Prior Year Revenues & Transfers-In Adjustments	4	(161,869)	419,260						257,395
Actual Budgeted Revenues & Transfers-In	491,720	341,055,792	495,356,133	0	217,318	35,688,048	0	0	872,809,011
Estimated Revenues & Transfers-In	499,873	298,420,301	444,390,208		180,354	33,422,637			776,913,373
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (8,153)	$ 42,635,491	$ 50,965,925	$ 0	$ 36,964	$ 2,265,411	$ 0	$ 0	$ 95,895,638
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS									
Licenses and Permits	$ (5,457)	$ (7,728,732)							$ (7,734,189)
Taxes	(2,695)	4,562,223							4,559,522
Charges for Services		(1,300,502)			$ 16,206	$ 322,019			(962,277)
Investment Earnings		(23,534)							(23,534)
Fines and Forfeits		(226,696)							(226,696)
Capital Contributions						1,847,962			1,847,962
Sale of Documents, Merchandise and Property		(198,768)				2,411			(196,357)
Rentals, Leases and Royalties		13,562			19,422				32,984
Grants, Contracts, and Donations		(230,400)							(230,400)
Transfers-in		(4,231,560)	$ 19,808		(3,339)				(4,215,091)
Bond Proceeds		8,002,834							8,002,834
Proceeds of Refunding Bonds		50,914,999							50,914,999
Federal Indirect Cost Recoveries		(7,354,283)							(7,354,283)
Miscellaneous		436,550			4,675	93,019			534,244
Federal		(207)	50,946,117						50,945,910
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (8,153)	$ 42,635,491	$ 50,965,925	$ 0	$ 36,964	$ 2,265,411	$ 0	$ 0	$ 95,895,638

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, 2013

	Aeronautics Program	Equipment Program	General Operation Program	Highways & Engineering	Maintenance Program	Motor Carrier Services Division	Rail, Transit & Planning	State Motor Pool	GAAP Adjustments	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT										
Personal Services										
Salaries	$ 560,106	$ 5,308,515	$ 9,729,400	$ 47,931,154	$ 32,545,122	$ 5,382,958	$ 5,387,682	$ 243,174	$ (16,648,988)	$ 90,439,123
Hourly Wages					293				(17)	276
Other Compensation	1,200		5,945				300		(342)	7,103
Employee Benefits	175,488	2,188,629	2,593,028	15,125,957	13,194,322	1,989,825	1,697,619	104,244	(5,704,723)	31,364,389
Personal Services-Other	3,087	11,036						4,994		19,117
Total	739,881	7,508,180	12,328,373	63,057,111	45,739,737	7,372,783	7,085,601	352,412	(22,354,070)	121,830,008
Operating Expenses										
Other Services	759,887	283,177	4,478,875	329,527,376	34,181,269	(444,607)	2,059,552	304,648	(110,699,443)	260,450,734
Supplies & Materials	57,277	9,312,668	1,817,942	1,067,293	1,620,890	144,062	348,456	1,723,518	(720,276)	15,371,830
Communications	15,876	7,369	1,971,085	415,793	361,517	121,028	861,332	1,056	(422,720)	3,332,336
Travel	18,156	36,403	187,614	1,376,612	231,960	258,770	189,344		(304,157)	1,994,702
Rent	18,280	26,067	81,508	3,815,827	23,882,933	459,271	252,695	64,800	(4,009,166)	24,592,215
Utilities	44,208	80,283		71,300	3,541,830	90,333	3,179	9,860	(522,132)	3,318,861
Repair & Maintenance	27,489	4,614,876	1,256,494	2,510,845	20,442,791	24,124	94,695	402,187	(2,833,427)	26,540,074
Other Expenses	322,466	6,894,315	2,862,884	38,123,677	1,095,878	469,824	3,318,619	1,505,339	(15,033,348)	39,559,654
Goods Purchased For Resale	19,340									19,340
Total	1,282,979	21,255,158	12,656,402	376,908,723	85,359,068	1,122,805	7,127,872	4,011,408	(134,544,669)	375,179,746
Equipment & Intangible Assets										
Equipment			131,333	2,619,916	1,051,000	1,889,668	152,886			5,844,803
Capital Leases - Equipment			423,282							423,282
Intangible Assets			105,000							105,000
Total			659,615	2,619,916	1,051,000	1,889,668	152,886			6,373,085
Capital Outlay										
Land & Interest In Land				6,834,901	100				156,898,739	163,733,740
Buildings					1,682,281					1,682,281
Other Improvements				1,725,216						1,725,216
Total				8,560,117	1,682,381				156,898,739	167,141,237
Local Assistance										
From other sources			4,373,064							4,373,064
Total			4,373,064							4,373,064
Grants										
From State Sources	403,510		16,744,913	677,620			2,764,881			20,590,924
From Federal Sources			89,867	3,952,626			12,620,932			16,663,425
From Other Sources							455,085			455,085
Total	403,510		16,834,780	4,630,246			15,840,898			37,709,434
Benefits & Claims										
Total										
Transfers-out										
Fund transfers	7,253		4,497,050			11,250	1,581,777			6,097,330
Mandatory Transfers				15,585,361	610,500					16,195,861
Total	7,253		4,497,050	15,585,361	610,500	11,250	1,581,777			22,293,191
Debt Service										
Bonds				15,585,361						15,585,361
Loans								39,757		39,757
Capital Leases			134,877							134,877
Total			134,877	15,585,361				39,757		15,759,995
Other Post Employment Benefits										
Other Post Employment Benefits	3,826	390,874						19,280		413,980
Total	3,826	390,874						19,280		413,980
Total Expenditures & Transfers-Out	$ 2,437,449	$ 29,154,212	$ 51,484,161	$ 486,946,835	$ 134,442,686	$ 10,396,506	$ 31,789,034	$ 4,422,857	$ 0	$ 751,073,740
EXPENDITURES & TRANSFERS-OUT BY FUND										
State Special Revenue Fund	$ 1,422,385		$ 50,574,759	$ 76,885,254	$ 126,194,670	$ 7,316,572	$ 6,218,438			$ 268,612,078
Federal Special Revenue Fund	677,084		909,401	394,476,220	8,248,016	3,079,934	25,570,036			432,960,692
Debt Service Fund				15,585,361						15,585,361
Enterprise Fund	337,980									337,980
Internal Service Fund		$ 29,154,212						$ 4,422,857		33,577,069
Private Purpose Trust Fund							560			560
Total Expenditures & Transfers-Out	2,437,449	29,154,212	51,484,161	486,946,835	134,442,686	10,396,506	31,789,034	4,422,857	0	751,073,740
Less: Nonbudgeted Expenditures & Transfers-Out	113,629	1,190,675	6,800,312	54,392,933	946,316	312,941	3,044,811	1,359,965		68,161,582
Prior Year Expenditures & Transfers-Out Adjustments		(1,440)	(82)			(11,357)		(211)		(13,090)
Actual Budgeted Expenditures & Transfers-Out	2,323,820	27,964,977	44,683,931	432,553,902	133,496,370	10,094,922	28,744,223	3,063,103	0	682,925,248
Budget Authority	2,973,635	27,994,997	48,955,259	602,958,369	157,848,556	11,113,008	38,198,896	6,017,845		896,060,565
Unspent Budget Authority	$ 649,815	$ 30,020	$ 4,271,328	$ 170,404,467	$ 24,352,186	$ 1,018,086	$ 9,454,673	$ 2,954,742	$ 0	$ 213,135,317
UNSPENT BUDGET AUTHORITY BY FUND										
State Special Revenue Fund	$ 385,761		$ 2,781,458	$ 19,424,390	$ 22,043,681	$ 460,292	$ 973,978			$ 46,069,560
Federal Special Revenue Fund	200,353		1,489,870	150,980,077	2,308,505	557,794	8,480,695			164,017,294
Enterprise Fund	63,701									63,701
Internal Service Fund		$ 30,020						$ 2,954,742	$	2,984,762
Unspent Budget Authority	$ 649,815	$ 30,020	$ 4,271,328	$ 170,404,467	$ 24,352,186	$ 1,018,086	$ 9,454,673	$ 2,954,742	$ 0	$ 213,135,317

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, 2012

	Aeronautics Program	Equipment Program	General Operations Program	Highways & Engineering	Maintenance Program	Motor Carrier Services Division	Rail, Transit & Planning	State Motor Pool	GAAP Adjustments	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT										
Personal Services										
Salaries	$ 576,479	$ 5,345,786	$ 8,828,069	$ 48,468,856	$ 32,607,454	$ 5,205,687	$ 5,454,304	$ 240,051	$ (37,122,215)	$ 69,604,471
Other Compensation	1,800		3,714						(579)	4,935
Employee Benefits	184,949	2,194,702	2,658,743	15,179,433	13,110,655	1,933,865	1,690,440	103,404	(12,552,821)	24,503,370
Personal Services-Other	(19,998)	(8,723)						4,249		(24,472)
Total	743,230	7,531,765	11,490,526	63,648,289	45,718,109	7,139,552	7,144,744	347,704	(49,675,615)	94,088,304
Operating Expenses										
Other Services	304,135	307,458	2,804,896	393,698,823	42,297,536	1,742,979	2,819,241	310,345	(307,152,122)	137,133,291
Supplies & Materials	61,779	9,198,320	1,496,507	1,115,584	1,621,659	303,647	215,373	1,805,419	(1,995,596)	13,822,692
Communications	14,972	7,856	2,007,788	435,689	411,002	120,297	567,814	1,071	(1,054,406)	2,512,083
Travel	22,200	22,971	186,395	1,362,871	248,901	194,342	184,888		(719,171)	1,503,397
Rent	17,059	19,391	72,873	4,139,684	24,121,375	498,334	222,979	64,800	(10,027,127)	19,129,368
Utilities	43,815	79,255		64,547	3,441,656	91,217	3,021	10,119	(1,240,077)	2,493,553
Repair & Maintenance	50,231	4,472,250	1,328,579	2,208,765	21,782,073	93,321	90,536	394,824	(7,330,194)	23,090,385
Other Expenses	303,371	6,634,170	3,291,754	37,755,242	1,547,244	385,329	2,577,237	1,793,711	(34,061,165)	20,226,893
Goods Purchased For Resale	17,741									17,741
Total	835,303	20,741,671	11,188,792	440,781,205	95,471,446	3,429,466	6,681,089	4,380,289	(363,579,858)	219,929,403
Equipment & Intangible Assets										
Equipment			5,287	4,678,598	559,795	16,233	144,934			5,404,847
Intangible Assets			532,327	119	(177,000)	615				356,061
Total			537,614	4,678,717	382,795	16,848	144,934			5,760,908
Capital Outlay										
Land & Interest In Land				7,846,653	1,500				413,255,473	421,103,626
Buildings					1,176,495					1,176,495
Other Improvements				640,750						640,750
Total				8,487,402	1,177,995				413,255,473	422,920,871
Local Assistance										
From other sources			4,107,138							4,107,138
Total			4,107,138							4,107,138
Grants										
From State Sources	458,323		16,741,000	1,646,443			2,133,288			20,979,054
From Federal Sources			386,216	12,751,862			11,806,333			24,944,411
From Other Sources							54,988			54,988
Total	458,323		17,127,216	14,398,305			13,994,609			45,978,453
Benefits & Claims										
Insurance Payments				500	10,250		500			11,250
Other Financing Uses/Deduction				58,508,200						58,508,200
Total				58,508,700	10,250		500			58,519,450
Transfers-out										
Fund transfers	7,477		4,233,240			41,850	1,516,624			5,799,191
Mandatory Transfers				15,977,131	614,100					16,591,231
Total	7,477		4,233,240	15,977,131	614,100	41,850	1,516,624			22,390,422
Debt Service										
Bonds				16,383,130						16,383,130
Loans			787,080					64,795		851,875
Capital Leases			151,410							151,410
Total			938,490	16,383,130				64,795		17,386,415
Other Post Employment Benefits										
Other Post Employment Benefits	5,740	355,544						17,743		379,027
Total	5,740	355,544						17,743		379,027
Total Expenditures & Transfers-Out	$ 2,050,073	$ 28,628,980	$ 49,623,016	$ 622,862,880	$ 143,374,695	$ 10,627,716	$ 29,482,500	$ 4,810,531	$ 0	$ 891,460,391
EXPENDITURES & TRANSFERS-OUT BY FUND										
General Fund			$ (1,695,981)							$ (1,695,981)
State Special Revenue Fund	$ 1,510,327		49,607,763	$ 150,263,034	$ 130,405,043	$ 7,791,257	$ 5,714,329			345,291,753
Federal Special Revenue Fund	202,074		1,711,234	456,622,715	12,969,652	2,836,459	23,767,456			498,109,590
Debt Service Fund				15,977,131						15,977,131
Enterprise Fund	337,672									337,672
Internal Service Fund		$ 28,628,980						$ 4,810,531	$	33,439,511
Private Purpose Trust Fund							715			715
Total Expenditures & Transfers-Out	2,050,073	28,628,980	49,623,016	622,862,880	143,374,695	10,627,716	29,482,500	4,810,531	0	891,460,391
Less: Nonbudgeted Expenditures & Transfers-Out	22,191	227,599	7,123,743	112,776,104	1,475,360	208,745	2,413,303	(202,465)		124,044,580
Prior Year Expenditures & Transfers-Out Adjustments	792	42,066	(2,784,395)	2,692,047	(411,910)	372	(366,764)	43		(827,749)
Actual Budgeted Expenditures & Transfers-Out	2,027,090	28,359,315	45,283,668	507,394,729	142,311,245	10,418,599	27,435,961	5,012,953	0	768,243,560
Budget Authority	2,571,118	29,236,548	77,611,436	535,083,123	157,219,568	11,613,442	35,044,671	5,936,801		854,316,707
Unspent Budget Authority	$ 544,028	$ 877,233	$ 32,327,768	$ 27,688,394	$ 14,908,323	$ 1,194,843	$ 7,608,710	$ 923,848	$ 0	$ 86,073,147
UNSPENT BUDGET AUTHORITY BY FUND										
State Special Revenue Fund	$ 99,933		$ 13,040,705	$ 3,365,131	$ 13,757,860	$ 634,117	$ 405,280			$ 31,303,026
Federal Special Revenue Fund	388,578		19,287,063	24,323,263	1,150,463	560,726	7,203,430			52,913,523
Enterprise Fund	55,517									55,517
Internal Service Fund		$ 877,233						$ 923,848	$	1,801,082
Unspent Budget Authority	$ 544,028	$ 877,233	$ 32,327,768	$ 27,688,394	$ 14,908,323	$ 1,194,843	$ 7,608,710	$ 923,848	$ 0	$ 86,073,145

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, 2013

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). 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 (Agency and Private-Purpose Trust) 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 department State Special Revenue Fund includes the restricted highway revenue, nonrestricted highway revenue, Series 2005 bond refunding, petroleum storage tank, uniform carrier registration, fuel tax distributed to other state agencies and tribal governments, county collections for the DUI Prevention Program and the senior citizens and persons with disabilities transportation services, rail construction and the Aeronautics Division accounts.

- **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. The department 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) and the Federal Emergency Management Agency (FEMA) 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 department 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 department 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 department Internal Service Fund includes the Motor Pool and the Highway Equipment Bureau.

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 department Agency Fund includes union pension activity and the tribal Improvement or Services (IOS) fees.
- **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 department Private-Purpose Trust Fund includes the Woodville Hill Abandonment and Moore-Sipple Connector activity.

2. General Fund Equity

The negative fund equity 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 equity for the two fiscal years ended June 30, 2013. The balance reflects the results of the activity of the department and not the fund equity of the statewide General Fund.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General and 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 equity 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 equity 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, 2013.

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, Highways & 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 $28.6 million in fiscal year 2012 and $28 million in fiscal year 2013.

Transfers

Approximately $16 million was transferred in each fiscal year from the Highways & Engineering Program in the Federal Special Revenue Fund to the Debt Service Fund for the debt service payments for the Grant Anticipation Revenue Vehicle (GARVEE) bonds.

Other Financing Sources

In fiscal year 2012, the department refunded the portion of the 2005 GARVEE bonds maturing in fiscal years 2016 through 2020. The total proceeds from the bond refunding were approximately $59 million in the State Special Revenue Fund, which is comprised of the par value of approximately $51 million with a premium of approximately $8 million. The refunding resulted in approximately $2.8 million of interest savings. The proceeds from the refunding are being held by an escrow agent to be used for future payments to the bondholders when the bonds are called on July 1, 2015.

5. Highway Construction Commitments

At June 30, 2012, and June 30, 2013, the department had contractual commitments of approximately $249.1 million and $244.2 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. GAAP Adjustments Program

The department initially records expenditures related to infrastructure in the Highways & Engineering, Maintenance and Rail, Transit & Planning Programs. The expenditures are originally budgeted by the Montana Legislature as personal services, operating expenses, equipment, and grants. In fiscal year 2011, the department established a GAAP Adjustments Program to reclassify the capital outlay nonbudgeted expenditures in accordance with state policy. The nonbudgeted expenditures in this 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) in fiscal year 2009. Approximately $4.3 million was designated to the Metropolitan Planning Organizations (MPO). Of the remaining $224.3 million, the department expended

$5.5 million in fiscal year 2012 and $583,000 in fiscal year 2013. As of June 30, 2013, the department has expended all ARRA funds that were awarded.

8. County Collection Revenue

Daily, counties enter revenue they have collected on the state's behalf into the Department of Justice's (DOJ) computerized system, the Montana Enhanced Registration & Licensing Information Network (MERLIN). The DOJ then records the revenue due to the department under its business unit, rather than the department's. 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 2012 and 2013, approximately $12 million and $12.6 million, respectively, of gross vehicle weight revenue under Licenses & Permits and $560,000 and $539,000, 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 2012 and 2013 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
Michael T. Tooley, Director
Steve Bullock, Governor
2701 Prospect Avenue
PO Box 201001
Helena MT 59620-1001

October 25, 2013

RECEIVED
OCT 28 2013
LEGISLATIVE AUDIT DIV.

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, 2013.

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,

Michael Tooley

Michael T. Tooley
Director

Attachment

MONTANA MDT DEPARTMENT OF TRANSPORTATION

October 2013

Corrective Action Plan
MDT Financial-Compliance Audit #13-17
For the Two Fiscal Years Ended June 30, 2013

Audit Recommendation #	Does this affect a federal program?	Management View	Corrective Action Plan	Responsible Area	Target Date
Recommendation #1 We recommend the department: A. Determine and document VISTA security roles and user profiles. B. For current VISTA access, identify and correct incompatible duties within employee profiles. C. For ongoing VISTA access, establish internal controls to timely identify and correct, and to prevent incompatible duties, in accordance with state accounting policy.	No	Concur	MDT management recognizes these issues and the need for staff to obtain and possess sufficient knowledge and understanding of system user access security capabilities. Additionally, we recognize the importance of maintaining current user security information and the ability to monitor and track user roles and profiles. MDT is working with Xerox on an upgrade to the VISTA system. These recommendations will be implemented within one month of the upgraded version of the VISTA system going into production. MDT anticipates the new version will be in production by November 15, 2013. MDT has implemented procedures which do not allow an individual to enter and approve the same transaction in the system. Management monitors this process to ensure the procedures are being followed.	Motor Carrier Services Division, Information Services Division and Administration Division	December 15,2013
Recommendation #2 We recommend the department: A. Record capital outlay expenditures based on qualifying current year expenditures, in accordance with state accounting policy. B. Re-evaluate its process and record appropriate adjustments to infrastructure transactions on the state's accounting records.	No	Concur	As noted in the audit report, the infrastructure adjustment entry is one of the most complex and significant entries completed for the State of Montana at fiscal year-end. The project detail and costs for the infrastructure entries come from MDT's CARES system. There is a very short timeframe between MDT's CARES system closing and Department of Administration's Asset Management System closing, approx. 4 days at fiscal year-end 2013. The steps within the process must be performed in a sequential manner, which prevents more than one person from completing the calculation. MDT continues to review and refine the procedures for completing these entries. The errors noted are mainly the result of misclassification between CWIP and Finished Goods. MDT has changed its procedures to use the project status codes in CARES to determine if projects should be included in CWIP or Finished Goods. This will significantly streamline a previously manual process and allow MDT staff to spend more time on the reclassification and capitalization entries. Additionally, a step has been added to the procedures to verify the reclassification calculation agrees to related current year expenditures.	Administration Division	Complete
Recommendation #3 We recommend the department establish internal controls to avoid duplicate relocation assistance payments.	No	Concur	MDT implemented procedures to avoid issuing duplicate relocation payments in the future. The Payroll Section runs a SABHRS query prior to issuing a relocation payment. The listing is reviewed to ensure a payment has not already been made. Additionally, each employee approved relocation agreement includes a summary of all expenses paid for the term of the relocation. The summary along with the relocation agreement is filed in a binder located in the Payroll Section.	Administration Division	Complete

MONTANA MDT

Corrective Action Plan
MDT Financial-Compliance Audit #13-17
For the Two Fiscal Years Ended June 30, 2013

Audit Recommendation #	Does this affect a federal program?	Management View	Corrective Action Plan	Responsible Area	Target Date
Recommendation #4 We recommend the department make temporary and permanent employment decisions in accordance with state recruitment and selection policy.	No	Partially Concur	MDT agrees the temporary promotions did not comply with state policy and has implemented procedures to monitor these promotions and ensure compliance with state policy. For efficiency purposes, MDT laterally transferred an employee to a vacant position of the same classification and competitively recruited for the employee's prior position. The employee met all the requirements for the new position. MCA 39-31-303 Management rights of public employees, gives managers the right to maintain efficiencies by, in this case, transferring employees as long as it is not giving the employee an undue or unfair increase in wages. MDT will request from the Department of Administration an update to state policy to clarify this type of action.	Human Resources Division	November 1,2013
Recommendation #5 We recommend the department comply with the requirements of its relocation reimbursement policy.	No	Concur	MDT will review and update the relocation policy to reflect current practice and education MDT managers on the updated policy.	Human Resources Division	December 15,2013
Recommendation #6 We recommend the department modify password requirements to comply with requirements outlined in state policy.	No	Concur	MDT will update security requirements for all computer applications and systems to comply with the State's Policy on Usernames and Passwords. These changes will be fully implemented and communicated to the users by December 15, 2013.	Information Services Division	December 15,2013
Recommendation #7 We recommend the deparment amend Administrative Rules of Montana to require the same penalty specified in state law for delinquent fuel license taxes.	No	Concur	MCA 15-70-210 (1) allows MDT to waive a penalty upon the distributor showing of good cause. ARM 18.9.702 was adopted in 1999 to provide a graduated penalty based on filing history. MDT agrees this rule appears to be inconsistent with state law. Since the statue does allow for waiver of good cause, MDT could correct this by amending ARM 18.9.701 to include "no prior motor fuel tax penalties" as a good or reasonable cause or by repealing ARM 18.9.702.	Administration Division	December 31,2013