



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Montana Department of Transportation

*For the Two Fiscal Years Ended
June 30, 2015*

OCTOBER 2015

LEGISLATIVE AUDIT
DIVISION

15-17

FINANCIAL-COMPLIANCE AUDITS

LEGISLATIVE AUDIT COMMITTEE

REPRESENTATIVES

RANDY BRODEHL, CHAIR
Randybrodehl57@gmail.com

TOM BURNETT
Burnett.tom@gmail.com

VIRGINIA COURT
virginacourt@yahoo.com

DENISE HAYMAN
Rep.Denise.Hayman@mt.gov

KENNETH HOLMLUND
rep.ken.holmlund@mt.gov

MITCH TROPILA
tropila@mt.net

SENATORS

DEE BROWN
senatordee@yahoo.com

TAYLOR BROWN
taylor@northernbroadcasting.com

MARY McNALLY
McNally4MTLeg@gmail.com

J.P. POMNICHOWSKI
pomnicho@montanadsl.net

BRUCE TUTVEDT
tutvedt@montanasky.us

GENE VUCKOVICH
Sen.Gene.Vuckovich@mt.gov

MEMBERS SERVE UNTIL A
MEMBER'S LEGISLATIVE TERM
OF OFFICE ENDS OR UNTIL A
SUCCESSOR IS APPOINTED,
WHICHEVER OCCURS FIRST.

§5-13-202(2), MCA

FRAUD HOTLINE
(STATEWIDE)
1-800-222-4446
(IN HELENA)
444-4446
ladhotline@mt.gov

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.

The Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by Government Auditing Standards. 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, 2013, was issued March 28, 2014. The Single Audit Report for the two fiscal years ended June 30, 2015, will be issued by March 31, 2016. 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

MONICA BIRLUT
MARY CURRIN
CHRIS G. DARRAGH
ALEXA O'DELL
KELLY ZWANG

JEANE CARSTENSEN-GARRETT
JESSICA CURTIS
AARON FUNK
SHANDELL VANDONSEL

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

LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

October 2015

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana Department of Transportation for the two fiscal years ended June 30, 2015. Included in this report are five recommendations related to internal control deficiencies, and compliance with federal and state laws and regulations and department policies.

The department's written response to the audit recommendations is included in the audit report at page C-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

TABLE OF CONTENTS

Appointed and Administrative Officials	ii
Report Summary	S-1
CHAPTER I – INTRODUCTION.....	1
Introduction	1
Background.....	2
Prior Audit Recommendations.....	3
CHAPTER II – FINDINGS AND RECOMMENDATIONS	5
State Compliance	5
Sole Source Procurement.....	5
Telework Agreements	6
Final Payment for Construction Projects	7
Internal Controls and Federal Compliance	8
Transit Vehicles	8
Transparency Act Reporting.....	9
INDEPENDENT AUDITOR’S REPORT AND DEPARTMENT FINANCIAL SCHEDULES	
Independent Auditor’s Report	A-1
Schedule of Changes in Fund Equity & Property Held in Trust for the Fiscal Year Ended June 30, 2015.....	A-5
Schedule of Changes in Fund Equity & Property Held in Trust for the Fiscal Year Ended June 30, 2014.....	A-6
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2015.....	A-7
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2014.....	A-8
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2015.....	A-9
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2014.....	A-10
Notes to the Financial Schedules	A-11
REPORT ON INTERNAL CONTROL AND COMPLIANCE	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance with <i>Government</i> <i>Auditing Standards</i>	B-1
DEPARTMENT RESPONSE	
Montana Department of Transportation	C-1

APPOINTED AND ADMINISTRATIVE OFFICIALS

			<u>Term Expires</u>
Montana Transportation Commission	Rick Griffith, Chair	Butte	2017
	Daniel Belcourt	Missoula	2019
	John Cobb	Augusta	2017
	Carol Lambert	Broadus	2019
	Barb Skelton	Billings	2017
Montana Aeronautics Board	Tricia McKenna, Chair	Bozeman	2017
	Chris Edwards, Vice Chair	Billings	2019
	Roger Lincoln, Secretary	Gilford	2017
	Robert Buckles	Bozeman	2019
	Daniel Hargrove	Billings	2019
	Bill Hunt, Jr.	Shelby	2017
	Fred Lark	Lewistown	2019
	Fred Leistiko	Kalispell	2017
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		
	Keni Grose, Administrator, Human Resources and Occupational Safety Division		
	Mike Bousliman, Administrator, Information Services Division		
Jon Swartz, Administrator, Maintenance Division			

**Montana Department
of Transportation
(continued)** 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, 2015

OCTOBER 2015

15-17

REPORT SUMMARY

Funding for the Montana Department of Transportation operations includes federal revenues and state motor fuel tax collections. Fuel tax collections are deposited to the Highways State Special Revenue account and are mainly used for department programs (78 percent), statutory payments to local and tribal governments (7 percent), and by the Department of Justice for Montana Highway Patrol costs (12 percent). Since fiscal year 2010, ending working capital in the Highways State Special Revenue account has decreased from \$100.6 million to \$42.5 million. The department currently projects negative ending working capital during fiscal year 2017-18.

Context

The Montana Department of Transportation (department) is one of the largest employing agencies in state government with over 2,250 employees. Among its many duties, the department plans, designs, maintains, and constructs Montana's vast system of roadways, bridges, and rest areas; coordinates and oversees the state's highway traffic safety program; and, manages the state motor pool.

In each fiscal year 2014-15 and 2013-14, the department received over \$800 million in revenues and transfers-in. Department revenue sources are summarized as follows:

Federal Grants	56 percent
Motor Fuel Taxes	27 percent
Federal Indirect Cost Recoveries	4 percent
Equipment Services	4 percent
Transfers In (includes debt service)	3 percent
Motor Pool Services	1 percent
Other	5 percent

During the audit period, the department spent approximately \$400 million per year to construct and improve state highways. This accounts for approximately 50 percent of total department costs for each fiscal year

2014-15 and 2013-14. For the same time period, highway maintenance costs accounted for approximately 15 percent of expenditures annually.

Our audit consisted of analyzing the department's financial activity; evaluating the effectiveness of the department's internal controls; determining the department's compliance with selected state and federal laws and regulations; and, determining the implementation status of prior audit recommendations.

Results

Our audit report contains five recommendations to the department related to compliance with state laws and policies, internal control deficiencies, and compliance with federal reporting requirements.

The department entered into various purchase agreements for fill dirt, sanding materials, and cover materials using the sole source purchasing method. Our audit identified seven purchases that did not meet the criteria for sole source purchases as described in state law and state policy.

(continued on back)

Contrary to state law, the department permitted two employees to conduct telework from outside the state's borders.

Final payment on highway construction projects occurred after the 90-day deadline required by state law for at least 18 percent of projects finalized in either fiscal year 2014-15 or 2013-14. Effective coordination between department staff and the contractor is required to meet the deadline.

For the federal Formula Grants for Rural Areas program, the department does not adequately monitor vehicles purchased with federal funds. In addition, the department did not submit federal reports required for its federal programs during fiscal years 2014-15 or 2013-14.

The audit report for the two fiscal years ended June 30, 2013, contained seven recommendations. The department partially implemented one recommendation and fully implemented six recommendations. The partially implemented recommendation is related to the department's inability to run user access reports for one of the information systems used to maintain records on fuel distribution and fuel taxes.

Recommendation Concurrence	
Concur	5
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

For a complete copy of the report (15-17) 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, 2015. 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, 2015, and 2014.

Our audit consisted of analyzing the department's financial activity; evaluating the effectiveness of the department's internal controls; determining the department's compliance with selected state and federal laws and regulations; and, determining the implementation status of prior audit recommendations.

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. In determining whether fees are commensurate with costs, postemployment benefit expenses are excluded. 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, 2015, and 2014. Motor Pool Internal Service Fund charges for services were commensurate with costs for each fiscal year. We noted the ending fund equity balance in the Motor Pool Internal Service Fund was low for each fiscal year. The net equipment increased even though the working capital was negative on June 30, 2014, and low (less than \$200,000) on June 30, 2015. Because the department collects revenues throughout the fiscal year and incurs a significant cost annually in June for its INTERCAP Loan, we concluded ending fund equity was reasonable as of June 30, 2015, and 2014.

This report contains five recommendations to the department regarding compliance with state and federal laws and regulations, department policy, and internal control deficiencies.

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. The department 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 2,260.26 full-time equivalent (FTE) positions during fiscal year 2014-15. 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 eight divisions as described below:

Director's Office (45.50 FTE) provides overall direction and management to the department. Included under the Director's Office are Legal Services, Audit Services, Civil Rights, and Public Information.

Administration (62.82 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 and Occupational Safety (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 (899.67 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 (134.00 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 (105.50 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, 2013, contained seven recommendations to the department. The department fully implemented six recommendations, and partially implemented one recommendation. The recommendation partially implemented relates to the department's Vehicle Information

System for Tax Apportionment (VISTA), which is one of two systems used to maintain records on fuel distribution and related taxes due. The department is still unable to run user access reports without requesting the information from the contractor. Because the department anticipates replacing the VISTA system in fiscal year 2015-16, we make no further recommendation at this time.

Chapter II – Findings and Recommendations

State Compliance

The Montana Department of Transportation (department) is subject to state laws and policies. The following three report sections discuss instances where the department did not comply with certain state laws and policies.

Sole Source Procurement

Contrary to state law, seven purchases of fill dirt, sanding material, and cover material were conducted using the sole source purchasing method.

The department is delegated certain purchasing authority from the Department of Administration's Procurement Bureau. Under the delegation agreement, the department may use the following purchasing methods:

- ◆ Small Purchases – for total contract value of \$5,000 or less, the department may choose a purchasing technique that best meets its needs.
- ◆ Limited Solicitations – for total contract value between \$5,001 and \$25,000, the department must obtain and document prices from a minimum of three viable sources. For supplies, the total contract value can be up to \$50,000.
- ◆ Formal Competition – for total contract value above \$25,001, the department must use either an invitation for bid or request for proposal process.
- ◆ Sole Source – for total contract value up to \$100,000, the department determines whether a purchase qualifies as sole source. Section 18-4-306, MCA, defines sole source procurement as an item or service for which there is only one source, only one acceptable source, or is compatible with current supplies or services.

During the audit, we reviewed 22 sole source contracts executed by the department. Seven of the 22 contracts were for fill dirt, sanding materials, or cover materials, and ranged in cost from \$9,192 to \$24,150, and totaled approximately \$136,000. Because in most areas of the state fill dirt, sanding materials, and cover materials are available from multiple sources, these seven contracts did not meet the criteria for sole source purchases as described in state law and state policy.

Department staff indicated they are aware of the going rate for materials meeting their specifications, and the department is saving money by purchasing materials left over from other construction projects. However, the department applied the sole source purchasing method for these contracts even though the purchases did not meet the requirements for sole source purchasing. Inquiring about and documenting the going rate for materials, as required by the limited solicitations purchasing method, would

permit the department to take advantage of cost savings while also complying with requirements of state law. In addition, without considering the cost of supplies available from other sources, the department could be paying a higher price than necessary.

RECOMMENDATION #1

We recommend the Montana Department of Transportation comply with state procurement laws and its delegation agreements with the Department of Administration's Procurement Bureau when securing soil, gravel, and cover materials.

Telework Agreements

Contrary to state law, the department permitted employees to conduct telework from outside the state's borders.

Under state law, the department is permitted to authorize telework arrangements for specified employees when it is in the state's best interest. Section 2-18-101(25), MCA, defines telework as a flexible work arrangement where a designated employee may work from home within the state of Montana or an alternative worksite within the state of Montana for one or more days a week instead of physically traveling to a central workplace. Department policy requires an approved telework application and a signed telework agreement prior to initiating telework. In addition, department policy requires a copy of the signed agreement be maintained in the employee's personnel files in the department's Helena office.

During the audit, we requested copies of all active telework agreements. Department staff indicated there were seven staff currently teleworking, and provided telework documentation for five of those employees. We requested support for one additional teleworking employee who had terminated employment in 2015. Our review identified the following issues regarding compliance with state law and department policy:

- ◆ Two department employees were teleworking from locations outside the state of Montana.
- ◆ Three department employees performed work from alternative worksites without telework agreements.
- ◆ No telework agreements are filed centrally in the employee personnel files, as required by department policy.

Although policy requires telework activities to occur with central oversight of the Human Resources Division, department documentation did not demonstrate consistent involvement of the Human Resources Division staff. Additionally, staff involved in independent teleworking decisions were not aware of the parameters of state law.

RECOMMENDATION #2

We recommend the Montana Department of Transportation:

- A. *Educate staff regarding telework laws and policies.*
 - B. *Comply with state law and department policy for all teleworking employees.*
-

Final Payment for Construction Projects

The department has not made timely final payment, as required by state law, for approximately 18 percent of its construction projects.

Section 60-2-115(3), MCA, requires the department to make the final payment on construction projects 90 days after final acceptance is granted. According to the department, there are many steps required in finalizing the documentation package supporting a construction project. In addition, department staff indicated effective coordination with the contractor is necessary to meet the timeline which allows for final payment.

During the audit, we observed instances where the department's review of construction projects identified missing documentation related to interim project milestones. As a way to minimize instances of missing documentation, the department utilized information system alerts to remind staff to obtain and retain such information. Although the department implemented new policies and continues to educate staff, they were unable to achieve final payment within 90 days in all cases, as required by statute. Department staff estimate final payment did not occur within 90 days for a minimum of 18 percent of the construction projects finalized in either fiscal years 2014-15 or 2013-14.

RECOMMENDATION #3

We recommend the Montana Department of Transportation continue to educate staff and work with contractors to ensure final payment on construction projects occurs within 90 days after final acceptance, as required by state law.

Internal Controls and Federal Compliance

Federal regulations require the department to maintain internal control over federal programs that 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 direct and material effect on each of its federal programs. The following two sections discuss areas where the department can improve internal controls to ensure compliance with federal program requirements.

Transit Vehicles

The department should strengthen its internal controls to monitor vehicles purchased with federal funds.

The department administers the federal Formula Grants for Rural Areas (Transit) program to assist qualified organizations in providing transportation to the rural general public. Assistance is provided in the form of grants for operations or capital purchases, such as large vans which are used to transport individuals living in rural areas. With approval, federal regulations permit the transfer, sale, or lease of vehicles purchased with Transit funds that are no longer needed for transit purposes. When a vehicle's fair market value exceeds \$5,000, federal regulations further stipulate, "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..."

To ensure grantees do not sell or otherwise dispose of vehicles, the department requests a lien be placed on the vehicle title at the time of purchase. When the useful life in years or mileage is met, the department releases the lien. After the lien is released, the grantee could sell or otherwise dispose of the vehicle without notifying the department. Because the department does not document each vehicle's value at the time of lien release, proper treatment of future sale proceeds is unclear.

During the audit we reviewed files for the 48 vehicles where the useful life benchmarks had been met, and noted four instances where no lien existed. The department represents in each of these cases the submitted paperwork included lien information, but the lien was not recorded on the vehicle title processed by the Department of Justice. In addition, we identified two instances where vehicle files did not contain evidence indicating a lien was requested for a vehicle purchase. Because the department did not confirm the perfection of the lien, the grantees could have sold or otherwise disposed of the vehicles without the department's knowledge and without proceeds being used for other federal projects.

Standard department procedures are neither designed to ensure the lien is perfected at the time of purchase nor track grantee vehicles after the respective liens are released. Additionally, reviews of grantees, which occur every three years, only consider vehicle sales within the previous year rather than sales for any vehicle originally purchased with Transit funds. Although grantees are instructed to notify the department in writing when vehicles are sold, we could not determine whether the requirement was consistently followed by grantees. Without tracking all vehicles from the time of purchase to sale or final disposal, the department cannot demonstrate compliance with federal regulations regarding equipment sale proceeds.

RECOMMENDATION #4

For vehicles purchased with federal Formula Grants for Rural Areas funds, we recommend the Montana Department of Transportation:

- A. *Confirm each lien is perfected at the time of purchase.*
 - B. *Monitor vehicles after lien release to ensure proceeds from vehicle sales are used as required by federal regulations.*
-

Transparency Act Reporting

The department did not submit financial reports required under the Federal Funding Accountability and Transparency Act.

Under the Federal Funding Accountability and Transparency Act (FFATA), the department is required to report each subaward action obligating \$25,000 or more in federal funds for each of its federal awards. A subaward is a formal written agreement where the department agrees to pay another entity for performing certain activities under a federal award. The subaward information must be submitted to the federal

government no later than the end of the month following the month in which the qualifying obligation was made. Without fulfilling the reporting requirements, the federal government is not informed regarding the department's subawards. During the audit, we identified issues with FFATA reporting for each the Transit and Highway Planning and Construction federal awards, as follows.

Transit subawards exceeding \$8.9 million and \$7.3 million were not reported for fiscal year 2014-15 or 2013-14, respectively, because the department did not have a reporting process in place. Thirty-two subawards should have been reported in fiscal year 2014-15, and 30 subawards should have been reported in fiscal year 2013-14.

While most subawards for the Highway Planning and Construction award were reported as required, we identified nine unreported subawards and sixteen subawards reported after the deadline. Department staff indicated subaward information necessary for reporting was not available on the federal reporting system for these instances. Although federal reporting instructions suggest contacting a federal official when information is unavailable, department employees had not done so at the time of our review. Department staff indicated seven additional Highway Planning and Construction subawards were reported late due to department employee workload at fiscal year-end.

As a result, the department did not comply with reporting requirements for the Transit and Federal Planning and Construction federal awards for the audit period.

RECOMMENDATION #5

We recommend the Montana Department of Transportation:

- A. *Enhance internal controls, policies, and procedures to ensure compliance with the Transparency Act for its Formula Grants for Rural Areas and Highway Planning and Construction federal awards.*
 - B. *Contact a federal official for assistance in subaward reporting when information is unavailable on the federal reporting system per federal instructions.*
-

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 Montana Department of Transportation for each of the fiscal years ended June 30, 2015, and 2014, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

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 as of June 30, 2015, and June 30, 2014, or changes in financial position or cash flows for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out, present fairly, in all material respects, the results of operations and changes in fund equity and property held in trust of the Montana Department of Transportation for each of the fiscal years ended June 30, 2015, and 2014, in conformity with the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2015, on our consideration of the Montana Department of Transportation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide

an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

September 28, 2015

DEPARTMENT OF TRANSPORTATION
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	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, 2014	(1,044)	80,721,897	(2,088,488)	0	2,519,512	75,774,538	0	286,123
PROPERTY HELD IN TRUST: July 1, 2014							85,337	
ADDITIONS								
Budgeted Revenues & Transfers-In	441,685	302,688,110	470,133,409		540,620	36,948,966		
Nonbudgeted Revenues & Transfers-In		7,684,815		15,500,463	101,998	615,755		375
Prior Year Revenues & Transfers-In Adjustments	(440,641)	(308,071)			(116,887)	(26,145)		
Direct Entries to Fund Equity		(34,474,790)				(6,153,386)		
Additions to Property Held in Trust							973,168	
Total Additions	1,044	275,590,064	470,133,409	15,500,463	525,731	31,385,190	973,168	375
REDUCTIONS								
Budgeted Expenditures & Transfers-Out		278,147,769	433,492,129		294,175	34,464,475		
Nonbudgeted Expenditures & Transfers-Out		8,623,533	37,000,065	15,500,463	167,132	(204,164)		312
Prior Year Expenditures & Transfers-Out Adjustments		(32,231)				(1,552)		
Reductions in Property Held in Trust	0	286,739,071	470,492,194	15,500,463	461,307	34,258,759	949,551	312
Total Reductions	0	69,572,890	(2,447,273)	0	2,583,936	72,900,969	0	286,186
FUND EQUITY: June 30, 2015								
PROPERTY HELD IN TRUST: June 30, 2015							108,954	

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-11.

DEPARTMENT OF TRANSPORTATION
 SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	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, 2013	\$ 0	\$ 93,472,349	\$ (924,481)	\$ 0	\$ 2,594,046	\$ 75,182,744	\$ 0	\$ 286,090
PROPERTY HELD IN TRUST: July 1, 2013							\$ 184,048	
ADDITIONS								
Budgeted Revenues & Transfers-In	446,642	286,060,235	464,156,983		319,025	34,786,929		
Nonbudgeted Revenues & Transfers-In		6,118,677		15,501,388	150,000	968,910		408
Prior Year Revenues & Transfers-In Adjustments	(447,686)	(348,495)	(3,677,623)					
Direct Entries to Fund Equity		(34,931,577)						
Additions to Property Held in Trust							1,074,564	
Total Additions	(1,044)	256,898,840	460,479,360	15,501,388	469,025	35,755,839	1,074,564	408
REDUCTIONS								
Budgeted Expenditures & Transfers-Out		257,308,117	429,596,174		409,801	37,824,431		
Nonbudgeted Expenditures & Transfers-Out		9,339,297	36,031,284	15,501,388	134,874	(2,620,253)		377
Prior Year Expenditures & Transfers-Out Adjustments		3,001,878	(3,984,091)		(1,115)	(40,133)		
Reductions in Property Held in Trust							1,173,275	
Total Reductions	0	269,649,292	461,643,367	15,501,388	543,560	35,164,045	1,173,275	377
FUND EQUITY: June 30, 2014	\$ (1,044)	\$ 80,721,897	\$ (2,088,488)	\$ 0	\$ 2,519,511	\$ 75,774,538	\$ 0	\$ 286,121
PROPERTY HELD IN TRUST: June 30, 2014							\$ 85,337	

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-11.

DEPARTMENT OF TRANSPORTATION
 SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
 FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	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	\$ 431,039	\$ 24,514,667							\$ 24,945,706
Taxes	10,645	226,913,764							226,924,409
Charges for Services		10,094,119			\$ 47,350	\$ 34,519,759			44,661,228
Investment Earnings		29,576					\$ 0	\$ 375	29,951
Fines and Forfeits		493,991				5,520			499,511
Monetary Settlements		1,536,868							1,536,868
Capital Contributions					250,000	2,385,353			2,635,353
Sale of Documents, Merchandise and Property		101,418			800	462,801			565,019
Rentals, Leases and Royalties	1	410,405			169,491				579,897
Grants, Contracts, and Donations		1,333,759			7,588	152,880			1,494,227
Transfers-in		5,709,691	\$ 1,184,038	\$ 15,500,463	105,805	12,128			22,512,125
Capital Asset Sale Proceeds		1,557,444							1,557,444
Federal Indirect Cost Recoveries		37,000,929							37,000,929
Miscellaneous		366,980			61,584	135	(0)		428,699
Federal		1,243	468,949,371						468,950,614
Total Revenues & Transfers-In	441,685	310,064,854	470,133,409	15,500,463	642,618	37,538,576	0	375	834,321,980
Less: Nonbudgeted Revenues & Transfers-In		7,684,815		15,500,463	101,998	615,755		375	23,903,406
Prior Year Revenues & Transfers-In Adjustments		(308,071)				(26,145)			(334,216)
Actual Budgeted Revenues & Transfers-In	441,685	302,688,110	470,133,409	0	540,620	36,948,966	0	0	810,752,790
Estimated Revenues & Transfers-In	478,304	294,471,029	452,768,204		222,483	33,276,077			781,216,097
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (36,619)	\$ 8,217,081	\$ 17,365,205	\$ 0	\$ 318,137	\$ 3,672,889	\$ 0	\$ 0	\$ 29,536,693
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS									
Licenses and Permits	\$ (47,262)	\$ 1,169,127							\$ 1,121,865
Taxes	10,644	12,738,551							12,749,195
Charges for Services		6,844,167			\$ (11,150)	\$ 1,503,830			8,336,847
Investment Earnings		(106,595)							(106,595)
Fines and Forfeits		(1,080,178)							(1,080,178)
Monetary Settlements		1,486,868							1,486,868
Capital Contributions		(109,201)			249,999	2,385,353			2,526,151
Sale of Documents, Merchandise and Property		(87,958)			(5,200)	(6,556)			(99,714)
Rentals, Leases and Royalties		148,639			50,492				199,131
Grants, Contracts, and Donations		544,200			4,798				548,998
Transfers-in	(1)	(4,881,354)	\$ 1,181,037		(882)	(2,873)			(3,704,073)
Bond Proceeds		(1)							(1)
Proceeds of Refunding Bonds		(1)							(1)
Federal Indirect Cost Recoveries		(8,046,501)			(1)				(8,046,502)
Miscellaneous		(403,725)			30,083	(206,865)			(580,507)
Federal		1,043	16,184,168		(2)				16,185,209
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (36,619)	\$ 8,217,081	\$ 17,365,205	\$ 0	\$ 318,137	\$ 3,672,889	\$ 0	\$ 0	\$ 29,536,693

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-11.

DEPARTMENT OF TRANSPORTATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	<u>Private Purpose Trust Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS								
Licenses and Permits	\$ 436,841	\$ 23,936,557						\$ 24,373,398
Taxes	9,800	216,638,765						216,648,565
Charges for Services		6,734,826			\$ 66,736	\$ 33,989,478		40,791,040
Investment Earnings		56,434					\$ 408	56,842
Fines and Forfeits		1,176,361				1,555		1,177,916
Capital Contributions						783,065		783,065
Sale of Documents, Merchandise and Property		393,907			24,621	201,574		620,102
Rentals, Leases and Royalties	1	347,802			127,864			475,667
Grants, Contracts, and Donations		1,258,300			16,154			1,274,454
Transfers-in		5,133,804	\$ 87,049	\$ 15,501,388	156,900	774,000		21,653,141
Capital Asset Sale Proceeds		1,875						1,875
Federal Indirect Cost Recoveries		35,663,576						35,663,576
Miscellaneous		486,041			76,750	6,167		568,958
Federal		2,169	460,392,311					460,394,480
Total Revenues & Transfers-In	446,642	291,830,417	460,479,360	15,501,388	469,025	35,755,839	408	804,483,079
Less: Nonbudgeted Revenues & Transfers-In		6,118,677		15,501,388	150,000	968,910	408	22,739,383
Prior Year Revenues & Transfers-In Adjustments		(348,495)	(3,677,623)					(4,026,118)
Actual Budgeted Revenues & Transfers-In	446,642	286,060,235	464,156,983	0	319,025	34,786,929	0	785,769,814
Estimated Revenues & Transfers-In	478,304	293,928,850	453,284,524		221,300	32,918,616		780,831,594
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (31,662)	\$ (7,868,615)	\$ 10,872,459	\$ 0	\$ 97,725	\$ 1,868,313	\$ 0	\$ 4,938,220
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS								
Licenses and Permits	\$ (41,460)	\$ 1,345,397						\$ 1,303,937
Taxes	9,798	2,229,508						2,239,306
Charges for Services		3,643,554	\$ (1)		\$ 8,235	\$ 1,289,865		4,941,653
Investment Earnings		(85,326)						(85,326)
Fines and Forfeits		(923,002)						(923,002)
Monetary Settlements		(50,000)						(50,000)
Capital Contributions		(2)			(2)	783,064		783,060
Sale of Documents, Merchandise and Property		220,441			18,306	(3,782)		234,965
Rentals, Leases and Royalties		85,078			10,364			95,442
Grants, Contracts, and Donations		(139,314)			16,152			(123,162)
Transfers-in		(4,840,391)	84,048		(577)	(1)		(4,756,921)
Federal Indirect Cost Recoveries		(9,023,479)			(1)			(9,023,480)
Miscellaneous		(333,048)	(1)		45,250	(200,833)		(488,632)
Federal		1,969	10,788,413		(2)			10,790,380
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (31,662)	\$ (7,868,615)	\$ 10,872,459	\$ 0	\$ 97,725	\$ 1,868,313	\$ 0	\$ 4,938,220

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-11.

DEPARTMENT OF TRANSPORTATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Aeronautics Program	Equipment Program	General Operations Program	Highways & Engineering Program	Maintenance Program	Motor Carrier Services Program	Rail, Transit & Planning Program	State Motor Pool Program	GAAP Adjustments Program	Total
Personal Services										
Salaries	\$ 699,706	\$ 5,823,433	\$ 11,860,985	\$ 50,843,301	\$ 35,888,421	\$ 6,117,098	\$ 6,188,126	\$ 267,382	\$ (40,847,639)	\$ 76,840,813
Other Compensation	1,400		7,050				450			8,900
Employee Benefits	214,185	1,963,332	3,559,829	16,992,273	15,227,550	2,347,114	2,060,579	95,097	(14,810,810)	27,649,149
Personal Services-Other	8,073	46,443						15,141		69,657
Total	<u>923,364</u>	<u>7,833,208</u>	<u>15,427,864</u>	<u>67,835,574</u>	<u>51,115,971</u>	<u>8,464,212</u>	<u>8,249,155</u>	<u>377,620</u>	<u>(55,658,449)</u>	<u>104,568,519</u>
Operating Expenses										
Other Services	1,283,536	323,106	5,205,995	367,015,754	24,312,680	718,883	2,624,862	294,459	(266,044,946)	135,734,329
Supplies & Materials	57,580	7,204,710	1,737,915	1,136,585	1,785,973	183,562	547,509	1,438,824	(1,734,440)	12,358,218
Communications	14,654	8,007	1,935,501	406,592	396,013	102,787	660,042	1,468	(1,141,502)	2,383,562
Travel	28,628	32,017	245,567	1,429,199	276,576	310,183	191,656		(793,378)	1,720,448
Rent	21,448	19,023	101,232	4,004,706	25,647,198	473,159	220,035	64,800	(9,936,555)	20,615,046
Utilities	49,147	73,962	72,640	72,640	3,651,664	91,963	3,433	9,152	(1,246,566)	2,705,395
Repair & Maintenance	62,188	5,993,986	1,296,506	2,626,628	22,410,682	41,573	158,611	413,940	(7,365,790)	25,638,324
Other Expenses	312,258	7,767,032	3,281,036	34,864,792	1,480,774	505,632	2,657,082	1,578,238	(29,933,961)	22,512,883
Goods Purchased For Resale	15,446									15,446
Total	<u>1,844,885</u>	<u>21,421,843</u>	<u>13,803,752</u>	<u>411,556,896</u>	<u>79,961,560</u>	<u>2,427,742</u>	<u>7,063,230</u>	<u>3,800,881</u>	<u>(318,197,138)</u>	<u>223,683,651</u>
Equipment & Intangible Assets										
Equipment			119,534	4,005,306	296,741	1,232,290	220,032			5,873,903
Intangible Assets			1,435,550	1,726,388						3,161,938
Total			<u>1,555,084</u>	<u>5,731,694</u>	<u>296,741</u>	<u>1,232,290</u>	<u>220,032</u>			<u>9,035,841</u>
Capital Outlay										
Land & Interest In Land				7,667,856					373,855,587	381,523,443
Buildings					126,576					126,576
Other Improvements				677,863						677,863
Total				<u>8,345,719</u>	<u>126,576</u>				<u>373,855,587</u>	<u>382,327,882</u>
Local Assistance										
From other sources			4,915,703							4,915,703
Total			<u>4,915,703</u>							<u>4,915,703</u>
Grants										
From State Sources	538,223		16,741,000	30,802			3,256,009			20,566,034
From Federal Sources			83,706	7,698,385			14,093,091			21,875,182
From Other Sources							627,999			627,999
Total	<u>538,223</u>		<u>16,824,706</u>	<u>7,729,187</u>			<u>17,977,099</u>			<u>43,069,215</u>
Transfers-out										
Fund transfers	85,805		5,422,294				1,825,011			7,333,110
Mandatory Transfers				15,500,463	601,500					16,101,963
Total	<u>85,805</u>		<u>5,422,294</u>	<u>15,500,463</u>	<u>601,500</u>		<u>1,825,011</u>			<u>23,435,073</u>
Debt Service										
Bonds				15,500,463						15,500,463
Loans								40,771		40,771
Capital Leases			78,164							78,164
Total			<u>78,164</u>	<u>15,500,463</u>				<u>40,771</u>		<u>15,619,398</u>
Post Employment Benefits										
Other Post Employment Benefits	5,044	337,887						16,630		359,561
Employer Pension Expense	7,833	411,429						18,001		437,263
Total	<u>12,877</u>	<u>749,316</u>						<u>34,631</u>		<u>796,824</u>
Total Expenditures & Transfers-Out	<u>\$ 3,405,154</u>	<u>\$ 30,004,367</u>	<u>\$ 58,027,567</u>	<u>\$ 532,199,996</u>	<u>\$ 132,102,348</u>	<u>\$ 12,124,244</u>	<u>\$ 35,334,527</u>	<u>\$ 4,253,903</u>	<u>\$ 0</u>	<u>\$ 807,452,106</u>
EXPENDITURES & TRANSFERS-OUT BY FUND										
State Special Revenue Fund	\$ 1,740,613		\$ 56,830,492	\$ 85,751,829	\$ 124,242,121	\$ 9,289,515	\$ 8,884,501			\$ 286,739,071
Federal Special Revenue Fund	1,203,234		1,197,075	430,947,704	7,860,227	2,834,729	26,449,225			470,492,194
Debt Service Fund				15,500,463						15,500,463
Enterprise Fund	461,307									461,307
Internal Service Fund		\$ 30,004,367					489	\$ 4,253,903		34,258,759
Private Purpose Trust Fund							312			312
Total Expenditures & Transfers-Out	3,405,154	30,004,367	58,027,567	532,199,996	132,102,348	12,124,244	35,334,527	4,253,903	0	807,452,106
Less: Nonbudgeted Expenditures & Transfers-Out	61,044	1,020,889	7,548,284	50,225,629	1,221,438	284,791	1,950,807	(1,225,541)		61,087,341
Prior Year Expenditures & Transfers-Out Adjustments		(1,612)	(3,500)	(7,599)			(21,132)	60		(33,783)
Actual Budgeted Expenditures & Transfers-Out	3,344,110	28,985,090	50,482,783	481,981,966	130,880,910	11,839,453	33,404,852	5,479,384	0	746,398,548
Budget Authority	3,839,349	29,045,351	53,495,164	614,381,465	143,039,010	14,489,720	40,318,214	5,488,678		904,096,951
Unspent Budget Authority	<u>\$ 495,239</u>	<u>\$ 60,261</u>	<u>\$ 3,012,381</u>	<u>\$ 132,399,499</u>	<u>\$ 12,158,100</u>	<u>\$ 2,650,267</u>	<u>\$ 6,913,362</u>	<u>\$ 9,294</u>	<u>\$ 0</u>	<u>\$ 157,698,403</u>
UNSPENT BUDGET AUTHORITY BY FUND										
State Special Revenue Fund	\$ 320,944		\$ 1,431,480	\$ 19,896,787	\$ 11,327,211	\$ 1,232,208	\$ 1,680,986			\$ 35,889,616
Federal Special Revenue Fund	166,013		1,580,901	112,502,712	830,889	1,418,059	5,232,376			121,730,950
Enterprise Fund	8,282									8,282
Internal Service Fund		\$ 60,261						\$ 9,294		69,554
Unspent Budget Authority	<u>\$ 495,239</u>	<u>\$ 60,261</u>	<u>\$ 3,012,381</u>	<u>\$ 132,399,499</u>	<u>\$ 12,158,100</u>	<u>\$ 2,650,267</u>	<u>\$ 6,913,362</u>	<u>\$ 9,294</u>	<u>\$ 0</u>	<u>\$ 157,698,403</u>

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-11.

DEPARTMENT OF TRANSPORTATION
 SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Aeronautics Program	Equipment Program	General Operations Program	Highways & Engineering Program	Maintenance Program	Motor Carrier Services Program	Rail, Transit & Planning Program	State Motor Pool Program	GAAP Adjustments Program	Total
Personal Services										
Salaries	\$ 614,302	\$ 5,633,582	\$ 11,030,028	\$ 48,310,136	\$ 34,847,571	\$ 5,641,782	\$ 5,443,251	\$ 245,489	\$ (40,967,111)	\$ 70,799,030
Other Compensation	1,550		9,921				800		(1,225)	11,046
Employee Benefits	196,740	2,308,048	3,067,738	15,725,658	14,041,711	2,112,260	1,773,278	102,478	(14,302,988)	25,024,923
Personal Services-Other	5,585	29,112						(6,723)		27,974
Total	818,177	7,970,742	14,107,687	64,035,794	48,889,282	7,754,042	7,217,329	341,244	(55,271,324)	95,862,973
Operating Expenses										
Other Services	524,038	344,841	5,238,036	354,957,964	23,994,543	649,335	3,516,929	305,342	(264,764,571)	124,766,457
Supplies & Materials	77,694	10,117,957	2,443,510	1,137,542	2,030,890	466,494	307,620	1,738,763	(2,124,650)	16,195,820
Communications	15,581	7,880	1,851,131	416,861	408,494	116,778	957,437	1,498	(1,216,766)	2,558,894
Travel	30,814	15,555	288,308	1,384,618	237,424	241,299	188,043		(751,799)	1,634,262
Rent	21,678	23,559	107,438	3,776,715	25,859,802	484,986	200,728	64,800	(9,870,748)	20,668,958
Utilities	48,884	86,455		92,912	3,969,237	95,636	3,567	11,646	(1,348,277)	2,960,060
Repair & Maintenance	50,856	4,999,301	1,031,003	2,506,616	21,268,580	87,809	149,957	382,278	(7,188,071)	23,288,329
Other Expenses	294,034	7,167,615	3,197,363	32,698,549	1,802,978	506,274	3,219,617	1,161,175	(29,366,740)	20,680,865
Goods Purchased For Resale	18,468									18,468
Total	1,082,047	22,763,163	14,156,789	396,971,777	79,571,948	2,648,611	8,543,898	3,665,502	(316,631,622)	212,772,113
Equipment & Intangible Assets										
Equipment		(49,254)	45,804	2,660,604	228,955	364,274	123,667			3,374,050
Total		(49,254)	45,804	2,660,604	228,955	364,274	123,667			3,374,050
Capital Outlay										
Land & Interest In Land				11,146,066					371,902,946	383,049,012
Buildings					1,505,750					1,505,750
Other Improvements				1,815,842						1,815,842
Total				12,961,908	1,505,750				371,902,946	386,370,604
Local Assistance										
From other sources			4,710,744							4,710,744
Total			4,710,744							4,710,744
Grants										
From State Sources	386,052		16,741,001	1,218,703	25,000		2,160,921			20,531,677
From Federal Sources			31,966	6,148,996			12,802,274			18,983,236
From Other Sources							354,633			354,633
Total	386,052		16,772,967	7,367,699	25,000		15,317,828			39,869,546
Benefits & Claims										
Insurance Payments					5,000					5,000
Total					5,000					5,000
Transfers-out										
Fund transfers	6,900		4,980,830		774,000	7,620	1,595,225			7,364,575
Mandatory Transfers				15,501,388	606,500					16,107,888
Total	6,900		4,980,830	15,501,388	1,380,500	7,620	1,595,225			23,472,463
Debt Service										
Bonds				15,501,388						15,501,388
Loans								25,650		25,650
Capital Leases			85,270							85,270
Total			85,270	15,501,388				25,650		15,612,308
Other Post Employment Benefits										
Other Post Employment Benefits	5,230	427,618						19,380		452,228
Total	5,230	427,618						19,380		452,228
Total Expenditures & Transfers-Out	\$ 2,298,406	\$ 31,112,269	\$ 54,860,091	\$ 515,000,558	\$ 131,606,435	\$ 10,774,547	\$ 32,797,947	\$ 4,051,776	\$ 0	\$ 782,502,029
EXPENDITURES & TRANSFERS-OUT BY FUND										
State Special Revenue Fund	\$ 1,440,119		53,969,940	77,516,302	122,153,291	8,048,403	6,521,237			269,649,292
Federal Special Revenue Fund	314,727		890,151	421,982,868	9,453,144	2,726,144	26,276,333			461,643,367
Debt Service Fund				15,501,388						15,501,388
Enterprise Fund	543,560									543,560
Internal Service Fund		\$ 31,112,269						\$ 4,051,776		35,164,045
Private Purpose Trust Fund							377			377
Total Expenditures & Transfers-Out	2,298,406	31,112,269	54,860,091	515,000,558	131,606,435	10,774,547	32,797,947	4,051,776	0	782,502,029
Less: Nonbudgeted Expenditures & Transfers-Out	(1,226)	26,678	6,814,357	48,684,563	2,299,151	289,695	2,920,679	(2,646,931)		58,386,966
Prior Year Expenditures & Transfers-Out Adjustments	(45,668)	(40,221)	4,598	(2,702)	(786,807)	28,477	(181,226)	88		(1,023,461)
Actual Budgeted Expenditures & Transfers-Out	2,345,300	31,125,812	48,041,136	466,318,697	130,094,091	10,456,375	30,058,494	6,698,619	0	725,138,524
Budget Authority	3,041,608	31,583,645	86,074,104	537,671,957	137,230,234	11,901,079	40,884,282	6,788,061		855,174,970
Unspent Budget Authority	\$ 696,308	\$ 457,833	\$ 38,032,968	\$ 71,353,260	\$ 7,136,143	\$ 1,444,704	\$ 10,825,788	\$ 89,442	\$ 0	\$ 130,036,446
UNSPENT BUDGET AUTHORITY BY FUND										
State Special Revenue Fund	\$ 430,827		12,412,939	17,505,746	6,807,870	624,242	1,527,438			39,309,062
Federal Special Revenue Fund	247,322		25,620,029	53,847,514	328,273	820,462	9,298,350			90,161,950
Enterprise Fund	18,159									18,159
Internal Service Fund		\$ 457,833						\$ 89,442		547,275
Unspent Budget Authority	\$ 696,308	\$ 457,833	\$ 38,032,968	\$ 71,353,260	\$ 7,136,143	\$ 1,444,704	\$ 10,825,788	\$ 89,442	\$ 0	\$ 130,036,446

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-11.

Montana Department of Transportation

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2015

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 (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 before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

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. Department State Special Revenue Funds include the restricted highway revenue, nonrestricted highway revenue, petroleum storage tank, uniform carrier registration, fuel tax distributed to other state agencies and tribal governments, county collections for the DUI Prevention Program, the senior citizens and persons with disabilities transportation services, rail construction and various Aeronautics Division accounts.
- ◆ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include federal highway planning and construction, highway traffic safety, transit administration, motor carrier services grants, rail planning and construction, aviation administration and 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 uses this fund for debt service of the Series 2005, 2008 and 2012 Grant Anticipation Notes that were issued to finance the engineering and construction on a portion of Highway System 93.

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 State Motor Pool and Highway Equipment Program.

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 Improvements 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 Balance

The negative fund equity balance in the General Fund as of June 30, 2014 does not indicate overspent appropriation authority. The department had no general fund expenditures or transfers-out during the two year period ending June 30, 2015. The department did record revenues into the general fund in accordance with various statutes. During the fiscal year-end period of June 30, 2014, the department processed an aircraft registration refund in the amount of \$1,044. As a result of the activity related to footnote 3—Direct Entries to Fund Equity for shared funds, this timing difference resulted in a negative fund equity balance of \$1,044 as of June 30, 2014.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General Fund and State Special Revenue Fund 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 State Special Revenue fund also include entries for increases and decreases in the Maintenance Program's inventory values in accordance with state accounting policy and corrections of errors from a previous period that occurred at least two fiscal years prior.

Direct entries to fund equity in the Enterprise Fund and Internal Service Fund include:

- ◆ A change was mandated by the Governmental Accounting Standards Board (GASB) in conjunction with the implementation of Statement 68—Accounting and Financial Reporting for Pensions. The change in accounting principle for GASB 68 results in a 2014-15 net decrease to fund equity in the Enterprise Fund of \$124,871 and a net decrease to fund equity in the Internal Service Fund in the amount of \$6,846,167.
- ◆ A change occurred in the application of an accounting principle related to GASB Statement 45—Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. Since 2007-08 the liability and expenses related to Other Post-Employment Benefits (OPEB) was overstated. The state's OPEB is limited to post-employment health care benefits to employees and dependents that elect to continue coverage after retirement and pay administratively established premiums. The Department of Administration (DOA) calculates and records the OPEB costs and the related liability on an annual basis for all state agencies. Generally accepted accounting principles (GAAP) and state policy require the calculation to include an adjustment be made to offset the amount of interest already included in the actuarial estimates. DOA believed the adjustment applied only if the state made contributions to fund the liability. However, the adjustment is not optional. The restatement for the change in application

related to GASB 45 results in an increase to fund equity in the Enterprise Fund of \$7,984 and an increase to the fund equity of the Internal Service Fund of \$682,248 in fiscal year 2014-15.

- ◆ The Internal Service Fund also includes a direct entry increase of \$10,533 to fund equity in 2014-15 for a correction of error from a previous period that occurred at least two fiscal years prior. An asset was entered into SABHRS with an incorrect in-service date which resulted in an overstatement of depreciation.

4. Nonbudgeted Expenditures & Transfers-Out

- ◆ **State Special Revenue Fund** – The nonbudgeted expenditures and transfers-out includes: \$4.7 million and \$4.9 million for fiscal years 2013-14 and 2014-15, respectively, transfer from the Highway State Special Revenue-Restricted Fund to the tribal motor fuels tax and tribal motor fuels administration funds (MCA 15-70-235 & 236); \$2.0 million expenditure for each fiscal year 2013-14 and 2014-15 representing 1% of the total motor fuel taxes collected and paid to petroleum distributors for collecting the fuel tax (MCA 15-70-205 & 15-70-344); and \$1.0 million and \$0.8 million for fiscal years 2013-14 and 2014-15, respectively, for indirect costs charged to state special revenue funds in accordance with MDT's indirect cost agreement negotiated with the Federal Highway Administration (FHWA).
- ◆ **Federal Special Revenue Fund** – The nonbudgeted expenditures and transfers-out is \$36.0 million and \$37.0 million in fiscal years 2013-14 and 2014-15, respectively, for indirect costs charged to federal special revenue funds in accordance with MDT's indirect cost agreement negotiated with the Federal Highway Administration (FHWA).
- ◆ **Debt Service Fund** – The nonbudgeted expenditures and transfers-out of \$15.5 million in each fiscal year 2013-14 and 2014-15 is debt service of the Series 2005, 2008 and 2012 Grant Anticipation Revenue Vehicle (GARVEE) bonds that were issued to finance the engineering and construction on a portion of Highway System 93. The related budgeted expenditures are recorded in the federal special revenue fund as mandatory transfers-out and recorded as non-budgeted transfers-in in the debt service fund

5. 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, 2015.

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 user 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 \$30.2 million in each fiscal year 2013-14 and 2014-15

Transfers

Approximately \$15.5 million was transferred in each of the two fiscal years 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. The 2005 debt issuance was paid in full as of 6/01/2015 with the final principal and interest payment of approximately \$9.1 million. As of June 30, 2015, the outstanding GARVEE principal balance in the 2008 and 2012 issuances is approximately \$77.9 million.

6. Highway Construction Commitments

At June 30, 2014, and June 30, 2015, the department had contractual commitments of approximately \$277.9 million and \$181.1 million, respectively, for the construction of various highway projects. Funding for these projects is to be provided from Federal Highway Planning and Construction grants and matched with State Special Revenue Funds.

7. GAAP Adjustments Program

The department initially records expenditures related to infrastructure in the Highway & Engineering, Maintenance and Rail, Transit & Planning Programs. The expenditures are originally budgeted by the Montana Legislature as personal service, operating expenses, equipment and grants. The department utilizes the GAAP Adjustments Program to reclassify these original expenditures as 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.

8. County Collection Revenue

On a daily basis 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 records the revenue in the department's fund in SABHRS under its own business unit rather than the departments. Although the revenue is properly recorded in the state's accounting records, it is not reflected on the department's financial schedules. During fiscal years 2013-14 and 2014-15 approximately \$13.0 million and \$13.5 million, respectively, of gross vehicle weight revenue under Licenses & Permits and \$517,000 and \$521,000,

respectively, of County DUI Prevention Program under Charges for Services are not reflected in the State Special Revenue Fund on the department's revenue schedules.

9. Unspent Budgeted Expenditure Authority

The following provides information regarding unspent budgeted expenditure authority in fiscal years 2013-14 and 2014-15 for the Highways and Engineering, Rail, Transit & Planning, General Operations, 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 is 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.

General Operations Program

The \$38 million unspent budget authority in the General Operations Program in fiscal year 2013-14 primarily (\$36.1 million) relates to the 30% fiscal year 2012-13 unexpended appropriations carryforward authorized in Montana Code Annotated (MCA) 17-7-304(4) which states: "30% of the money appropriated to an agency for that year by the general appropriations act for personal services, operating expenses, and equipment, by fund type, and remaining unexpended and unencumbered at the end of the year may be reappropriated to be spent during the following 2 years for any purpose that is consistent with the goals and objectives of the agency." Since the department is primarily budgeted with biennial appropriations that expire in odd years, the unspent budget authority is highest in even years.

Maintenance Program

The Maintenance Program is responsible for the repair, maintenance and prevention 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. The department must have ample budget authority available to meet the various conditions that arise. The Legislature has consistently recognized this issue by granting the department with continuing appropriation authority for this program.

Report on Internal Control and Compliance

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



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL SCHEDULES PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the 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 Montana Department of Transportation for each of the fiscal years ended June 30, 2015, and 2014, and the related notes to the financial schedules, and have issued our report thereon dated September 28, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the Montana Department of Transportation's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness the Montana Department of Transportation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Montana Department of Transportation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of 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 a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purposed described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material

weaknesses or significant deficiencies. Give these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Montana Department of Transportation financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination on financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

September 28, 2015

MONTANA DEPARTMENT
OF TRANSPORTATION

DEPARTMENT RESPONSE



Montana Department of Transportation

2701 Prospect Avenue
PO Box 201001
Helena MT 59620-1001

C-1

Michael T. Tooley, Director
Steve Bullock, Governor

October 14, 2015

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

RECEIVED
OCT 14 2015
LEGISLATIVE AUDIT DIV.

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, 2015.

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 T. Tooley
Director

Attachment

October 2015

**Corrective Action Plan
MDT Financial-Compliance Audit #15-17
For the Two Fiscal Years Ended June 30, 2015**



Audit Recommendation #	Does this affect a federal program?	Management View	Corrective Action Plan	Responsible Area	Target Date
<p>Recommendation #1 We recommend the MDT comply with state procurement laws and its delegation agreements with the Department of Administration's Procurement Bureau when securing soil, gravel, and cover materials.</p>	No	Concur	MDT will comply with state procurement law and utilize its delegated agreements with the Department of Administration's Procurement Bureau. In the case of the seven purchases identified, the "total contract value" was well within the "Limited Solicitations for Supplies" delegation, and MDT concurs that this method will be utilized for similar purchases from this point forward.	Maintenance Division and Administration Division	10/6/2015
<p>Recommendation #2 We recommend the MDT: A. Educate staff regarding telework laws and policies. B. Comply with state law and department policy for all teleworking employees.</p>	No	Concur	<p>A. On September 21, 2015, the telework process was shared with all MDT Administrators at an administrative staff meeting. All Administrators received a copy of a memo titled "telework process". The process outlined is clear and concise and the HROS Division is the centralized reporting station for all telework agreements. The same process was shared with the HR Generalists who will ensure that the process is followed and all proper documentation is in place prior to the execution of any telework agreement.</p> <p>B. The department will ensure that all state law and department policy is followed for all teleworking employees through education of staff and a formalized process through the HROS Division.</p> <p>The HROS Division is in the process of updating the current telework policy by adding language that aligns with state law, which defines teleworking within the State of Montana. Also, the HROS Division is in the process of making changes to the telework forms to include the appropriate signatures.</p>	Human Resources Division	<p>A. 09/21/2015</p> <p>B. 01/01/2016</p>
<p>Recommendation #3 We recommend the MDT continue to educate staff and work with contractors to ensure final payment on construction projects occurs within 90 days after final acceptance, as required by state law.</p>	No	Concur	The finalization process was changed to meet the requirements of the new statute. The finalization is a lengthy and cumbersome process and both contractors and MDT personnel are learning the new requirements to meet the timeframe within the new law. The contracts that did not meet the required timeframe are due to delays from both entities. The new process was implemented before older contracts were completed. This resulted in an accelerated schedule for contracts in the new process at the same time as contracts in the old process. No new staff was added and this backlog is being reduced. As that is completed and contractors and MDT personnel get more familiar with it, the number of contracts that do not meet the required timeline will be significantly reduced. There will be some contracts that do not meet the timeframe due to issues outside the Department's control (e.g. contract disputes or lawsuits).	Highways & Engineering Division	November 2014 the policy was updated and staff trained. This is a continuous effort. February 2016 MDT will have more training for staff.



**Corrective Action Plan
MDT Financial-Compliance Audit #15-17
For the Two Fiscal Years Ended June 30, 2015**

Audit Recommendation #	Does this affect a federal program?	Management View	Corrective Action Plan	Responsible Area	Target Date
<p>Recommendation #4 For vehicles purchased with federal Formula Grants for Rural Areas funds, we recommend the Montana Department of Transportation:</p> <p>A. Confirm each lien is perfected at the time of purchase.</p> <p>B. Monitor vehicles after lien release to ensure proceeds from vehicle sales are used as required by federal regulations.</p>	Yes	Concur	<p>A. MDT concurs and will continue to confirm each lien is perfected at the time of purchase by tracking it through our Public Transportation Management System program (PTMS) as well as a comprehensive tracking spreadsheet. Fields have been added in the tracking spreadsheet for lien filed and PTMS inputted. In addition, if the lien is not updated into PTMS and checked off of the tracking spreadsheet within three months than MDT Transit will contact the Department of Motor Vehicles and confirm that a lien was placed on the specific piece of capital.</p> <p>B. MDT Transit concurs and will strengthen monitoring of vehicles after lien release to ensure proceeds from vehicle sales over \$5000 are returned back into the transit program. This will be accomplished by continuing to receive the vehicle sale form with the sale price, purchaser, and certifying that the proceeds will be used in their transportation systems in accordance with state and federal laws. In addition, MDT Transit will follow up during compliance reviews every 3 years to ensure that vehicle sales during that three year period were returned to the transit program.</p>	<p>Rail, Transit & Planning Division</p>	<p>A. 10/14/15</p> <p>B. 10/14/15</p>
<p>Recommendation #5 We recommend the MDT:</p> <p>A. Enhance internal controls, policies, and procedures to ensure compliance with the Transparency Act for its Formula Grants for Rural Areas and Highway Planning and Construction federal awards.</p> <p>B. Contact a federal official for assistance in subaward reporting when information is unavailable on the federal reporting system per federal instructions.</p>	Yes	Concur	<p>A. MDT has enhanced internal controls and updated procedures to ensure compliance with the Transparency Act for its Highway Planning and Construction federal awards. Additionally, MDT will enhance its internal controls and update its procedures to ensure compliance with the Transparency Act for its Formula Grants for Rural Areas by December 31, 2015</p> <p>B. MDT procedures were updated so that MDT will contact the Montana FHWA Financial Manager for assistance in subaward reporting when information is unavailable on the federal reporting system related to Highway Planning and Construction federal awards. We have met with the FHWA Financial Manager and discussed this topic with her so she is informed about the FFATA reporting deadlines and requirements. Additionally, MDT will update its procedures by December 31, 2015, to contact the Federal Transit Administration (FTA) grant making official when transparency information related to Formula Grants for Rural Areas is unavailable on the federal reporting system on a timely basis.</p>	<p>Administration Division and Rail, Transit & Planning Division</p>	<p>A. FHWA=10/9/15 FTA=12/31/15</p> <p>B. FHWA=10/9/15 FTA 12/31/15</p>