Legislative Audit Division

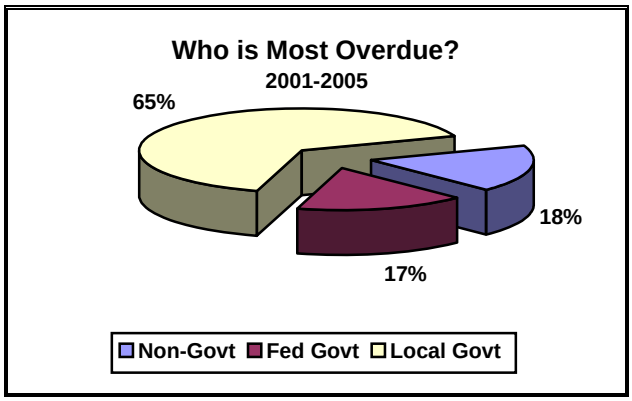
Performance Audit Summary

# Local Government Reimbursement For Joint Construction Costs
# January 2006

## Introduction

A performance audit was requested by the Montana Department of Transportation (MDT), and approved by the Legislative Audit Committee, to determine the impact of local governments failing to make timely reimbursement to MDT for construction costs. MDT also requested the audit identify what recourse is available to MDT if timely reimbursement for local costs is not made.

Because MDT normally pre-funds all construction costs and then seeks reimbursement for costs, delayed reimbursement could reduce the funds MDT has available for other projects. Our audit work focused on identifying the prevalence of reimbursement delays, the impact of those delays, what other states do to prevent similar delays, and the internal MDT processes that relate to this issue.




This audit and the associated recommendations only address reimbursement delays with local governments.

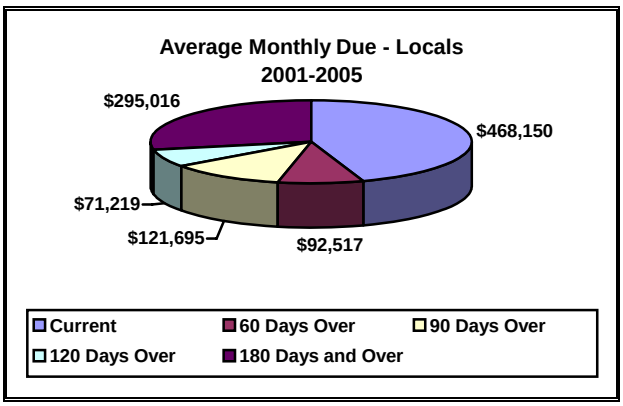
## What is The Current Process?

MDT districts work with local governments to identify highway construction and maintenance needs. Basic costs and schedules are developed and presented to the Transportation Commission for prioritization and contract award. MDT will provide the majority of design, engineering, and management oversight on projects. Local government might, or might not, have local representation on the construction site.

MDT pre-funds joint construction projects from the Highway State Special Revenue Account, which is primarily funded by fees collected from gasoline and special fuels vendors. As costs accrue on construction projects, MDT seeks reimbursement from the Federal Highway Administration and the local government, as appropriate. Information used to bill local governments is gathered by the local MDT project engineer, based on construction estimates taken from the contractor's project award, and forwarded to MDT headquarters in Helena. MDT headquarters then bills local governments for their share of construction costs. Local governments review those bills, request additional information from MDT as necessary, and reimburse MDT for the local portion of costs.

## Is The Process Working?

The process is generally working to meet MDT's needs although we did find improvements could be made to reduce reimbursement delays. We conducted a review of MDT accounts receivables reports issued March 2001 through June 2005. Analysis of this information revealed 84 percent of accounts to local governments never become more than 180 days overdue and, on average, are paid off within two months. However, 16 percent of accounts are more than 180 days overdue and it takes MDT nearly 16 months to receive reimbursement. Accounts more than 180 days overdue also have higher average balances than all other overdue accounts combined.




Prior to conducting this analysis, it was thought that smaller governments would have more difficulty meeting

MDT reimbursement obligations. Our analysis did not identify any size or type of government that was more prone to being overdue on meeting their reimbursement obligations. A few local governments have been more frequently overdue reimbursing MDT for local construction costs. Those governments account for the majority of MDT's accounts more than 180 days overdue.

## What is The Impact to MDT?

Depending on the terms of the contract with the local government, MDT might not see any reimbursement for local costs back into the Highway State Special Revenue Account for an extended time. That portion of the special revenue account not immediately needed by MDT for current costs are invested to generate additional revenues.

We analyzed the potential lost interest revenue from the Highway State Special Revenue Account, from March 2001 through June 2005, from local government accounts that were more than 60 days overdue. We determined that MDT lost more than $40,000 in interest revenue from the average overdue monthly principal of over $580,000. This lost interest, and overdue principal, represents potentially lost opportunities to seek additional federal match funds or fund transportation projects for other local governments. This situation results from the lack of repercussions associated with local government's untimely reimbursement to MDT for local construction costs.

## What Do Other States Do?

We reviewed practices in 11 other states with conditions similar to Montana's to identify other options available to MDT. We found other states are more proactive when dealing with local governments. Other states require local governments to prepay at least a portion of their anticipated construction costs, charge interest on overdue accounts, and withhold local funding to meet reimbursement obligations if necessary. Some state also provided an alternate form of financing to local governments in the form of a state infrastructure bank.

## What Can MDT Do to Improve their Current Processes?

Minor policy changes and new statutory tools could help ensure all governments continue to maintain the advantages of participating in joint projects with MDT while encouraging more effective fiscal accountability. As a result of our work, we recommend MDT:

- Since local governments already budget for these projects, require local governments pre-fund at least a portion of their anticipated construction costs prior to contract award.
- Amend contract language with local governments to require monthly billing and reimbursement of local construction costs.
- Seek specific statutory authorization to charge local governments interest and withhold future local disbursements of state collected transportation related funds on overdue accounts.

For a complete copy of the report (05P-05) 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.