

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.

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.	

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