

FINANCIAL-COMPLIANCE AUDIT
Montana Department of Transportation
For the Two Fiscal Years Ended June 30, 2017

MARCH 2018

17-17

REPORT SUMMARY

The Montana Department of Transportation plans, designs, builds, and maintains the statewide network of highways, and is responsible for collecting and distributing highway user fees and fuel taxes. Approximately 54 percent of the department's operations for the audit period were funded by federal revenues from the Highways Planning and Construction federal financial assistance program. Our audit identified approximately \$1 million in costs inappropriately charged to this program as a result of violations of federal regulations. These costs are commonly referred to as questioned costs, and when this information is reported as part of the state's Single Audit, the federal grantor agency may require the department to repay these costs.

Context

The Montana Department of Transportation (department) is one of the largest employing agencies in state government with over 2,100 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.

The department's total expenditures for fiscal years 2016 and 2017 were approximately \$1.5 billion, of which approximately 94 percent were recorded in the state and federal special revenue funds. The department's primary funding sources are federal revenues for the Highway Planning and Construction Program and fuel tax revenues. Fuel tax collections are deposited in the Highways State Special Revenue account, and are mainly used for department programs, statutory payments to local and tribal governments, and by the Department of Justice for Montana Highway Patrol costs. The working capital balance in the Highways State Special Revenue Fund account was \$36.2 million at June 30, 2016, and \$46.9 million at June 30, 2017.

Our audit efforts focused primarily on the department's expenditures for personal services and contractor payments, fuel tax and federal revenues and their associated accounts receivable balances, indirect cost recovery revenues and expenditures, and the department's capitalization of construction costs for highways projects. We also tested the department's compliance with federal regulations associated with the Highway Planning and Construction Program and Formula Grants for Rural Areas Program, as well as compliance with selected state laws and regulations.

Results

The prior audit report contained five recommendations to the department. The department fully implemented three of these recommendations and partially implemented two. Recommendations partially implemented are further discussed in this report.

The current audit report contains six recommendations to the department related to internal controls over federal compliance

requirements, noncompliance with federal compliance requirements, and noncompliance with state and department policy.

Three of the recommendations relate to the department's administration of the federal Highways Planning and Construction Program. We determined the department's internal controls did not ensure highway construction contractors and subcontractors submitted all required certified payrolls as required by federal regulations. Additionally, the department included unallowable costs in its calculation of the fiscal year 2016 federal indirect cost rate, resulting in over collection of federal indirect cost recoveries of approximately \$143,000 for the program.

We also determined the department did not issue all contract change orders required by department policy and federal regulation for construction projects. For the projects where change orders were not issued, the department continued to pay the contractor for the amounts not under contract, and charged a portion of those payments to the federal highway funds. We estimate a total of approximately \$900,000 of costs were inappropriately charged to the federal highway funds as a result.

A fourth recommendation relates to the department's administration of various federal programs funded by the Federal Transit Administration. We determined department's internal controls were not designed to ensure transit vehicles were procured from eligible manufacturers.

The fifth recommendation relates to internal controls over reporting financial data for the Formula Grants for Rural Areas Program, and related instances of inaccurately reported data.

The report also includes a recommendation related to noncompliance with state and department telework policies.

Recommendation Concurrence	
Concur	5
Partially Concur	1
Do Not Concur	0
Source: Agency audit response included in final report.	

For a complete copy of the report (17-17) 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 lad@mt.gov.