

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

MEMORANDUM

TO: Legislative Audit Committee Members
FROM: Kenneth Noddings, Associate Management and Program Analyst
CC: Larry Flynn, Interim Director, Department of Transportation
Tim Conway, Aeronautics Division Administrator
Bill Lepper, Chair, Board of Aeronautics
DATE: April 2024
RE: Performance Audit Follow-Up (24SP-09): *Fly the Big Sky: Division of Aeronautics and Yellowstone Airport Operations (21P-05)*

Introduction

The *Fly the Big Sky: Division of Aeronautics and Yellowstone Airport Operations (21P-05)* report was issued to the Legislative Audit Committee in September 2022. The audit included four recommendations to the Department of Transportation, with one of the four being jointly directed to the department and the Board of Aeronautics. We conducted follow up work in early 2024 to assess implementation of the report recommendations. This memorandum summarizes the results of our follow-up work.

Overview

Our audit identified several areas of improvement for the operations of the Montana Department of Transportation's (department) Division of Aeronautics and the Board of Aeronautics. We recommended that the department bolster the Grants and Loans Program closeout process by requiring airports to submit more detailed documentation; we recommended that the department implement internal controls to ensure that the data stored in the Aircrafts Grants and Loans information system is complete and accurate; we recommended that the department enumerate Aircrafts Grants and Loans Program policies, staff roles, and related documentation templates in a standard written leasing policy; and we recommended that the department and the board formalize their grants and loans decision making process by implementing a standard scoring system as the primary basis for decisions and documenting all deviations from said system. Our audit also included a second objective focused around future administration of the Yellowstone Airport, where we identified several options for the state of Montana to no longer run the Airport.

Through our follow-up work, we found that our joint recommendation to the board and the department has been partially implemented, and, of our three recommendations that were made solely to the department, one has been implemented, one is being implemented, and one has not been implemented.

Background

The Division of Aeronautics (division) manages aeronautic operations in the state. The division's Airports/Airways (A/A) Bureau maintains and operates the 15 state-operated airports in Montana, including the Yellowstone Airport in West Yellowstone. This bureau also manages leases at these airports and performs inspections for all public use airports in Montana. The division's Safety & Education Bureau manages the state's Aircraft and Pilot Registration program, administers aviation safety and education

programs, and coordinates the state's air search and rescue program. The division also assists the Board of Aeronautics (the board) by managing the Grant and Loan Program and by providing recommended funding levels for grant and loan project proposals based on a federal national priority index. Yellowstone Airport is a seasonal commercial-service airport, which services up to five commercial flights a day during peak operating season, as well as hosting a regional United States Forest Service fire control center.

The board is quasi-judicial with nine members appointed by the governor. The board allocates airport development grant and loan funds and acts in an advisory capacity to the Division of Aeronautics. The purpose of the Grant and Loan Program is to help publicly owned airports pay for airport improvement and development projects. The board approves grant and loan awards annually at a public meeting, and, for the upcoming FY 2025, the board has approved \$2,900,000 in grants and \$350,000 in loan offers between 44 applicant airports.

Our audit work had two objectives: an examination of the internal control structures for the Aeronautics Division's four major programs (Grants and Loans, Lease Management, State-Operated Airport Maintenance, and Aircraft and Pilot Registration), and a query into feasible options for the state to no longer operate Yellowstone Airport. The audit found that there was no standardized scoring tool used as the primary basis for approving grants and loans. Instead, grants and loans were primarily awarded based only on the board's discretion, and the reasons for these discretionary decisions were often not documented in meeting minutes. The audit also found that the division did not have sufficient internal controls for its management information system, and that the creation of a standard policy for administering lease agreements would improve division operations. Finally, the audit found that transferring Yellowstone Airport to a new public sponsor would be the most feasible option for the state to no longer operate the airport.

Yellowstone Airport:

An additional objective of our audit was an analysis of the operations of Yellowstone Airport and options for ending state ownership of the airport. While our report didn't include any recommendations related to the future of Yellowstone Airport, we found that transferring the airport to a new public sponsor would be the most feasible option if the state were to no longer operate the airport. We also identified long-range plans for terminal expansion and other on-site improvements being undertaken by the department. No steps toward divesting the state of ownership of the airport have been taken by the legislature or the department since our report was issued, and our follow-up work identified that the terminal-expansion project is proceeding without major issue. The division's current projection is for the new terminal to be open for business in May of 2025, and cost projections are unchanged since the time of the original audit. The terminal expansion will provide a more modernized building that includes common airport amenities like bathrooms and including indoor waiting areas. Airport management expects commercial air service to remain seasonal in nature even after the terminal project is complete.

Audit Follow-up Results

The following sections summarize the progress toward implementation of the report recommendations. For follow-up work, we reviewed the three most recent Board of Aeronautics meetings and analyzed the board's decision making and documentation processes. We also interviewed division staff and the board chair, and examined documentation surrounding the division's new lease policy and information software system.

Recommendation #1

We recommend the Department of Transportation and the Board of Aeronautics:

- A. Develop Administrative Rules requiring the Board of Aeronautics use a scoring system as the primary basis for awarding Airport Grants and Loans Program funding, and**

B. Document all departures from the scoring system by the Board when approving funding.**Implementation Status – *Partially Implemented***

As part of audit work, we reviewed the written minutes for recent meetings of the board and analyzed their decision making process. We found that the board did not use a formal scoring system as the primary basis for awarding Grants and Loans Program funding. The division did provide funding recommendations to the board that were based off of the Federal Aviation Administration's (FAA) national priority rating system, but the board was under no obligation to follow these recommendations, and often made grant and loan funding decisions based only on its personal discretion. The reasoning behind these discretionary decisions was not included in an easily accessible format. Recordings of board meetings were technically available to the public as an avenue to understand the board's rationale, but these recordings were accessible only by request, did not include any quick-reference notation like discussion timestamps, and were even themselves not always entirely complete.

Other states reviewed in the audit, as well as the FAA, use application scoring systems as the primary basis for awarding airport development funding. These systems ensure consistent allocation decisions while permitting discretion when necessary. Undocumented inconsistencies in the board's grant and loan award decisions make it difficult for the board to demonstrate that its award allocations are strategic, in the best interest of the state's aviation system, and the best use of taxpayer funding. Therefore, we recommended that the board and the division implement a formal scoring system as the primary basis for grant and loan award decisions, and that they document all departures from the scoring system.

Our follow-up work found that the board and the division have not officially implemented any form of formal scoring system as the primary basis for awarding grant and loan program funding. In its follow-up response letter, the division alluded to "additional definitions" having been included around subjective judgements in the grants and loans program, but subsequent follow-up work revealed that no specific definitions have been developed or are intended to be developed. We did find that, during the 2023 and 2024 award cycles, the board primarily made award decisions in accordance with the FAA's national priority rating system. The board chair suggested that the board intends to use these national priority ratings as a guideline for grant and loan award decisions going forward, but this policy has not been officially implemented in administrative rule. He further indicated intent to discuss possible changes to the board's administrative rules in response to the audit findings at a future board meeting, but at the time of our follow-up work this had not yet been scheduled.

We also found that the board and the department have expanded the standard format for the board's written meeting minutes to include summaries of the board's discussion around individual grant and loan project proposals. These summaries can explain the board's reasoning behind discretionary judgements, but they are not always thorough. In the 2023 Grants and Loans meeting, for instance, three project grants deviated from the final recommendations provided by the division. Of these three, only one had a summary that explained the board's decision. The discussions surrounding the other two discretionary decisions were summarized only by brief statements, while a review of the meeting recording revealed that there was actually discussion around at least one of those project proposals. (Discussion around the other project proposal was missing from the recording provided by the division.) Further, during its January 2023 meeting, the board also adjusted the division's funding recommendations to reduce funding across the board for certain project categories, and no explanation of this change was included in the written minutes. While the board and the division have made progress toward better documentation of discretionary decisions, their current implementation is inconsistent, and the lack of an official formal scoring system that can be used to objectively define which decisions are actually discretionary limits what further progress can be made in this area.

Recommendation #2

We recommend the Department of Transportation:

- A. Require Airport Grants and Loans Program award recipients submit documentation supporting funding expenditures and actual project costs as part of the award closeout process.**
- B. Review the documentation to ensure the funding was spent appropriately and that the recipient does not need to reimburse any part of the award.**

Implementation Status – *Not Implemented*

Airport grant and loan program fund recipients are required to reimburse the program when final project costs are significantly less than the original grant award. Our audit found that insufficient closeout documentation requirements led to at least two instances where the division was unaware that excess funds had been awarded without reimbursement and that the division did not have sufficient controls in place to identify future instances. We recommended that the division require grant and loan recipients to provide more rigorous documentation of actual projects costs and that the division review the documentation to ensure grant and loan funds are being spent appropriately, with excesses paid back when necessary. In its response to our audit, the division claimed it would require additional full time employees to implement this recommendation.

Our follow-up work did not identify any new steps taken by the department toward implementation of this recommendation. In its initial response to this follow up, the division gave an explanation of its current closeout process, but the process described is not materially different from the process that was in place during the audit. The division did not request additional FTE during the 2023 legislative session, and division administration maintains they do not believe that any changes to their current closeout process are necessary.

Recommendation #3

We recommend the Department of Transportation implement sufficient internal controls to ensure the Airport Grants and Loans Program information system data is complete and accurate.

Implementation Status – *Being Implemented*

Our audit examined the division's electronic management information system. We found that division staff were unsatisfied with the system and that the system's cumbersome nature had contributed to the improper awarding of airport grants and loans and the provision of inaccurate management information to the board. To address these issues, we recommended that the department implement additional internal control measures to ensure that their information system data is complete and accurate. Our follow-up work found that the department had completed an RFP and engaged a contractor to provide a new software solution, which was originally expected to be delivered by summer of this year and which would have addressed our recommendation. However, after a recent opportunity to test the new software, division staff found it to be unsatisfactory, which has lead to a delay in delivery. The department is currently in discussions with the vendor on next steps, and did not provide an updated timeline for the implementation of this recommendation.

Recommendation #4

We recommend the Department of Transportation implement and maintain a written Standard Leasing Policy document to define and centralize Airport Lease Management Program policies, staff roles and their specific procedures, and program documentation.

Implementation Status – *Implemented*

Our audit found that the division did not have written policies or procedures around managing and documenting airport leases. While the audit found the division had worked to increase efficiencies and

program consistency, staff turnover and processes requiring multiple staff roles led to confusion among staff and at least two instances of missing lease documentation. As such, we recommended that the division develop a written standard lease policy. Follow-up work found that the division has created a new formal lease policy, which has standardized administrative tasks of the leasing process like establishing new leases, renewing old leases, and requesting payments from lessees. It also clearly defines staff roles and responsibilities in administering the program. The new policy also outlines standards for allowed activities and constructions on leased land, and it includes standardized documents like license contracts in the appendix. Division staff indicated that they found the new written policy document to be beneficial to their operations.