

Department of Transportation

Summary of Audit Work in Support of Statewide and Single Audits
Audit Periods Ending June 30, 2023

To: Legislative Audit Committee

From: Courtney Johnson, Audit Supervisor, CPA

Cc: Chris Dorrington, Director
Larry Flynn, Deputy Director
Kim Doherty, Accounting Services Bureau Chief

Date: September 2024

Re: Single Audit and Statewide Audit Support Work: Montana Department of Transportation


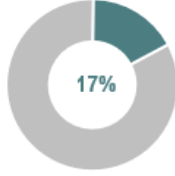
Introduction

The Montana Department of Transportation (department) is headed by a director appointed by the governor and confirmed by the senate. The director acts as a liaison between the department and the Transportation Commission (commission). The commission has five members appointed by the governor. Following statutory guidelines, with department recommendations and community input, the commission establishes the department priorities and divides funding between five financial districts across the state. The department is responsible for administering the multimodal transportation network in the state. This includes statewide network of highways, airports and aeronautics, and rail infrastructure. Further, the department is responsible for collecting and distributing highway user fees and fuel taxes.

Summary of Audit Work in Support of Single Audit

The department internal controls and compliance with federal program requirements need improvement. We identified \$39,900 in known questioned costs with additional likely questioned costs exceeding \$25,000.

We audited two federal programs administered by the department. The following describes the purpose of each federal program and depicts normal grant expenditures in comparison to Covid-related expenditures for the audit period.

Federal Program	Federal Expenditures		Purpose	% COVID-related
	FY2022	FY2023		
Highway Planning and Construction reference: ALN 20.205, 20.219, 20.224	\$433M	\$590M	Assists states with managing the National Highway System, as well as bridges and other community-level transportation infrastructure	
Formula Grants for Rural Areas reference: ALN 20.509	\$14M	\$17M	Financial assistance to states for public transportation services in rural areas	

We identified the following issues related to the department’s administration of its federal programs.

Highway Planning and Construction Cluster

AUDITOR’S OPINION – QUALIFIED

 >\$25.0K Likely Questioned Costs

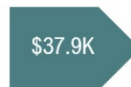
Finding 2023-012

Material Weakness in Internal Control and Material Non-Compliance

The department’s internal controls do not ensure certified payrolls are collected timely and in advance of making payments to contractors for its Highway Planning and Construction Cluster program, as required by federal regulations. Likely questioned costs in excess of \$25,000 exist as a result.

Department response: Concur

AUDITOR’S OPINION – QUALIFIED

 \$37.9K Known Questioned Costs

Finding 2023-013

Material Weakness in Internal Control and Material Non-Compliance

The department’s internal controls did not ensure vehicle procurement for the Formula Grants for Rural Areas program followed state policy and procedures. Further, the department did not adequately review and monitor vehicle records to ensure compliance with federal requirements. We questioned \$37,990 of costs related to a vehicle purchase made without a contract.

Department response: **Concur**

Finding 2023-014

Material Weakness in Internal Control and Material Non-Compliance

The department’s internal controls did not ensure subrecipients of the Formula Grants for Rural Areas program funds were provided required information to identify their subaward or consistently assess and respond to risk levels for subrecipients, contrary to federal regulations.

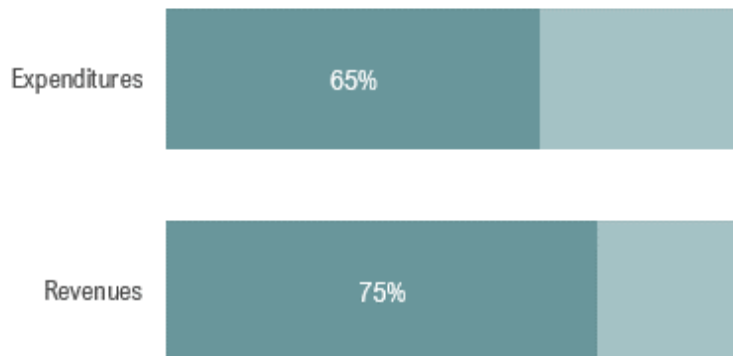
Department response: **Concur**

Summary of Audit Work in Support of Statewide Audit

We did not identify recommendations over the department’s audited financial activity.

Audit work focused primarily on expenditures for personal services and contractor payments, fuel tax and federal Highway Planning and Construction program revenues, expenses, and associated account balances. The figure below depicts the portion of the department’s revenues and expenditures that were considered material to the state as a whole for fiscal year 2023.

Over half of Transportation's revenue and expenditures was considered **risky and audited by us** for the the single audit.



The figure below depicts the department’s capital asset and restricted net asset balances in comparison to those balances for the state as a whole.

Transportation's capital and restricted net assets make up 40% and 35% of the entire state's capital and restricted net assets, respectively.



We audited the following financial activity of the department in support of our audit on the state’s Annual Comprehensive Financial Report (ACFR):

Department of Transportation

Financial Activity Audited in Support of the State's ACFR in Fiscal Years 2022 and 2023

ACFR Opinion Unit	Activity Audited	FY22	FY23
State Special Revenue Fund	Fuel tax revenues	\$282M	\$278M
	Personal and contracted services expenditures	\$115M	\$130M
Federal Special Revenue Fund	Federal revenue (highway & rural grants)	\$439M	\$537M
	Expenditures for highways, roads, and bridges	\$349M	\$430M
	Due from other government	*	\$117M
Governmental Activities	Restricted net assets	\$5.621B	\$5.763B
	Infrastructure	\$4.180B	\$4.361B
	Land, land rights, & construction in process	\$1.099B	\$1.061B

*-No audit work done in support of the State's ACFR

Additionally, we performed audit work related to the department’s Schedules of Expenditures of Federal Awards (SEFAs) for each fiscal year 2022 and 2023, focusing on amounts and information reported for its major federal programs described above.

Prior Audit Recommendations

Our prior Financial-Compliance audit of the department (#21-17) contained six recommendations. We determined the implementation status of these recommendations as follows:

Fully Implemented: 3

Partially Implemented: 1

Not Implemented: 2

The three recommendations not fully implemented are addressed in the findings outlined in the Single Audit section of this document.

5/31/2024

RECEIVED

June 3, 2024

LEGISLATIVE AUDIT DIV.

Angus Maciver
Legislative Auditor
State Capitol Building

Subject: MDT response to Single Audit Findings

Dear Angus Maciver:

Attached is a copy of MDT's response to the Single Audit Findings for the two fiscal years ended June 30, 2023.

If you have any questions, please contact Kim Doherty at 406-444-7256.

Sincerely,



Lawrence Flynn, Interim Director

2023-12 – Certified payroll

Concur: To increase Internal Controls regarding certified payrolls and contractor payment compliance, MDT will develop a process which follows Federal (29 CFR 3.3 & 5.5) and State law (Montana Code Annotated 28-2-2103).

The process will include Certified Payroll Submission requirements and a Payment Estimate withholding method. The process will be communicated to MDT Personnel and Contractors as appropriate.

Views of responsible party:

- A. MDT will modify the department's policy and procedures for Daily Work Reports (DWRs) to define a timeframe for when DWRs should be complete, and requirements are met to ensure receipt of certified payrolls prior to payment. The Construction Bureau has established a DWR Focus Group to review and modify the DWR process and procedures and define timely completion for DWRs. A task will be added to the Construction Reviewers checklist to review DWRs for timeliness. This will be completed by the end of 2024.
- B. The Construction Bureau and Engineering Operations will train district personnel on completion of DWRs and system functionality over certified payrolls to ensure compliance in 2025.
- C. MDT will enhance a process for certified payroll submission requirements and contractor payment withholding procedures, as required by federal regulations.

2023-14 – FTA subrecipient monitoring

Concur: MDT has hired new leadership for the Transit Section, in the form of a new Bureau Chief and Administrator, who are aware of the lack of procedures and oversight within the Transit Section and are actively working with the Federal Transit Administration (FTA) and the subrecipients to formalize procedures, document oversight measures, and correct these deficiencies.

Views of responsible party:

MDT has:

- A. Enhanced internal controls, subrecipient risk assessments, procedures, and provided training to staff to ensure department and federal compliance; and
- D. Ensured all required elements are included in rolling-stock subaward agreements.

MDT will:

- B. Create a tracking sheet with supervisor review and approval to ensure all subrecipient risk assessments have been performed and documented; and
- C. Develop procedures for enhanced monitoring in response to higher assessed subrecipient risk levels and document the additional monitoring work performed.

2023-13 – FTA procurement

Concur: MDT has hired new leadership for the Transit Section, in the form of a new Bureau Chief and Administrator, who are aware of the lack of procedures and oversight within the Transit Section and are actively working with the Federal Transit Administration (FTA) and the subrecipients to formalize procedures, document oversight measures, and correct these deficiencies.

View of Responsible Officials.

MDT will:

- A. Enhance internal controls and provide training to staff to ensure vehicle procurements follow state policy and comply with federal requirements;
- B. Assign and train staff the task of ensuring inventory information is maintained in the system (BlackCat) is complete and accurate;
- C. Create and implement tracking with staff training to ensure vehicle procurements follow all applicable policies and federal requirements including complete, executed rolling-stock agreements;
- D. Complete post-delivery certifications for each rolling-stock item, retain copies, and submit to the Purchasing Section as required by department policy and federal requirements; and
- E. Review current rolling-stock inventory for completeness and accuracy and annually review and ensure all rolling-stock inventory items are complete and accurate.