A Report
to the
Montana
Legislature

Financial-Compliance Audit

Montana Department of Transportation

For the Two Fiscal Years Ended June 30, 2021

December 2021

Legislative Audit
Division

21-17

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Financial-Compliance Audits

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting and many staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2019, was issued March 30, 2020. The Single Audit Report for the two fiscal years ended June 30, 2021, will be issued by September 30, 2022.

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December 2021

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana Department of Transportation (department) for the two fiscal years ended June 30, 2021. Included in this report are six recommendations to the department related to internal controls over and compliance with federal regulations associated with the Highway Planning and Construction, Formula Grants for Rural Areas, and portions of Coronavirus Relief Funds federal programs; and internal controls over compliance with state laws.

We reviewed the reasonableness of the financial schedules and notes of the department and issued an unmodified opinion. This means you can rely on the information presented and the underlying financial records.

The department's written response to the audit is on page C-1. We thank the Director and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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Table of Contents

Figures and Tables

Figures

Tables

Appointed and Administrative Officials

	Name	City	Term Expires January 1
Montana Transportation Commission	Loran Frazier, Chair	Great Falls	2025
	Scott Aspenlieder	Billings	2025
	Tammi Fisher	Kalispell	2023
	Shane Sanders	Bozeman	2025
	Noel Sansaver	Wolf Point	2023
Board of Aeronautics	Bill Lepper, Chair	Whitefish	2025
	Robb Bergeson	Billings	2025
	Wade Cebulski	Seeley Lake	2025
	Pam Chamberlin	Butte	2025
	Daniel Hargrove	Billings	2023
	Tim Robertson	Lewiston	2025
	Tom Schoenleben	Hamilton	2023
	Timothy Sheehy	Bozeman	2025
	Gregory Smith	Hignham	2025

Montana Department of Transportation

Malcolm "Mack" Long, Director (as of January 2021)

Mike Tooley, Director (through December 2020)

Julie Brown, Deputy Director (as of June 2021)

Pat Wise, Deputy Director (through January 2021)

Mike Bousliman, Acting Deputy Director (through May 2021) and Information Services Division Administrator

Kevin Christensen, Chief Operating Officer

Larry Flynn, Administrator, Administration Division

Tim Conway, Administrator, Aeronautics Division

Dwane Kailey, Administrator, Engineering Division

Montana Department of Transportation (continued)

Michelle Keele, Administrator, Human Resources Division

Jon Swartz, Administrator, Maintenance Division

Brad Marten, Administrator, Motor Carrier Services Division

Rob Stapley, Administrator, Rail, Transit, & Planning Division

Valerie Wilson, Chief Legal Counsel

Patti McCubbins, Civil Rights Bureau Chief

Natalie Gibson, Audit Services, Chief Auditor

Matt Wagner, Chief Accountant

District Administrators

Rod Nelson, Billings District
William Fogarty, Butte District
Shane Mintz, Glendive District
Jim Wingerter, Great Falls District
Bob Vosen, Missoula District

For additional information concerning the Montana Department of Transportation, contact:

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Financial-Compliance Audit 21-17 December 2021

Montana Legislative Audit Division

Montana Department of Transportation

For the Two Fiscal Years Ended June 30, 2021

The department received approximately $1.042 billion in federal revenues associated with the Highway Planning and Construction program. Additionally, the department received increases in federal grants related to coronavirus funding of $6 million and $17.8 million in FY20 and FY21 from the Federal Aviation Administration and Federal Transit Administration. Overall the department's internal controls ensured compliance with laws and regulations applicable to these federal programs. Internal controls can be enhanced to ensure federal compliance. Specifically, approximately $278 thousand in questioned costs were identified, with additional likely questioned costs.

Background

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.

AUDITOR'S OPINION (page A-1): UNMODIFIED

We found the department's financial schedules and note disclosures present fairly the department's activity in all material respects and issued an unmodified opinion. This means a reader can rely on the information presented and the underlying financial records.

For the full context of the department's financial activity, see the financial schedules and notes beginning on page A-3.

RECOMMENDATIONS:

In this report, we issued the following recommendations:
To the department: 6; None to the legislature

In this report, we determined the implementation status of recommendations in the prior audit:
Fully Implemented: 1; Partially Implemented: 3; Not Implemented: 1

Recommendation #1 (page 8):
Internal Control and Material Non-Compliance
The department needs to enhance procedures to ensure all required payrolls are obtained and reviewed. Certified payrolls are required weekly from contractors and subcontractors for all active construction projects of the Highway Planning and Construction program.

Department response: Concur

(continued on back)

For the full report or more information, contact the Legislative Audit Division.

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Recommendation #2 (page 9):
Internal Control
The department should develop procedures to ensure the timely recovery and remittance of identified Formula Grants for Rural Areas program questioned costs. A review of awards to rural transit areas by department personnel between September 2019 and April 2020 identified $13,237 in unallowed costs which were not returned by the end of the audit period.

Department response: Concur

Recommendation #3 (page 11):
Internal Control and Non-Compliance
The department should ensure vehicles procured using the Formula Grants for Rural Areas program funds follow state policy and procedure. Two vans totaling $75,825 were acquired using an unallowed method of procurement, resulting in questioned costs.

Department response: Concur

Recommendation #4 (page 12):
Internal Control and Non-Compliance
The department personnel did not complete subrecipient monitoring of recipients of the Formula Grants for Rural Areas program in compliance with department policy. Additionally, staff could not provide documentation to demonstrate subrecipient monitoring was performed in all cases.

Department response: Concur

Recommendation #5 (page 13):
Internal Control and Non-Compliance
The department should perform additional subrecipient monitoring reviews of Live Entertainment Grants provided through the Coronavirus Relief Fund. The department identified $94,261 in questioned cost for the program and we identified an additional $95,000 in questioned costs during our audit procedures.

Department response: Concur

Recommendation #6 (page 14):
Internal Control
The department should develop procedures to ensure the completeness and accuracy of tax amounts received for the Transportation Assistance for the Disabled and Elderly (TransADE) program. This program provides aid to allow disabled and elderly riders the ability to have maintained, developed, and improved specialized transportation systems as well as assisting transportation providers to expand services to meet the needs of the elderly and disabled.

Department response: Concur

REPORT ON INTERNAL CONTROL AND COMPLIANCE (page B-1):
In this report, we identified the following:
Material Weaknesses in Internal Control: 0
Significant Deficiencies in Internal Control: 0
Material Non-Compliance: 0
Other Matters: 0

For the full context of this information, including the distinction between the types of items reported, see the report beginning on page B-1.

Chapter I – Introduction and Background

Audit Objectives

We performed a financial-compliance audit of the Montana Department of Transportation (department) for the two fiscal years ended June 30, 2021. The objectives of the audit were to:

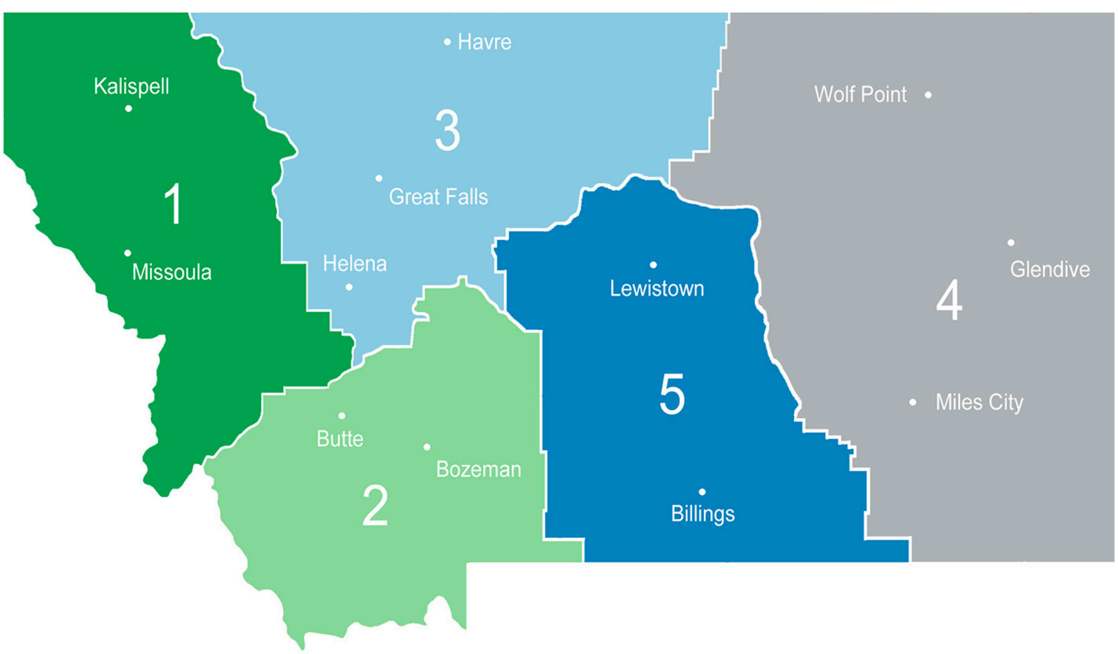
1. Determine whether the financial schedules present fairly, in all material respects, the results of operations and changes in fund equity of the department for the two fiscal years ended June 30, 2021, and June 30, 2020.
2. Obtain an understanding of the control system to the extent necessary to support our audit of the financial schedules and, if appropriate, make recommendations for improvements in management and internal controls.
3. Determine compliance with selected state and federal laws and regulations.
4. Determine the implementation status of prior audit recommendations.

We focused primarily on expenditures for personal services and contractor payments, fuel tax and federal Highway Planning and Construction program revenues, expenses and associated accounts balances. We tested compliance with federal regulations associated with the Highway Planning and Construction and Formula Grants for Rural Areas federal programs, as well as compliance with selected state laws and regulations.

Figure 1 illustrates the boundaries for the department's five financial districts and cities with main district offices.

Figure 1

Financial Districts and Main District Office Locations



Source: Compiled by the Legislative Audit Division.

Per §17-8-101(6), MCA, we reviewed the fees charged and the fund equity of the department's internal service funds. The department operates two internal service funds. The Equipment Internal Service Fund provides fleet vehicles and equipment available for use by only the department's various programs. The Motor Pool Internal Service Fund provides fleet vehicles available for use by all state agencies. The activity of each fund is presented on the department's schedules under the Equipment Program and Motor Pool Program (see the schedules starting on page A-3). Based on our analysis, the fees charged and the fund equity balances in both of the department's internal service funds were reasonable for the two fiscal years ended June 30, 2021.

Coronavirus

The department received pandemic-related federal funds through several sources, including $10.3 million for local entertainment business through CARES Act funding received through the Governor's Office. All grants issued under the program were fully expended by June 30, 2021. Review of grant awards and expenditures identified significant questioned costs related to subrecipient use of funds. For additional information, see Recommendation 5 on page 12.

Existing federal aid received by the state through the Federal Transit Administration and Federal Aviation Administration was increased through the CARES Act. The increased funding resulted in an additional $6 million and $17.8 million in federally funded expenditures during fiscal years 2020 and 2021, respectively. Two other federal aid bills, Coronavirus Response and Relief Supplemental Appropriations and American Rescue Plan Act of 2021, increased federal aid received by the state through the Federal Highway Administration, Federal Aviation Administration, and Federal Transit Administration. No significant expenditures from these appropriations were made as of June 30, 2021.

Department Responsibilities

The department is responsible for administering the multimodal transportation network in Montana. This includes:

- Planning, designing, building, and maintaining the statewide network of highways;
- Collecting and distributing fuel taxes;
- Receiving gross vehicle weight fees;
- Enforcement of state and federal laws for commercial motor carriers and registration of interstate fleet vehicles;
- Facilitating the operation and infrastructure of airports and airways in Montana, including registering aircraft and pilots, and maintaining several state-owned airports;
- Representing Montana's interests in railroad planning issues; and
- Supporting entities in overall transportation planning and transit assistance.

Funding Sources

Federal revenue and fuel tax revenue are the primary funding sources, accounting for 95 percent of revenues. Federal revenues during the audit period covered 57 percent of the department's operations. As established in state law, the department allocates fuel tax revenues to various state special revenue fund accounts. The revenues are used for department programs, statutory payments to local and tribal

Table 1

Cash and Working Capital Balances in the Highways State Special Revenue Account

(in Millions of Dollars)

Fiscal Year Ended June 30	Cash	Working Capital Balance
2015	$26.4	$43.0
2016	$22.1	$36.2
2017	$35.4	$46.9
2018	$35.7	$59.7
2019	$55.2	$80.4
2020	$90.4	$95.3
2021	$111.7	$122.6

Source: Compiled by the Legislative Audit Division from the Statewide Accounting, Budgeting and Human Resource System (SABHRS).

governments, by the Department of Justice for Montana Highway Patrol costs, repair of highways and bridges in the state, and to fund the local government road construction and maintenance match program.

Table 1 outlines the ending cash and working capital balances in the Highways State Special Revenue account, which provides state matching dollars for federally funded highway projects, for the last seven fiscal years.

Working capital is the amount of cash that remains if all current assets are converted to cash, and all of the current liabilities are paid, at their book value. We calculate working capital by deducting total current liabilities from total current assets. In addition to the increase in working capital balances during the audit period, state and federal funded construction contractor payments increased approximately $136.3 million, or 21 percent, from the 2019 biennium to the 2021 biennium. These increases are due to the 2017 law changes which increased the fuel taxes and changed the tax allocations. As of June 30, 2021, the department reported having contractual commitments of approximately $463.2 million for the construction of various highway projects.

As part of our work over the Highway Planning and Construction cluster, we performed various random samples of projects throughout the state. Table 2 (below) provides a count of the projects we sampled from, in each district, by project type, as part of this work.

Table 2

Highway Construction and Planning Program Projects

	Active Projects	Closed Projects	Utility Projects	Design Contracts	Total
District 1 - Missoula	4	2	2	5	**13**
District 2 – Butte	5	5	3	2	**15**
District 3 – Great Falls	6	1	3	2	**12**
District 4 – Glendive	6	0	4	4	**14**
District 5 – Billings	8	5	4	6	**23**
Multiple or Statewide	0	0	0	9	**9**
Total	**29**	**13**	**16**	**25**	**83**

Source: Compiled by Legislative Audit Division and was randomly sampled by district and type.

The reported active projects were selected from construction projects during our audit period that were not finalized as of June 30, 2021. Closed projects were construction projects finalized during our audit period. Utility projects involve utility modification or relocation projects. Design contracts were for design and engineering aspects of projects.

Table 3 outlines financial activity in the Bridge and Road Safety Accountability Account (BaRSAA) account for fiscal years 2020 and 2021.

The capitalization costs included in the table are a result of the fiscal year entries which book capital assets for the state, including infrastructure for complete projects or construction in progress for in progress projects.

Table 3
BaRSAA Financial Activity
(in Millions of Dollars)

	2020	2021
Fuel Tax Revenues	$29.4	$31.1
Contractor Payments	$9.3	$13.1
Capitalization Costs	$6.3	$5.6
Local Government Distributions	$16.2	$18.3

Source: Compiled by the Legislative Audit Division from SABHRS.

Department Activities and Full-Time Equivalent Positions

The governor appoints, with senate confirmation, the department's director. The director, or his designee, acts as liaison between the Transportation Commission (commission) and the department. The commission is comprised of five members appointed by the governor, with senate confirmation, for four-year terms. The commission selects construction projects, awards construction contracts, and allocates funding to highway system projects. Additionally, the commission classifies highways as federal aid, primary, and off system in the state maintenance system.

For fiscal management purposes, the department is divided into eight programs. The department was authorized 1,992.27 full-time equivalent (FTE) positions with an additional 129 FTE attributed to internal service funds during fiscal year 2021. A description of each program follows:

General Operations Program (178.8 FTE) provides overall policy direction and management to the agency, administers motor fuel taxes, and provides administrative support services for the department.

Highway and Engineering or Construction Program (846.72 FTE) is responsible for construction project planning and development from the time a project is included in the work plan through the actual construction of the project. Program responsibilities include such tasks as project designs, right-of-way acquisitions, issuing contract bids, awarding contracts, and administering construction contracts. Contract administration is responsible for the inspection and testing of highway construction projects from the time the contract is awarded until the project is completed and the work is approved. The program also provides traffic improvement and educational programs to promote public safety and health and welfare.

Maintenance Program (739.55 FTE) is responsible for the repair, maintenance, and preservation of approximately 25,000 lane miles of roadways. Other responsibilities include disaster and emergency services, department's building program, and state funded maintenance program.

Motor Pool Program (6.00 FTE) is a proprietary internal services program. The program operates and maintains a fleet of vehicles available to all state offices and employees who conduct official state business. The program has two basic components: 1) the daily rental fleet and 2) the out-stationed lease fleet. Further, §2-17-411, MCA, establishes the program's responsibility for the acquisition, operation, maintenance, repair, and administration of all motor vehicles in the custody of the Motor Pool. Our office is currently working on a performance audit considering the privatization of the Motor Pool. The audit report is anticipated for release in January 2022.

Equipment Program (123.00 FTE) is a proprietary internal services program. The program is responsible for the acquisition, disposal, repair, and maintenance of a fleet of approximately 4,700 light duty vehicles, single and tandem axle dump trucks, specialized snow removal units, roadway maintenance units, and other specialized equipment.

Motor Carrier Services Program (123.44 FTE) enforces state and federal commercial motor carrier laws, registers interstate fleet vehicles, issues commercial vehicle licenses and oversize/overweight permits, collects and distributes fees and taxes, and operates a statewide weigh station and mobile enforcement program.

Aeronautics Program (9.00 FTE) facilitates the maintenance of airports, registers aircraft and pilots, and coordinates and supervises aerial search and rescue operations. The Aeronautics Board decides whether to approve airport grant and loan requests and advises the division on matters pertaining to aeronautics. Our office is currently working on a performance audit considering the Aeronautics Division. The audit report is anticipated for release in July 2022.

Rail Transit and Planning Program (94.76 FTE) provides a continuous statewide multimodal transportation planning process used to allocate highway program resources to ensure highway system performance goals are maintained and offers both technical and monitory assistance to local communities. Further, the program also addresses environmental activities on highway projects.

Prior Audit Recommendations

The prior audit for the two fiscal years ended June 30, 2019, contained five recommendations to the department. These recommendations related to Highway Planning and Construction certified payrolls, timely contractor payments, contract change orders, Formula Grants for Rural Areas program Federal Funding Accountability and Transparency Act (FFATA) reporting, and the financial schedule note disclosure preparation process. The chart below provides a description of the prior audit recommendation, its current implementation status, and the location of a repeat finding, if applicable.

Table 4
Prior Audit Recommendation (PAR) Status

Description	Status
Highway Planning and Construction Program Certified Payrolls (See Rec. 1)	Not implemented
Highway Planning and Construction Program contract Adjustments for overruns	Implemented
Formula Grants for Rural Areas program FFATA reporting	Partially implemented
Highway Planning and Construction Program contractor untimely payments	Partially implemented
Financial Schedule Note Disclosures	Partially implemented

Source: Compiled by the Legislative Audit Division.

While the federal oversight agency agreed with the department's planned corrective action, our review of prior audit recommendations found:

- Certified Payrolls were not collected and reviewed in compliance with federal regulations.
- Project overruns were addressed with a policy change and processed change orders.
- FFATA reports were filed within federal requirements for new subawards, however, improvement can be made for amendments for subawards. We found amendments were filed, but were not within federal time requirements.
- Contractor payments were found to be greatly improved. The department created new procedures to ensure contractors received interest for late payments and only had five late contractor payments during fiscal year 2021.
- Financial schedule notes were completed for the two fiscal years ended June 30, 2021. We identified areas for improvement, however, department personnel corrected the errors before report issuance.

Three of the prior audit recommendations are considered partially implemented as the department has areas for continued improvement and have not fully addressed the original recommendation. However, as the department has created improvements, no additional recommendation is made in the current year. Due to the nature of prior audit recommendations, federal regulation requires us to continue to evaluate the status of those recommendations in subsequent audit periods even though no new audit recommendation is made.

Chapter II – Findings and Recommendations

Federal Highway Planning and Construction Program

The Montana Department of Transportation (department) administers the federally-funded Highway Planning and Construction program. The main objective of this program is to assist states in constructing, preserving, and improving highways and bridges on eligible federal-aid routes. Federal regulations outline requirements for the program and require the department to establish and maintain effective internal controls to reasonably ensure the department complies with those requirements.

Certified Payrolls

The department did not ensure all certified payrolls for highway construction projects were submitted in a timely manner, increasing the risk that contractors not paying the prevailing wages required by federal regulations remain undetected. This problem continues from several prior audits.

Federal regulations applicable to the Highway Planning and Construction program require contractors and subcontractors to pay prevailing wages on federally-funded construction projects, and to submit payrolls to the department for each week in which contract work was performed, certifying prevailing wages were paid for the week. Federal regulations further require the department obtain the payrolls prior to issuing payment to the contractor and to perform investigations to ensure contractors and subcontractors comply with prevailing wage requirements.

In the prior audit, we determined the department did not ensure all payrolls were received prior to issuing payments to contractors. We also identified multiple projects for which the department did not receive all payrolls. In the current audit, we noted the department took steps to address this situation, including continuing to use the new electronic payroll submission module within AASHTOWare's Construction and Materials System. The new module has built in flags designed to identify instances of missing payrolls when contractor pay estimates are generated in the system.

While the system was implemented for all new projects let from October 2019 forward, the use of the system features is not consistent across all project managers or all districts. For the project flags to work, the department personnel must complete daily work reports and fill in the contractor and subcontractor performing work on the day reported. Of the 25 projects tested that use the new system, nine projects did not have the contractor section completed. This results in ineffective controls in the new system that do not prompt department personnel to obtain certified payrolls. Additionally, older projects not migrated to the new system use procedures and paper payrolls which have not changed since the last audit. The older system is expected to still be in use through the next biennium and accounts for 187 of 546 projects.

Due to the continued control weakness we anticipated noncompliance to occur in the current audit period and designed our testing to determine if evidence of material noncompliance exists. Our work included reviewing payroll submissions for randomly selected projects across all department districts.

We tested 36 projects and identified:

- Seven projects using paper payrolls and certified by department personnel as having submitted all payrolls at project close missing 27 payrolls. This is across four districts and 12 contractors.
- Five projects, three using paper and two using electronic submission, having 16 overdue payrolls. The overdue payrolls were across three districts and seven contractors.
- Two projects were missing four subcontractor approval checklists which are used to determine which subcontractors are held to certified payroll submission requirements. Without these checklists, the contractor was not notified of the reporting requirements.

These untimely or incomplete submissions constitute noncompliance with federal regulations. Further, the department is noncompliant with federal regulations requiring the withholding of payment until the certified payrolls are submitted. Given the number of active projects during the audit period and the control deficiency, we believe there are likely other instances of noncompliance.

The department should provide training on its procedures to ensure the electronic submission module is used consistently across all districts, with attention to the system controls which track electronic submission of certified payrolls. Additionally, the department should implement internal controls specific to those projects excluded from the electronic submission module, to ensure all payrolls are received prior to payment on all projects going forward. Without such controls, there is risk the department will not identify instances where contractors or subcontractors are not paying prevailing wages.

Recommendation #1

We recommend the Montana Department of Transportation:

A. *Enhance internal controls to ensure all required payrolls are received.*

B. *Obtain and review all required certified payrolls weekly from contractors and subcontractors for all active construction projects of the Highway Planning and Construction program to ensure compliance with federal prevailing wage requirements.*

Formula Grants for Rural Areas

The department administers the federally-funded Formula Grants for Rural Areas program. The main objectives of this program are to initiate, improve, or continue public transportation service in rural areas.

Procurement Noncompliance

The department's internal controls did not ensure vehicles procured using the Formula Grants for Rural Areas program funds followed state policy and procedures.

Federal regulation requires states to use the same policy and procedures to procure items with federal funds as they do with nonfederal funds. We identified three instances where the department did not follow state policy and procedures for vehicles purchased under the program, as outlined below.

- The first instance was a sole source procurement used to replace an existing purchase order for vans. Department staff incorrectly interpreted federal procurement best practices as requiring significant deviations from an initial invitation to bid to be considered a sole source procurement. State Procurement Policy allows sole source procurement when the product is only available from one vendor and the vans are available from more than one vendor. As such, the two vans costing $75,825 were improperly purchased as a sole source procurement.
- The second and third instances, totaling $680,740, were procurements the department did not complete and file Post-Delivery Certifications for. Department staff overlooked the need to complete the certifications at the time of vehicle inspection. The certifications are evidence the vehicles met specifications and were received as agreed upon within the procurement. Department policy requires the certifications be filed with the department's procurement section within 30 days of final vehicle acceptance. The department's internal controls were insufficient to ensure the certifications were completed and submitted in the time frame required by department policy. We obtained evidence these certifications were in process outside the audit period.

As a result of the department not complying with state procurement policies and procedures for the first purchase, we question $75,825 in costs charged to the Formula Grants for Rural Areas program.

Recommendation #2

We recommend the Montana Department of Transportation:

A. *Enhance internal controls to ensure all procurement follow state policy to comply with federal requirements.*

B. *Comply with state procurement policy for all vehicle purchases.*

C. *Complete and submit the Post-Delivery Certifications as required by department policy.*

Subrecipient Monitoring

The department's subrecipient monitoring of subrecipients of the Formula Grants for Rural Areas program can be enhanced.

Under the Formula Grants for Rural Areas program, the department provides operating and capital grant awards to subrecipients. The subrecipients include local government transit authorities, nonprofit organizations or an operator of public transportation, or intercity bus services. As part of awarding funds to subrecipients, the department is required to communicate federally-specified award identification information, perform a risk assessment on subrecipients, and perform monitoring of the subrecipients' activities during and after the grant award as outlined by federal regulation. We identified several discrepancies relating to these subrecipient monitoring requirements, as summarized below.

- In our sample of eight subrecipients, we looked at 13 grant agreements across those subrecipients. A subrecipient receives separate grant agreements based on the type of award: operating, capital, or intercity bus grants. Of the 13 grant agreements, seven did not contain the total amount of federal funds obligated to the subrecipient including the current obligation. As the different types of awards are not awarded at the same time, each grant should include the awards provided to the subrecipient prior to the current award in a total obligation under the current year's Formula Grants for Rural Areas program as required by federal regulations.
- The risk assessment performed on a new subrecipient receiving federal funds from the department in fiscal year 2021 was completed without all elements of risk being assessed. The risk assessment is necessary for determining the extent of monitoring needed during and after the subaward period.
- The department performs detailed financial reviews on the first year's submission of quarterly reports for new subrecipients. During fiscal year 2021, the third quarter detail review was not performed for a new subrecipient. After we communicated the issue, the department initiated the review.
- One of eight subrecipient compliance reviews was not documented. The compliance reviews for the remaining seven were not performed following department policy. The department reviewer only looked at one vehicle to check compliance instead of the required two.
- The department's review of quarterly reports from the subrecipients did not address vehicle disposals during their reviews, which require additional procedures. This resulted in one vehicle being maintained on the subrecipients records for an additional year. In addition, the department's record retention policies were not followed for several vehicle disposals. Two of eight sales forms and four of eight lien releases are unaccounted for. Federal regulation require nonfederal entities maintain records for the use of federally-funded activities.

Department personnel indicated the myriad of errors relating to subrecipient monitoring were due to staff turnover, incomplete archiving of documentation, an office remodel resulting in missing or misplaced documentation, and one file was unintentionally shredded/destroyed instead of archived.

Recommendation #3

We recommend the Montana Department of Transportation comply with federal subrecipient monitoring requirements by:

A. Performing and documenting risk assessments,

B. Including required elements in grant agreements,

C. Performing subrecipient monitoring, and

D. Maintaining associated documentation.

Recovery of Questioned Costs

The department did not collect identified unallowable costs as part of the internal audit function's audits of completed grants.

The department's Audit Services office conducted three audits of transit grant recipients during fiscal year 2020 as part of monitoring subrecipients of the program. Each of these audits identified questioned costs that needed to be recovered by the state and then remitted to the Federal Transit Authority (FTA). These audits were published in September 2019, December 2019, and April 2020, with a total of $13,237 in questioned costs.

The department's procedures are to reduce the next quarterly payment to the grant recipient by the amount of the questioned costs. In fiscal year 2021, the quarterly payments were disrupted due to additional funding received under the Coronavirus Aid, Relief and Economic Security Act (CARES). The department chose not to conflate funding by reducing the CARES grants for the previously identified questioned costs. While we understand the extenuating circumstances, we did identify regular quarterly payments for one of the grant recipients that could have been used to offset questioned costs. As of September 2021, the questioned costs had not been recovered. Additionally, regulations allow the FTA to collect interest on funds owed. While interest rates remain low, depending on the length of time outstanding, the outstanding amount owed the federal granting agency could grow larger than the initial questioned costs.

Allowing two years to transpire between identification and recovery of questioned costs indicates internal controls are not effective. Federal regulations required department management to issue management decisions within six months of an audit. The management decisions should include further action needed on behalf of the subrecipient.

The department indicated their current process did not consider timely return of identified questioned costs.

Recommendation #4

We recommend the Montana Department of Transportation enhance internal control procedures to ensure timely recovery and remittance of identified questioned costs.

Other Noncompliance

The department has other state and federal regulations with which it must comply, even if the funding is one-time in nature.

Coronavirus Relief Fund Subrecipient Monitoring

The department should perform additional monitoring reviews of Live Entertainment grant funds.

In partnership with the Governor's Office of Budget and Program Planning, the department created the Live Entertainment Grant program totaling $10.3 million in July 2020. The program was designed to help Montana-based businesses and nonprofits whose income was primarily generated through live entertainment events. The funding replaced the recipient's lost revenue from the closure of live events during the pandemic. The department and the Governor's Office determined these businesses and nonprofits were subrecipients.

The department performed risk assessments, beginning in September 2020, of the applicants for the Live Entertainment Grants. The risk assessment process was used to determine whether additional review was needed before a funding determination was made. Further review was performed on 29 applications, with a no fund determination made for 14 applicants. According to department personnel, subsequent discussion between the department and the Governor's Office resulted in six of these applicants receiving grants totaling $1,367,779. While the department was not required to assign a risk level to the subrecipients, due to the one-time nature of the funding and the live entertainment industry's inexperience with federal requirements, we believe these applicants are high-risk. Federal regulations require the department to perform risk assessments prior to disbursing funds to determine the extent of subrecipient monitoring to perform during and after the subaward period. When subrecipients are high-risk, federal regulations require more robust subrecipient monitoring by the department. Subrecipient monitoring includes ensuring the funding is used for allowable purposes and in compliance with federal requirements and the terms and conditions of the subaward.

The department required a final report and a supporting financial statement be submitted by January 2021. We reviewed the information submitted by six randomly selected grant recipients. At the time of our review in July 2021, the documentation provided these recipients caused questions. Two of those recipients have final reports which do not support the allowability of $95,000 in costs associated with the grant program. One applicant self-certified, with support of an excel spreadsheet, $36,000 was spent on allowable expenditures during the granted period. The second recipient did not have support in their final report and submitted profit and loss statement for $59,000. Department staff informed us that the final report was considered allowable if it tied back to the application and stated they believed documentation was sufficient. However, the second recipient reported costs not mentioned in their application and did not provide or document support for why the change in use of the $59,000 was allowable under the program.

The department's Audit Services also reviewed 8 of the 76 grantees in August 2021, including only one of the six grants receiving a grant after a no fund recommendation. The reviews addressed approximately 18.5 percent of the awarded funds. We reviewed the results of the eight reviews completed by the department, which included $94,261 in costs considered to be unallowable or about 5 percent of total expenditures reviewed.

As a result of our work and review of the department's August 2021 reviews of the eight subrecipients, we question a total of $189,261 in costs for the Live Entertainment Grant program. In September 2021, department personnel indicated they initiated collection of the costs questioned during these reviews. We believe the magnitude of questioned costs and high-risk nature of these subrecipients warrant additional reviews.

In October 2021, the department indicated they plan to perform reviews over 18 additional subrecipients with completion occurring between October and the end of December 2021. These 18 additional subrecipient reviews included the two recipients from our work with indicated questioned costs. The department should consider, based on the results of the additional 18 subrecipient reviews, if further reviews are appropriate given the high-risk nature of the awards and the extent of questioned costs associated with the grants reviewed to date.

Recommendation #5

We recommend the Montana Department of Transportation continue to complete additional Live Entertainment Grants reviews to ensure subrecipients complied with federal program requirements.

Rental Tax Revenue

The department did not ensure Rental Vehicle Tax revenues supporting the Transportation Assistance for the Disabled and Elderly program are complete.

The department's Transportation Assistance for the Disabled and Elderly (TransADE) program provides financial assistance to local transportation agencies that provide transportation to the disabled and elderly. A portion of the Rental Vehicle Tax funds the program. The Department of Revenue collects and distributes the Rental Vehicle Tax accounts, however, the department does not have controls to ensure that the revenue is complete.

State policy requires agency management to establish and maintain effective internal controls. Additionally, while state policy allows for other governmental entities to collect revenue on the agency's behalf, the policy points to requirements for reconciling revenues received by the department for accuracy and completeness.

The Rental Vehicle Tax is the sole funding source for the TransADE program, which was $1.5 million in fiscal year 2020 and $1.2 million in fiscal year 2021. The portion allocable to the program is established in state law at 25 percent of total collections.

Department staff responsible for the TransADE program believed the accounting staff were performing a reconciliation of funds, while accounting staff felt the responsibility for the reconciliation of revenues rested solely with the Department of Revenue. However, state policy instead places responsibility on the Department of Transportation to have controls over these amounts collected by Department of Revenue.

Recommendation #6

We recommend the Montana Department of Transportation develop internal control procedures, in line with state policy requirements, for reconciliations to ensure the completeness and accuracy of Vehicle Rental Tax amounts.

Independent Auditor's Report and Department's Financial Schedules

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Transportation (department) for each of the fiscal years ended June 30, 2021, and 2020, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the department's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles
As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, deferred outflows of resources, liabilities, deferred inflows of resources and cash flows.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinions on U.S. Generally Accepted Accounting Principles
In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the department as of June 30, 2021 and June 30, 2020, or changes in financial position or cash flows for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting
In our opinion, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out, presents fairly, in all material respects, the results of operations and changes in fund equity of the Department of Transportation for each of the fiscal years ended June 30, 2021, and 2020, in conformity with the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2021, on our consideration of the Department of Transportation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

November 2, 2021

MONTANA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Enterprise Fund	Internal Service Fund	Custodial Fund	Private Purpose Trust Fund
FUND EQUITY: July 1, 2020	$ (1)	$ 159,320,969	$ (1,485,478)	$ 0	$ 10,421,340	$ 77,302,518	$ 312,353	$ 51,412
ADDITIONS								
Budgeted Revenues & Transfers-In	20,461	404,648,585	546,375,905		553,215	33,454,291		
Nonbudgeted Revenues & Transfers-In		1,229,679		3,924,250		354,426	316,764	117
Prior Year Revenues & Transfers-In Adjustments		(43,116,768)	(78)		(419)		60	(22)
Direct Entries to Fund Equity	153,452	(25,168,230)			(66,174)			
Total Additions	173,913	337,593,267	546,375,828	3,924,250	486,622	33,808,717	316,824	95
REDUCTIONS								
Budgeted Expenditures & Transfers-Out	173,912	302,164,614	495,330,662		20,556	34,664,284		
Nonbudgeted Expenditures & Transfers-Out		5,253,394	51,809,185	3,924,250	475,702	(256,029)	55,410	
Prior Year Expenditures & Transfers-Out Adjustments		(5,950)				(13,778)		
Total Reductions	173,912	307,412,058	547,139,846	3,924,250	496,258	34,394,477	55,410	0
FUND EQUITY: June 30, 2021	$ 0	$ 189,502,178	$ (2,249,497)	$ 0	$ 10,411,704	$ 76,716,758	$ 573,767	$ 51,507

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

MONTANA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Enterprise Fund	Internal Service Fund	Custodial Fund	Private Purpose Trust Fund
FUND EQUITY: July 1, 2019	$ 11	$ 142,153,501	$ (1,211,673)	$ 0	$ 9,690,725	$ 74,868,617	$ 0	$ 50,580
ADDITIONS								
Budgeted Revenues & Transfers-In	17,904	346,008,278	565,757,303		646,801	36,734,731		
Nonbudgeted Revenues & Transfers-In		1,509,191		15,411,650	447,302	280,652	273,515	839
Prior Year Revenues & Transfers-In Adjustments		(22,358)	45,560		8,388		(21)	(7)
Direct Entries to Fund Equity	(17,915)	(24,968,304)			14,639	585,259	200,377	
Total Additions	(11)	322,526,807	565,802,863	15,411,650	1,117,130	37,600,642	473,871	832
REDUCTIONS								
Budgeted Expenditures & Transfers-Out		299,690,083	513,941,329		169,509	36,197,078		
Nonbudgeted Expenditures & Transfers-Out		4,883,873	52,077,710	15,411,650	213,041	(1,039,362)	161,518	
Prior Year Expenditures & Transfers-Out Adjustments		785,385	57,628		3,965	9,026		
Total Reductions	0	305,359,340	566,076,667	15,411,650	386,515	35,166,742	161,518	0
FUND EQUITY: June 30, 2020	$ 0	$ 159,320,967	$ (1,485,477)	$ 0	$ 10,421,340	$ 77,302,519	$ 312,353	$ 51,412

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MONTANA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Enterprise Fund	Internal Service Fund	Custodial Fund	Private Purpose Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS									
Licenses and Permits	$ 10,625	$ 25,397,961							$ 25,408,586
Taxes	9,835	274,265,730							274,275,567
Charges for Services		8,185,467			$ 73,279	$ 33,205,992			41,464,737
Investment Earnings		82,301					$ 589	$ 95	82,985
Fines and Forfeits		997,028							997,028
Capital Contributions					71,581	236,729			308,311
Sale of Documents, Merchandise and Property		114,460				321,164			435,624
Rentals, Leases and Royalties	1	665,778			318,342				984,121
Grants, Contracts, and Donations		589,629			200				589,829
Transfers-in		63,919	$ 10,405,599	$ 3,924,250	13,729				14,407,497
Capital Asset Sale Proceeds		187,586							187,586
Federal Indirect Cost Recoveries		51,830,362							51,830,362
Miscellaneous		381,275			75,665	44,832	316,235		818,006
Federal			535,970,228						535,970,228
Total Revenues & Transfers-In	20,461	362,761,497	546,375,828	3,924,250	552,796	33,808,717	316,824	95	947,760,467
Less: Nonbudgeted Revenues & Transfers-In		1,229,679		3,924,250		354,426	316,764	117	5,825,236
Prior Year Revenues & Transfers-In Adjustments		(43,116,768)	(78)		(419)		60	(22)	(43,117,226)
Actual Budgeted Revenues & Transfers-In	20,461	404,648,585	546,375,905	0	553,215	33,454,291	0	0	985,052,457

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MONTANA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Enterprise Fund	Internal Service Fund	Custodial Fund	Private Purpose Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS									
Licenses and Permits	$ 9,888	$ 22,874,908							$ 22,884,795
Taxes	8,015	260,530,162							260,538,177
Charges for Services		8,576,952			$ 48,018	$ 36,622,353			45,247,323
Investment Earnings		507,467					$ 3,157	$ 832	511,456
Fines and Forfeits		738,941							738,941
Capital Contributions					225,821	100,000			325,821
Sale of Documents, Merchandise and Property		88,807				182,766			271,573
Rentals, Leases and Royalties	1	672,279			300,978				973,258
Grants, Contracts, and Donations		275,607			285				275,892
Transfers-in		143,881	$ 55,511	$ 15,411,650	456,217				16,067,259
Capital Asset Sale Proceeds		695,844							695,844
Federal Indirect Cost Recoveries		52,085,849							52,085,849
Miscellaneous		303,417			71,172	110,264	270,337		755,191
Federal		997	565,747,352						565,748,349
Total Revenues & Transfers-In	17,904	347,495,111	565,802,863	15,411,650	1,102,491	37,015,383	273,494	832	967,119,728
Less: Nonbudgeted Revenues & Transfers-In		1,509,191		15,411,650	447,302	280,652	273,515	839	17,923,150
Prior Year Revenues & Transfers-In Adjustments		(22,358)	45,560		8,388		(21)	(7)	31,562
Actual Budgeted Revenues & Transfers-In	17,904	346,008,278	565,757,303	0	646,801	36,734,731	0	0	949,165,017

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MONTANA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	Aeronautics Program	Equipment Program	GAAP Adjustments	General Operations Program	Highways & Engineering	Maintenance Program	Motor Carrier Services	Rail Transit & Planning	State Motor Pool	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT										
Personal Services										
Salaries	$ 694,619	$ 6,576,447	$ (40,775,186)	$ 12,133,464	$ 53,246,769	$ 39,431,241	$ 6,556,937	$ 6,611,169	$ 311,845	$ 84,787,305
Other Compensation	400			5,500						5,900
Employee Benefits	238,309	2,234,211	(14,802,643)	3,349,637	18,883,465	16,803,778	2,559,167	2,264,721	113,372	31,644,017
Personal Services-Other	(4,932)	(109,486)							4,647	(109,771)
Total	928,396	8,701,172	(55,577,829)	15,488,602	72,130,234	56,235,019	9,116,104	8,875,890	429,864	116,327,450
Operating Expenses										
Other Services	308,638	626,240	(343,099,669)	9,173,652	419,587,866	24,779,765	314,828	1,947,790	360,169	113,999,281
Supplies & Materials	60,097	5,982,061	(706,612)	1,398,435	1,090,643	1,986,055	226,726	269,410	888,001	11,194,818
Communications	3,754	4,515	(107,352)	3,088,320	171,781	226,962	12,154	1,135,566		4,535,700
Travel	7,893	21,955	(722,092)	42,425	904,846	204,262	141,125	88,018		688,431
Rent	15,528	50,165	(2,703,335)	30,327	3,842,752	24,795,682	438,908	149,603	64,800	26,684,429
Utilities	47,762	87,143	(49,257)		73,395	3,979,645	100,193	6,172	9,011	4,254,065
Repair & Maintenance	99,062	6,363,330	(1,697,049)	1,396,028	2,489,943	21,791,773	552,493	350,062	400,743	31,746,385
Other Expenses	627,783	7,455,488	(40,363,077)	3,605,858	48,263,878	1,881,597	702,531	2,147,833	1,909,281	26,231,172
Goods Purchased For Resale	21,461									21,461
Total	1,191,979	20,590,897	(389,448,443)	18,735,045	476,425,105	79,645,742	2,488,958	6,094,454	3,632,006	219,355,743
Equipment & Intangible Assets										
Equipment	184,084				1,586,193	59,178	857,728			2,687,182
Intangible Assets				4,057,574	1,777,482	29,866	746,442	1,182,304		7,793,667
Total	184,084			4,057,574	3,363,674	89,043	1,604,170	1,182,304		10,480,849
Capital Outlay										
Land & Interest In Land			445,026,272		7,360,958					452,387,230
Buildings	217,732					791,981				1,009,713
Total	217,732		445,026,272		7,360,958	791,981				453,396,943
Local Assistance										
From other sources				5,850,501						5,850,501
Total				5,850,501						5,850,501
Grants										
From State Sources	680,711			35,063,951	130,060			3,320,540		39,195,261
From Federal Sources					339,080			37,120,883		37,459,963
From Other Sources								428,096		428,096
Total	680,711			35,063,951	469,140			40,869,519		77,083,320
Transfers-out										
Fund transfers	13,729			171,205	150,000		105,312	1,729,815		2,170,061
Mandatory Transfers					3,924,250					3,924,250
Total	13,729			171,205	4,074,250		105,312	1,729,815		6,094,311
Debt Service										
Bonds					3,924,250					3,924,250
Loans									151,114	151,114
Total					3,924,250				151,114	4,075,364
Post Employment Benefits										
Other Post Employment Benefits	25,881	27,089							19,897	72,866
Employer Pension Expense	16,345	806,494							36,025	858,864
Total	42,225	833,583							55,922	931,730
Total Expenditures & Transfers-Out	$ 3,258,856	$ 30,125,652	$ 0	$ 79,366,877	$ 567,747,611	$ 136,761,785	$ 13,314,543	$ 58,751,982	$ 4,268,905	$ 893,596,211
EXPENDITURES & TRANSFERS-OUT BY FUND										
General Fund					$ 173,912					$ 173,912
State Special Revenue Fund	$ 1,757,582			$ 78,473,672	82,093,052	$ 128,495,069	$ 9,320,031	$ 7,272,652		307,412,058
Federal Special Revenue Fund	1,004,947	$ 80		893,234	481,556,280	8,266,716	3,939,260	51,479,330		547,139,846
Debt Service Fund					3,924,250					3,924,250
Enterprise Fund	496,287			(29)						496,258
Internal Service Fund		30,125,572							$ 4,268,905	34,394,477
Custodial Fund	40				117		55,253			55,410
Total Expenditures & Transfers-Out	3,258,856	30,125,652	0	79,366,877	567,747,611	136,761,785	13,314,543	58,751,982	4,268,905	893,596,211
Less: Nonbudgeted Expenditures & Transfers-Out	538,294	490,460		2,068,504	55,168,314	1,276,015	464,091	2,002,722	(746,490)	61,261,911
Prior Year Expenditures & Transfers-Out Adjustments		(6,922)		(2,402)	17,611	(10,425)	(10,733)		(6,856)	(19,727)
Actual Budgeted Expenditures & Transfers-Out	2,720,562	29,642,114	0	77,300,775	512,561,686	135,496,195	12,861,186	56,749,260	5,022,251	832,354,028
Budget Authority	10,805,487	30,843,603		84,837,287	691,371,968	200,874,647	15,178,292	90,678,120	6,643,313	1,131,232,716
Unspent Budget Authority	$ 8,084,925	$ 1,201,489	$ 0	$ 7,536,512	$ 178,810,282	$ 65,378,452	$ 2,317,106	$ 33,928,860	$ 1,621,062	$ 298,878,689
UNSPENT BUDGET AUTHORITY BY FUND										
General Fund					$ 6,088				$ 33,379	$ 39,467
State Special Revenue Fund	$ 2,686,544			$ 6,121,121	25,646,878	$ 12,989,745	$ 1,295,065	$ 3,016,226		51,755,579
Federal Special Revenue Fund	5,015,430			1,415,391	153,157,316	52,388,707	1,022,041	30,912,634		243,911,520
Enterprise Fund	382,951									382,951
Internal Service Fund		$ 1,201,489	$						1,587,683	2,789,173
Unspent Budget Authority	$ 8,084,925	$ 1,201,489	$ 0	$ 7,536,512	$ 178,810,282	$ 65,378,452	$ 2,317,106	$ 33,928,860	$ 1,621,062	$ 298,878,689

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

MONTANA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	Aeronautics Program	Equipment Program	GAAP Adjustments	General Operations Program	Highways & Engineering	Maintenance Program	Motor Carrier Services	Rail Transit & Planning	State Motor Pool	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT										
Personal Services										
Salaries	$ 682,656	$ 6,382,343	$ (40,497,542)	$ 11,826,009	$ 52,504,786	$ 38,472,255	$ 6,328,022	$ 5,959,605	$ 289,768	$ 81,947,902
Other Compensation	900			6,900						7,800
Employee Benefits	179,676	2,379,946	(14,345,881)	3,275,373	18,579,854	16,584,600	2,565,661	2,069,674	106,411	31,395,314
Personal Services-Other	(3,283)	61,418							1,166	59,301
Total	859,949	8,823,707	(54,843,423)	15,108,282	71,084,640	55,056,855	8,893,683	8,029,279	397,345	113,410,317
Operating Expenses										
Other Services	(121,515)	486,619	(372,659,473)	8,466,426	442,550,477	27,082,705	491,175	1,867,914	398,559	108,562,887
Supplies & Materials	39,767	6,611,418	(854,107)	2,091,967	1,193,461	1,555,278	614,435	129,965	1,113,840	12,496,024
Communications	6,099	4,846	(145,835)	2,903,504	228,270	205,196	17,779	630,691	28	3,850,578
Travel	23,875	16,004	(973,717)	144,919	1,239,236	129,592	203,919	127,873		911,701
Rent	16,803	38,648	(3,433,202)	42,658	4,468,803	26,859,460	549,634	182,785	64,800	28,790,389
Utilities	48,844	86,592	(55,326)		66,027	3,940,431	105,323	5,979	8,970	4,206,840
Repair & Maintenance	80,244	6,836,201	(2,104,749)	1,055,822	2,832,287	21,613,359	550,473	270,342	524,481	31,658,460
Other Expenses	394,992	6,957,108	(40,813,569)	3,509,968	47,483,885	2,042,296	714,396	1,943,565	1,899,733	24,132,374
Goods Purchased For Resale	15,671									15,671
Total	504,780	21,037,436	(421,039,978)	18,215,264	500,062,446	83,428,317	3,247,134	5,159,114	4,010,411	214,624,924
Equipment & Intangible Assets										
Equipment					2,014,084	287,914	391,880	(65,000)		2,628,878
Intangible Assets				1,732,696	134,920	5,981	8,649	1,448,495		3,330,741
Total				1,732,696	2,149,004	293,895	400,529	1,383,495		5,959,619
Capital Outlay										
Land & Interest In Land			475,883,401		14,380,452					490,263,853
Buildings	715,680					1,197,630				1,913,310
Total	715,680		475,883,401		14,380,452	1,197,630				492,177,163
Local Assistance										
From other sources				6,118,903						6,118,903
Total				6,118,903						6,118,903
Grants										
From State Sources	189,576			32,926,950	419,150			3,301,583		36,837,259
From Federal Sources					1,579,683			17,536,160		19,115,844
From Other Sources								402,920		402,920
Total	189,576			32,926,950	1,998,833			21,240,663		56,356,022
Transfers-out										
Fund transfers	456,218			162,089			92,975	1,470,171		2,181,452
Mandatory Transfers					15,411,650					15,411,650
Total	456,218			162,089	15,411,650		92,975	1,470,171		17,593,103
Debt Service										
Bonds					15,411,650					15,411,650
Loans									134,369	134,369
Total					15,411,650				134,369	15,546,019
Post Employment Benefits										
Other Post Employment Benefits	326	22,673							1,137	24,136
Employer Pension Expense	12,049	710,145							30,033	752,226
Total	12,375	732,818							31,170	776,363
Total Expenditures & Transfers-Out	$ 2,738,578	$ 30,593,961	$ 0	$ 74,264,184	$ 620,498,675	$ 139,976,697	$ 12,634,321	$ 37,282,722	$ 4,573,295	$ 922,562,433
EXPENDITURES & TRANSFERS-OUT BY FUND										
State Special Revenue Fund	$ 1,613,984			$ 73,539,615	$ 82,127,367	$ 131,430,774	$ 9,032,495	$ 7,615,106		$ 305,359,341
Federal Special Revenue Fund	660,388	$ 514		724,569	522,959,658	8,545,923	3,517,999	29,667,616		566,076,667
Debt Service Fund					15,411,650					15,411,650
Enterprise Fund	386,515									386,515
Internal Service Fund		30,593,447							$ 4,573,295	35,166,742
Custodial Fund	77,691						83,827			161,518
Total Expenditures & Transfers-Out	2,738,578	30,593,961	0	74,264,184	620,498,675	139,976,697	12,634,321	37,282,722	4,573,295	922,562,433
Less: Nonbudgeted Expenditures & Transfers-Out	699,523	170,826		2,019,136	66,137,185	1,530,956	521,285	1,839,707	(1,210,188)	71,708,430
Prior Year Expenditures & Transfers-Out Adjustments	(34,711)	16,539		114,200	(60,656)	802,796	4,138	21,210	(7,514)	856,004
Actual Budgeted Expenditures & Transfers-Out	2,073,766	30,406,596	0	72,130,848	554,422,146	137,642,945	12,108,898	35,421,805	5,790,997	849,998,001
Budget Authority	9,397,564	30,814,188		102,663,618	587,521,619	144,904,494	13,674,975	75,686,885	6,480,941	971,144,283
Unspent Budget Authority	$ 7,323,798	$ 407,592	$ 0	$ 30,532,770	$ 33,099,473	$ 7,261,549	$ 1,566,077	$ 40,265,080	$ 689,944	$ 121,146,283
UNSPENT BUDGET AUTHORITY BY FUND										
General Fund					$ 180,000	$ 5				$ 180,005
State Special Revenue Fund	$ 2,265,052			$ 19,096,781	19,768,207	6,087,587	$ 929,086	$ 1,392,220		49,538,933
Federal Special Revenue Fund	4,797,109			11,435,989	13,151,266	1,173,957	636,991	38,872,860		70,068,172
Enterprise Fund	261,637									261,637
Internal Service Fund		$ 407,592	$						$ 689,944	1,097,536
Unspent Budget Authority	$ 7,323,798	$ 407,592	$ 0	$ 30,532,770	$ 33,099,473	$ 7,261,549	$ 1,566,077	$ 40,265,080	$ 689,944	$ 121,146,283

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue and Debt Service). In applying the modified accrual basis, the department records:

- Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary (Private-Purpose Trust and Custodial) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

Governmental Fund Category

- **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include the restricted highway revenue, Bridge and Road Safety Accountability Account (BaRSAA) revenue, nonrestricted highway revenue, petroleum storage tank, uniform carrier registration, fuel tax distributed to other state agencies and tribal governments, county collections for the DUI Prevention Program, the senior citizens and persons with

disabilities transportation services, rail construction and various Aeronautics Division accounts.

- **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include federal highway planning and construction, highway traffic safety, transit administration, motor carrier services grants, rail planning and construction, and aviation administration funds received by the department. Also included are the Coronavirus Aid, Relief and Economic Security Act (CARES), Coronavirus Response and Relief Supplemental Appropriations (CRSSA) and the American Rescue Plan Act of 2021 (ARPA).
- **Debt Service Fund** – to account for accumulated resources for the payment of general long-term debt principal and interest. The department uses this fund for debt service for the Grant Anticipation Bonds that were issued to finance the engineering and construction on a portion of Highway System 93.

Proprietary Fund Category

- **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. Department Internal Service Funds includes the State Motor Pool and Highway Equipment Program.
- **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. Department Enterprise Funds includes the financial activity of the West Yellowstone Airport.

Fiduciary Fund Category

- **Private-Purpose Trust Fund** – to account for all fiduciary activities that are (a) not required to be reported in pension (and other employee benefit) trust funds or investment trust funds and (b) are held in a trust (or trust equivalent arrangement), where the principal and income benefit individuals, private organizations, or other governments. Department private-purpose trust funds includes the Woodville Hill Abandonment activity.
- **Custodial Fund** – to account for resources of fiduciary activities held by the state in a custodial capacity which are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private-purpose trust funds. The external portion of investment pools that are not held in a trust should be reported in a separate external investment pool fund column, under the custodial fund classification. Custodial funds may be used on a limited basis for internal (to the State) clearing account activity, but these must have a zero balance at fiscal year-end. The department agency funds includes union pension activity, the tribal Improvements or Services (IOS) fees, and conferences administered on behalf of other entities.

2. General Fund Equity Balance

The negative fund equity balance in the General Fund does not indicate overspent appropriation authority. The Department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund equity balances for the fiscal year ended June 30, 2021.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General and Special Revenue funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. Note 8 discusses the gross vehicle weight (GVW) revenues that are recorded by the Department of Justice (DOJ) under their business unit, rather than MDT's.

Direct entries to fund equity in the State Special Revenue Fund also include entries for increases and decreases in the Maintenance Program's inventory values and reclassification of fund equity for prepaid expenses in accordance with state accounting policy.

4. Nonbudgeted Expenditures & Transfers-Out

- **State Special Revenue Fund** – The nonbudget expenditures and transfers-out includes: $2.3 million and $2.3 million expenditure for fiscal year 2020 & 2021, respectively, representing 1% of the total motor fuel taxes collected and paid to petroleum distributors for collecting the fuel tax; and $1.9 million and $2.4 million for fiscal years ending 2020 and 2021, respectively, for indirect costs charged to state special revenue funds in accordance with MDT's indirect cost agreement negotiated with the Federal Highway Administration (FHWA).
- **Federal Special Revenue Fund** – The nonbudget expenditures and transfers-out includes: $48.0 million and $48.7 million in fiscal years ended 2020 and 2021, respectively, for indirect costs charged to federal special revenue funds in accordance with MDT's indirect cost agreement negotiated with the Federal Highway Administration (FHWA).
- **Debt Service Fund** – The nonbudgeted expenditures and transfers-out of $15.4 million and $3.9 million in fiscal years ended 2020 and 2021, respectively, is debt service of the Grant Anticipation Revenue Vehicle (GARVEE) bonds that were used to finance the engineering and construction on a portion of Highway System 93. The related budgeted expenditures are recorded in the federal special revenue fund as mandatory transfers-out and recorded as non-budgeted transfers-in in the debt service fund. The related budgeted revenue is recorded in the federal special revenue fund.

5. Intra-Agency Activity

During the normal course of operations, the department has transactions within funds and between funds to provide services and service debt. The following describes the activity for the two fiscal years ended June 30, 2021.

Equipment Program

The Equipment Program, which is part of the Internal Service Fund, maintains a fleet of equipment and vehicles for use within the department. Costs are recovered through user fees charged to other programs within the department. Charges for Services revenues are recorded in the Internal Service Fund for the rent of the equipment and the user program records rent expense. Maintenance, Highways & Engineering, and Motor Carrier Services are the major programs that use the equipment and vehicles. The Charges for Services revenue for the Equipment Program was approximately $31.7 in fiscal year 2020 and $28.9 million in fiscal year 2021.

Transfers

Approximately $15.4 million in 2020 and $3.9 million in 2021 was transferred in from the Highways & Engineering Program in the Federal Special Revenue Fund to the Debt Service Fund for the debt service payments for the Grant Anticipation Revenue Vehicle (GARVEE) bonds.

6. Highway Construction Commitments

At June 30, 2020 and June 30, 2021, the department had contractual commitments of approximately $281.5 million and $463.2 million, respectively, for the construction of various highway projects. Funding for these highway projects is to be provided from federal Highway Planning and Construction grants and matched with State Special Revenue Funds.

7. GAAP Adjustments Program

The department initially records expenditures related to infrastructure in the Highways & Engineering, Maintenance, and Rail, Transit & Planning Programs. The expenditures are originally budgeted by the Montana Legislature as personal services, operating expenses, equipment, and grants. In fiscal year 2011, the department established a GAAP Adjustments Program to reclassify the capital outlay nonbudgeted expenditures in accordance with state policy. The nonbudgeted expenditures in this program are used strictly for GAAP adjustment purposes and should not be used in department expenditure analysis.

8. County Collection Revenue

Daily, counties enter revenue they have collected on the state's behalf into the Department of Justice's (DOJ) computerized system, the Montana Enhanced Registration & Licensing Information Network (MERLIN). The DOJ then records the revenue due to the department under its business unit, rather than the department's. Although the revenue is properly recorded on the state's accounting records, the revenues aren't reflected on the Schedule of Revenues and Transfers-In. The flow of cash associated with this activity is presented within the direct entries to fund equity in the State Special Revenue fund on the Schedule of Changes. During fiscal years 2020 and 2021, approximately $14.6 million and $15.5 million, respectively, of gross vehicle weight revenue under Licenses & Permits are not reflected in the State Special Revenue Fund on the department's financial schedules.

9. Unspent Budgeted Expenditure Authority

The following narrative provides information regarding unspent budgeted expenditure authority in fiscal years 2020 and 2021 for the General Operations, Highways & Engineering, Rail, Transit & Planning, and Maintenance Programs.

General Operations Program

The $30.5 million unspent budget authority in the General Operations Program in fiscal year 2020 primarily relates to the 30% fiscal year 2019 unexpended appropriations carryforward authorized in Montana Code Annotated (MCA) 17-7-304(4) which states: "30% of the money appropriated to an agency for that year by the general appropriations act for personal services, operating expenses, and equipment, by fund type, and remaining unexpended and unencumbered at the end of the year may be reappropriated to be spent during the following 2 years for any purpose that is consistent with the goals and objectives of the agency." Since the department is primarily budgeted with biennial appropriations that expire in odd years, the unspent budget authority is highest in even years.

Highways & Engineering and Rail, Transit & Planning Programs

Budgeted expenditure authority of State Special and Federal Special Revenue funds for the Construction Program is based on departmental estimates of multi-year authorizations of federal-aid funding and the corresponding highway construction plan. This plan is finalized between six months and one year prior to the start of the new biennium.

Highway construction in Montana is a seasonal industry where weather plays a large factor in construction progress. One month of bad weather can affect contractor payments by as much as $50 million. The department must have ample budget authority available to meet the best of conditions. The Legislature has consistently recognized this issue by granting the department with continuing appropriation authority for these programs.

Also included in the Federal Special Revenue funds are unspent authority related to grab bag funds which are funds allocated from states that have not obligated their entire Federal Program and redistributed to states that have. MDT has received grab bag funds in fiscal years 2020 and 2021 which has required additional budget authority. Much of this budget authority remains unspent due to the nature of the projects obligated. Many projects are multiyear construction projects in which the expenditures do not come in evenly due to the nature of the work and weather. Also, once contractors can work, the expenditures can ramp up quickly.

Maintenance Program

The Maintenance Program is responsible for the repair, maintenance, and preservation of approximately 25,000 lane miles of roadways. Activities include but are not limited to: winter maintenance, reactive and preventive pavement preservation, pavement marking, signing, roadway striping, noxious weed control, traveler information, and other necessary roadway and roadside repairs and maintenance.

Again, weather plays a large factor in maintenance activities that can be completed. The department must have ample budget authority available to meet the best of conditions. The Legislature has consistently recognized this issue by granting the department with continuing appropriation authority for this program.

Bridge and Road Safety Accountability Account (BaRSAA)

Included in the unspent State Special Revenue authority are amounts related to the Bridge and Road Safety and Accountability Act (BaRSAA) appropriations. Unspent authority is related to restricted appropriations from HB473 that were unused and the timing difference in cash flow between the appropriation process, revenue collection, and actual cash payouts for multi-year project costs. During fiscal years 2020 and 2021, MDT had $2.5 million and $0.4 million in unspent budget authority respectively in BaRSAA. Many of the projects that were awarded during fiscal years 2019 and 2020 were multi-year projects that have continued to have expenditures through 2021 in addition to the projects awarded in 2021. This has caused expenditures in 2021 to catch up to authority.

Within HB 473, MDT had unspent authority of $9.8 million and $9.8 million during fiscal years 2020 and 2021 respectively. These amounts were appropriated in HB 473 for contractor payments above the authority appropriated in HB 2.

10. Revenue Projections

During fiscal year 2020 & 2021, the actual revenues received in the Federal Special Revenue funds (excluding COVID, CARES, ARPA or CRSSA) exceeded the revenue projections by $112 million and $70.6 million respectively. Revenue projections are based on a federal/state split of 87/13%. Due to the mix of projects, the split came in closer to 90/10%, resulting in higher reimbursements from FHWA. Also, many of the projects awarded in 2019 & 2020 were ongoing during fiscal years 2020 & 2021, resulting in additional expenditures in conjunction with the 2021 projects awarded.

11. Coronavirus Aid, Relief and Economic Security Act (CARES), Coronavirus Response and Relief Supplemental Appropriations (CRSSA) and the American Rescue Plan Act of 2021 (ARPA)

CARES

The department was awarded approximately $55.3 million from the Federal Aviation Administration (FAA) and the Federal Transit Administration (FTA) to administer grants for state-owned airports and urban and rural transit. During FY 2020 and 2021, about $6.0 million and $17.8 million has been expended respectively. Also during FY 2021, the Department of Treasury, through the State of Montana's Governor's Office, awarded $10.3 million in Live Entertainment Grants to local entertainment businesses. As of June 30, 2021, all $10.3 million had been expended.

CRSSA

The department was awarded approximately $102.7 million from the Federal Highway Administration (FHWA) for use in the construction and maintenance of transportation infrastructure. Of the award, $50 million has been restricted to the maintenance program. Expended CRSSA funds were minimal during FY 2021.

ARPA

The department was awarded approximately $3.4 million from the Federal Aviation Administration (FAA) and the Federal Transit Administration (FTA) to administer grants for state-owned airports and rural transit. Expended ARPA funds was minimal during FY 2021

12. Related Party Transactions

A relative of a member of MDT's Management Team is part owner of a business that holds a State term contract for supplies. A term contract is a contract in which a source for supplies is established for a specific period of time at a predetermined unit price. The term contracts are issued by the State Procurement Bureau of the Department of Administration and state agencies are required to use the DOA issued term contracts for such supplies. Statewide, MDT purchased supplies from this business in the amount of $97,324.64 and $98,407.12 for fiscal years 2020 and 2021, respectively.

A relative of a member of MDT's Management Team is part owner of a business which has been granted the right by the local airport to operate and provide related services. There is only one such operator at this airport. Given this exclusivity, MDT had transactions with this business. Department-wide, MDT purchased services in the amount of $16,878.46 and $100,896.77 for fiscal years 2020 and 2021 respectively. The increase purchased services from FY 20 to FY 21 is for engine overhauls on one of MDT's planes.

MDT has proper conflict of interest procedures and internal controls in place for identified related party transactions. As of December 31, 2020, the management team member referred to in conjunction with our related party transactions has retired.

13. Contingent Events

The Federal Motor Carrier Safety Administration (FMCSA) has been working with each state to update their Entry Level Driver Training (ELDT) requirements by February 7, 2022. HB 608 in the 2021 Montana Legislature addressed updating the ELDT requirements. HB 608 was tabled in Senate Highways and Transportation Committee, resulting in the ELDT's updated requirements not being mandated. Without the updated ELDT requirements, MDT may be subject to the decertification of their CDL program, resulting in a loss of up to 4% of the National Highway Performance Program in FY 22 and 8% per year going forward until the requirements are updated. In addition to the funding, MDT could lose Motor Carrier Safety Assistance Program grant eligibility which would result in potential withheld grant funding until the requirements are met.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance With *Government Auditing Standards*

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Transportation (department) for each of the fiscal years ended June 30, 2021, and 2020, and the related notes to the financial schedules, and have issued our report thereon dated November 2, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the department's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control. Accordingly, we do not express an opinion on the effectiveness of the department's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the department's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial schedules. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

November 2, 2021

Montana Department of Transportation

Department Response

VISION ZERO
zero deaths
zero serious injuries

Montana Department of Transportation
2701 Prospect
PO Box 201001
Helena MT 59620-1001

Greg Gianforte, Governor
Malcolm "Mack" Long, Director

RECEIVED
December 21, 2021
LEGISLATIVE AUDIT DIV.

December 21, 2021

Angus Maciver, Legislative Auditor
Legislative Audit Division
State Capitol Room 160
Helena, MT 59620-1705

Dear Mr Maciver

We appreciate the opportunity to respond to the audit recommendations in the Financial Compliance Audit Report of the Montana Department of Transportation (MDT) for the two fiscal years ended June 30, 2021.

We have attached our responses including the timeline for implementing the recommendations. We appreciated your staff's hard work and professionalism during the audit. MDT is committed to complying with state and federal laws, implementing and monitoring effective internal controls, and ensuring complete and accurate financial information is recorded on the state's accounting records. MDT views the audit process as an opportunity for improvement and appreciates your input.

Sincerely,

Malcolm D. Long

Malcolm D. Long
Director

Attachment

MONTANA MDT DEPARTMENT OF TRANSPORTATION

Corrective Action Plan
MDT Financial-Compliance Audit #21-17
For the Two Fiscal Years Ended June 30, 2021

Audit Recommendation #	Does this affect a federal program?	Management View	Corrective Action Plan	Responsible Area	Initial Target Date
Recommendation #1 We recommend the MDT: A. Enhance internal controls to ensure all required payrolls are received. B. Obtain and review certified weekly payrolls from contractors and subcontractors for all active construction projects of the Highway Planning and Construction program to ensure compliance with federal prevailing wage requirements.	Yes	Concur	It is the responsibility of the contractors to submit certified weekly payrolls to the MDT when working on an MDT construction project. The Engineering Project Managers (EPMs) ensure certified payrolls are received each week for their contracts. The EPMs then submit the payrolls to the Contract Administration Section (CAS) for compliance testing. CAS performs compliance testing and has increased education of this requirement to the contractors as well as enhanced training to EPMs and their crews. The MDT has also increased training to ensure that EPMs and construction field offices understand the labor compliance requirements. Through the increase in training for the contractors and MDT field staff, the projects managed both outside of the new electronic payroll submission module (AASHTOWare) and within it will have increased monitoring, for all certified payrolls. AASHTOWare, completed in October 2019, has assisted in improving compliance and will continue to do so as projects with the paper payroll method close and all new ones are managed within the system. MDT has implemented a report enhancement to the project management software to track when subcontractors perform work on a construction project and when certified payrolls are required. A process has been added to ensure all payrolls are received as well. MDT distributed a Labor Compliance Manual which contains the certified payroll requirements and has provided training and guides on the contract monthly estimate and the finalization process.	Highways & Engineering Division and Internal Audit	Completed

Corrective Action Plan
MDT Financial-Compliance Audit #21-17
For the Two Fiscal Years Ended June 30, 2021

Audit Recommendation #	Does this affect a federal program?	Management View	Corrective Action Plan	Responsible Area	Initial Target Date
Recommendation #2 We recommend the MDT: A. Enhance internal controls to ensure all procurement follow state policy to comply with federal requirements. B. Comply with state procurement policy for all vehicle purchases. C. Complete and submit the Post-Delivery Certifications as required by department policy.	Yes	Concur	MDT has policies and controls in place to ensure all procurement follows state and federal policies and requirements. The policies will be reveiewed and updated to confirm that compliance is maintained on an annual basis. Post-Delivery Certifications will be completed and sent to the Purchasing Section for filing upon the final vehicle delivery for each contract and updated on the file Vehicle Contract Tracking spreadsheet. The Transit Supervisor will review the Tracking spreadsheet when approving payment for vehicle purchases.	Rail, Transit & Planning Division Administration Division	March 31, 2022

MONTANA MDT DEPARTMENT OF TRANSPORTATION

Corrective Action Plan
MDT Financial-Compliance Audit #21-17
For the Two Fiscal Years Ended June 30, 2021

Audit Recommendation #	Does this affect a federal program?	Management View	Corrective Action Plan	Responsible Area	Initial Target Date
Recommendation #3 We recommend the MDT: A. Performing and documenting risk assessments B. Including required elements in grant agreements C. Performing subrecipient monitoring D. Maintaining associated documentation	Yes	Concur	Transit will complete and upload a risk assessment for each sub-recipient in part of the application review process. Assessments will be uploaded to each corresponding sub-recipient folder in the grant management system, BlackCat. Assessments must be complete and filed prior to the grant application approval. Transit will include all known awarded funds to the sub-recipient in each capital agreement. This includes the capital project federal obligation, the operating federal obligation, and all other known capital project federal obligations. Transit has filled the fiscal planner position and is positioned to ensure that all detailed fiscal reviews of quarterly reports are completed and tracked. A compliance review could not be located, and the tracking sheet listed the review as being completed. Transit will annually reconcile the tracking sheet with the reviews as part of a closeout process, ensuring completeness.	Rail, Transit & Planning Division	March 31, 2022
Recommendation #4 We recommend the MDT: Enhance internal control procedures to ensure timely recovered and remittance of identified questioned costs.	Yes	Concur	The Transit Section will ensure that it follows its processes when identifying unallowable costs.	Rail, Transit & Planning Division Internal Audit	December 31, 2021

MONTANA MDT DEPARTMENT OF TRANSPORTATION

Corrective Action Plan
MDT Financial-Compliance Audit #21-17
For the Two Fiscal Years Ended June 30, 2021

Audit Recommendation #	Does this affect a federal program?	Management View	Corrective Action Plan	Responsible Area	Initial Target Date
Recommendation #5 We recommend the MDT: Continue to complete additional Live Entertainment Grants reviews to ensure subrecipients complied with federal program requirements	Yes	Concur	MDT has audited an additional 14 grantees in October through early December 2021, and we did not identify any questioned costs or findings in these reviews. We have four more audits in progress and plan to have these completed by the end of December. We plan to evaluate the results of these additional 18 audits and determine whether additional work is necessary. Of the two recipients LAD identified as having questioned costs, we completed the audit of the recipient with $59,000 and found costs were allowable. The other audit is in progress. The eight grantees Audit Services audited in August 2021 were identified by the department as high-risk. Of these eight, we identified three with questioned costs and are currently seeking repayment.	Rail, Transit & Planning Division Internal Audit	December 31, 2021
Recommendation #6 We recommend the MDT: Develop interal control procedures, in line with state policy requirements, for reconciliations to ensure the completeness and accuracy of Vehicle Rental Tax amounts.	No	Concur	MDT will implement additional internal controls to the support the Vehicle Rental Tax amounts. This will include additional reconciliations and documentation to support the amounts reported. However it is not the department's responsibility to audit the underlying data and calculations of the Department of Revenue.	Administration Division	January 31, 2021