

# Office of the State Auditor

*Division of State Audit*

## Aeronautics Commission Bismarck, North Dakota

Audit Report for the  
Biennium Ended June 30, 2007  
Client Code 412

*Robert R. Peterson*  
*State Auditor*



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## *Transmittal Letter*

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August 16, 2007

The Honorable John Hoeven, Governor  
Members of the North Dakota Legislative Assembly  
Gary R. Ness, Director, North Dakota Aeronautics Commission

We are pleased to submit this audit of the Aeronautics Commission for the biennium ended June 30, 2007. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Richard Fuher, CPA. Michael Schmitcke, CPA, was the staff auditor. Fred Ehrhardt, CPA, was the audit supervisor and Paul Welk, CPA, was the audit manager. Inquiries or comments relating to this audit may be directed to the audit supervisor by calling (701) 328-3647. We wish to express our appreciation to Director Ness and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

Robert R. Peterson  
State Auditor

# *Executive Summary*

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## **INTRODUCTION**

The North Dakota Aeronautics Commission was established in 1947 by the State Legislature assigning responsibility for the state aviation functions. The Governor appoints the five members of the Aeronautics Commission to the board for terms of five years. The Commission is composed of the Director and four support staff.

## **RESPONSES TO LAFRC AUDIT QUESTIONS**

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The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies.

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1. *What type of opinion was issued on the financial statements?*

Financial statements were not prepared by the Aeronautics Commission in accordance with generally accepted accounting standards so an opinion is not applicable. The agency's transactions were tested and included in the state's basic financial statements on which an unqualified opinion was issued.

2. *Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?*

Yes.

3. *Was internal control adequate and functioning effectively?*

Yes.

4. *Were there any indications of lack of efficiency in financial operations and management of the agency?*

Other than our work addressing "aircraft registration fee collection improvement" (see page 13) there were no indications of a lack of efficiency in financial operations and management of the Aeronautics Commission.

5. *Has action been taken on findings and recommendations included in prior audit reports?*

The Aeronautics Commission has implemented all recommendations included in the prior audit report.

6. *Was a management letter issued? If so, provide a summary below, including any recommendations and management responses.*

Yes, a management letter was issued and is included on page 15 of this report, along with management's response.

### **LAFRC AUDIT COMMUNICATIONS**

1. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no significant changes in accounting policies, no management conflicts of interest were noted, no contingent liabilities were identified or significant unusual transactions.

2. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The Aeronautics Commission's financial statements do not include any significant accounting estimates.

3. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

4. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

5. *Identify any serious difficulties encountered in performing the audit.*

None.

6. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

7. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

8. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance and Human Resource Management System (HRMS) are high-risk information technology systems critical to the Aeronautics Commission.

## *Background Information*

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The mission of the North Dakota Aeronautics Commission is to provide, at the highest priority, economic and technical assistance to insure an orderly and cost-effective support system that enables the advancement of the state's aviation system.

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The Aeronautics Commission is made up of a five-member Commission Board appointed by the Governor.

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The Aeronautics Commission is made up of a five-member Commission Board appointed by the Governor. The agency is headed by Gary Ness, Director.

Direct delivery of products and services to the public and private sector is provided by a five-member staff located at the General Aviation Pilot Terminal at the Bismarck Municipal Airport, Bismarck. The Aeronautics Commission activities include but are not limited to: promoting competitive scheduled airline, charter, and cargo air service in North Dakota; providing a computerized satellite weather reporting system and landing systems statewide; sponsoring legislation to provide grants for airport improvements and aviation educational programs; and continuing partnerships with aviation interests within the state through the North Dakota Aviation Council.

The Aeronautics Commission provides policy direction and funding for a wide array of programs to help North Dakota businesses and governmental agencies alike. Such Aeronautics Commission programs include: Regulatory – aircraft registration, aerial applicator licensing, aircraft dealer licensing, aircraft excise tax collection (agent to tax department); Airport Grants – administration of air service airport grants (8 airports) and general aviation airport grants (82 airports); General Programs – administration of Aviation Education Grants; System Planning Programs – State Aviation System Plan, Federal Aviation Administration / State Airport Inspection Program, Air Service Plan, Airport Pavement Condition Study, Economic Impact Study of Aviation, annual Capital Improvement Plan, statewide aviation weather observation systems; State Airports – management and upkeep of two state owned airports.

The North Dakota Aeronautics Commission's budget for the 2005-2007 biennium totals \$6.4 million. This represents a 30% decrease over the 2003-2005 budget. The state general funds comprise \$550,187 of the 2005-2007 budget.

More information about the agency can be obtained from the Aeronautics Commission's home page at:

[www.nd.gov/ndaero.gov](http://www.nd.gov/ndaero.gov)

# *Audit Objectives, Scope, And Methodology*

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## Audit Objectives

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The objectives of this audit of the Aeronautics Commission for the biennium ended June 30, 2007 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the most important areas of the Aeronautics Commission's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the Aeronautics Commission and are they in compliance with these laws?
3. Are there areas of the Aeronautics Commission's operations where we can help to improve efficiency or effectiveness?

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## Audit Scope

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This audit of the Aeronautics Commission for the biennium ended June 30, 2007 was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. To meet the objectives outlined above, we:

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## Audit Methodology

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- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report and reviewed management's discussion and analysis of the financial statements.
- Performed detailed analytical procedures for expenditures and receipts.
- Tested samples of expenditures and receipts.
- Reviewed prior year audit workpapers.
- Interviewed appropriate agency personnel.
- Reviewed the Aeronautics Commission written plans and applicable manuals.
- Observed the Aeronautics Commission processes and procedures.
- Reviewed North Dakota Century Code chapters 2-05, 2-06, 2-08, 57-40.5, 57-43.3, and 2005 Session Laws.
- Conducted a review of the Aviation Information Management System (AIMS).

## ***Management's Discussion And Analysis***

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The accompanying financial statements have been prepared to present the Aeronautics Commission's revenues and expenditures on the legal (budget) basis. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

The following management discussion and analysis was prepared by the Aeronautics Commission's management. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of this supplementary information to ensure it does not conflict with the knowledge we gained as part of our audit.

For the biennium ended June 30, 2007, operations of the Aeronautics Commission were primarily supported by appropriations from the Aeronautics Commission's Special Fund. Aircraft excise taxes, motor fuel taxes, and registration and licensing fees credited to the agency's special fund. This is supplemented by federal funding and a general fund appropriation of \$550,187.

### ***FINANCIAL SUMMARY***

Revenues consisted primarily of aircraft excise tax collections, federal revenue, and registration and licensing fees. Other revenue during the audited period included a homeland security grant from the Department of Emergency Services to develop a crisis communication plan for the state's airports. There was an increase of \$634,262 in federal revenue in fiscal year 2007 as compared to fiscal year 2006. This increase is primarily attributed to the International Peace Garden Airport runway renovation project. Total revenues were \$1,890,846 for the year ended June 30, 2007 as compared to \$1,179,345 for the year ended June 30, 2006.

Total expenditures for the Aeronautics Commission were \$2,425,235 for the year ended June 30, 2007 as compared to \$1,823,216 for the prior year. Payments for grants to state airports accounted for approximately one-half of the total expenditures during the fiscal years reviewed. The increase in total expenditures for the audited period is primarily attributed to engineering fees related to planning grants and the International Peace Garden Airport runway renovation project. All other expenditures remained fairly constant.

## ***ANALYSIS OF SIGNIFICANT VARIANCES BETWEEN FINAL BUDGETED AND ACTUAL EXPENDITURES***

The excess of operating expenses appropriations over actual expenditures were primarily attributed to less than anticipated Federal Aviation Administration planning grant expenditures, as well as less than anticipated aircraft and maintenance expenditures for the two state airports. The excess of grants appropriations over actual expenditures were due to state airport grants being awarded in June 2007 but not expended by the end of the biennium.

## ***MAJOR ACCOMPLISHMENTS***

The Aeronautics Commission finalized the Economic Impact of Aviation in North Dakota study. This study provides a complete examination of aviation's economic impact on the state and updates similar economic impact and employment data gathered in 1994 and 2004.

In addition, the Aeronautics Commission, through its educational grant program, funded the Flight Instructor Assistance Program, Air Carrier Intern Program, and the Imagine Being a Pilot brochure. The Flight Instructor Assistance Program was developed to help defray the cost of flight instructor's travel expenses to and from airports not served by an active flight instructor. This program was designed to help support those airports by trying to increase the pilot population in their communities. The Air Carrier Intern Program provides \$3,000 of cost sharing for an airport management internship in the eight communities that have airline services. The Imagine Being a Pilot brochure was created to give a quick and positive view of being a pilot and some of the rudiment aviation information for children interested in becoming a pilot.

The Aeronautics Commission provided technical and financial assistance to the 90 public owned airports across the state. The Commission's financial coordination and assistance to 54 airports in the National Plan of Integrated Systems (NPIAS) provided for funding of eighty-nine (89) federal grants for fiscal years 2005 and 2006 totaling \$39,457,174.00 from the Airport Improvement Program (AIP) provided by the Federal Aviation Administration's Airport and Airway Trust Fund.

# Financial Statements

## STATEMENT OF REVENUES AND EXPENDITURES

	June 30, 2007	June 30, 2006
<b><u>Revenues and Other Sources:</u></b>		
Aircraft Excise Tax	\$ 864,652	\$ 687,045
Federal Revenue	933,641	299,379
Licenses, Permits, and Fees	88,564	91,320
Miscellaneous Revenue	3,989	3,617
Transfer In		97,984
<b>Total Revenues and Other Sources</b>	<b>\$1,890,846</b>	<b>\$1,179,345</b>
<b><u>Expenditures and Other Uses:</u></b>		
Grants	\$1,013,277	\$ 974,189
Fees – Professional Services	898,859	358,921
Salaries and Benefits	314,568	298,420
Printing	40,491	14,025
Rentals/Leases – Building/Land	33,076	26,735
Operating Fees and Services	16,481	12,998
Building, Grounds, and Vehicle Supply	14,021	21,140
Professional Development	12,879	13,292
Repairs	12,590	21,433
Travel	10,793	17,418
IT – Data Processing	10,507	13,207
Extraordinary Repairs		13,220
Postage	9,603	5,893
Insurance	8,458	9,039
Office Supplies	6,050	4,785
Supply/Material – Professional	4,636	6,102
IT – Communications	3,979	4,060
IT – Contractual Services and Repairs	3,823	2,950
Supplies – IT Software	3,272	1,968
IT Equipment under \$5,000	2,650	2,020
Miscellaneous Expenditures	5,222	1,401
<b>Total Expenditures and Other Uses</b>	<b>\$2,425,235</b>	<b>\$1,823,216</b>

**STATEMENT OF APPROPRIATIONS**

**For The Biennium Ended June 30, 2007**

<b>Expenditures by Line Item:</b>	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 716,099		\$ 716,099	\$ 612,612	\$ 103,487
Operating Expenses	1,892,706		1,892,706	1,073,334	819,372
Capital Assets	134,000	\$ 600,000	734,000	598,057	135,943
Grants	3,047,500		3,047,500	1,964,448	1,083,052
<b>Totals</b>	<u>\$ 5,790,305</u>	<u>\$ 600,000</u>	<u>\$ 6,390,305</u>	<u>\$ 4,248,451</u>	<u>\$ 2,141,854</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 550,187		\$ 550,187	\$ 550,187	
Other Funds	5,240,118	\$ 600,000	5,840,118	3,698,264	\$ 2,141,854
<b>Totals</b>	<u>\$ 5,790,305</u>	<u>\$ 600,000</u>	<u>\$ 6,390,305</u>	<u>\$ 4,248,451</u>	<u>\$ 2,141,854</u>

**Appropriation Adjustments:**

The \$600,000 increase to the capital assets line item was approved by the Emergency Commission. This increase enables the Aeronautics Commission to accept federal funds from the Federal Aviation Administration to reconstruct the runway at the International Peace Garden Airport.

## *Internal Control*

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In our audit for the biennium ended June 30, 2007, we identified the following areas of the Aeronautics Commission's internal control as being the most important:

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### Internal Controls Subjected To Testing

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- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenditures.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.
- Controls surrounding the computer-based Aviation Information Management System (AIMS).

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered significant. We concluded internal control was adequate. Our consideration of internal control would not necessarily disclose all matters that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements that would be material may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control that we have reported to management of Aeronautics Commission in a management letter dated August 16, 2007.

## *Compliance With Legislative Intent*

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In our audit for the biennium ended June 30, 2007, we identified and tested the Aeronautics Commission's compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

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### Legislative Intent Subjected To Testing

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- Collection and allocation of aircraft excise tax (NDCC sections 57-40.5-02 and 57-40.5-09).
- Collection and allocation of aircraft registrations fee (NDCC section 2-05-11).
- Collection and allocation of aerial spraying licensing fee (NDCC section 2-05-18).
- Collection and allocation of aircraft dealer's licensing fee (NDCC section 2-08-03).
- Collection and allocation of ultralight vehicle dealer licensing fee (NDCC section 2-08-04).
- The use of the Aeronautics Commission Special Fund which is partially restricted for airport construction or improvement projects as approved by the Aeronautics Commission.
- Application of proper statutory rates relating to revenue.
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations and related transfers (2005 North Dakota Session Laws chapter 34).
- Compliance with OMB's Purchasing Procedures Manual.
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including record keeping, surplus property, lease and financing arrangements in budget requests, and lease analysis requirements.
- Compliance with payroll related laws including statutory salaries for applicable elected and appointed positions, and certification of payroll.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Aeronautics Commission in a management letter dated August 16, 2007.

Our audit of the Aeronautics Commission identified the following area as a potential improvement to operations:

## **AIRCRAFT REGISTRATION FEE COLLECTION IMPROVEMENTS**

### **Challenge:**

There is a potential to improve the efficiencies of operations at the Aeronautics Commission by allowing registrants to apply for and pay aircraft registrations online. This would save agency personnel time to perform other tasks and save aircraft registrants time and money. Additionally, the Aeronautics Commission is having its registration system rewritten and the federal government is paying 95% of the cost. Therefore the state's cost to bring this online would be minimized.

Currently, the Aeronautics Commission prepares approximately 1,700 aircraft registrations a year using a manual process. The current process for aircraft registrations is as follows:

- The Aeronautics Commission uses their Aviation Information Management System (AIMS) to print out the registration cards for every registered aircraft in the state.
- The registration cards are mailed to the aircraft owners.
- The aircraft owners sign the registration cards, write a check for the registration fee listed on the cards, and mail the items back to the Aeronautics Commission in an envelope provided by the Aeronautics Commission. Collectively, aircraft owners could potentially save an estimated \$700 in postage paid to return the cards and payment back to the Aeronautics Commission.
- Aeronautics Commission records the payment information into AIMS, tears off a portion of the registration card, and mails the card back to the aircraft owner.

The manual aircraft registration process noted above has several inefficiencies that can take a significant amount of time. These inefficiencies include: the time it takes to open the return envelopes; locate the aircraft information in AIMS and enter the payment information; double check the payment information to ensure it was entered properly; tear off the aircraft registration card stub and mail it back to the aircraft owner, and file the portion of the registration card retained by the Aeronautics Commission.

***Operational Improvement:***

Looking at the success of other state agency's online services being offered to their customers and overall industry best practices, we developed the following recommendation:

Aeronautics Commission should provide online aircraft registration services to registrants enabling them to process and pay their aircraft registration fee online.

***Aeronautics Commission Response:***

*The Aeronautics Commission has investigated and will continue to investigate the cost factors to the agency in going to an online registration system. We will take into consideration the projected \$700 savings in postage costs for the state's 1,700 aircraft owners.*

## ***Management Letter (Informal Recommendations)***

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August 16, 2007

Mr. Gary R. Ness, Director  
Aeronautics Commission  
PO Box 5020  
Bismarck, ND 58502-5020

Dear Mr. Ness:

We have performed an audit of the Aeronautics Commission for the biennium ended June 30, 2007, and have issued a report thereon. As part of our audit, we gained an understanding of the Aeronautics Commission's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status as non-reportable conditions.

The following present our informal recommendations.

### **CASH**

Informal Recommendation 07-1:

We recommend the Aeronautics Commission ensure the new version of their Aviation Information Management System (AIMS) is written in a manner that will enable the Commission to limit access to AIMS (inquiry rights only) for all employees that do not have record keeping responsibility.

Informal Recommendation 07-2:

We recommend the Aeronautics Commission have a person independent of drawing down federal funds perform a reconciliation from the federal cash transaction report to federal revenue reflected on PeopleSoft on at least a quarterly basis.

## **ACCOUNTS PAYABLE/EXPENDITURES**

Informal Recommendation 07-3:

We recommend the Aeronautics Commission ensure general ledger correcting entries are approved and the approver signs off on a hard copy of the correcting entry to certify the approval process took place.

## **LAWS AND REGULATIONS**

Informal Recommendation 07-4:

We recommend the Aeronautics Commission comply with NDCC 44-04-07 and complete an annual inventory of assets of sufficient value.

Informal Recommendation 07-05:

We recommend the Aeronautics Commission comply with OMB Fiscal and Administrative Policy 505 when reimbursing expenses for meals and lodging.

Informal Recommendation 07-06:

We recommend the Aeronautics Commission comply with the following OMB State Procurement Office guidelines:

1. Procure goods greater than \$2,500 through the State Procurement Office, state contract, or obtain the appropriate level of certification necessary to make the purchase at the agency level.
2. Solicit the required bids or provide written justification as to why the bids weren't obtained.
3. Each cardholder is responsible for reconciling cardholder statement and receipts. Sign and date cardholder statement to attest that all purchases are for state business and comply with all applicable rules and regulations.

## **OPERATIONAL IMPROVEMENTS**

Informal Recommendation 07-07:

We recommend the Aeronautics Commission perform a review of all grant activity recorded on PeopleSoft, close out all old federal grants, and number grants consistently. In addition, Aeronautics Commission should implement the use of speed charts on PeopleSoft to automatically calculate the matching amount for grant expenditures.

I encourage you to call myself or an audit manager at 328-2241 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,

Richard Fuher, CPA  
Auditor in-charge