

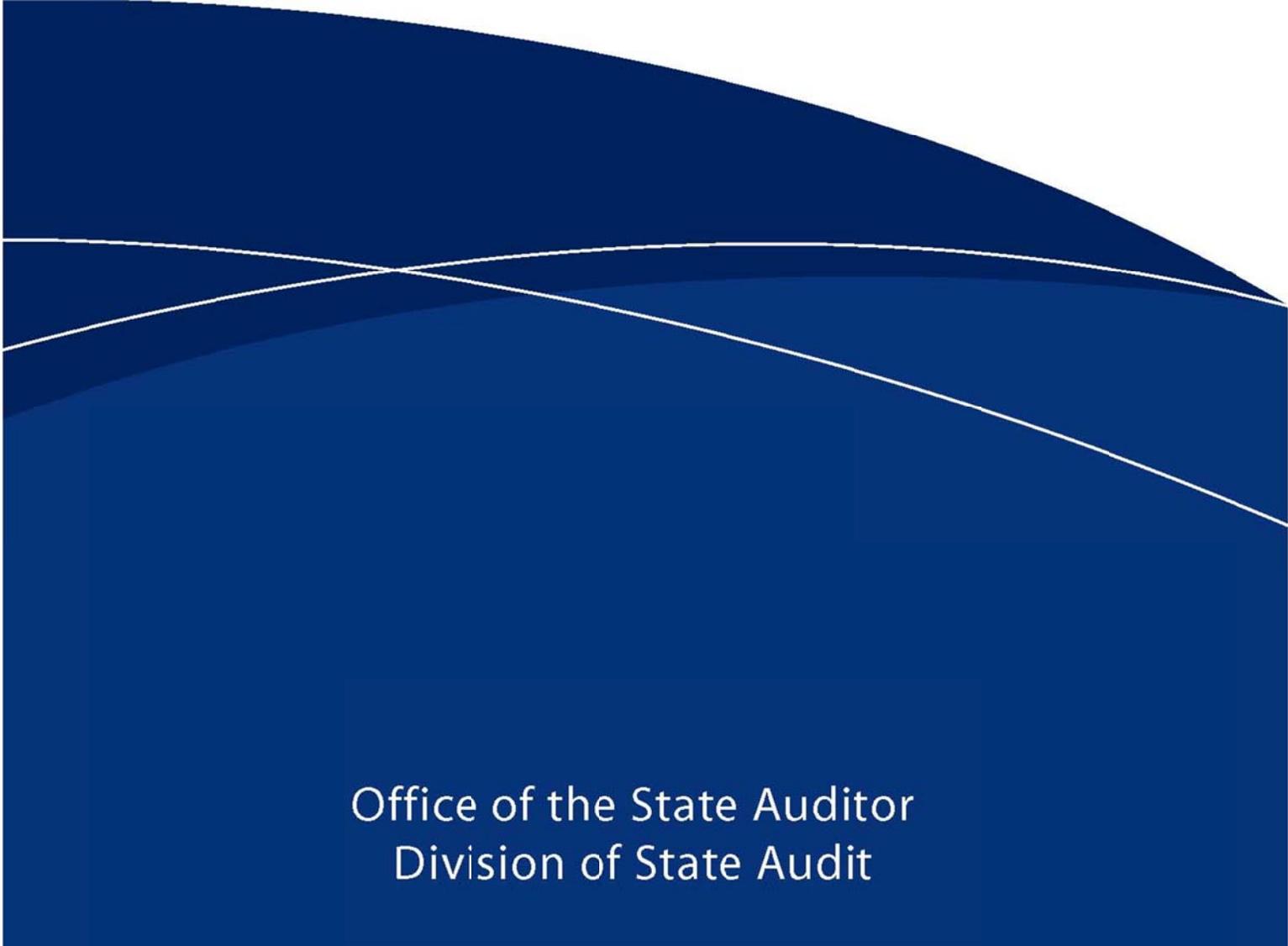


AERONAUTICS  
COMMISSION  
BISMARCK, NORTH DAKOTA

**Audit Report**

For the Biennium Ended  
June 30, 2009

ROBERT R. PETERSON  
STATE AUDITOR



Office of the State Auditor  
Division of State Audit

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## *Transmittal Letter*

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April 1, 2010

The Honorable John Hoeven, Governor  
Members of the North Dakota Legislative Assembly  
Mr. Larry Taborsky, Director, North Dakota Aeronautics Commission

We are pleased to submit this audit of the Aeronautics Commission for the biennium ended June 30, 2009. 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 Kristi Morlock. Crystal Hoggarth 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 or audit manager by calling (701) 328-2241. We wish to express our appreciation to Director Taborsky and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Bob Peterson".

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.

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies. Those items and the Office of the State Auditor's response are noted below.

## *Responses to LAFRC Audit Questions*

*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 principles 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?*

Other than our finding addressing the "fraud risk assessment activities" (page 9), we determined internal control was adequate.

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

No.

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

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

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

Yes, a management letter was issued and is included on page 13 of this report, along with management's response.

## **LAFRC Audit Communications**

7. *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.

8. *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.

9. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

10. *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.

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

None.

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

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

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

None.

14. *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, Human Resource Management System (HRMS), and Aviation Information Management System are high-risk information technology systems critical to the Aeronautics Commission.

# ***Audit Objectives, Scope, and Methodology***

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## ***Audit Objectives***

The objectives of this audit of the Aeronautics Commission for the biennium ended June 30, 2009 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk 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?

## ***Audit Scope***

This audit of the Aeronautics Commission is for the biennium ended June 30, 2009. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Aeronautics Commission's sole location is in Bismarck which was included in the audit scope.

## ***Audit Methodology***

To meet the objectives outlined above, we:

- 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 developed a discussion and analysis of the financial statements.
- Performed detailed analytical procedures including computer assisted auditing techniques. These procedures were used to identify high risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently. Non-statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure that particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.

- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed the Aeronautics Commission's processes and procedures.

In aggregate there were no significant limitations or uncertainties related to our overall assessment of the sufficiency and appropriateness of audit evidence.

## ***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).

For the biennium ended June 30, 2009, 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 are credited to the agency's special fund. This is supplemented by federal funding and a general fund appropriation of \$550,000.

### ***Financial Summary***

Revenues consisted primarily of aircraft excise tax collections, federal revenue, and registration and licensing fees. These all remained fairly constant for the Aeronautics Commission with aircraft excise taxes decreasing due to not as many aircrafts being purchased. Total revenues were \$2,483,266 for the year ended June 30, 2009 as compared to \$2,888,042 for the year ended June 30, 2008.

Total expenditures for the Aeronautics Commission were \$3,097,413 for the year ended June 30, 2009 as compared to \$3,579,538 for the prior year. The decrease in total expenditures for the audited period reflects primarily the decrease in grants awarded and equipment purchased. Payments for grants to state airports accounted for approximately 40% of the total expenditures during the fiscal years reviewed.

Payments for professional services accounted for approximately 39% of the expenditures during the fiscal years reviewed. Such services increased significantly due to expenditures related to the Automated Weather Observation System (AWOS) project.

### ***Analysis of Significant Variances Between Final Budgeted and Actual Expenditures***

The excess of salary and wages appropriations over actual expenditures was due to a vacant position that had not been filled and also not having a director for a portion of the biennium. The variance in the operating expenses line was due to less than anticipated Federal Aviation Administration planning grant expenditures. The excess of capital assets was due to the completion of the International Peace Garden airport runway project during the 2005-2007 biennium that had been budgeted for during the 2007-2009 biennium. During the 2005-2007 biennium, but after the 2007-2009 appropriation was approved, the Commission received Emergency Commission approval to accept federal funds to complete the project. The excess of grants appropriations over actual expenditures were due to state airport grants being awarded in June 2009, but not expended by the end of the biennium.

# Financial Statements

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## Statement of Revenues and Expenditures

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
<b><u>Revenues and Other Sources:</u></b>		
Federal Revenue	\$1,457,039	\$1,419,518
Aircraft Excise Tax	861,944	1,373,827
Licenses, Permits, and Fees	93,294	90,168
Miscellaneous Revenue	70,989	4,529
<b>Total Revenues and Other Sources</b>	<b><u>\$2,483,266</u></b>	<b><u>\$2,888,042</u></b>
<b><u>Expenditures and Other Uses:</u></b>		
Fees – Professional Services	\$1,475,678	\$1,125,322
Grants	1,078,563	1,957,841
Salaries and Benefits	264,152	267,220
Repairs	41,643	25,077
Travel	38,650	15,081
Rentals/Leases – Building/Land	37,917	36,404
Building, Grounds, Vehicle Supply	36,917	34,625
Printing	31,402	9,398
IT Costs	31,126	32,087
Operating Fees and Services	21,868	45,657
Professional Development	11,612	13,078
Insurance	9,355	8,330
Supplies	7,647	5,301
Postage	4,949	2,077
Office Equipment and Furniture – Under	3,750	1,100
Miscellaneous Expenditures	2,183	940
<b>Total Expenditures and Other Uses</b>	<b><u>\$3,097,412</u></b>	<b><u>\$3,579,538</u></b>

## Statement of Appropriations

For The Biennium Ended June 30, 2009

<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	\$ 802,732	\$ 6,048	\$ 808,780	\$ 529,797	\$ 78,983
Operating Expenses	1,960,304	2,820,153	4,780,457	3,383,252	1,397,205
Capital Assets	734,000		734,000	87,865	646,135
Grants	3,575,000		3,575,000	2,676,036	898,964
<b>Totals</b>	<u>\$ 7,072,036</u>	<u>\$ 2,826,201</u>	<u>\$ 9,898,237</u>	<u>\$ 6,676,950</u>	<u>\$ 3,221,287</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 550,000		\$ 550,000	\$ 550,000	
Other Funds	6,522,036	\$ 2,826,201	9,348,237	6,126,950	\$ 3,221,287
<b>Totals</b>	<u>\$ 7,072,036</u>	<u>\$ 2,826,201</u>	<u>\$ 9,898,237</u>	<u>\$ 6,676,950</u>	<u>\$ 3,221,287</u>

### Appropriation Adjustments:

The adjustment of \$6,048 in the Salaries and Benefits line was for an equity adjustment authorized by Senate Bill 2189 of the 2007 Session.

The \$2,820,153 adjustment to Operating Expenses was authorized by NDCC 2-05-06. This law authorized additional federal spending authority should additional federal funding come available.

## ***Internal Control***

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In our audit for the biennium ended June 30, 2009, we identified the following areas of the Aeronautics Commission's internal control as being the highest risk:

### ***Internal Controls Subjected to Testing:***

- 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)

The criteria used to evaluate internal control is published in the publication *Internal Control – Integrated Framework* from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

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 necessary based on our assessment of audit risk. We concluded that internal control was not adequate noting a certain matter involving internal control and its operation that we consider to be a significant deficiency.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. 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 (1) misstatements in financial or performance information, (2) violations of laws and regulations, or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we identified the following significant deficiency in internal control. We also noted a certain matter involving internal control that we have reported to the Aeronautics Commission management in a management letter dated April 1, 2010.

### ***Fraud Risk Assessment Activities (Finding 09-1)***

The Aeronautics Commission does not have a system in place to identify control weaknesses and possible instances of fraud or fraudulent activities in the Commission's financial and operational areas.

The most important guidance relating to internal control is contained in *Internal Control – Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This guidance dictates that a Control Risk Assessment including a Fraud Risk Assessment program be established and practiced to identify risks within the department's control environment including fraudulent type activities, when special circumstances arise, when changing operating environments, and for restructuring. In addition, the Aeronautics Commission does not have the necessary control activities designed/documented to ensure significant control weaknesses including fraud exposures are identified and mitigated.

The Office of Management and Budget also requires agencies to perform a fraud risk assessment, including the control environment, on a recurring basis.

**Recommendation:**

We recommend the Aeronautics Commission:

- Establish and perform a control risk assessment including a fraud risk assessment on a recurring basis; and
- Design and document the necessary control activities to ensure that each of the significant control risks and fraud exposures identified during the risk assessment process has been adequately mitigated.

***Aeronautics Commission Response:***

*I agree with the finding. Since taking over as director this past year, I have conducted fraud risk assessment as part of getting familiar with the organization. I have reviewed all of the items suggested in the state's guidance document as part of my management responsibilities, and have found no significant risks at this time. I have actively looked for potential weak points in our fraud risk control system, and am satisfied that the combination of computer programming and 2-person verification of deposits and expenses ensures that the operations remains "honest" and federal oversight of a large amount of our budget provides additional verification.*

*To provide periodic self-evaluation, the Aeronautics Commission will schedule an annual review of practices and procedures based on the Fraud Risk Assessment Form in Appendix A as recommended by the Office of the State Auditor's Office.*

## *Compliance With Legislative Intent*

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In our audit for the biennium ended June 30, 2009, 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:

- Compliance with appropriations and related transfers (2007 North Dakota Session Laws chapter 6).
- 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).

The criteria used to evaluate legislative intent are the laws as published in the *North Dakota Century Code* and the *North Dakota Session Laws*.

*Government Auditing Standards* require auditors to report all instances of fraud and illegal acts unless they are inconsequential within the context of the audit objectives. Further, auditors are required to report significant violations of provisions of contracts or grant agreements, and significant abuse that has occurred or is likely to have occurred.

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.

## *Operations*

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This audit did not identify areas of the Aeronautics Commission's operations where we determined it was practical at this time to help to improve efficiency or effectiveness.



STATE OF NORTH DAKOTA  
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BISMARCK, NORTH DAKOTA 58505

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

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April 1, 2010

Mr. Larry Taborsky, Director  
Aeronautics Commission  
PO Box 5020  
Bismarck, ND 58502

Dear Mr. Taborsky:

We have performed an audit of the Aeronautics Commission for the biennium ended June 30, 2009, 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.

The following present our informal recommendations.

## GENERAL

Informal Recommendation 09-1: We recommend the Aeronautics Commission look for ways to increase their usage of the purchase card as a form of payment. We further recommend, if necessary, they meet with officials from OMB to facilitate this process by raising purchase card limits, determining which of their vendors they could be making purchase card payments to, or changing the account on their purchase cards so as to limit or eliminate the need to reallocate purchase card expenditures.

## CASH/REVENUE

Informal Recommendation 09-2: 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.

The management of the Aeronautics Commission agreed with these recommendations.

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,



Kristi Morlock  
Auditor in-charge

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