

# Office of the State Auditor

*Division of State Audit*

## North Dakota Highway Patrol Bismarck, North Dakota

Audit Report for the  
Two-Year Period Ended June 30, 2008  
Client Code 504

*Robert R. Peterson*  
*State Auditor*



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STATE AUDITOR  
ROBERT R. PETERSON



PHONE  
(701) 328 - 2241  
FAX  
(701) 328 - 1406

STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E. BOULEVARD AVENUE - DEPT. 117  
BISMARCK, NORTH DAKOTA 58505

## *Transmittal Letter*

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April 17, 2009

The Honorable John Hoeven, Governor  
Members of the North Dakota Legislative Assembly  
Colonel Mark Nelson, Superintendent, North Dakota Highway Patrol

We are pleased to submit this audit of the North Dakota Highway Patrol for the two-year period ended June 30, 2008. 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. Delan Hellman and Kristi Morlock were the staff auditors. Fred Ehrhardt, CPA was the audit supervisor. Inquiries or comments relating to this audit may be directed to the audit supervisor (701) 328-3647. We wish to express our appreciation to Superintendent Nelson 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 Highway Patrol was established to enforce the provisions of the laws of the state of North Dakota relating to the protection and use of the highways in the state and the operation of motor and other vehicles upon such highways. The North Dakota Highway Patrol shall patrol the highways and cooperate with other law enforcement to enforce the laws regulating the operation of vehicles and the use of the state's highways.

## **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 North Dakota Highway Patrol 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?*

Other than our findings addressing "noncompliance with fee collections" (see page 20) and "noncompliance with fixed asset records" (see page 21), the North Dakota Highway Patrol was in compliance with significant statutes, laws, rules, and regulations under which it was created and is functioning.

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

Other than our findings addressing the "PeopleSoft general ledger controls weakness" (see page 16) and "fraud risk assessment" (see page 17), we determined internal control was adequate.

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

There were not any indications of a lack of efficiency in financial operations and management of the North Dakota Highway Patrol, although in our operational work addressing "grant closing procedures" (see page 22) and "fixed asset tracking procedures" (see page 23), we did note areas where greater efficiency could be achieved.

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

Other than our recommendations noted on pages 25–28, the North Dakota Highway Patrol has implemented the recommendations 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 29 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 North Dakota Highway Patrol'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, Human Resource Management System (HRMS), Daily Activity System, Fixed Asset Tracking System, and Receipts System are high-risk information technology systems critical to the North Dakota Highway Patrol.

## *Audit Objectives, Scope, and Methodology*

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### *Audit Objectives*

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The objectives of this audit of the North Dakota Highway Patrol for the two-year period ended June 30, 2008 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the North Dakota Highway Patrol'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 North Dakota Highway Patrol and are they in compliance with these laws?
3. Are there areas of the North Dakota Highway Patrol'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 North Dakota Highway Patrol is for the two-year period ended June 30, 2008. 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 North Dakota Highway Patrol has operations in the following locations. Each location will be included in the audit scope:

- The headquarters in the Capitol Building.
- SW Region in Bismarck.
- NE Region in Devils Lake.
- SW Region in Dickinson.
- SE Region in Fargo.
- SE Region in Jamestown.
- NE Region in Grand Forks.
- NW Region in Minot.
- NW Region in Williston.
- Law Enforcement Training Academy in Bismarck.

To meet the objectives outlined on the previous page, 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 reviewed management's 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. Nonstatistical sampling was used and the results were projected to the population. Further 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) ERP system.
- Observed North Dakota Highway Patrol'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.

## ***Management's Discussion and Analysis***

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The accompanying financial statements have been prepared in a condensed form to present the North Dakota Highway Patrol's (NDHP) financial position and results of operations in a manner similar to that used for financial reporting in the private sector. All fund types and account groups are condensed and reported in one column. Accordingly, the accompanying summary financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

For the fiscal years ended June 30, 2007 and 2008, operations of the NDHP were primarily supported by appropriations from the state's General Fund. This funding was supplemented by transfers from the North Dakota Highway Tax Distribution Fund and federal grant funding.

### ***FINANCIAL SUMMARY***

Revenues and other sources consisted primarily of transfers in, license and permit fees, and federal funds. Other revenues during the audit period include sales and use taxes and miscellaneous revenue. The transfers in (both state and federal) were from the Department of Transportation (DOT), the Department of Human Services (DHS), and the Department of Emergency Services (DES). Total revenues and other sources were \$10,987,958 for the fiscal year ended June 30, 2008, as compared to \$11,446,344 for the fiscal year ended June 30, 2007, for a decrease of 4.0%. Total revenues include various fees and taxes collected for the Tax Department and DOT. For fiscal year 2007 the total collected was \$40,005 for the Tax Department and \$3,854,158 for DOT. The total collected for fiscal year 2008 was \$49,135 for the Tax Department and \$4,959,668 for DOT. Direct federal revenues were \$2,017,739 for fiscal year 2008 compared to \$1,590,959 for fiscal year 2007 for an increase of 26.8%. The transfers in consisted of pass-thru federal revenues and transfers from the North Dakota Highway Tax Distribution Fund. Pass-thru federal revenues were \$1,133,748 for fiscal year 2008 compared to \$820,022 during fiscal year 2007 for an increase of 38.3%. Transfers from the North Dakota Highway Tax Distribution Fund amounted to \$2,820,120 in fiscal year 2008 compared to \$5,016,175 in fiscal year 2007 for a decrease of 43.8%. The reasons for the federal revenue differences appears to be increases in federal equipment grants and also the timing of the receiving of direct and pass-thru federal reimbursements. The variance in the North Dakota Highway Tax Distribution Fund transfers occurred because by arrangement with the Office of the State Treasurer the transfers did not begin until about the middle of the biennium and so the vast majority of the 2005-07 biennium

funds were received in fiscal year 2007. All other revenues did not differ materially from the previous fiscal year.

Total expenditures and other uses for the NDHP were \$18,100,076 for the fiscal year ended June 30, 2008, as compared to \$16,864,907 for fiscal year 2007. The 7.4% increase in total expenditures and other uses reflects primarily an increase in salaries from \$11,280,879 in fiscal year 2007 to \$12,362,627 in fiscal year 2008. Equipment purchases also increased from \$1,299,439 in fiscal year 2007 to \$1,899,672 in fiscal year 2008. This was mainly due to increased federal equipment grants being received in fiscal year 2008.

### ***MULTI-YEAR PLAN***

The NDHP Multi-Year Plan was updated in 2008. The following is an excerpt from the plan.

#### **Vision**

Public safety through quality service.

#### **Mission**

The mission of the Highway Patrol is to make a difference every day by providing high quality law enforcement services to keep North Dakota safe and secure.

#### **Values**

- **Loyalty** – We will show allegiance to ourselves, our department, the state of North Dakota, our community, and to those who came before us and sacrificed so much to ensure the safety of our citizens.
- **Integrity** – We are honest, responsible, and ethical. Citizens place the highest trust in the NDHP. Each member must recognize that they are held to a higher standard of accountability than the public. We must always be mindful to NEVER violate the public trust. Our conduct, both on and off duty, must be beyond reproach.
- **Commitment** – To fulfill the vision of the NHDP each employee must deliberately carry out their duties and responsibilities to the best of their abilities.
- **Respect** – We value each other and all members of our community regardless of age, race, gender, appearance, individual beliefs or lifestyles. We will always show understanding, respect, and appreciation for our similarities and differences.
- **Professionalism** – As professionals, we conform to the technical and ethical standards of our profession. Because we are highly trained and dedicated, we are capable of handling the daily demands of law enforcement and devoting our full energy and talents to the department's vision.

- **Accountability** – Employees at all levels and ranks must accept responsibility for their actions in both their personal lives and their professional lives.

### **Goals**

- Concentrate efforts towards patrolling highways and being visible.
- Reduce crashes and investigate when they do occur.
- Impact alcohol abuse relating to DUI and underage consumption and the tragedies that happen on our highways as a result.
- Impact criminal activity occurring in our state.
- Protect highway infrastructure and provide for the safe movement of goods and services through an effective motor carrier program.
- Provide quality service to the public.
- Hold individuals, not groups or regions, accountable for their actions, good or bad.

### ***PROGRAMS AND PROJECTS***

The following are examples of some of the Highway Patrol's program areas and projects.

#### Mobile Data Technology

The Highway Patrol continues to encourage and maximize the use of information technology to assist in officer safety and efficiency. To that end, the Mobile Data Communications System is still being improved and expanded. Laptop equipped patrol vehicles are now being equipped with wireless PC cards for connecting with cellular data networks and Wi-Fi hotspots for improved bandwidth and access to improved criminal justice information. This allows for the optimum use of the officers' time and salaries in serving the people of North Dakota.

#### Criminal Interdiction

As a result of increased use of illegal drugs in North Dakota, canine teams continue to be deployed. The Highway Patrol has eight canine teams that specialize in tracking and in narcotics detection including methamphetamine. Drug-related arrests increased from 848 during calendar 2006 to 901 during calendar 2008 for an increase of 6.25%.

As the largest state law enforcement agency in North Dakota, the NDHP is also involved in the Fusion Center. The Fusion Center conducts analysis of criminal information and provides training for local emergency workers. It also assists the federal government

in investigations that may involve domestic or international terrorism.

#### Accreditation

The NDHP was reaccredited for the sixth time in 2006. During a conference, the Patrol was recognized for being a flagship agency and also received a Meritorious Accreditation Certificate for being involved in the accreditation process continuously for 15 or more years. The recognition for being a flagship agency is given to those agencies which have just gone through a successful on-site assessment and which have been reaccredited three or more times. The Highway Patrol was one of 12 agencies asked to make presentations to advise agencies interested in joining CALEA as well as agencies currently involved in the process as to how to succeed. The Meritorious Accreditation Certificate for 15 years of continuous participation speaks for itself; past and present superintendents realize the importance of being professional, of needing a self-assessment process to validate professionalism and to consider ways to improve the agency for future personnel who will wear the uniform. The NDHP is expecting to be reaccredited again in 2009.

#### Investigations

The Highway Patrol's primary focus is traffic safety. Part of the traffic safety function is investigating traffic crashes and determining when, why, and how they occur. To assist troopers with the more complex traffic crash investigations, reconstructionists in each region have received additional training. The reconstructionists are available to assist all law enforcement officers in the state in the reconstruction of traffic crashes and forensic mapping of crime scenes. In 2008 our reconstructionists completed 113 investigations where crashes were reconstructed for the department, 15 cases were reconstructed for other agencies, and 1 crime scene was forensically mapped.

#### In-Car Video

Each Highway Patrol trooper and sergeant is assigned a vehicle equipped with in-car video. In-car video is important in assisting with officer report writing and documentation of evidence. In-car video is also a good risk management tool to protect officers from alleged wrongdoing. Video is reviewed on complaints against the department. In 2008, only one complaint resulted in improper conduct; the rest were either unfounded or proper conduct was followed. An upgrade to digital in-car video equipment was completed in 2008.

### Training and LETA

The Highway Patrol manages and administers training conducted at the Law Enforcement Training Academy located on the Bismarck State College campus. It is the primary means in which law enforcement officers in the state are initially trained. Advanced training is offered in specialized areas such as management, advanced criminal interdiction, and accident investigation.

## *Financial Statements*

### **STATEMENT OF REVENUES AND EXPENDITURES**

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
<b><u>Revenues and Other Sources:</u></b>		
Licenses, Permits, and Fees	\$ 4,959,668	\$ 3,854,158
Federal Revenue	2,017,739	1,590,959
Sales and Use Tax	49,135	40,005
Miscellaneous Revenue	7,548	125,025
Transfers In	3,953,868	5,836,197
<b>Total Revenues and Other Sources</b>	<b>\$ 10,987,958</b>	<b>\$ 11,446,344</b>
<b><u>Expenditures and Other Uses:</u></b>		
Salaries and Benefits	\$ 12,362,627	\$ 11,280,879
Equipment Over \$5,000	1,345,825	544,365
Other Equipment Under \$5,000	539,904	473,013
IT Equipment Under \$5,000	13,943	282,061
Major Operating Expenditures:		
Travel	2,044,726	1,875,703
Professional Services	305,036	510,312
IT-Data Processing	245,101	196,585
Operating Fees and Services	138,657	111,627
Repairs	132,244	132,360
Lease/Rent - Buildings	127,799	117,428
Miscellaneous Supplies	127,441	361,903
Food and Clothing	123,215	186,315
IT-Communications	93,598	71,888
Utilities	71,753	62,717
Professional Supplies and Materials	71,611	77,817
Professional Development	62,831	57,879
Bldg., Grounds, Vehicle Mtce. Supplies	42,399	65,914
Insurance	32,247	36,386
Other Operating Expenditures	136,540	253,078
Grants	82,579	166,677
<b>Total Expenditures and Other Uses</b>	<b>\$ 18,100,076</b>	<b>\$ 16,864,907</b>

**STATEMENT OF APPROPRIATIONS**

**For The Fiscal Year Ended June 30, 2008**

<b>Expenditures by Line Item:</b>	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Administration	\$ 2,565,841		\$ 2,565,841	\$ 1,202,327	\$ 1,363,514
Field Operations	35,140,998	\$ 147,028	35,288,026	16,274,988	19,013,038
Training Academy	1,400,689		1,400,689	622,761	777,928
<b>Totals</b>	<u>\$ 39,107,528</u>	<u>\$ 147,028</u>	<u>\$ 39,254,556</u>	<u>\$ 18,100,076</u>	<u>\$ 21,154,480</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 27,895,323	\$ 96,599	\$ 27,991,922	\$ 14,589,568	\$ 13,402,354
Other Funds	11,212,205	50,429	11,262,634	3,510,508	7,752,126
<b>Totals</b>	<u>\$ 39,107,528</u>	<u>\$ 147,028</u>	<u>\$ 39,254,556</u>	<u>\$ 18,100,076</u>	<u>\$ 21,154,480</u>

**Appropriation Adjustments:**

The \$147,028 adjustment for the Field Operations line item was approved by the 2007 Legislative Assembly for equity pay adjustments.

**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>
Administration	\$ 2,361,511		\$ 2,361,511	\$ 2,287,167	\$ 74,344
Field Operations	30,998,822		30,998,822	28,643,738	2,355,084
Training Academy	1,459,275		1,459,275	1,386,713	72,562
<b>Totals</b>	<u>\$ 34,819,608</u>		<u>\$ 34,819,608</u>	<u>\$ 32,317,618</u>	<u>\$ 2,501,990</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 20,080,862		\$ 20,080,862	\$ 19,816,996	\$ 263,866
Other Funds	14,738,746		14,738,746	12,500,622	2,238,124
<b>Totals</b>	<u>\$ 34,819,608</u>		<u>\$ 34,819,608</u>	<u>\$ 32,317,618</u>	<u>\$ 2,501,990</u>

**Expenditures Without Appropriations Of Specific Amounts:**

Insurance recoveries has a continuing appropriation authorized by NDCC section 54-44.1-09.1 (\$16,213 of expenditures for this biennium).

## *Internal Control*

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In our audit for the two-year period ended June 30, 2008, we identified the following areas of the North Dakota Highway Patrol's internal control as being the highest risk:

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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 Fixed Asset Tracking System, Daily Activities System, and Receipts System.
- Controls surrounding the impoundment of property and evidence.

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 certain matters involving internal control and its operation that we consider to be significant deficiencies.

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 deficiencies in internal control. We also noted other matters involving internal control that we have reported to management of North Dakota Highway Patrol in a management letter dated April 17, 2009.

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## **PEOPLESOFT GENERAL LEDGER CONTROLS WEAKNESS**

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Finding 08-1

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Controls surrounding PeopleSoft general ledger journal vouchers (JVs) are not adequate.

The North Dakota Highway Patrol did not maintain adequate support for JVs processed in the PeopleSoft general ledger, JVs were approved without support attached, JVs were not done in a timely manner, and prior to the implementation of workflow in PeopleSoft, JVs were not being reviewed and approved after the entries posted to the general ledger.

Even though the approver signed off on the JVs, we did not consider this proper approval as no support was reviewed prior to approval. Without proper support the approver is unable to determine if the correct amounts and funds were used.

Prior to the implementation of workflow, JVs approved prior to posting to the general ledger could lead to potential processing errors going undetected.

JVs not done in a timely manner resulted in current year correcting entries adjusting prior fiscal year expenditures.

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Audit Recommendation  
and Agency Response

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### **Recommendation:**

We recommend that the North Dakota Highway Patrol:

- Ensure all PeopleSoft general ledger journal vouchers have support attached when approved;
- Ensure journal vouchers are properly approved; and
- Prepare all necessary journal vouchers in a timely manner.

### **North Dakota Highway Patrol Response:**

*Journal vouchers are now being prepared in a timely manner and properly approved with all support attached at the time of approval.*

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## **FRAUD RISK ASSESSMENT**

Finding 08-2

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The North Dakota Highway Patrol does not have a system in place to identify possible instances of fraud or fraudulent activities in their 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 Fraud Risk Assessment program be established and practiced to identify risks of fraudulent type activities, including when special circumstances arise, when changing environments arise, and for restructuring. In addition, the North Dakota Highway Patrol does not have the necessary control activities designed/documented to ensure significant fraud exposures are identified and mitigated. Management must design the necessary internal controls to ensure significant fraud exposures identified during the risk assessment process are adequately mitigated and that the system of control activities addressing each of the identified fraud risks has been adequately tested by management.

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Audit Recommendation and  
Agency Response

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### **Recommendation:**

We recommend the North Dakota Highway Patrol:

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

### **North Dakota Highway Patrol Response:**

*The NDHP is currently in the process of developing a fraud risk assessment policy and also documenting procedures for implementing that policy.*

## *Compliance With Legislative Intent*

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In our audit for the two-year period ended June 30, 2008, we identified and tested North Dakota Highway Patrol'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 Included In  
Our Audit Scope

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- Salaries of the superintendent, assistant superintendent, and patrolmen are proper (NDCC section 39-03-07).
- Application of proper statutory fees and penalties relating to revenue (NDCC sections 39-04-18(2)(h), 39-04-19, 39-12-02, 39-12-08, 39-12-14.1, 39-12-20, 39-25-05, and 57-43.2-39; and NDAC section 38-06-03-01).
- Payments made to patrol officers (2005 Session Law – Senate Bill 2011 and 2007 Session Law – House Bill 1011).
- Transfer made from State Highway Tax Distribution Fund (2005 Session Law – Senate Bill 2011 and 2007 Session Law – House Bill 1011).
- Proper use of Highway Patrol Assets Forfeiture Fund.
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations and related transfers (2005 North Dakota Session Laws chapter 39 and 2007 North Dakota Session Laws chapter 11).
- Compliance with OMB's Purchasing Procedures Manual.
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Proper use of outside bank accounts and petty cash funds.
- 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 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* requires 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 have occurred or are likely to have occurred.

The results of our tests disclosed two instances of noncompliance that are required to be reported under *Government Auditing Standards*. These findings are described on pages 20-21. Other than those findings, we concluded there was compliance with the legislative intent identified above. We also noted certain inconsequential instances of noncompliance that we have reported to management of the North Dakota Highway Patrol in a management letter dated April 17, 2009.

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## **NONCOMPLIANCE WITH FEE COLLECTIONS**

Finding 08-3

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The North Dakota Highway Patrol collects size and weight permits for the Motor Vehicle Division of the Department of Transportation (DOT), fuel taxes for the North Dakota Tax Department, and escort fees which are deposited into the general fund. North Dakota Century Code (NDCC) and North Dakota Administrative Code (NDAC) determine the fee amounts and where the funds are to be deposited.

The North Dakota Highway Patrol does not have procedures to properly monitor compliance with fee collections, and as a result, of the 30 fees reviewed, 10 fees were collected for the wrong amount and 6 fees were coded incorrectly in the North Dakota Highway Patrol Receipt System.

As part of the review above we also noted 3 of the 6 coding errors were due to the category codes being transposed when another fee was collected on the same receipt. Another factor contributing to the errors is that not all the fees charged by the North Dakota Highway Patrol are listed on the receipt. By listing the fees to be charged on the receipt, the North Dakota Highway Patrol officer would be able to use the receipt as a guide to determine the correct fee amount and the individual paying the fee would be able to easily determine if they were not charged the correct amount.

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Audit Recommendation  
and Agency Response

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### **Recommendation:**

We recommend that the North Dakota Highway Patrol ensure:

- Proper fee amounts are collected in accordance with NDCC and NDAC;
- Fees are properly coded into the Receipts System; and
- Fees for the various fee categorizes are printed on the receipt.

### **North Dakota Highway Patrol Response:**

*Measures have been taken to ensure that fee amounts have been correctly collected and properly recorded in the cash receipts system. Fees which are a fixed amount for each category have been printed on receipt booklet covers. We will also research whether or not the fees can be printed on the cash receipt form itself (there are current space limitations). In addition, patrol vehicles are now being equipped to access the electronic receipt system which will minimize the chance of errors.*

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## **NONCOMPLIANCE WITH FIXED ASSET RECORDS**

Finding 08-4

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The procedures, used by the North Dakota Highway Patrol to ensure the proper fixed assets and balances are recorded on PeopleSoft, are inadequate.

A review of the fixed assets which have a value greater than \$5,000 recorded on PeopleSoft's Asset Management Module and a comparison of those fixed assets to the assets recorded on the North Dakota Highway Patrol's Fixed Asset Tracking System (FATS) identified the following weaknesses exist:

- Fixed assets which have a value greater than \$5,000 were not properly capitalized in PeopleSoft's Asset Management module;
- Capitalized fixed assets were still incorrectly classified in PeopleSoft's Asset Management Module;
- A capitalized fixed asset, identified as being surplused in the prior audit, was still recorded as a capitalized fixed asset in PeopleSoft's Asset Management Module; and
- Fixed assets values are not properly supported due to the fact that values differ between systems.

North Dakota Century Code (NDCC) 54-27-21 requires all agencies to capitalize all fixed assets having a value greater than \$5,000. Appendix A of the Office and Management and Budget's (OMB) Fiscal and Administrative Policy details how capitalized fixed assets should be classified.

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Audit Recommendation  
and Agency Response

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### **Recommendation:**

We recommend the North Dakota Highway Patrol maintain fixed asset records on PeopleSoft for fixed assets having a value greater than \$5,000 in accordance with NDCC 54-27-21 and Appendix A of OMB's Fiscal and Administrative Policy, and ensure these records are properly supported.

### **North Dakota Highway Patrol Response:**

*Procedures have been set up to make certain that all fixed assets over \$5,000 are being properly capitalized, classified, and recorded in the PeopleSoft Accounting System and also that fixed assets under \$5,000 are properly capitalized in the FATS inventory system. Steps have been taken to ensure that all deleted items are properly removed from the fixed asset records and that all capitalized values agree between the PeopleSoft and FATS inventory systems.*

## Operations

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This audit did not identify areas of North Dakota Highway Patrol's operations where we determined it was practical at this time to help to improve efficiency or effectiveness.

However, our audit of the North Dakota Highway Patrol identified the following areas where potential improvements to operations still exist.

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Operational  
Improvement 08-1

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### **GRANT CLOSING PROCEDURES**

The North Dakota Highway Patrol's processes and procedures used for ensuring that all old federal grants on PeopleSoft are properly closed are not operating effectively.

A review of the North Dakota Highway Patrol's grant activity identified that the following weaknesses still exist:

- Old federal grants that should be closed continue to be reported on PeopleSoft and some contain cash balances that should be transferred to the general fund.
- Current expenditures are still being improperly charged to old federal grants making it impossible to properly close the grants on PeopleSoft.

#### **Operational Improvement:**

The North Dakota Highway Patrol should perform a review of grant activity recorded on PeopleSoft, close out all old federal grants, and transfer any cash balances remaining to the general fund.

The North Dakota Highway Patrol should also implement policies and procedures to ensure current expenditures are being charged to the proper grant on PeopleSoft.

#### **North Dakota Highway Patrol Response:**

*Implementation of grant closing procedures is in progress and will be completed as soon as federal reimbursements receivable as of June 30, 2009, have been received.*

## ***FIXED ASSET TRACKING PROCEDURES***

The North Dakota Highway Patrol maintains fixed asset records on PeopleSoft's Asset Management Module and on a stand-alone system called the Fixed Asset Tracking System. All fixed assets of sufficient value or sensitive items are entered into FATS for tracking purposes while only fixed assets with a value of \$5,000 or greater are recorded on PeopleSoft's Asset Management Module for financial reporting.

As the North Dakota Highway Patrol utilizes two separate systems to track and report fixed assets it is imperative that the information recorded on both systems is consistent.

The North Dakota Highway Patrol has failed to fully implement the following controls to ensure consistency between the two systems:

- The FATS system has the capability to export information into Excel which can be reviewed by the North Dakota Highway Patrol to determine if there are any errors or inconsistencies within the data entered; and
- Fixed assets reported in FATS should be reconciled to the fixed assets reported in PeopleSoft's Asset Management Module to ensure consistency.

Failure to implement these two key controls has resulted in a severely weakened internal control structure surrounding fixed assets and as a result the following reporting errors and inconsistencies still exist:

- At a minimum, approximately \$233,000 worth of fixed assets were recorded in FATS and not recorded properly in PeopleSoft's Asset Management Module;
- Approximately \$29,000 worth of fixed assets were reported on PeopleSoft that were not reported on FATS, which includes an item identified as being surplused in the prior audit;
- Multiple items were reported in PeopleSoft's Asset Management Module that did not appear to be reported in FATS;
- 1,188 items listed in FATS do not have values assigned;
- At a minimum, there is a \$63,000 difference in the value of the night vision goggles reported in FATS and PeopleSoft's Asset Management Module; and

- The fixed assets classification errors identified in the prior audit still appear to be improperly classified in PeopleSoft's Asset Management Module.

***Operational Improvement:***

The North Dakota Highway Patrol must reconcile fixed asset records on PeopleSoft's Asset Management Module to FATS and on a regular basis review information recorded on PeopleSoft's Asset Management Module and FATS to ensure data recorded is consistent and proper. Alternately, the North Dakota Highway Patrol should consolidate all fixed asset records onto one system capable of tracking assets for inventory purposes and calculating depreciation for financial reporting.

***North Dakota Highway Patrol Response:***

*Procedures have been established to reconcile fixed asset capitalized transactions, total inventory balances, and classifications between the PeopleSoft and FATS inventory systems on a regular basis.*

## ***Prior Recommendations Not Implemented***

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Prior recommendations have been implemented with the exception of the following:

### **JOURNAL VOUCHER APPROVAL**

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Finding 06-3

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The North Dakota Highway Patrol is not maintaining adequate support for journal vouchers (JVs) processed in the PeopleSoft general ledger and support is not being attached to the JVs when being submitted for approval.

As the approver does not have adequate support they are unable to determine if the correct amounts are included and being deposited into the proper fund. Even though the approver signed off on the JV we did not consider this proper approval as no support was reviewed prior to approval.

### **Recommendation**

We recommend the North Dakota Highway Patrol ensure journal vouchers processed in the PeopleSoft general ledger are adequately supported and properly approved.

### **Status**

Not implemented, see page 16 for new recommendation.

### **FEE COLLECTIONS**

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Finding 06-5

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We reviewed 54 unusual fee amounts collected by the North Dakota Highway Patrol in the prior audit and determined that 11 fees were collected for the wrong amount, 13 fees were coded incorrectly in the North Dakota Highway Patrol's Receipt System, and 3 fees were deposited into the wrong fund.

As part of the review above we also identified one transaction where \$43,970 was deposited into the general fund that should have been deposited into DOT's State Highway Fund.

### **Recommendation**

We recommend the North Dakota Highway Patrol ensure:

- Proper fee amounts are collected in accordance with NDCC and NDAC;
- Fees are properly coded into the Receipts System;
- Fees for the various fee categories are printed on the receipt; and
- Amounts are deposited into the proper fund in accordance with NDCC and NDAC.

**Status**

Partially implemented, see page 20 for new recommendation.

**MAINTENANCE OF FIXED ASSET RECORDS**

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Finding 06-7

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We reviewed the North Dakota Highway Patrol's fixed asset and accounting data recorded on PeopleSoft in the prior audit, which have a value of greater than \$5,000, and noted numerous instances where the wrong amount was recorded or not recorded at all. Those errors are as follows:

- Two items totaling \$12,231 were listed in the fixed asset records on PeopleSoft that had been surplused and no longer owned by the North Dakota Highway Patrol;
- Numerous items totaling at least \$87,000, which individually had a value greater than \$5,000, should have been capitalized and were not included in the fixed asset records on PeopleSoft;
- A TV and a media receiver were recorded on PeopleSoft at \$7,699 per item, but according to the invoice the items were purchased together with a total cost of \$7,699;
- Nine items recorded in the fixed asset records on PeopleSoft were incorrectly classified. Common classifications are buildings, land, equipment, and infrastructure; and
- The North Dakota Highway Patrol was unable to provide proper support for approximately \$877,000 worth of equipment recorded in the fixed asset records on PeopleSoft.

**Recommendation**

We recommend the North Dakota Highway Patrol maintain fixed asset records on PeopleSoft for fixed assets having a value greater than \$5,000 in accordance with NDCC 54-27-21, and Appendix A of OMB's Fiscal and Administrative Policy, and ensure these records are properly supported.

**Status**

Not implemented, see page 21 for new recommendation.

### GRANT CLOSING PROCEDURES

A review of the North Dakota Highway Patrol's grant activity in the prior audit identified the following weaknesses:

- Ten old federal grants continue to be reported on PeopleSoft that should be closed and in total contain approximately \$72,000 of cash that belongs in the general fund; and
- Current expenditures are being charged to old federal grants making it impossible to properly close the grants on PeopleSoft.

### Recommendations

The North Dakota Highway Patrol should perform a review of all grant activity recorded on PeopleSoft, close out all old federal grants, and transfer any cash balances remaining to the general fund.

The North Dakota Highway Patrol should implement policies and procedures to ensure current expenditures are being charged to the proper grant on PeopleSoft.

### Status

Not implemented, see page 22 for new recommendation.

### FIXED ASSET TRACKING PROCEDURES

The North Dakota Highway Patrol maintains fixed asset records on PeopleSoft's Asset Management Module for fixed asset reporting and on a stand-alone system called the Fixed Asset Tracking System (FATS) to track items of sufficient value or sensitive items.

A review of the North Dakota Highway Patrol's fixed asset records on both systems in the prior audit identified a severely weakened internal control structure surrounding fixed assets that caused numerous reporting errors and inefficiencies. These systems were reviewed again in our audit and identified many of the same reporting errors and inconsistencies, except the North Dakota Highway Patrol did clean up most of the errors and inconsistencies within the data entered in FATS.

**Recommendation**

The North Dakota Highway Patrol must reconcile fixed asset records on PeopleSoft's Asset Management Module to FATS and on a regular basis review information recorded in FATS using Excel to ensure data recorded within the system is consistent and proper.

**Status**

Partially implemented, see page 23 for new recommendation.

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

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April 17, 2009

Colonel Mark Nelson, Superintendent  
North Dakota Highway Patrol  
600 E. Boulevard Avenue  
Bismarck, ND 58505

Dear Colonel Mark Nelson:

We have performed an audit of the North Dakota Highway Patrol for the two-year period ended June 30, 2008, and have issued a report thereon. As part of our audit, we gained an understanding of the North Dakota Highway Patrol'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.

### **CASH**

Informal Recommendation 08-1: We recommend the North Dakota Highway Patrol:

- Obtain an award profile report from each federal agency that the North Dakota Highway Patrol receives federal funds.
- Have someone independent of drawing down federal funds perform a reconciliation of the federal funds shown on the reports to the federal revenue reflected on PeopleSoft, at least annually.

## LEGISLATIVE INTENT

Informal Recommendation 08-2: We recommend the North Dakota Highway Patrol update NDAC 38-06-03-01 and NDCC 39-12-04, subsection 1, letter d, as to which fund the fees charged under these sections are to be deposited.

## GENERAL

Informal Recommendation 08-3: We recommend the North Dakota Highway Patrol ensure revenue received from interdepartmental billings is properly recorded.

Informal Recommendation 08-04: We recommend the North Dakota Highway Patrol:

- A. Ensure the following key elements are addressed in its code of ethics or code of business conduct policy:
- Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
  - Full, fair, accurate, timely and understandable disclosure in reports and documents;
  - Compliance with applicable governmental laws, rules and regulations;
  - The prompt internal reporting of violations of the code to appropriate person or persons identified in the code;
  - Description of what constitutes fraudulent behavior; and
  - Accountability for adherence to the code and the sanctions to be imposed on those who breach it.
- B. Ensure employees have acknowledged their receipt and reading of the code (all persons in an accounting or financial reporting oversight role should annually confirm their receipt and reading of the code).

Management of North Dakota Highway Patrol 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,



Richard Fuher, CPA  
Auditor in-charge