

DEPARTMENT OF  
TRANSPORTATION  
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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September 23, 2009

The Honorable John Hoeven, Governor  
Members of the North Dakota Legislative Assembly  
Francis Ziegler, Director

We are pleased to submit this audit of the Department of Transportation 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 senior auditor for this audit was Orlin Bensen, LPA. Allison Bader, Angela Klubberud, and Andrea Wike were the staff auditors. Paul Welk, CPA was the audit manager and Fred Ehrhardt, CPA was the audit supervisor. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 328-2241. We wish to express our appreciation to Director Ziegler 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 State Highway Commission was created in 1913. Title 24 of the North Dakota Century Code (NDCC) changed the North Dakota State Highway Commission to the North Dakota Department of Transportation (DOT) during 1989. The DOT is responsible for the construction, maintenance, protection, and control of the highways comprising the state highway system within the state of North Dakota. NDCC section 24-02-37 requires the DOT to spend funds in the following order: 1) maintenance of the state highway system, and 2) the cost of construction and reconstruction in an amount necessary to ensure federal aid available to the state. Funds not expended under (1) or (2) may be spent on state highways for construction, improvement, or maintenance. In addition to the state highway system, NDCC section 39-01-01.1 describes the general responsibilities for Drivers License and Traffic Safety Division and Motor Vehicle Division. The DOT, with the approval of the Public Service Commission, has the authority to qualify the state for rail service assistance under the Railroad Revitalization and Regulatory Reform Act of 1977 (NDCC section 49-17.1-02). In addition, the Governor has designated the director of the DOT to act on his behalf to administer the National Highway Safety Act of 1966 and the director of the DOT serves as a liaison to the State Aeronautics Board.

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 Department of Transportation 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 "System Access Controls Weakness" (page 14) and "Motor Vehicle Division Bank Reconciliation" (page 15), 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?*

Other than our recommendation shown on page 19, the Department of Transportation has implemented all the formal 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 20 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 Department of Transportation'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), Vehicle Registration and Titling System, Drivers License Master File, Construction Automated Records System, Motor Pool Billing, and Motor Carrier Online System are high-risk information technology systems critical to the Department of Transportation.

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

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## ***Audit Objectives***

The objectives of this audit of the Department of Transportation 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 Department of Transportation'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 Department of Transportation and are they in compliance with these laws?
3. Are there areas of the Department of Transportation's operations where we can help to improve efficiency or effectiveness?

## ***Audit Scope***

This audit of the Department of Transportation 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 Department of Transportation has its central office on the Capitol grounds. The following eight district offices were included in the scope of this audit:

- Central Office
- District 1 Bismarck, ND
- District 2 Valley City, ND
- District 3 Devils Lake, ND
- District 4 Minot, ND
- District 5 Dickinson, ND
- District 6 Grand Forks, ND
- District 7 Williston, ND
- District 8 Fargo, ND

We performed inventory observations at district 3 and district 7 and internal control reviews for Motor Vehicle and Drivers License at all of the above district areas.

## ***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. Nonstatistical 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 Department of Transportation personnel.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed Department of Transportation'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 Department of Transportation'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 Department of Transportation were almost entirely supported by appropriations from federal and special revenue funds.

### ***Financial Summary***

The Department of Transportation's capital assets include land, buildings, equipment, infrastructure assets, and construction in progress, all of which are valued at historical cost. All capital assets with an original cost of \$5,000 or more per unit (\$100,000 or more for infrastructure) and an estimated useful life in excess of one year are capitalized. The Department of Transportation's total capital assets before deducting accumulated depreciation for fiscal years ended June 30, 2009 and 2008 were approximately \$3.0 billion. The largest capital asset category for the Department of Transportation is infrastructure. Major infrastructure assets include statewide public systems such as freeways, freeway lighting systems, freeway drainage systems, freeway signs, bridges, bridge lighting systems, etc. Infrastructure capitalized by the Department of Transportation before deducting accumulated depreciation for fiscal years June 30, 2009 and June 30, 2008 was approximately \$2.8 billion.

Revenue and other sources consisted primarily of federal funds, taxes, licenses, permits, fees, political subdivision payments, bond proceeds, driver's license, sale of capital assets, and interest earnings. These types of revenue make up approximately 98% of all the Department of Transportation revenue. Total revenue was \$594,052,849 for fiscal year ended June 30, 2009 as compared to \$591,142,401 for fiscal year ended June 30, 2008. The largest source of revenue is intergovernmental revenue, which is primarily federal revenue and also includes fleet services. Intergovernmental revenue increased by approximately \$20 million during fiscal year 2009 compared to the prior fiscal year. The amount of federal dollars is dependent on the number of projects the Department of Transportation is working on, as well as the cost and timing of the project that will be reimbursed by the federal government.

The second largest source of revenue for the Department of Transportation is taxes. Tax revenue for fiscal year 2009 was approximately \$194 million, compared to approximately \$204 million for fiscal year 2008. The tax category consists primarily of motor fuel tax, special fuels tax, and motor vehicle excise tax. The revenue for fuels taxes are directly dependent on the taxes collected and deposited into the highway tax distribution fund each month. Motor vehicle excise tax will vary, dependent upon the number of vehicles sold.

Licenses, permits, and fees decreased from fiscal year 2008 to 2009 by approximately \$10 million or 12%. This category includes all of the related motor vehicle license and dealer fees, pro-rata fees, public transportation fees, single state registration fees, and veteran's cemetery plates. The revenue for license, permits, and fees is mostly dependent upon the vehicle and dealer registrations as well as single state registrations.

Revenue from political subdivisions (cities and counties) was approximately \$28.7 million and \$22.6 million for fiscal years 2009 and 2008, respectively. The amount of revenue received from political subdivisions is dependent on the number of projects the Department of Transportation is working on, as well as the cost and timing of the project.

The Department of Transportation is authorized pursuant to North Dakota Century Code chapter 24-02 to issue grant and revenue anticipation bonds for the purpose of financing certain qualified federal aid transportation projects. Bond proceeds decreased from fiscal year 2008 to 2009 by approximately \$9.4 million or 60%. Bond proceeds are dependent on projects the Department of Transportation is working on as well as the cost and timing of the projects.

Other revenue (drivers licenses, sale of assets, interest earnings, highway claims, program income, and miscellaneous revenue) remained fairly constant for the Department of Transportation, decreasing by approximately \$2 million dollars due to less interest earned and less revenue from the sale of capital assets.

Transfers-In increased by over \$9 million from fiscal year 2008 to 2009. The primary increases for transfers-in were \$8.5 from the general fund and \$1 million from the highway fund. The transfer from the general fund was for a weather-related cost sharing program appropriated during the 2009 legislative session through section 3 of Senate Bill 2012. The transfer was declared an emergency measure. The \$1 million transfer from the highway fund is a one-time transfer to public transportation appropriated during the 2007 legislative session through section 14 of House Bill 1012.

Total expenditures for the Department of Transportation were \$461,147,909 for the year ended June 30, 2009 as compared to \$430,196,428 for the prior year. The increase in total expenditures for the audited period is reflected primarily in contractor payments (which also account for 57% of total expenditures in both years). Contractor payments are dependent on the number of projects the Department of Transportation is working on, as well as the cost and timing of the project. The increase in salaries and benefits from fiscal year 2008 to 2009 reflected the general salary increases and increase in benefit costs. Road maintenance increased by approximately \$12 million for fiscal year 2009 over 2008. This was the result of a large increase in contract patching work being required, including related road materials and supplies. Travel expenses increased in fiscal year 2009 over fiscal year 2008 due to extensive travel required for the weather related problems during the 2008/2009 (winter/spring) weather conditions in the entire state of North Dakota. Grants, Benefits, and Claims decreased during fiscal year 2009 by approximately \$13 million due to less grants being made to counties, cities, and non-public entities. Motor vehicles purchases decreased from fiscal year 2008 to 2009 due to less purchases of major highway maintenance equipment. All other expenditures remained fairly constant.

### ***Analysis of Significant Changes in Operations***

The American Recovery and Reinvestment Act (ARRA) of 2009 was passed by Congress and signed into law by the President on February 17, 2009. The North Dakota Department of Transportation portion of the ARRA provides significant new funding for transportation infrastructure. The Department of Transportation was authorized \$176,082,671 in funding for North Dakota projects.

The winter snow storms of 2008/2009 and the spring flooding of 2009 and the resulting damage done required extensive use of the Department of Transportation's personnel and equipment to keep the roads open and reroute travel where roads were flooded or washed out and where bridges had collapsed.

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

The Department of Transportation's (DOT) appropriation was originally approved at approximately \$903 million. The appropriation was increased by approximately \$238 million through approved appropriation adjustments to a total of approximately \$1.1 billion. The largest increase to the original Department of Transportation appropriation was receiving funding for American Recovery and Reinvestment Act (ARRA) of 2009 which was passed by Congress and signed into law by the President on February 17, 2009. The Department of Transportation was authorized \$176,082,671 of ARRA funding for transportation infrastructure. The Department of Transportation expended approximately \$891 million for the biennium, leaving approximately \$250 million of unexpended appropriation. The largest unexpended portion of the appropriation was for ARRA funding in the amount of \$172 million or approximately 69% of the total. The next largest unexpended appropriation balance was for capital improvements for \$46 million. The unexpended appropriation for capital improvements was for improvements that were not started or not completed at the close of the biennium ended June 30, 2009. These capital improvements were budgeted for in the new biennium (2009–2011). The remaining operating appropriation was largely due to unexpended funding for operating expenses and grants for capital projects that had not been started or were not completed. These types of expenditures, where applicable, are budgeted for in the subsequent biennium.

# Financial Statements

## Statement of Revenues and Expenditures

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
<b><u>Revenues and Other Sources:</u></b>		
Intergovernmental Revenue	\$267,864,428	\$248,108,323
Taxes	193,626,673	203,546,074
Licenses, Permits, and Fees	78,842,251	89,238,684
Political Subdivisions	28,678,140	22,634,969
Bond Proceeds	6,137,115	15,564,146
Drivers License and Fees	4,139,837	4,113,636
Sale of Capital Assets	2,017,644	3,443,436
Interest Earnings	1,139,880	2,176,763
Highway Damage Claims and Program Income	942,530	691,597
Miscellaneous	896,870	989,407
Transfers In	9,767,481	635,366
<b>Total Revenues and Other Sources</b>	<b><u>\$594,052,849</u></b>	<b><u>\$591,142,401</u></b>
<b><u>Expenditures and Other Uses:</u></b>		
Salaries and Benefits	\$67,193,527	\$60,745,265
Major Operating Expenditures:		
Road Maintenance	31,001,726	18,865,252
Travel	19,148,995	12,082,266
Professional Services	12,643,611	12,827,124
Repairs	9,771,941	7,330,277
Data Process Charges and Software	5,169,881	4,330,036
Utilities	2,193,676	2,142,679
Miscellaneous Supplies	1,757,909	1,535,889
Insurance	894,463	877,323
Rental/Lease – Building/Land	751,372	1,109,398
Postage	717,919	722,879
Other Operating Expenses	2,432,097	2,137,137
Contractor Payments	265,309,812	243,966,419
Grants, Benefits, Claims	19,854,143	33,250,566
Motor Vehicles	12,330,757	18,413,742
Extraordinary Repairs	1,413,663	709,787
Land and Buildings	1,212,029	4,338,731
Equipment	2,981,138	1,790,706
Bond Principal and Interest Payments	1,016,883	994,142
Transfers Out	3,352,367	2,026,810
<b>Total Expenditures and Other Uses</b>	<b><u>\$461,147,909</u></b>	<b><u>\$430,196,428</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	\$ 127,326,239	\$ 667,946	\$ 127,994,185	\$ 127,783,770	\$ 210,415
Operating Expenses	174,697,663	2,800,000	177,497,663	153,175,048	24,322,615
Capital Improvements	548,721,098	33,725,851	582,446,949	536,938,475	45,508,474
Construction Carryover		11,022,712	11,022,712	10,899,123	123,589
Grants	52,412,500	13,285,790	65,698,290	58,154,198	7,544,092
Federal Stimulus Funds		176,082,671	176,082,671	3,682,533	172,400,138
<b>Totals</b>	<u>\$ 903,157,500</u>	<u>\$ 237,584,970</u>	<u>\$ 1,140,742,470</u>	<u>\$ 890,633,147</u>	<u>\$ 250,109,323</u>
<b>Expenditures by Source:</b>					
Other Funds	\$ 903,157,500	\$ 237,584,970	\$ 1,140,742,470	\$ 890,633,147	\$ 250,109,323
<b>Totals</b>	<u>\$ 903,157,500</u>	<u>\$ 237,584,970</u>	<u>\$ 1,140,742,470</u>	<u>\$ 890,633,147</u>	<u>\$ 250,109,323</u>

### Appropriation Adjustments:

The \$667,946 increase in the Salaries and Benefits line item was for market equity increases for classified state employees. The appropriated funds were approved by the 60<sup>th</sup> legislative assembly within Senate Bill 2189.

The increase in Operating Expenses by \$2,800,000 was approved by the Emergency Commission. The request was due to higher vehicle usage and operating costs then was previously anticipated.

Capital Improvements was increased by \$33,725,851 by requests made through the Emergency Commission for new fleet vehicles and to accept federal funds for highway construction.

The increase in Capital Construction Carryover line by \$11,022,712 was authorized by section 54-44.1-11 of the North Dakota Century Code that allows for unexpended capital construction budgets to be carried forward to the next biennium. The adjustment was properly approved by the Carryover Committee.

The increase in Grants line spending authority by \$13,285,790 was approved by the Emergency Commission to accept federal funds from the National Highway Traffic Safety Administration to be used for transportation safety grant purposes and for high-fatality rate grants.

The \$176,082,671 increase in the Federal Stimulus Funds was made available under the American Recovery and Reinvestment Act (ARRA) of 2009. The 61<sup>st</sup> legislative assembly authorized the appropriation of the ARRA funds within Chapter 40, Section 2 of Senate Bill 2012 for the period beginning May 1, 2009.

**Expenditures Without Appropriations Of Specific Amounts:**

Insurance recoveries have a continuing appropriation authorized by NDCC section 54-44.1-09.1 (\$381,501 of expenditures for this biennium).

The Drivers License Trust Fund is authorized by NDCC 39-16-10 to account for cash received and to make payments and refunds to/from motor vehicle operators involved in accidents that have no automobile liability policy (\$27,300 of payments and refunds for this biennium).

## *Internal Control*

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In our audit for the biennium ended June 30, 2009, we identified the following areas of the Department of Transportation'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 processing of services at Drivers License and Motor Vehicle sites.
- Controls surrounding the ConnectND (PeopleSoft) system.
- Controls surrounding the Vehicle Registration and Titling system.
- Controls surrounding the Drivers License Master File system.
- Controls surrounding the Construction Automated Records system.
- Controls surrounding the Motor Pool Billing system.
- Controls surrounding the Motor Carrier Online system.
- Controls surrounding the Workforce system.
- Controls surrounding the operational improvements areas for the Department of Transportation's Drivers License fee structure, procurement process, scheduling drivers licenses tests, and the American Recovery and Reinvestment Act funding website.

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 Department of Transportation in a management letter dated September 23, 2009.

### **System Access Controls Weakness (Finding 09-1)**

The Department of Transportation has a lack of controls over system access. We noted that access was not properly restricted on some of their systems. Proper internal controls, as documented in the Committee of Sponsoring Organizations (COSO) of the Treadway Commission's *Internal Control - Integrated Framework*, include limiting access to computer systems to only individuals that need access for their job duties. Without proper access controls, personnel have the opportunity to bypass many important controls, especially segregation of duties. Therefore, there is an increased risk of unauthorized transactions and also a greater chance of corruption of data.

#### **Recommendation:**

We recommend the Department of Transportation:

- Establish policies and procedures to restrict access privileges to only necessary individuals.
- Assign ongoing responsibility for security for each information technology application.
- Perform continuing reviews of access privileges.

#### **Department of Transportation Response:**

*We concur with the finding. The recommendations as set forth by the State Auditor's Office will be implemented.*

*This finding is related to a prior recommendation (07-1) which was not fully implemented. Our efforts regarding that recommendation were focused on correcting existing improper access roles and insuring that future access roles were properly assigned. While we believe these efforts did strengthen controls, we did not fully achieve the desired result. Consequently, some inappropriate access roles developed after we implemented the additional controls.*

*To further strengthen system access controls, the NDDOT will develop a monitoring mechanism that will actively identify and report any access changes to the NDDOT Information Technology Director, the Financial Management Director, and Human Resources Director as appropriate. All identified access changes will be evaluated to insure they were indeed approved and implemented as intended. Any discrepancies will be immediately investigated and resolved appropriately.*

### **Motor Vehicle Division Bank Reconciliation (Finding 09-2)**

The Department of Transportation (DOT) is not properly reconciling the motor vehicle clearing account to the report of amounts processed and pending each month. Our review of the reconciliation process indicated that DOT did not account for the unallocated funds still pending within the North Dakota Motor Vehicle Money Market Account after the processed funds were transferred to the State Treasurer at the beginning of each month.

North Dakota Century Code section 54-06-08 requires agencies to monthly report to the State Treasurer the amount of fees and profits received and to pay the amount of such fees and profits to the State Treasurer. Without a proper reconciliation of the amount remaining in the clearing account, it is difficult to identify and correct mistakes in the transfer process.

#### **Recommendation:**

We recommend the Department of Transportation properly reconcile the motor vehicle clearing account to the report of amounts processed and pending each month.

#### **Department of Transportation Response:**

*We concur with the finding. The State Auditor's recommendations have already been substantially implemented and the Motor Vehicle Division will continue working towards full implementation.*

## *Compliance With Legislative Intent*

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In our audit for the biennium ended June 30, 2009, we identified and tested the Department of Transportation's compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

- Proper collection and deposit of licenses and fees and proper legislative compliance including:
  - Central Vehicle Management System proceeds (NDCC 24-02)
  - Proper Funding of Projects (NDCC 24-02)
  - Special Road Fund Revenues (NDCC 24-02)
  - State Infrastructure Bank Proceeds (NDCC 24-02)
  - Unsatisfied Judgment Fund Fee (NDCC 26.1-23)
  - Retainage Percentage for Buildings (NDCC 48-01.2)
  - Retainage Percentage for Construction Projects (NDCC 24-02)
  - Mobility Impaired Fees (NDCC 39-01)
  - Commemorative and Personalized Plate Fees (NDCC 39-04)
  - Certificate of Title Fees (NDCC 39-05)
  - Dealer Enforcement Fund Fees (NDCC 39-22)
  - Trailer Dealers Licensing Fee (NDCC 39-22.1)
  - Motorcycle Dealers Fees (NDCC 39-22.3)
  - Registration of Snowmobiles (NDCC 39-24)
  - Abandoned Motor Vehicle Fee (NDCC 39-26)
  - Motorcycle Safety Education Fees (NDCC 39-28)
  - Off Highway Vehicle Fee (NDCC 39-29)
  - Low Speed Vehicle Registration Fees (NDCC 39-29.1)
  - Common Households Goods Carriers Fee (NDCC 39-31)
  - State Aid Distribution Fund Allocation (NDCC 57-39.2)
  - Motor Vehicle Excise Tax (NDCC 57-40.3)
  - Motor Vehicle Excise Tax Refunds (NDCC 57-40.4)
  - Non-Driver Photo Identification Card Fee (NDCC 39-06)
  - Operator License Fees (NDCC 39-06)
  - Commercial Drivers License Fees (NDCC 39-06.2)
  - Operator Regulatory Fees (NDCC 39-08)
  - Drivers Abstract Fees (NDCC 39-16)
  - Mobile Home Dealer Fees (NDCC 39-18)
  - Distribution of Funds (NDCC 54-27 and 57-39.2)
- The proper use of funds for fund 200 (Highway Fund) to account for revenues and expenditures associated with the general operations of the DOT (NDCC 24-02), fund 201 (Motor Vehicle Fund) revenues and expenditures associated with general operations of Motor Vehicle (NDCC 24-02), fund 217 (Dealer Enforcement Fund) fees from new and used motor vehicle dealer registrations are deposited correctly (NDCC 39-22), fund 225 (State Infrastructure Bank) for funding of eligible projects as determined by agreement of members of the multi-state infrastructure bank (NDCC chapter 24-02), fund 230 (Special Road Fund) used for the construction and maintenance of access roads and roads within recreational, tourist, and historical areas (NDCC 24-02), fund 232 (Public Transportation Fund) fees

- are properly deposited into the fund (NDCC 39-04.2), fund 277 (State Rail Fund) used for loans made to improve railroad junctions, load out facilities, etc. (NDCC 49.17.1), fund 406 (Drivers License Trust Fund) receiving funds from uninsured drivers involved in accidents (NDCC 39-16), fund 700 (Fleet Services Fund) accounts for costs of operating and maintaining state owned vehicles (NDCC 24-02), and fund 949 (DOT Debt Service Fund) for accounting for the accumulation of resources for and the payment of principal and interest on bonds issued by the DOT (NDCC 24-02).
- Proper use of the State Treasurer (State Constitution, article X, section 12).
  - Compliance with appropriations and related transfers (2007 North Dakota Session Laws chapter 12).
  - 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, petty cash funds and proper authority for investments outside the Bank of North Dakota.
  - 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 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* 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.

While we did not find any items that were required to be reported in accordance with *Government Auditing Standards*, we noted certain inconsequential or insignificant instances of non-compliance that we have reported to management of the Department of Transportation in a management letter dated September 23, 2009.

## *Operations*

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This audit did not identify areas of the Department of Transportation's operations where we determined it was practical at this time to help to improve efficiency or effectiveness. However, we noted certain inconsequential or insignificant instances where greater efficiencies or effectiveness could be achieved that we have reported to management in a management letter dated September 23, 2009.

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

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

### ***COMPUTER ACCESS CONTROLS WEAKNESS (Finding 07-1)***

Access controls over ConnectND Finance, Human Resource Management System (HRMS), Motor Pool, and Drivers License systems are not adequate.

#### **Recommendation:**

We recommend the Department of Transportation:

- Establish policies and procedures to restrict access privileges to only necessary individuals.
- Assign ongoing responsibility for security for each information technology application.
- Perform continuing reviews of access privileges.

**Status:** Not implemented. See new recommendation on page 14.



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

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

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September 23, 2009

Mr. Francis Ziegler, Director  
Department of Transportation  
608 E. Boulevard Avenue  
Bismarck, ND 58505-0700

Dear Mr. Ziegler:

We have performed an audit of the Department of Transportation for the biennium ended June 30, 2009, and have issued a report thereon. As part of our audit, we gained an understanding of the Department of Transportation'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 09-1: Credit Card Access/Reconciliation. We recommend that the Department of Transportation segregate the duties of processing and reconciling credit card sales receipts.

## **GENERAL LEDGER**

Informal Recommendation 09-2: We recommend the Department of Transportation review and ensure transactions processed to the accounting records by the Office of Management and Budget and Treasurer's Office are proper.

## **LEGISLATIVE INTENT**

Informal Recommendation 09-3: Shadow Systems. We recommend the Department of Transportation:

- Discontinue the use of the Non-Capitalized Asset Tracking System and utilize PeopleSoft's functions.
- Request approval from the ConnectND Steering Committee to maintain the Information Technology Service Management System or also discontinue its use.

Informal Recommendation 09-4: Special Road Fund Committee Project Approval. We recommend the Department of Transportation ensure project award decisions by the Special Road Committee in accordance with NDCC 24-02-37.2 are properly documented.

## **OPERATIONAL**

Informal Recommendation 09-5: Drivers License Test Scheduling. We recommend the Department of Transportation establish online scheduling of driver's license road tests.

Informal Recommendation 09-6: Electronic Clearing of Outside Accounts. We recommend the Department of Transportation electronically clear drivers license bank accounts to the Bank of North Dakota. We recommend the Department of Transportation maintain check registers for the driver's license bank accounts in an electronic format.

Informal Recommendation 09-7: Contract Monitoring. We recommend the Department of Transportation monitor vendor compliance with media services contract requirements including project completion schedules and good standing driver's license requirements.

## GENERAL

Informal Recommendation 09-8: Code of Conduct/Business Conduct. We recommend the Department of Transportation develop policies and procedures to promote:

- Full, fair, accurate, timely and understandable disclosure in reports and documents and what constitutes fraudulent behavior; and
- Ensure employees who have access to purchase cards, perform accounting functions, and have financial reporting oversight roles acknowledge the receipt and reading of the code on an annual basis.

Informal Recommendation 09-9: Establishing Adequate Fraud Programs and Controls. We recommend the Department of Transportation:

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

Management of Department of Transportation 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,



Orlin Bensen  
Senior Auditor

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