

North Dakota Highway Patrol  
BISMARCK, NORTH DAKOTA

**Audit Report**

Two-year Period Ended  
June 30, 2016



Office of the State Auditor  
Division of State Audit

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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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May 8, 2017

The Honorable Doug Burgum, Governor  
Members of the North Dakota Legislative Assembly  
Colonel Michael Gerhart, North Dakota Highway Patrol Superintendent

We are pleased to submit this audit of the North Dakota Highway Patrol for the two-year period ended June 30, 2016. 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 Lindsey Ressler. Elizabeth Rogers and Erin Maslowski were the staff auditors. Paul Welk, CPA was the audit manager. 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 Colonel Gerhart 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 "Joshua C. Gallion".

Joshua C. Gallion  
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.

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 responses 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 North Dakota Highway Patrol in accordance with generally accepted accounting principles, so an opinion is not applicable. However, due to the number of coding errors identified, the financial statements cannot be considered reliable.

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

Other than our finding addressing the "Improper Capitalization of Assets" (page 19), 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 "Improper Coding of Expenditures" (page 12), "Improper Allocation of Payroll" (page 13), "Correcting Entries Not Properly Supported" (page 14), "Improper Approvals of Expenditures" (page 14), "Level of Competency Not Met by Accounting Staff" (page 15), "Lack of Reconciliation of Fixed Asset System to PeopleSoft" (page 15), and "Correcting Entries Not Properly Approved" (page 16), 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?*

There were no 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 21 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 North Dakota Highway Patrol's financial statements do not include any significant accounting estimates.

9. *Identify any significant audit adjustments.*

Significant audit adjustments were not made.

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), Fixed Asset Tracking System (Red Beam), 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***

The objectives of this audit of the North Dakota Highway Patrol for the two-year period ended June 30, 2016 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?

## ***Audit Scope***

This audit of the North Dakota Highway Patrol is for the two-year period ended June 30, 2016. We conducted our 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 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 was included in the audit scope:

- The headquarters in the Capitol Building
- Southwest Region in Bismarck
- Northeast Region in Devils Lake
- Southwest Region in Dickinson
- Southeast Region in Fargo
- Southeast Region in Jamestown
- Northeast Region in Grand Forks
- Northwest Region in Minot
- Northwest Region in Williston
- Law Enforcement Training Academy in Bismarck

## ***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 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. Non-statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure that particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed North Dakota Highway Patrol's processes and procedures.
- Reviewed custody, disposal, and revenue receipts related to asset seizures.

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 to present the North Dakota Highway Patrol's revenues and expenditures on the legal (budget) basis. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

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

For the two-year period ending June 30, 2016, operations of the North Dakota Highway Patrol 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 permits and fees, federal funds, and transfers in (both state and federal) from the North Dakota Department of Transportation (NDDOT) and the North Dakota Department of Emergency Services (NDDDES). The only other revenues during the audited period were sales and use taxes, conference fees, and other miscellaneous revenues. Direct federal revenues were \$2,061,871 for fiscal year 2016 compared to \$1,848,583 for fiscal year 2015 for an increase of 11.5%. The increase in federal revenue appears to be the result of the timing of the receiving of federal reimbursements. Transfers in from the ND Highway Tax Distribution Fund amounted to \$4,597,539 in fiscal year 2016 compared to \$2,137,833 in fiscal year 2015 for an increase of 115.06%. The reason for this large increase is because of an arrangement with the State Treasurer's Office whereby the monthly transfers are made roughly during the first 18 months of each biennium and so there are about twice the number of monthly transfers during the first fiscal year of each biennium compared to the second fiscal year. The Highway Patrol also collects commercial vehicle permit fees, mostly for overloads, for the NDOT. For fiscal year 2016 the total collected for overloads was \$12,096,482 compared to \$19,578,662 for fiscal year 2015. The decreases are mainly the result of lower commercial vehicle activity due to the slowdown in energy production in ND. All other revenues did not differ materially from the previous fiscal year. Total expenditures and transfers out for the North Dakota Highway Patrol were \$27,923,639 for fiscal year 2016 as compared to \$33,168,483 for fiscal year 2015. The 15.8% decrease in total expenditures and transfers out during fiscal year 2016 reflects primarily decreases in expenses for construction, supplies, and equipment.

#### **Significant Changes in Financial Statement Accounts**

**Permits and Fees** – \$14,294,282 in fiscal 2016 compared to \$22,491,707 in fiscal 2015. The 36.4% decrease is the result of a decrease in commercial vehicle activity in the state as a result of the slowdown in energy production in ND.

Transfers In – \$5,265,148 in fiscal 2016 compared to \$2,760,620 in fiscal 2015. Nearly all of the 90.7% increase is because of an arrangement with the State Treasurer’s Office whereby the monthly transfers from the Highway Tax Distribution Fund are made roughly in the first 18 months of each biennium and so there are about twice the number of monthly transfers in the first year of each biennium compared to the second year.

Equipment – \$1,455,378 in fiscal 2016 compared to \$2,893,608 in fiscal 2015. The 49.7% decrease in fiscal 2016 was the result of the timing of equipment expenses during a typical biennium. Most of the equipment expenses are usually made in the second year of a biennium due to the time required for ordering and delivery before final payment is made.

Supplies – \$506,486 in fiscal 2016 compared to \$1,135,177 in fiscal 2015. The 55.4% decrease mainly reflects expenses for Equipment Under \$750, Clothing and Ammunition. As with equipment, many supply items are ordered in the first year of each biennium and then the items are received and paid for in the second year.

Construction – \$400,468 in fiscal 2016 compared to \$3,914,252 in fiscal 2015. The 89.8% decrease is due to the near completion in fiscal 2015 of the indoor shooting range and driving pad for the Law Enforcement Training Academy. Fiscal 2016 construction expenses were for the wrap-up of these projects.

# Financial Statements

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## Statement of Revenues and Expenditures

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<b><u>Revenues and Other Sources:</u></b>		
Permits and Fees	\$ 14,294,282	\$ 22,491,707
Federal Revenue	2,061,871	1,848,583
Sales and Use Tax	90,465	130,560
Conference Fees	68,712	47,808
Miscellaneous Revenue	13,247	14,418
Transfers In	5,265,148	2,760,620
<b>Total Revenues and Other Sources</b>	<b><u>\$ 21,793,725</u></b>	<b><u>\$ 27,293,696</u></b>
<b><u>Expenditures and Other Uses:</u></b>		
Salaries and Benefits	\$ 20,365,125	\$ 19,246,888
Travel	2,650,548	2,804,446
Equipment	1,455,378	2,893,608
IT Data Processing/Communication	1,020,079	815,633
Supplies	506,486	1,135,177
Rent	430,904	426,808
Construction	400,468	3,914,252
Food and Clothing	290,850	594,461
Repairs	261,311	472,302
Professional Development	236,112	115,159
Miscellaneous Operating Expenses	168,087	242,994
Professional Services	137,920	506,755
Transfers Out	371	
<b>Total Expenditures and Other Uses</b>	<b><u>\$ 27,923,639</u></b>	<b><u>\$ 33,168,483</u></b>

## Statement of Appropriations

For The Year Ended June 30, 2016

<b>Expenditures by Line Item:</b>	<u>Original Appropriation</u>	<u>Adjustment</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Administration	\$ 3,730,401		\$ 3,730,401	\$ 1,534,464	\$ 2,195,937
Field Operations	55,908,703	\$(1,682,091)	54,226,612	25,807,380	28,419,232
Training					
Academy	80,000		80,000	36,901	43,099
Construction					
Carryover		660,000	660,000	400,468	259,532
<b>Totals</b>	<u>\$ 59,719,104</u>	<u>\$(1,022,091)</u>	<u>\$ 58,697,013</u>	<u>\$ 27,779,213</u>	<u>\$30,917,800</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 46,656,563	\$(1,022,091)	\$ 45,634,472	\$ 21,666,212	\$23,968,260
Other Funds	13,062,541		13,062,541	6,113,001	6,949,540
<b>Totals</b>	<u>\$ 59,719,104</u>	<u>\$(1,022,091)</u>	<u>\$ 58,697,013</u>	<u>\$ 27,779,213</u>	<u>\$30,917,800</u>

### Appropriation Adjustments:

The \$1,682,091 reduction in Field Operations was related to two separate adjustments. The first adjustment was an increase of \$207,500 for rental assistance and temporary salary increases in areas affected by energy development in accordance with Senate Bill 2015, section 5 of the 2015 Legislative Assembly. The second adjustment was a reduction of \$1,889,591 for a general fund allotment of 4.05% as required by the Governor.

The \$660,000 Construction Carryover line increase is for completion of projects at the Law Enforcement training academy that were approved in the prior biennium and given carryover authority by the Carryover Committee.

### Expenditures Without Appropriations of Specific Amounts:

Motor Carrier Electronic Permit Fund has a continuing appropriation authorized by NDCC section 39-12-02 (\$75,714 of expenditures for this fiscal year).

Statewide conference has a continuing appropriation authorized by OMB Policy 211 (\$68,342 of expenditures for this fiscal year).

**For The Biennium Ended June 30, 2015**

<b>Expenditures by Line Item:</b>	<u>Original Appropriation</u>	<u>Adjustment</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Accrued Leave					
Payments	\$ 1,110,651		\$ 1,110,651	\$ 269,520	\$ 841,131
Administration	3,466,113		3,466,113	3,292,710	173,403
Field Operations	49,620,777	\$ 391,976	50,012,753	48,886,854	1,125,899
Training Academy	6,803,043		6,803,043	6,141,287	661,756
<b>Totals</b>	<u>\$ 61,000,584</u>	<u>\$ 391,976</u>	<u>\$ 61,392,560</u>	<u>\$ 58,590,371</u>	<u>\$ 2,802,189</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 47,608,042	\$ 391,976	\$ 48,000,018	\$ 46,349,943	\$ 1,650,075
Other Funds	13,392,542		13,392,542	12,240,428	1,152,114
<b>Totals</b>	<u>\$ 61,000,584</u>	<u>\$ 391,976</u>	<u>\$ 61,392,560</u>	<u>\$ 58,590,371</u>	<u>\$ 2,802,189</u>

**Appropriation Adjustments:**

The increase of \$391,976 to the Field Operations line was a supplemental appropriation made by the 2013 Legislative Assembly under section 6 of House Bill 1015. The funds are for rental assistance and temporary salary increases in areas affected by energy development.

**Expenditures Without Appropriations of Specific Amounts:**

Motor Carrier Electronic Permit Fund has a continuing appropriation authorized by NDCC section 39-12-02 (\$2,445,295 of expenditures for this biennium).

Statewide conference fund has a continuing appropriation authorized by OMB Policy 211 (\$94,037 of expenditures for this biennium).

Highway Patrol Asset Forfeiture Fund has a continuing appropriation authorized by NDCC section 39-03-18 (\$278,600 of expenditures for this biennium).

# *Internal Control*

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In our audit for the two-year period ended June 30, 2016, we identified the following areas of the North Dakota Highway Patrol's internal control as being the highest risk:

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

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenditures.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.
- Controls surrounding the Receipts and Red Beam information system.
- Controls surrounding the processing of payroll.

The criteria used to evaluate internal control is published in the publication *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States (Green Book, GAO-14-704G). Agency management must establish and maintain effective internal control in accordance with policy of the Office of Management and Budget (OMB Policy 216) and, for programs receiving Federal funds, the Code of Federal Regulation as set forth by the Federal Government (2 CFR 200.303).

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 the North Dakota Highway Patrol in a management letter dated May 8, 2017.

## ***Improper Coding of Expenditures (16-1)***

### **Condition:**

The North Dakota Highway Patrol recorded expenditures to accounts that were at times incorrect and not at a level of sufficient detail.

### **Criteria:**

According to the "Standards for Internal Control in the Federal Government", transactions are to be recorded accurately to include their final classification in summary records (GAO-14-704G para 10.03).

**Cause:**

The Department was attempting to simplify the accounting process.

**Effect or Potential Effect:**

The financial statements are improperly summarized and there is inadequate detail for the Department's internal budget purposes.

**Recommendation:**

We recommend the North Dakota Highway Patrol code expenditures to the proper account.

**Highway Patrol's Response:**

*The Highway Patrol agrees with the recommendation and will implement procedures to ensure that all expenses are charged to account codes which indicate more precisely the nature of the payment being made.*

**Improper Allocation of Payroll (Finding 16-2)**

**Condition:**

The North Dakota Highway Patrol did not properly allocate payroll costs between state and federal funds. The Federal Motor Carrier Safety Administration concluded the allocation was being done improperly and has denied federal reimbursement since April 2016. The amount paid with state funds until reimbursement can be received is \$1.3 million.

**Criteria:**

According to the "Standards for Internal Control in the Federal Government", transactions are to be recorded accurately to include their final classification in summary records (GAO-14-704G para 10.03)

**Cause:**

Procedures to allocate payroll were not based on actual hours worked on a program.

**Effect or Potential Effect:**

Since state general funds were used to pay federal expenditures that were not reimbursed timely, the State of North Dakota did not receive interest on those funds. Also, there is potential for expenditures to not be reimbursed by the Federal Government.

**Recommendation:**

We recommend the North Dakota Highway Patrol allocate payroll expenditures based on actual hours worked on a program.

**Highway Patrol's Response:**

*The Highway Patrol agrees with the recommendation. After consultation with the Federal Motor Carrier Safety Administration, procedures have been developed to provide a more accurate allocation of salaries and direct costs to federal programs. The entire federal reimbursement currently in arrears will be reimbursed as of the end of the 2015-2017 biennium.*



### **Correcting Entries Not Properly Supported (Finding 16-3)**

**Condition:**

The North Dakota Highway Patrol did not have sufficient support documentation for all correcting accounting entries. Procedures allowed for verbal communication of the reason a correcting entry was needed rather than documenting the information. Support was inadequate or missing for 11 of the 18 correcting entries selected.

**Criteria:**

According to the “Standards for Internal Control in the Federal Government”, management should clearly document internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. Documentation and records are to be properly managed and maintained (GAO-14-704G para. 10.3).

**Cause:**

The Department’s procedures were not sufficient for developing and maintaining support documentation for correcting entries.

**Effect or Potential Effect:**

Improper correcting entries may not be detected.

**Recommendation:**

We recommend the North Dakota Highway Patrol develop and maintain supporting documentation for all correcting accounting entries.

**Highway Patrol’s Response:**

*The Highway Patrol agrees with the recommendation. Procedures will be implemented to make sure that all correcting entries are properly supported, documented, and maintained.*

### **Improper Approvals of Expenditures (Finding 16-4)**

**Condition:**

The North Dakota Highway Patrol did not properly approve expenditures. The approver does not review detailed invoices for items purchased. In addition, purchases were paid with federal funds that are not allowable under the federal program.

**Criteria:**

According to the “Standards for Internal Control in the Federal Government”, control activities, including authorizations and approvals, are designed to confirm operational and compliance related transactions and events are valid (GAO-14-704G para 10.01, 10.10).

**Cause:**

The procedures for approving expenditures were not sufficient.

**Effect or Potential Effect:**

There is potential for improper purchases to occur and go undetected.

**Recommendation:**

We recommend the North Dakota Highway Patrol properly approve expenditures including reviewing detailed invoices and verifying federal grant allowability.

**Highway Patrol's Response:**

*The Highway Patrol agrees with the recommendation. Procedures will be implemented to ensure that all payments are properly approved prior to payment being made.*

**Level of Competency Not Met by Accounting Staff (Finding 16-5)****Condition:**

The North Dakota Highway Patrol had numerous errors including the improper: classification of expenditure transactions, capitalization of assets, allocation of payroll, transaction approvals, as well as unallowable federal expenditures.

**Criteria:**

According to the "Standards for Internal Control in the Federal Government", personnel need to possess and maintain a level of competence that allows them to accomplish their assigned responsibilities, as well as understand the importance of effective internal control (GAO-14-704G para 4.04).

**Cause:**

Accounting personnel are not properly trained in areas necessary to complete their assigned job duties.

**Effect or Potential Effect:**

Financial data is unreliable and improper payments can be issued and not detected.

**Recommendation:**

We recommend the North Dakota Highway Patrol provide additional training to ensure accounting staff are able to properly complete assigned job duties.

**Highway Patrol's Response:**

*The Highway Patrol agrees with the recommendation and will work with the State Auditor's Office and the Office of Management and Budget in order to improve the internal control and accounting procedures of the department.*

**Lack of Reconciliation of Fixed Asset System to PeopleSoft (Finding 16-6)****Condition:**

The North Dakota Highway Patrol did not adequately reconcile their fixed asset system to the PeopleSoft asset management system. Individual asset identification numbers and asset values were not reconciled between the two systems.

**Criteria:**

According to "Standards for Internal Control in the Federal Government", management should perform ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring should include regular management and supervisory activities, comparisons, reconciliations, and other routine actions (GAO-14-704G para. 16.05).

**Cause:**

The Department did not develop sufficient procedures to reconcile their fixed asset system to the PeopleSoft asset management.

**Effect or Potential Effect:**

Physical existence of assets is unable to be determined. Also, depreciation amounts recorded in PeopleSoft may not be accurate.

**Recommendation:**

We recommend the North Dakota Highway Patrol properly reconcile their fixed asset system to the PeopleSoft asset management system.

**Highway Patrol's Response:**

*The Highway Patrol agrees with the recommendation. Steps will be taken to improve the current fixed asset reconciliation procedures so that the two fixed asset systems currently in use will be in agreement.*

**Correcting Entries Not Properly Approved (Finding 16-7)**

**Condition:**

The North Dakota Highway Patrol did not review and approve correcting entries processed by other state agencies. During our audit period, none of the correcting entries processed by other state agencies were reviewed or approved by the Department. These entries totaled \$6,961,815.

**Criteria:**

According to the "Standards for Internal Control in the Federal Government", management should clearly document internal control, all transactions, and other significant events in a manner that allows the documentation to be readily available for examination. Documentation and records are to be properly managed and maintained (GAO-14-704G para 10.03).

**Cause:**

The Department's accounting personnel forgot to review and approve entries processed by other state agencies.

**Effect or Potential Effect:**

There is potential for inaccurate correcting entries to occur and go undetected.

**Recommendation:**

We recommend the North Dakota Highway Patrol review and approve correcting entries processed by other state agencies.

**Highway Patrol's Response:**

*The Highway Patrol agrees with the recommendation and will implement procedures to document the explanation and approval of all transactions prepared by outside agencies. Of the total amount of the outside transactions, \$5,462,281 represents transfers from the Highway Tax Distribution fund which were received by contractual agreement with the State Treasurer's Office.*

## *Compliance with Legislative Intent*

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In our audit for the two-year period ended June 30, 2016, we identified and tested North Dakota Highway Patrol's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Application of proper statutory fees and penalties relating to revenue (NDCC 39-04-18(2)(h), 39-04-19(1), NDCC 39-04-55, NDCC 39-12-02, NDCC 39-12-08, NDCC 39-12-09, NDCC 36-12-14.1, NDCC 57-43.2-39, NDAC 38-06-03,)
- Proper payments made to Patrol Officers (2015 Session Laws, House Bill 1011, section 4 and 2013 Session Laws, Senate Bill 2011, section 4)
- Proper transfer made from the State Highway Tax Distribution Fund (2015 Session Laws, House Bill 1011, section 3 and 2013 Session Laws, Senate Bill 2011, section 3.)
- Proper deposit of proceeds from sales of confiscated vehicles (NDCC 39-12-20).
- Compliance with the line of credit obtained for the establishment of the online electronic permit system (NDCC 39-12-25).
- Proper use of the following legally restricted funds:
  - Highway Fund
  - Motor Carrier Electronic Permit Fund
  - Asset Forfeiture Fund
  - Highway Patrol Special Fund
  - Highway Tax Distribution Fund
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations and related transfers (2015 Session Laws, House Bill 1011 and 2013 Session Laws, Senate Bill 2011 and House Bill 1023).
- 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.
- 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.
- Proper authorization of the North Dakota Highway Patrol's funds.
- Proper utilization of the Bank of North Dakota as the credit card processing depository (NDCC 54-06-08.2).

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 one instance of noncompliance that is required to be reported under *Government Auditing Standards*. This finding is described below. Other than this finding, we concluded there was compliance with the legislative intent identified above. We identified an inconsequential instance of noncompliance that we have reported to management of the North Dakota Highway Patrol in a management letter dated May 8, 2017.

### ***Improper Capitalization of Assets (Finding 16-8)***

#### **Condition:**

The North Dakota Highway Patrol did not properly capitalize assets. Assets with a value greater than \$5,000, including costs such as installation and freight, are required to be capitalized. The Department did not include those additional costs in determining capitalization value.

#### **Criteria:**

North Dakota Century Code section 54-27-21 requires the capitalization of fixed assets having a value of greater than \$5,000.

OMB Fiscal and Administrative Policy states that costs to be capitalized include those that are directly attributable to asset acquisition—such as freight and transportation costs, site preparation costs, and professional fees.

#### **Cause:**

The Department was not aware of the fixed asset capitalization policy.

#### **Effect or Potential Effect:**

The Department's assets are undervalued.

#### **Recommendation:**

We recommend the North Dakota Highway Patrol capitalize assets with a value greater than \$5,000 including installation and freight.

#### **Highway Patrol's Response:**

*The Highway Patrol agrees with the recommendation. Steps will be taken to ensure that all costs of placing an equipment item into production are included in the capitalized cost of the equipment.*

# *Operations*

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Our audit of the North Dakota Highway Patrol included a review of operations surrounding asset seizures.

## **Asset Seizure**

### Background

The Highway Patrol seizes assets as a part of criminal and civil offenses within the state. Asset seizure also identified as asset forfeiture is a form of confiscation of assets by the state. North Dakota Century Code section 19-03.1-36 outlines assets subject to seizure. Typical assets seized are narcotics, money, vehicles, and weapons. In some instances, the property is held and returned to the owner at the end of court proceedings. In other instances, the property is sold or money is retained by the North Dakota Highway Patrol. The Department follows standards set by the Commission of Accreditation for Law Enforcement Agencies (CALEA) as well as North Dakota Century Code and internal policy.

Asset seizures may require collaboration with other law enforcement agencies such as local police departments and Bureau of Criminal Investigation (BCI). The procedures reviewed relate to the handling of assets while in the custody of the Highway Patrol. For the purposes of the audit, the department was considered to have custody once the assets were entered into the Highway Patrol Evidence Tracker System.

Our audit of the North Dakota Highway Patrol's procedures for asset seizures was designed and conducted to meet the following objectives:

- Were assets obtained during seizure safeguarded while in the North Dakota Highway Patrol's custody?
- Did the records of final disposition of assets follow applicable documented procedures?

We did not identify any significant issues of inefficient operations. The Department's procedures ensured that seized assets were safeguarded while in the North Dakota Highway Patrol's custody. Seized assets were disposed of in accordance with documented policies. However, we noted an inconsequential instance involving operations that we have reported to the management of the North Dakota Highway Patrol in a management letter dated May 8, 2017.

## *Management Letter (Informal Recommendations)*

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May 8, 2017

Colonel Michael Gerhart, Superintendent  
North Dakota Highway Patrol  
600 E Boulevard Avenue, Dept 504  
Bismarck, ND 58505

Dear Colonel Gerhart:

We have performed an audit of the North Dakota Highway Patrol for the two-year period ended June 30, 2016, 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.

Informal Recommendation 16-1: We recommend the North Dakota Highway Patrol close out grants on the State's accounting system at the end of the applicable grant period.

Informal Recommendation 16-2: We recommend the North Dakota Highway Patrol develop controls to prevent duplicate payments from being issued.

Informal Recommendation 16-3: We recommend the North Dakota Highway Patrol develop procedures to ensure reimbursement rates and coding for taxable reimbursement are in accordance with North Dakota Century Code and OMB policy.

Informal Recommendation 16-4: We recommend the North Dakota Highway Patrol maintain quarterly evidence log reviews until completion of the applicable audit period.



Management of North Dakota Highway Patrol agreed with these recommendations.

I encourage you to call me 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,

A handwritten signature in cursive script that reads "Lindsey Ressler".

Lindsey Ressler  
Auditor In-Charge

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Division of State Audit

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