



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

Department of Transportation

Audit Report for the Biennium Ended June 30, 2019

Client Code 801





WHAT WE LOOKED AT

Our team audited the Department of Transportation which included reviewing financial transactions, expenditures, and blanket bond coverage.

WHY WE LOOKED AT THIS

North Dakota state law (N.D.C.C. 54-10-01) requires that our team performs a post-audit of all financial transactions of state government, detecting and reporting any defaults, and determining that expenditures have been made in accordance with law and appropriation acts.

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HAVE QUESTIONS? ASK US.

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Introduction

Department of Transportation

July 9, 2020

We are pleased to submit this audit of the North Dakota Department of Transportation for the biennium ended June 30, 2019. 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.

The primary consideration in determining the contents of these audits is to produce informative audits to improve government. Statutory audit requirements are an important part of these audits and are addressed by our standard audit objective. Whenever possible, additional audit objectives are included to increase responsiveness and effectiveness of state government.

Allison Bader 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 Director William Panos and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

/S/

JOSHUA C. GALLION
NORTH DAKOTA STATE AUDITOR

TERMS USED IN REPORT

Appropriation: Sum of money or total of assets devoted to a special purpose.

Blanket Bond Coverage: Insurance to state agencies for any default or wrongful act on the part of any public employee or public official.

ConnectND: The accounting system for North Dakota.

Default: Failures to do something required by duty or law.

Emergency Commission: Group of elected officials that have the authority to transfer or expend money appropriated by the North Dakota Legislative Assembly. Additional information can be found in N.D.C.C. Chapter 54-16.

Internal Control: Policies and procedures that ensure reliable financial reporting, safeguard assets, promote accountability and efficiency, and prevent fraud.

Noncompliance: Failure to act in accordance with a wish or command.

North Dakota Administrative Code (N.D.A.C.): Codification of all rules of state administrative agencies.

North Dakota Century Code (N.D.C.C.): Collection of all the statutes passed by the North Dakota Legislative Assembly.

Performance Audit: Engagements that provide objective analysis, findings, and conclusion to assist management and those charged with governance and oversight to improve program performance and operations, reduce costs, facilitate decision making, and contribute to public accountability.

Session Laws: Published after each regular and special legislative session and contain the laws enacted during that session.



Audit Results

▼ STATUTORY OBJECTIVE

Are there any exceptions to report relating to statutorily required audit testing?

Statutorily required audit testing includes: performing the post audit of financial transactions, detecting and reporting any defaults, determining that expenditures have been made in accordance with law, appropriation acts, and emergency commission action, and evaluating blanket bond coverage.

CONCLUSION

No exceptions to our statutorily required audit testing were identified.



Audit Procedures

INTERNAL CONTROL

As we determined internal control was significant to this audit objective, we assessed internal control by gaining an understanding of internal control and concluded as to the adequacy of the design of internal control and whether the applicable internal controls were implemented. We also tested the operating effectiveness of those controls we considered necessary to address our audit objective. The controls assessed were generally the key controls identified during the planning phase of the engagement, which may include controls at both the entity and transaction levels. We identified key controls significant to this audit objective related to the control activities component of internal control, specifically the principles related to the design of control activities and the implementation of the same. We also identified controls relating to the monitoring component of internal control, specifically the principle of performing monitoring activities. (Green Book, GAO-14-704G, 10.01, 10.03, 10.10)

Based on the audit work performed, auditors are required to report deficiencies in internal control that are significant within the context of the audit objectives. A deficiency in internal control exists when the design, implementation, or operation of a control does not allow management or personnel to achieve control objectives and address related risks.

Considering both qualitative and quantitative factors, we did not identify any deficiencies in internal control that were significant within the context of our audit objectives.

SCOPE

This audit of the North Dakota Department of Transportation is for the biennium ended June 30, 2019.

The North Dakota Department of Transportation has its central office in Bismarck and eight district offices. The offices included are:

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

METHODOLOGY

To meet this objective, we:

- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system for data analysis. Significant evidence was obtained from ConnectND.
- Observed the department's processes and procedures.
- Analyzed and tested expenditures for compliance with appropriation laws and regulations.
- Performed detailed analytical procedures including computer-assisted auditing techniques to identify high-risk transactions and potential problem areas for expenditure testing. Transactions were selected based on an analysis of account/vendor combination and also analyzed by amount. Expenditure items were selected judgmentally and randomly for testing. Expenditures were tested for accuracy, compliance with appropriation laws and regulations, and proper recording in the state's accounting system.
- Inspected documentary evidence confirming legislative

program and reporting requirements of the Limited Transportation Network, the department's annual fee report to the budget section, and the department's discontinuance of maintenance sites.

- Reviewed adequacy of blanket bond coverage by comparing coverage to state bonding guidelines.
- Performed analysis and selected a sample of high-risk transactions from the State Title and Registration System (STARS). Internal control was tested which included determining if controls were operating effectively.
- Refunds were tested for proper approval, support and accuracy. Refunds were selected for testing based on procedures used to identify high-risk transactions (possible duplicate payments, analysis by amount, or employee count of refunds issued) as well as randomly selected.
- Fee overrides were tested for accurate reporting within DOT's internal review process and proper support. Fee overrides were selected for testing based on procedures used to identify high-risk transactions (analysis by amount and employee count of overrides) as well as randomly selected.
- Branch fee overrides were tested for proper support and accurate reporting to DOT's external review process. Branch fee overrides were selected based on transaction descriptions to ensure they were limited to branch fees only.
- Excise tax exemptions were selected randomly.
- Voided transactions were tested for reasonableness and accurate reporting within DOT's internal review process. Voided transactions were selected based on the amount of the transaction and were randomly selected.

STATUTORY CRITERIA

Agency management must establish and maintain effective internal control in accordance with policy of the Office of Management and Budget (OMB Policy 216).

The criteria used to evaluate legislative intent are the laws as published in the North Dakota Century Code and the North Dakota Session Laws. The following areas were identified to be of higher risk of noncompliance:

- Compliance with appropriations, adjustments, and related transfers in accordance with limits and purpose. (2017 North Dakota Session Laws Chapter 37 (S.B. 2012), N.D.C.C. 54-16-03, N.D.C.C. 54-44.1-11)
- Blanket bond coverage maintained in accordance with state law and state guidelines. (N.D.C.C. 26.1-21-08, N.D.C.C. 26.1-21-10)
- Proper use of funds (State Constitution article 10 section 12, N.D.C.C. 44-08-05.1, N.D.C.C. 54-44.1-09, N.D.C.C. 54-44.1-10)
- Compliance with political subdivision notifications for dispositions of maintenance section sites (2017 North Dakota Session Laws Chapter 37 (S.B. 2012 Section 8))
- Fee report presented to the legislative management's budget section each year (2017 North Dakota Session Laws Chapter 37 (S.B. 2012 Section 13))
- Establishment of a Limited Transportation Network (2017 North Dakota Session Laws Chapter 206 (H.B. 1255))

AUTHORITY AND STANDARDS

This biennial audit of the North Dakota Department of Transportation has been conducted by the Office of the State Auditor pursuant to authority within North Dakota Century Code Chapter 54-10.

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 standards used to evaluate internal control are 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).



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 unmodified opinion was issued.

2. WAS THERE COMPLIANCE WITH STATUTES, LAWS, RULES, AND REGULATIONS UNDER WHICH THE AGENCY WAS CREATED AND IS FUNCTIONING?

Yes. The Department of Transportation was in compliance with statutes, laws, rules and regulations and we did not identify any deficiencies related to the scope, methodology, and criteria of this audit.

3. WAS INTERNAL CONTROL ADEQUATE AND FUNCTIONING EFFECTIVELY?

Yes. We did not identify any deficiencies in internal control that were significant within the context of our audit objectives.

4. WERE THERE ANY INDICATIONS OF LACK OF EFFICIENCY IN FINANCIAL OPERATIONS AND MANAGEMENT OF THE AGENCY?

No.

5. HAS ACTION BEEN TAKEN ON FINDINGS AND RECOMMENDATIONS INCLUDED IN PRIOR AUDIT REPORTS?

The Department of Transportation has implemented the recommendation included in the prior audit report as well as three recommendations included in the 2018 Performance Audit Report of the Office of the Governor's Travel and Use of State Resources which related to the Department of Transportation.

6. WAS A MANAGEMENT LETTER ISSUED? IF SO, PROVIDE A SUMMARY BELOW, INCLUDING ANY RECOMMENDATIONS AND THE MANAGEMENT RESPONSES.

No, a management letter was not issued.



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, management conflicts of interest, contingent liabilities, or significant unusual transactions identified.

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), State Title and Registration System (STARS), Construction Automated Records System (CARS), Contract Management System, Preliminary Automated Construction Electronic Records (PACER), Drivers License Master (DL3), Motor Carrier Systems, Professional Flight Management System and Fleet Management Systems are high-risk information technology systems critical to the North Dakota Department of Transportation.

Financial Statements

Statement of Revenues and Expenditures

REVENUES AND OTHER SOURCES	JUNE 30, 2019	JUNE 30, 2018
Federal Revenue	\$ 324,261,545	\$ 261,331,670
Motor Vehicle Excise Tax	136,715,026	125,438,102
Licenses, Permits and Fees	123,059,072	118,258,571
Political Subdivisions Cost Share	33,013,067	30,050,791
Fleet Services	29,888,311	29,059,011
Sale of Assets	5,149,762	4,782,039
Miscellaneous Revenue	2,338,373	1,514,376
Indirect Cost Recoveries	1,245,916	1,303,474
Highway Damage Claims	1,272,689	(13,422)
Transfers In - Highway Tax Dist Fund	184,724,624	177,669,497
Transfers In - Abandoned Vehicle Fund	122,702	235,385
Totals	\$ 841,791,087	\$ 749,629,494

Source: ConnectND Financials

Continued on following page

Financial Statements

Statement of Revenues and Expenditures

EXPENDITURES AND OTHER USES	JUNE 30, 2019	JUNE 30, 2018
Highway, Contractor and Easement Payments	\$ 390,917,239	\$ 397,655,101
Salaries and Benefits	93,263,409	93,184,918
Grants	39,609,929	55,168,276
Engineers/Engineering Consultants	45,197,425	41,689,739
Road Maintenance Supplies	22,844,086	20,393,548
Fleet Vehicles/Vehicle Repairs	19,289,012	15,619,122
Travel	15,914,665	15,057,899
Information Technology Services	8,767,405	9,257,867
Other Professional Fees and Services	6,130,523	7,922,992
Building Construction/Land Purchases	2,538,690	7,799,532
Road Maintenance Equipment	5,592,910	3,917,966
Operating Fees and Services	4,908,538	3,802,085
Supplies and Equipment	5,667,419	2,621,380
Repairs	4,412,790	3,174,107
Utilities	2,657,110	2,635,432
Rentals and Leases	820,160	1,165,860
Transfers Out	1,403,685	761,494
Total Expenditures and Other Uses	\$ 669,934,995	\$ 681,827,318

Source: ConnectND Financials

Statement of Appropriations

For the Biennium Ended June 30, 2019

EXPENDITURES BY LINE ITEM	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATION
Salaries and Wages	\$ 201,765,341	\$ 186,439,278	\$ 15,326,063
Operating Expenses	229,267,671	199,035,770	30,231,901
Capital Improvements	766,217,219	639,757,881	126,459,338
Construction Carryover	12,537,147	12,536,357	790
Enhanced State Highway Invest	291,686,577	215,954,851	75,731,726
Grants	86,254,637	45,167,660	41,086,977
County & Township Road Program	10,661,144	10,661,144	0
Non-Oil Producing Counties	34,920,606	34,920,606	0
Totals	\$ 1,633,310,342	\$ 1,344,473,547	\$ 288,836,795

EXPENDITURE BY SOURCE	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATION
General	\$ 38,016,031	\$ 25,016,031	\$ 13,000,000
Other	1,595,294,311	1,319,457,516	275,836,795
Totals	\$ 1,633,310,342	\$ 1,344,473,547	\$ 288,836,795

Source: ConnectND Financials



Status of Prior Recommendations

Inadequate Procedures Surrounding Revenue Collections (Finding 2017-1)

Implemented

Recommendation: We recommend the Bismarck Motor Vehicle Office of the North Dakota Department of Transportation have controls in place on fee overrides in the STARS system to ensure the correct fees are being charged according to the North Dakota Century Code.

Status: Implemented. The North Dakota Department of Transportation has implemented controls where the accounting division reviews 10% of the Bismarck office overrides and 100% of the other branch office overrides (overrides of DOT fees only – not branch fees).

Non-State Employees on State Airplane (Finding 2017-2)

Implemented

Recommendation: The State Auditor recommends the Department of Transportation discontinue providing air transportation services to non-state employees without a business purpose.

Status: Implemented. We will consider their use of the 'temporary state volunteers' to be reasonable determination for why the non-state employees were on the airplane during the prior audit.

Liability for Non-State Employees (Finding 2017-3)

Implemented

Recommendation: The State Auditor recommends the Department of Transportation ensure the state is not exposed to additional risk for non-state employees traveling on state-owned airplanes.

Status: Implemented. Based on our determination in (Finding 2) above, review of the current insurance policy, and discussion with the North Dakota Insurance Department the current insurance policy covers all individuals traveling on state-owned airplanes.

Unsupported Flights (Finding 2017-4)

Implemented

Recommendation: The State Auditor recommends the Department of Transportation require all agencies to submit a Request for Air Transportation to establish the business purpose of the trip.

Status: Implemented. Based on our testing of a sample of 34 flights by the state airplane, we noted the Request for Air Transportation form was being used as recommended.




NORTH DAKOTA STATE AUDITOR
JOSHUA C. GALLION

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