

Aeronautics Commission

BISMARCK, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2017

Joshua C. Gallion
State Auditor

Office of the State Auditor
Division of State Audit

Report Highlights

Internal Control: We evaluated and tested the high-risk areas of revenues and expenditures (including procurement and purchase card transactions).

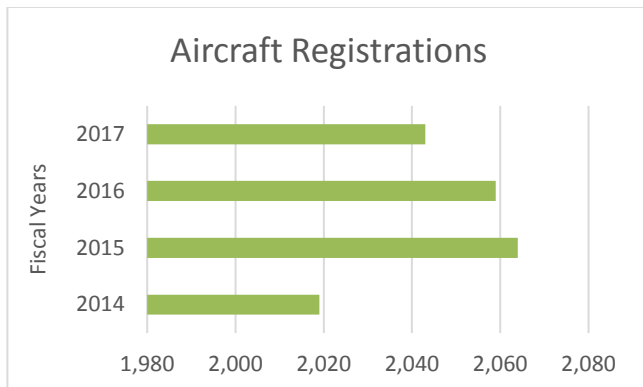
- We did not note any deficiencies that are required to be brought to the attention of those charged with governance.

legislative intent: We evaluated and tested high-risk areas including proper use of special funds and appropriation laws.

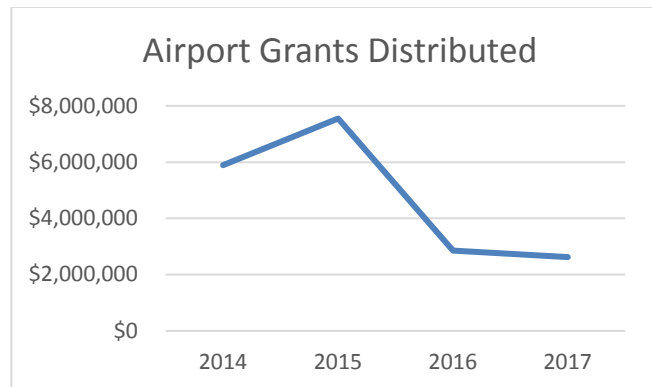
- We concluded there was compliance with the legislative intent.

Financial:

- The decrease in revenue from fiscal year 2016 to 2017 relates to the federal reimbursement received in fiscal year 2016 for the Aviation Impact Study and Pavement Condition Index Study, which were performed and completed that year. The decrease in consulting and engineering services expenditures between fiscal year 2016 and 2017 relates to the consulting required to complete the Aviation Impact Study and Pavement Condition Index Study in fiscal year 2016.



Source: Aviation Information Management system



Source: ConnectND amounts

**LEGISLATIVE AUDIT AND FISCAL REVIEW
COMMITTEE MEMBERS**

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Representative Chet Pollert – Vice Chairman**

Representatives

**Bert Anderson
Patrick Hatlestad
Mary Johnson
Keith Kempenich
Gary Kreidt
Andrew G. Maragos
Mike Nathe
Marvin E. Nelson
Wayne A. Trottier**

Senators

**Dwight Cook
Judy Lee
Richard Marcellais**

AUDITOR AND AGENCY PERSONNEL

State Auditor Personnel

**Paul Welk, CPA, Audit Manager
Jacqueline Ressler, In-Charge
Megan Reis, Staff Auditor**

Primary State Agency Contacts

**Kyle Wanner, Director
Gaye Niemiller, Admin. Officer**

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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

March 27, 2018

The Honorable Doug Burgum, Governor
Members of the North Dakota Legislative Assembly
Mr. Kyle Wanner, Director

We are pleased to submit this audit of the Aeronautics Commission for the biennium ended June 30, 2017. 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.

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 Director Wanner and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,
/S/

Joshua C. Gallion
State Auditor

Executive Summary

Introduction

The North Dakota Aeronautics Commission was established in 1947 by the State Legislature assigning responsibility for the state's aviation functions. The Governor appoints the five members of the Aeronautics Commission to the board for terms of office of five years. The Commission staff is composed of the Director and a support staff.

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies. Those items and the Office of the State Auditor's 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 Aeronautics Commission in accordance with generally accepted accounting principles, so an opinion is not applicable. The agency's transactions were tested and included in the state's basic financial statements on which an unmodified 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?

Yes.

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

No.

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

The Aeronautics Commission has implemented all 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 11 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, 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 Aeronautic Commission's financial statements do not include any significant accounting estimates.

9. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

10. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

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

None.

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

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

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

None.

14. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

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

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the Aeronautics Commission for the biennium ended June 30, 2017 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the Aeronautics Commission's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the Aeronautics Commission and are they in compliance with these laws?
3. Are there areas of the Aeronautics Commission's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of the Aeronautics Commission is for the biennium ended June 30, 2017. 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 Aeronautics Commission's sole location is its Bismarck office which was included in the audit scope.

Audit Methodology

To meet the objectives outlined above, we:

- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report.
- 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 Aeronautics Commission's processes and procedures.

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

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Revenues:		
Aircraft Excise Tax	\$1,178,905	\$1,168,880
Federal Revenue	82,820	822,181
Aircraft Licenses and Registrations	116,808	112,407
Miscellaneous Revenue	6,545	4,924
Total Revenues	<u>\$1,385,078</u>	<u>\$2,108,392</u>
Expenditures:		
Grants to Airports	\$2,624,524	\$2,850,591
Salaries and Benefits	607,777	628,392
Supplies	98,721	33,865
Repairs	67,441	63,655
Rental of Rooms, Buildings, and Equipment	47,367	46,148
Informational Technology Services	38,659	65,986
Consulting and Engineering Services	26,506	972,914
Travel	18,837	19,143
Printing	16,719	8,976
Professional Development	14,537	14,277
Insurance	6,852	7,086
Postage	5,756	6,502
Equipment Under \$5,000	1,145	1,388
Miscellaneous Expenses	18,287	24,907
Total Expenditures	<u>\$3,593,128</u>	<u>\$4,743,830</u>

Statement of Appropriations

For the Biennium Ended June 30, 2017

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 1,447,637		\$ 1,447,637	\$ 1,225,818	\$ 221,819
Operating Expenses	2,075,190		2,075,190	1,648,037	427,153
Capital Assets Construction	300,000		300,000		300,000
Carryover		1,888,909	1,888,909	1,226,045	662,864
Grants	7,434,500		7,434,500	4,237,058	3,197,442
Totals	<u>\$ 11,257,327</u>	<u>\$ 1,888,909</u>	<u>\$ 13,146,236</u>	<u>\$ 8,336,958</u>	<u>\$ 4,809,278</u>
Expenditures by Source:					
General Fund	\$ 934,500		\$ 934,500	\$ 934,500	
Other Funds	10,322,827	\$ 1,888,909	12,211,736	7,402,458	\$ 4,809,278
Totals	<u>\$ 11,257,327</u>	<u>\$ 1,888,909</u>	<u>\$ 13,146,236</u>	<u>\$ 8,336,958</u>	<u>\$ 4,809,278</u>

Internal Control

In our audit for the biennium ended June 30, 2017, we identified the following areas of the Aeronautics Commission's internal control as being the highest risk:

Internal Controls Subjected to Testing:

- Controls surrounding the segregation of duties and reconciliation procedures to ensure proper receipt and deposit of revenue collections.
- Controls surrounding the approval of expenditures and correcting entries in the ConnectND (PeopleSoft) system.
- Controls surrounding the reconciliation and approval of state purchase card expenditures.
- Controls surrounding the ConnectND (PeopleSoft) system.

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 internal control was adequate.

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: misstatements in financial or performance information, violations of laws and regulations, or impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any significant deficiencies in internal control. However, we noted a matter involving internal control that we have reported to management of the Aeronautics Commission in a management letter dated March 27, 2018.

Compliance with Legislative Intent

In our audit for the biennium ended June 30, 2017, we identified and tested Aeronautics Commission's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Proper deposit of the aircraft excise tax to the Aeronautics Commission special fund in accordance with NDCCC 57-40.5-09.
- Proper deposit of the aircraft registration fees to the Aeronautics Commission special fund in accordance with NDCC 2-05-11.
- Proper deposit of permanent aircraft registration fees to the Aeronautics Commission special fund in accordance with NDCC 2-05-11.3.
- Proper deposit of aerial sprayer license fees to the Aeronautics Commission special fund in accordance with NDCC 2-05-18.
- Proper deposit of aircraft dealer license fees to the Aeronautics Commission special fund in accordance with NDCC 2-08-03.
- Proper deposit of ultralight vehicle dealer license fees to the Aeronautics Commission special fund in accordance with NDCC 2-08-04.
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations (2015 North Dakota Session Laws, chapter 6).
- Compliance with OMB's Purchasing Procedures Manual and Purchase Card Manual.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including record-keeping, annual inventory, and surplus property in accordance with OMB policy.
- Compliance with payroll-related laws, including statutory salaries for appointed positions, and certification of payroll.
- Proper use of the Bank of North Dakota as a depository for credit card revenue in accordance with 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above.

Operations

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

Management Letter (Informal Recommendations)

March 27, 2018

Mr. Kyle Wanner, Executive Director
Aeronautics Commission
PO Box 5020
Bismarck, ND 58502

Dear Mr. Wanner:

We have performed an audit of the Aeronautics Commission for the biennium ended June 30, 2017, and have issued a report thereon. As part of our audit, we gained an understanding of the Aeronautics Commission's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted a certain condition we did not consider reportable within the context of your audit report. This condition relates 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 recommendation to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if this recommendation has been implemented, and if not, we will reconsider its status.

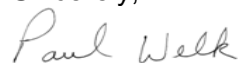
The following presents our informal recommendation.

Informal Recommendation 17-1: We recommend the Aeronautics Commission ensure all purchase card statements are approved and the agency-wide statement is reconciled by the purchase card administrator.

Management of Aeronautics Commission agreed with this recommendation.

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,



Paul Welk, CPA
Audit Manager

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Division of State Audit

Office of the State Auditor
600 East Boulevard Avenue – Department 117
Bismarck, ND 58505-0060

(701) 328-2241