

Department of Transportation

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

Office of the State Auditor

Department of Transportation Report Highlights

Internal Control: We evaluated and tested high-risk areas including: revenue, expenditures (including correcting entries and purchase card transactions), fixed assets, inventory, receivables, payroll, State Title and Registration System (STARS), Construction Automated Records System (CARS), Contract Management System, Preliminary Automated Construction Electronic Records System (PACER), Drivers License Master System, Motor Carrier Online System, and the Fuel File Fleet Management System.

- The North Dakota Department of Transportation requires approval on only five of their thirty-nine types of fee overrides within the State Title and Registration System (STARS). Individuals who override these fees can also approve them.

Legislative Intent: We evaluated and tested high-risk areas including: required transfers, proper use of restricted funds, statutory revenue rates (fees), procurement laws, and appropriation laws.

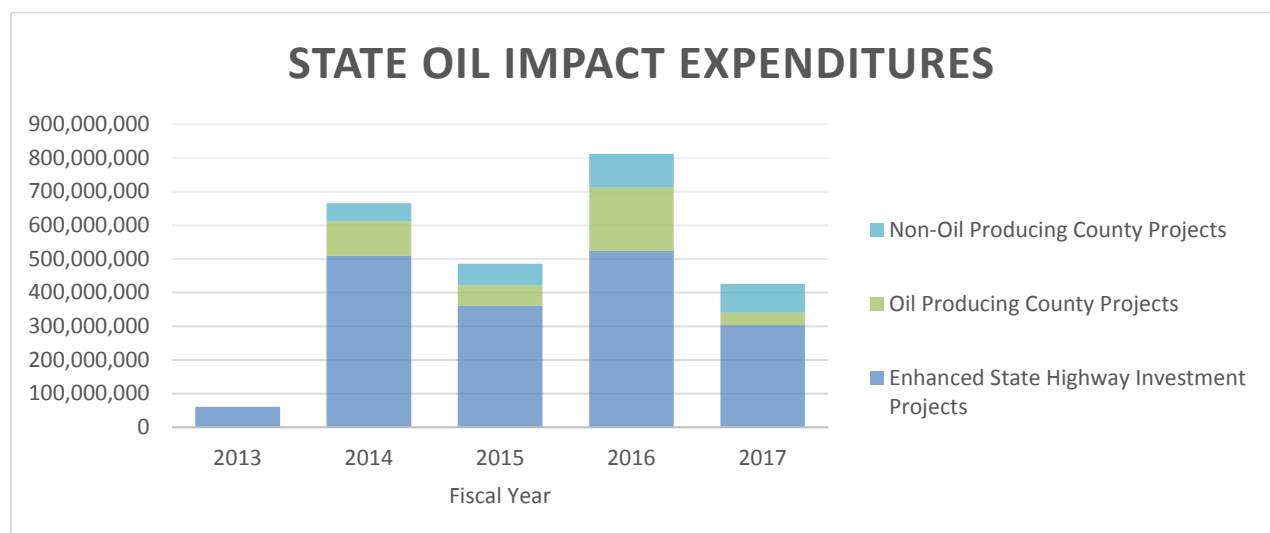
- We concluded there was compliance with the legislative intent.

Operations: We evaluated the following operational areas of the North Dakota Department of Transportation and did not note any deficiencies that are required to be brought to the attention of those charged with governance:

- Auto Dealer Remittance of Sales Taxes/Fees
- State and Community Highway Safety Grant
- State Oil Impact Grant

Financial:

- The increase in federal revenue in fiscal year 2017 relates to more federal funded projects that were started during the year. Transfers in from the Strategic Investments and Improvements Fund decreased from \$240,500,000 in fiscal year 2016 to \$3,500,000 in fiscal year 2017.
- The decrease in expenditures in fiscal year 2017 was due to several state oil impact projects for enhanced state highway investments, non-oil producing counties, and oil producing counties being completed in 2016. With a majority of the oil impact money spent in fiscal year 2016, the projects began to taper off in fiscal year 2017.



Source: ConnectND (state's accounting system).

**LEGISLATIVE AUDIT AND FISCAL REVIEW
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State Auditor Personnel

**Cindi Pedersen, CPA, Audit Manager
Delan Hellman, In-Charge
Kevin Scherbenske, CPA, Auditor
Andrea Wike, Auditor
Dustin Walcker, Auditor
Dina Cashman, CPA, Auditor
Erin Maslowski, Auditor**

Department of Transportation Contacts

**Thomas Sorel, Director
Shannon Sauer, CPA, Director of Fiscal
Management**

Contents

<i>Transmittal Letter</i>	<i>1</i>
<i>Executive Summary</i>	<i>2</i>
<i>Introduction</i>	<i>2</i>
<i>Responses to LAFRC Audit Questions</i>	<i>2</i>
<i>LAFRC Audit Communications</i>	<i>3</i>
<i>Audit Objectives, Scope, and Methodology</i>	<i>5</i>
<i>Financial Statements</i>	<i>7</i>
<i>Statement of Revenues and Expenditures</i>	<i>7</i>
<i>Statement of Appropriations</i>	<i>8</i>
<i>Internal Control</i>	<i>10</i>
<i>State Title and Registration System (STARS) Fee Overrides Control Weakness (Finding 17-1)</i>	<i>11</i>
<i>Compliance With Legislative Intent</i>	<i>12</i>
<i>Operations</i>	<i>15</i>
<i>Auto Dealer Remittance of Sales Taxes/Fees</i>	<i>15</i>
<i>State and Community Highway Safety Grant</i>	<i>15</i>
<i>State Oil Impact Grant</i>	<i>16</i>
<i>Management Letter (Informal Recommendations)</i>	<i>17</i>



STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
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BISMARCK, NORTH DAKOTA 58505

Transmittal Letter

May 15, 2018

The Honorable Doug Burgum, Governor
Members of the North Dakota Legislative Assembly
Mr. Thomas Sorel, Director, North Dakota Department of Transportation

We are pleased to submit this audit of the North Dakota Department of Transportation 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.

Cindi Pedersen, 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 Mr. Sorel 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 State Highway Commission was created in 1913. North Dakota Century Code (NDCC) Title 24 changed the North Dakota State Highway Commission to the North Dakota Department of Transportation (DOT) in 1989. The DOT is responsible for the construction, maintenance, protection, and control of the highways comprising the state highway system.

The DOT is charged with spending state highway funds as to the following priority: 1) maintenance of the state highway system and 2) 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 for construction, improvement, or maintenance of the state highways (NDCC 24-02-37).

In addition to the state highway system, NDCC 39-01-01.1 describes the general responsibilities of the Drivers License and Traffic Safety Division and the 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 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. The director of the DOT also 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 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 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.

3. Was internal control adequate and functioning effectively?

Other than our finding addressing the "State Title and Registration System (STARS) Fee Overrides Control Weakness" (page11), 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?*

The North Dakota Department of Transportation has implemented the recommendation 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 17 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 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, and Fleet Management Systems are high-risk information technology systems critical to the North Dakota Department of Transportation.

Audit Objectives, Scope, and Methodology

Audit Objectives

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

Audit Scope

This audit of the North Dakota Department of Transportation 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 North Dakota Department of Transportation has its Bismarck office in the State Capitol and eight district offices. District office financial activity is processed through the central office and included in the scope of this audit.

- 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

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 the North Dakota Department of Transportation's processes and procedures.
- Performed a detailed review of the State and Community Highway Safety Grant funds including:
 - Application review;
 - Pre-award process;
 - Monitoring; and
 - Reporting.
- Performed a detailed review of the State Oil Impact Grant funds including:
 - Application review;
 - Pre-award process;
 - Monitoring; and
 - Reporting.

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>
<u>Revenues and Other Sources:</u>		
Federal Revenue	\$ 316,041,543	\$ 246,039,485
Motor Vehicle Excise Tax	126,565,580	116,651,688
Licenses, Permits, and Fees	119,347,960	123,442,910
Political Subdivisions Cost Share	26,653,547	27,868,402
Fleet Services	13,193,136	12,950,922
Sale of Assets	4,014,684	4,811,747
Highway Damage Claims	2,172,765	3,054,205
Miscellaneous Revenue	1,216,184	1,487,489
Indirect Cost Recovery	1,163,848	1,282,763
Transfer in from Highway Tax Distribution Fund	169,349,983	175,458,944
Transfers in from Strategic Investments and Improvements Fund	3,500,000	240,500,000
Other Transfers In	54,119	19,073,680
Total Revenues and Other Sources	<u>\$ 783,273,349</u>	<u>\$ 972,622,235</u>
<u>Expenditures and Other Uses:</u>		
Salaries and Benefits	\$ 97,150,535	\$ 99,674,897
Highway Contractor and Easement Payments	574,966,520	733,160,362
Grants	146,277,125	310,453,898
Engineers/Engineering Consultants	60,039,635	73,417,511
Road Maintenance Supplies	23,272,071	22,997,432
Fleet Vehicles/Vehicle Repairs	17,166,018	20,109,122
Travel	16,107,649	15,982,385
Other Professional Fees and Services	9,213,942	8,987,246
Supplies and Equipment	8,730,877	7,871,191
Building Construction / Land Purchases	7,881,414	9,219,797
IT Services	6,300,730	11,651,953
Operating Fees and Services	5,396,750	5,614,981
Road Maintenance Equipment	4,895,247	1,013,823
Repairs	3,506,203	3,296,123
Utilities	2,777,701	2,230,127
Rentals and Leases	1,596,676	1,463,234
Transfers Out	3,357,736	1,161,502
Total Expenditures and Other Uses	<u>\$ 988,636,829</u>	<u>\$1,328,305,584</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	\$ 207,778,278	\$ 2,472,542	\$ 210,250,820	\$ 196,825,432	\$ 13,425,388
Operating Expenses	395,818,821	(123,396,637)	272,422,184	195,730,116	76,692,068
Capital Improvements	1,107,696,960	(378,488,142)	729,208,818	607,221,468	121,987,350
Construction Carryover		23,900,420	23,900,420	23,853,329	47,091
Enhanced State Highway Invest	484,690,000	700,698,926	1,185,388,926	827,402,348	357,986,578
Grants	70,852,530	2,601,992	73,454,522	37,828,505	35,626,017
County & Township Road Program	240,000,000	(2,690,601)	237,309,399	226,648,255	10,661,144
Non-Oil Producing Counties	216,664,000	2,255,956	218,919,956	183,999,350	34,920,606
General Fund Transfer	471,038,389	18,000,000	489,038,389	489,038,389	
General License Plate Issue		6,820,000	6,820,000	6,820,000	
Totals	<u>\$ 3,194,538,978</u>	<u>\$ 252,174,456</u>	<u>\$ 3,446,713,434</u>	<u>\$ 2,795,367,192</u>	<u>\$ 651,346,242</u>
Expenditures by Source:					
General Fund	\$ 593,382,959	\$ 21,695,104	\$ 615,078,063	\$ 590,062,031	\$ 25,016,032
Other Funds	2,601,156,019	230,479,352	2,831,635,371	2,205,305,161	626,330,210
Totals	<u>\$ 3,194,538,978</u>	<u>\$ 252,174,456</u>	<u>\$ 3,446,713,434</u>	<u>\$ 2,795,367,192</u>	<u>\$ 651,346,242</u>

Expenditures Without Appropriations of Specific Amounts:

The North Dakota Department of Transportation has a continuing appropriation authority for sale of road materials from the Highway Fund authorized by NDCC section 24-02-35.2 (\$75,921 of expenditures for this biennium).

The Public Transportation Fund has a continuing appropriation authorized by NDCC section 39-04.2-04 (\$8,925,869 of expenditures for this biennium).

The Insurance Recovery Fund has a continuing appropriation authorized by NDCC section 54-44.1-09.1 (\$967,146 of expenditures for this biennium).

The Driver's License Trust Fund is authorized by NDCC section 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 (\$60,000 of expenditures for this biennium).

General Fund Transfer Line

The General Fund Transfer line item (\$489,038,389) is not included on the Statement of Revenues and Expenditures as they are transfers from the General Fund to the Highway Fund, Special Roads Fund, and Public Transportation Fund. As these monies are spent out of these respective funds, they are reported as expenditures on the Statement of Revenues and Expenditures.

Internal Control

In our audit for the biennium ended June 30, 2017, we identified the following areas of the North Dakota 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 ConnectND (PeopleSoft) system.
- Controls surrounding the following information systems:
 - State Title and Registration System (STARS)
 - Construction Automated Records System (CARS)
 - Contract Management System
 - Preliminary Automated Construction Electronic Records System (PACER)
 - Drivers License Master System (DL3)
 - Motor Carrier Online System
 - Fuel File Fleet Management 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 that internal control was not adequate noting a certain matter involving internal control and its operation that we consider to be a significant deficiency.

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 identified the following significant deficiency in internal control.

State Title and Registration System (STARS) Fee Overrides Control Weakness (Finding 17-1)

Condition:

The North Dakota Department of Transportation requires approval on only five of their thirty-nine types of fee overrides within the State Title and Registration System (STARS). Individuals who override these fees can also approve them. There have been 86,274 overrides for \$385,788 of fees since the STARS system started in June of 2016 to June 30, 2017 with 4,911 overrides for \$122,840 of fees being completed at the Bismarck Motor Vehicle Office. All the motor vehicle branch offices of the DOT have adequate compensating controls for STARS system fee overrides except for the Bismarck Motor Vehicle Office.

Criteria:

Proper segregation of duties are identified as critically important controls by the “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States (Green Book, GAO-14-704G para.10.02), management designs control activity procedures to achieve an effective internal control system.

Cause:

The North Dakota Department of Transportation failed to ensure proper controls were in place surrounding the ability to override fees charged within the STARS system.

Effect or Potential Effect:

The North Dakota Department of Transportation is at risk of clerks overriding fees without proper authorization which could result in the fee not being charged the correct amount according to the North Dakota Century Code (NDCC). Additionally, there is a potential for fraud given that the same person can override a fee and approve the same override.

Recommendation:

We recommend the Bismarck Motor Vehicle Office of the North Dakota Department of Transportation have controls in place on fee overrides in the State Title and Registration System (STARS) system to ensure the correct fees are being charged according to the North Dakota Century Code.

North Dakota Department of Transportation Response:

The NDDOT Motor Vehicle division agrees with the finding and will implement the recommendation.

Compliance with Legislative Intent

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

- Proper allocation of \$280,000,000 among oil-producing counties (2013 North Dakota Session Laws, House Bill 1358, section 5 (1) and (4) and section 6 (1) and (4)).
- The transfer from the General Fund to the Highway Fund was completed properly (2015 North Dakota Session Laws, House Bill 1012, section 4).
- \$1,000,000, or as much as necessary, was used for reimbursing costs incurred from motor coach operations (2015 North Dakota Session Laws, House Bill 1012, section 5).
- The transfer from the General Fund to the Special Road Fund was completed properly (2015 North Dakota Session Laws, House Bill 1012, section 6).
- The transfer from the Strategic Investments and Improvements Fund to the State Rail Fund was completed properly for the short line railroad program (2015 North Dakota Session Laws, House Bill 1012, section 7).
- Study completed on the impacts of harmonizing truck size and weight regulations on states (2015 North Dakota Session Laws, House Bill 1012, section 9).
- The transfers from the General Fund to the Public Transportation Fund were completed properly (2015 North Dakota Session Laws, House Bill 1012, section 11).
- The amount of funding carried forward from the prior biennium was properly used for highway-rail grade crossing safety projects (2015 North Dakota Session Laws, House Bill 1012, section 13).
- The amount of funding carried forward from the prior biennium was properly used for road grade raising grants (2015 North Dakota Session Laws, House Bill 1012, section 15).
- Proper use of \$18,000,000 for state highway investments transferred from the General Fund to the Highway Fund (2015 North Dakota Session Laws, Senate Bill 2015, section 6).
- Proper use of \$20,000,000 for enhanced state highway investments (2015 North Dakota Session Laws, Senate Bill 2015, section 7 (1)).
- Proper distribution of \$352,000,000 to counties for road and bridge infrastructure needs (2015 North Dakota Session Laws, Senate Bill 2103, section 2 (1) – (3b)).
- Proper use of \$450,000,000 for construction and maintenance of state transportation infrastructure (2015 North Dakota Session Laws, Senate Bill 2103, section 4).
- Proper distribution of \$112,000,000 to non-oil-producing counties (2015 North Dakota Session Laws, House Bill 1176, section 4).
- Restricted drivers licenses issued properly (North Dakota Century Code (NDCC) 39-06-17).
- Proper recording of points against driving records (NDCC 39-06.1-10).
- The transfer from the Abandoned Motor Vehicle Disposal Fund to the Highway Fund was completed properly (NDCC 39-26-12).

- Proper reports were received from transportation network companies (NDCC 39-34-05).
- Contractors showed proof that all delinquent income, sales, or use taxes owed to the state were paid prior to entering into a public contract (NDCC 43-07-11.1).
- Compliance with North Dakota resident preference in contracts law (NDCC 43-07-20).
- Proper use of the following legally restricted funds:
 - Motor Vehicle Fund (NDCC 39-04-39.3, 39-05-30)
 - Motorcycle Safety Fund (NDCC 39-28-02 to 39-28-05)
 - Dealer Enforcement Fund (NDCC 39-22-05.1)
 - Special Road Fund (NDCC 24-02-37(3))
 - Public Transportation Fund (NDCC 39-04.2-02, 39-04.2-04)
 - State Rail Fund (NDCC 49-17.1-02, 49-17.1-02.1)
 - Drivers License Trust Fund (NDCC 39-16-10)
- Application of proper statutory rates relating to Motor Vehicle revenue (NDCC Titles 26.1, 39, and 57).
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations (2015 North Dakota Session Laws, House Bill 1012 and NDCC 54-27-10).
- Proper authorization of the North Dakota Department of Transportation's funds.
- Compliance with procurement requirements for construction improvements (NDCC 24-02-07.3, NDCC 24-02-17, NDCC 24-02-19, and NDCC 24-02-22).
- Compliance with bonding requirements for construction improvements (NDCC 24-02-20 and NDCC 24-02-23).
- Compliance with payment to contractor requirements for construction improvements (NDCC 24-02-25).
- Compliance with contractor requirements for construction improvements (NDCC 43-07-02).
- Compliance with procurement and payment requirements for public building projects (NDCC 48-01.2-02.1 and NDCC 48-01.2-13).
- Compliance with OMB's Purchasing Procedures Manual.
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Proper use of the Bank of North Dakota as depository for credit card collections (NDCC 54-06-08.2).
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including record-keeping and surplus property.
- Proper approval of stand-alone computer systems by the ConnectND Steering Committee.
- Compliance with payroll-related laws including statutory salaries for appointed positions.

The criteria used to evaluate legislative intent are the laws as published in the *North Dakota Century Code* and the *North Dakota Session Laws*.

Government Auditing Standards requires auditors to report all instances of fraud and illegal acts unless they are inconsequential within the context of the audit objectives. Further, auditors are required to report significant violations of provisions of contracts or grant agreements, and significant abuse that has occurred or is likely to have occurred.

The results of our tests disclosed no instances of noncompliance that were 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 noncompliance that we have reported to management of the North Dakota Department of Transportation in a management letter dated May 15, 2018.

Operations

Our audit of the North Dakota Department of Transportation included reviewing auto dealer remittance of sales taxes/fees, the state and community highway safety grant, and the state oil impact grant.

Auto Dealer Remittance of Sales Taxes/Fees

Background

According to North Dakota Century Code, auto dealers must submit (within 15/30 days) any sales taxes/fees owed to the North Dakota Department of Transportation before the Department may issue any certificate of title or transfer a certificate of title to vehicle buyers.

Our audit of the North Dakota Department of Transportation's auto dealer remittance of sales taxes/fees process was designed and conducted to meet the following objectives:

- Does the North Dakota Department of Transportation provide a process that ensures the state of North Dakota receives correct sales taxes/fees from the auto dealers timely?
- Does the North Dakota Department of Transportation provide a process that ensures the vehicle buyers receive title and registration timely?

We did not identify any significant issues related to the objectives noted above and all objectives were met. However, we noted certain inconsequential instances involving operations that we have reported to the management of the North Dakota Department of Transportation in a management letter dated May 15, 2018.

State and Community Highway Safety Grant

Background

The State and Community Highway Safety Grant is within the Safety Division of the North Dakota Department of Transportation. The Safety Division serves to reduce traffic crashes and related fatalities and injuries through the development, implementation, and evaluation of programs designed for this purpose. These grant funds may be used for problems identified within the nine national program areas of alcohol and other drug countermeasures, police traffic services, occupant protection, traffic records, emergency medical services, motorcycle safety, pedestrian/bicycle safety, speed control, and roadway safety.

Our audit of the North Dakota Department of Transportation's State and Community Highway Safety Grant program procedures was designed and conducted to meet the following objectives:

- Are policies and procedures in place to ensure that necessary information is adequately conveyed to the grantee?
- Were performance measures properly developed?
- Has a process been developed that ensures the integrity and validity of the selection process?
- Do grant requirements, including such items as grant contract, work plans, and/or status and financial reports facilitate accountability?
- Do monitoring efforts validate financial status, outputs/outcomes, results and continued compliance with grant provisions?
- Does management compile data/information from the grant program operations to be able to assess program performance versus expectations?

We did not identify any significant issues related to the objectives noted above and all objectives were met. However, we did note a certain matter involving operations that we have reported to the management of the North Dakota Department of Transportation in a management letter dated May 15, 2018.

State Oil Impact Grant

Background

The North Dakota Department of Transportation received grant dollars for the State Oil Impact Grant from the State Legislature during the 2013 and 2015 Legislative Sessions. These grant funds are for the purpose of distributions to counties for road and bridge infrastructure needs in both oil-producing counties and non-oil-producing counties. The funds may be used for construction, engineering, and plan development costs to rehabilitate or reconstruct paved and unpaved roads and bridges needed to support oil and gas production and distribution in North Dakota, but may not be used for routine maintenance.

Our audit of the North Dakota Department of Transportation's State Oil Impact Grant program procedures was designed and conducted to meet the following objectives:

- Are policies and procedures in place to ensure that necessary information is adequately conveyed to the grantee?
- Were performance measures properly developed?
- Has a process been developed that ensures the integrity and validity of the selection process?
- Do grant requirements, including such items as grant contract, work plans, and/or status and financial reports facilitate accountability?
- Do monitoring efforts validate financial status, outputs/outcomes, results and continued compliance with grant provisions?
- Does management compile data/information from the grant program operations to be able to assess program performance versus expectations?

We did not identify any significant issues related to the objectives noted above and all objectives were met.

Management Letter (Informal Recommendations)

May 15, 2018

Mr. Thomas Sorel, Director
North Dakota Department of Transportation
608 E. Boulevard Avenue
Bismarck, ND 58505-0700

Dear Mr. Sorel:

We have performed an audit of the North Dakota Department of Transportation for the biennium ended June 30, 2017, and have issued a report thereon. As part of our audit, we gained an understanding of the North Dakota 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.

LEGISLATIVE INTENT

Informal Recommendation 17-1: We recommend the North Dakota Department of Transportation monitor auto dealers to ensure they are in compliance with NDCC section 39-05-17 and remit fees within 15 or 30 days.

Informal Recommendation 17-2: We recommend the North Dakota Department of Transportation ensure all motor vehicle fees are deposited into the proper funds.

OPERATIONAL

Informal Recommendation 17-3: We recommend the North Dakota Department of Transportation's Motor Vehicle Division have an adequate consumer complaint process surrounding sales taxes/fees remittance. Specifically the Department should ensure that:

- Written policies and procedures are developed, documented, and implemented for the complaint handling process;
- There is a method in place to file a complaint that is easily understandable as well as accessible to the general public;
- A process is implemented to ensure all complaints are followed up on in a timely and appropriate manner;
- Management periodically reviews and evaluates complaints.

Informal Recommendation 17-4: We recommend the North Dakota Department of Transportation track the monitoring for their State and Community Highway Safety Grant Program.

Management of North Dakota Department of Transportation agreed with these recommendations.

I encourage you to call me at 328-2241 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,

Cindi Pedersen, CPA
Cindi Pedersen, CPA
Audit Manager

You may obtain audit reports on the internet at:

www.nd.gov/auditor

or by contacting the Office of the State Auditor at:

Email: ndsao@nd.gov

Phone: (701) 328-2241

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