

North Dakota Highway Patrol

BISMARCK, NORTH DAKOTA

Audit Report

For the Two-Year Period Ended
June 30, 2018

Joshua C. Gallion
State Auditor

Office of the State Auditor
Division of State Audit



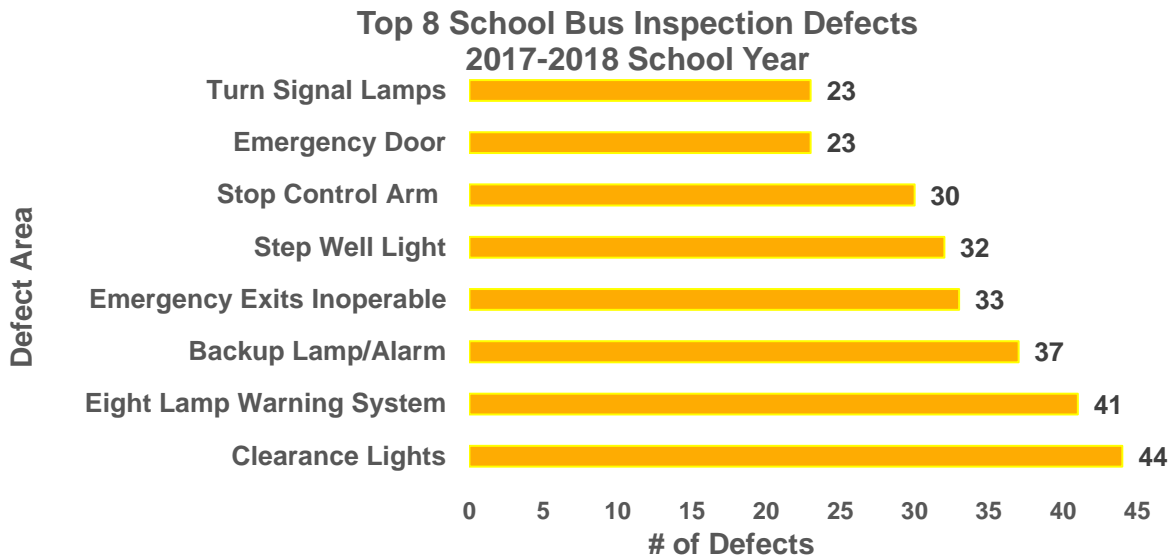
Opportunities to Improve the Safety of Children on School Buses



North Dakota Century Code (NDCC) section 39-21-27.1 authorizes the North Dakota Highway Patrol (NDHP) to complete inspections of school buses and other vehicles used to transport children.

Areas that were noted as opportunities for improvement include noncompliance with internal policies for school bus inspections (Finding 18-1), inaccurate school bus inspection database records (Finding 18-2), and incomplete list of entities and vehicles to be inspected (Finding 18-3).

While the audit identified inaccuracies in the School Bus Inspection data, the 2017-2018 school year had 1,221 vehicles inspected that transport students. 230 of the vehicles inspected had one defect and 123 vehicles had multiple defects. A total of 541 defects were noted. The top 8 inspection defects are shown below.



Source: NDHP School Bus Inspection Database- School Bus Inspection Report for 2017-2018 School Year

Use of Federal Funds Was Not Maximized

Of the six federal grants that closed during our audit, all except one grant returned federal funds, with a total of \$164,583 returned to the Federal Government. Additional errors of \$22,387 were identified in period of performance and matching percentages. If the proper period of performance procedures and matching percentages were used, the State would have returned \$145,075 to the Federal Government and the general fund would have an additional \$41,895.



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Transmittal Letter

March 28, 2019

The Honorable Doug Burgum, Governor
Members of the North Dakota Legislative Assembly
Colonel Brandon Solberg, 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, 2018. 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. Additionally, 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 Colonel Solberg and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

/S/

Joshua C. Gallion
State Auditor

Audit Results

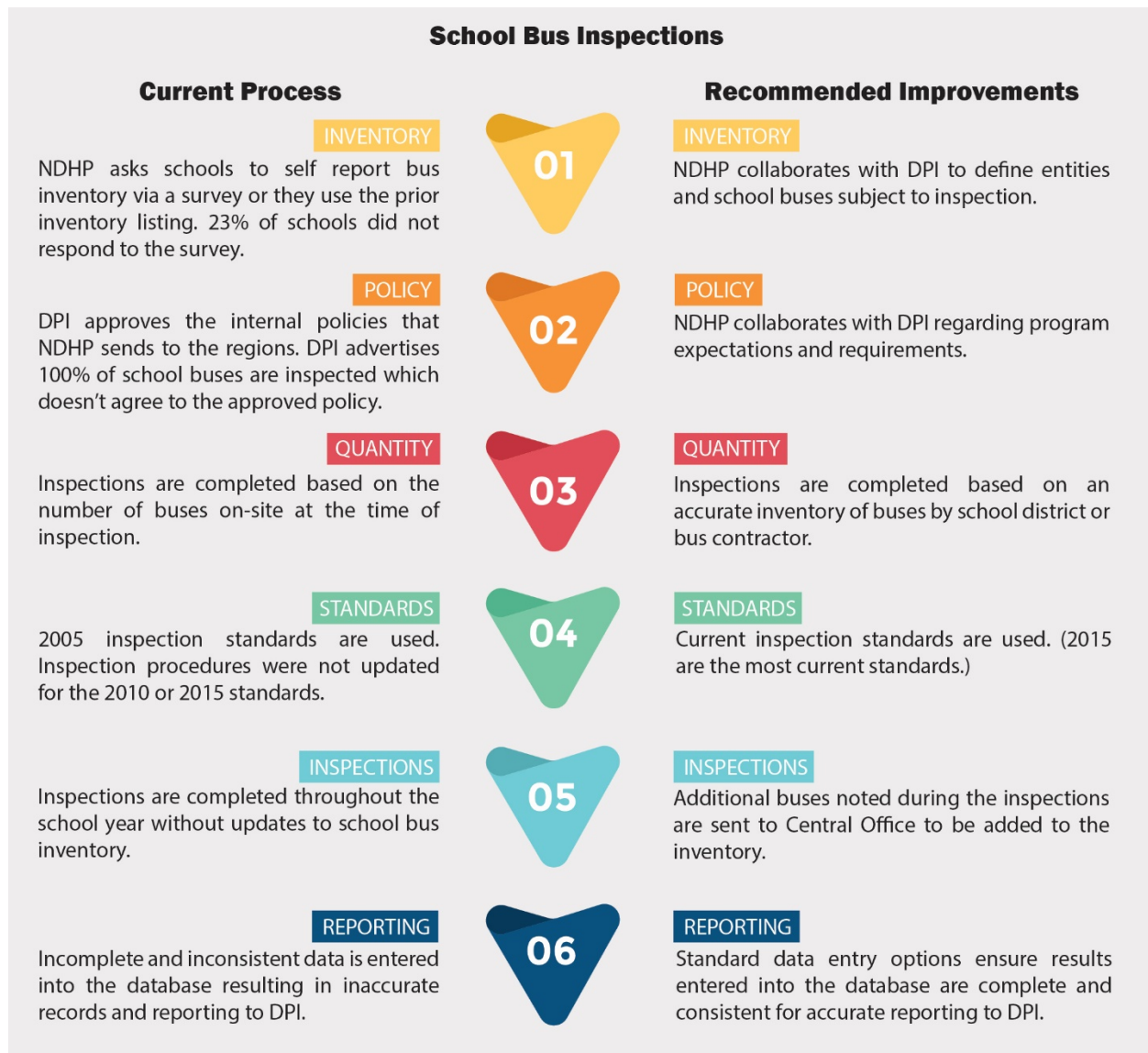
School Bus Inspection Audit Objective

The audit of the School Bus Inspection program was designed and conducted to meet the following objective:

Are there opportunities to improve the safety of children on school buses?

Conclusion

Based on our review, there are opportunities to improve the safety of children on school buses. See infographic of current school bus inspection process and recommended improvements below. These improvements are based on Findings 18-01, 18-02, and 18-03 in this report.



Background Information and Results

North Dakota Century Code (NDCC) section 39-21-27.1 authorizes the North Dakota Highway Patrol (NDHP) to complete inspections of school buses and other vehicles used to transport children.



NDCC 39-21-27.1

Highway patrol officers and all peace officers are authorized to make necessary investigations relating to compliance with the regulations adopted by the superintendent of public instruction and to make reports of their findings to the office of the superintendent of public instruction.

Annual inspections are completed on vehicles that are either owned by the school district or by contracted bus vendors. DPI advertises on their website that over 40,000 students are transported each day to North Dakota schools in school buses and that every year NDHP inspects all district owned school buses in every district to ensure they remain safe to transport our most precious cargo. The DPI March 2015 North Dakota School Bus Driver's Guide also publishes that vehicles used to transport students must be inspected annually by the Highway Patrol. A valid inspection sticker must be visible in the bus.

NDHP follows DPI's North Dakota Administrative Code (NDAC) chapter 67-12-01-03(1) for standards to follow when completing the school bus inspections. This chapter of NDAC references 2005 standards, even though the most current standards were issued in 2015. The 2015 standards include sections on school bus specifications that are subject to inspection, recommended out-of-service criteria, and recommended inspection procedures. Standards are updated and apply to the respective year and newer buses that may have new safety features.

Prior to the 2017-2018 school year, North Dakota Highway Patrol's internal policy was to complete inspections on 100% of school buses. The number of inspections the NDHP completes was changed for the 2017-2018 school year. The internal policy for school bus inspections during the 2017-2018 school year outlined the following requirements.



If the school district has no mechanic on staff, 100% of the school bus fleet will be inspected.



If the school district has a mechanic on staff, 50% of the school bus fleet will be inspected.



A minimum of 10% of the buses which show defects during the initial inspection should be re-inspected no later than 30 days after the initial inspection.

North Dakota Department of Public Instruction advertises 100% of district owned school buses are inspected. This is **not accurate.**

The NDHP is not performing inspections according to internal policies (Finding 18-1). The NDHP also has not defined the qualifications for a 'mechanic', however this term drives how many inspections are to be completed.

NDHP completed 1,221 inspections in the 2017-2018 school year. This does not include inspections that should have been completed due to a lack of a defined and complete list of entities with school buses and the number of school buses subject to inspections. (Finding 18-03). Inspections completed were for buses, vans, buses with airbrakes, and motor coaches with airbrakes. It took an average of 20 minutes and 30 seconds to complete each inspection for the 2017-2018 school year.

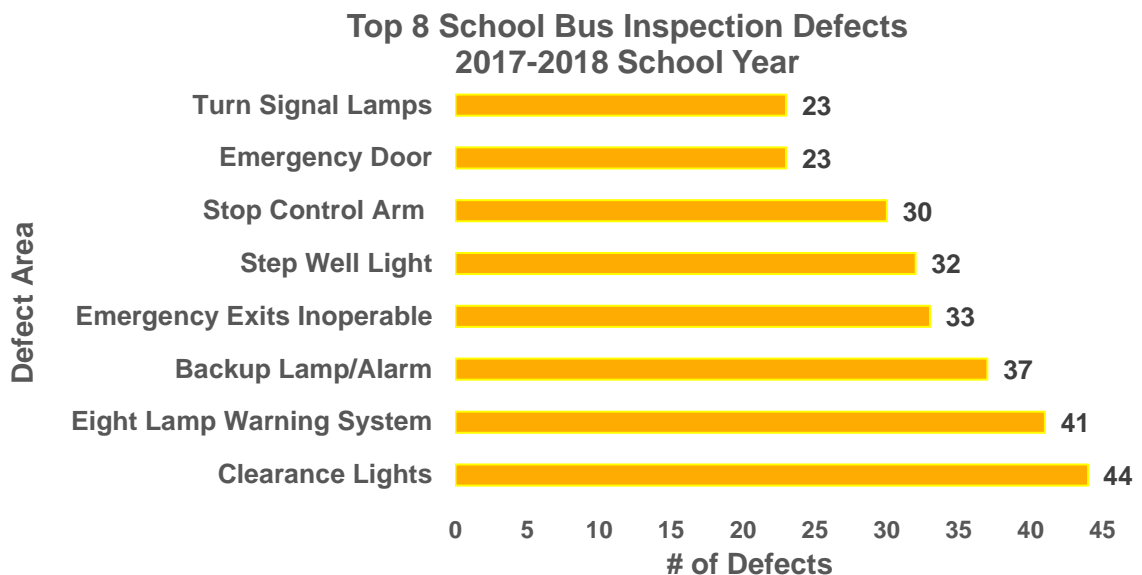
The 2017-2018 school year inspection process began with the Highway Patrol sending out a survey to school districts to self-report school bus information including how many school buses the school district had in their fleet and whether the school bus is serviced by the school district or by the private industry. The results of the survey were compiled into a spreadsheet and the information was sent to the regional commanders. Each region is responsible for trooper inspection assignments and each trooper completes the inspections throughout the school year. School Bus Inspection Form (State Form 11231) is utilized during the inspection process to document the information of the vehicle being inspected as well as any defects the trooper finds. Based on the defects found, the trooper will determine if the bus passed inspection, if the bus does not meet all criteria, but can still operate, or if the bus is unable to operate until the defects are resolved.



★ 20 minutes and 30 seconds

Source: NDHP (418 hours to complete 1,221 inspections for the 2017-2018 School Year.)

A total of 541 defects were noted in the 1,221 inspections that were completed during the 2017-2018 school year. 230 of the vehicles inspected had one defect and 123 vehicles had multiple defects. It is the responsibility of the school district to fix the defects on the vehicles inspected. Inspection results are given to the administrative staff at the region to be entered into the School Bus Inspection Database.



Source: NDHP School Bus Inspection Database- School Bus Inspection Report for 2017-2018 School Year

The School Bus Inspection Database is utilized to store results of the school bus inspections for each school year. Annual school bus inspection results are submitted to the North Dakota Department of Public Instruction. The database tracks various fields and includes unique identifiers including Inspection ID, Bus ID, and School ID. The Inspection ID field links to an inspection that was completed for a public school, private school, or a head start program. The Bus ID field links to a specific bus that was inspected. The School ID links to a specific public school, private school, or head start program. Other fields included in the database include the Inspection Date, School Year, Officer Name and Officer Badge that completed the inspection, Vehicle Make, Vehicle Year, License Number, Bus Number, and Vehicle Type. The records included in the database are not complete and consistent (Finding 18-02).

Noncompliance with Internal Policies for School Bus Inspections (Finding 18-01)

Condition:

The North Dakota Highway Patrol did not perform school bus inspections and re-inspections according to internal policies for the 2017-2018 school year.

Based on the school districts self-reported survey results, there were instances where school buses were reported, however, no inspections were completed. This included school districts with and without a mechanic on staff. There were also instances where the number of school buses self-reported with and without a mechanic on staff did not agree to the number of school buses that were inspected based on internal policies. Finally, the self-reported survey did not require schools to self-report privately owned motor coaches; therefore, the audit could not determine inspections were completed.

The NDHP also did not comply with internal policies on how many re-inspections were required to be completed based on initial school bus inspection results. Of the 1,221 vehicles inspected during the 2017-18 school year, 230 vehicles had one defect and 123 vehicles had multiple defects. As a result, at least 36 buses that did not pass the initial inspection should have been re-inspected. Only 8 vehicles were re-inspected. These re-inspections were completed on vehicles that passed the initial inspection.

Criteria:

The North Dakota Highway Patrol School Bus Inspections Memorandum sent to Regional Commanders on August 1, 2017 for the 2017-2018 school year required:

- For schools without a mechanic on staff, 100% of the school bus fleet to be inspected from August through September 2017.
- For school with a mechanic on staff, 25% of the school bus fleet to be randomly inspected from October through December 2017. An additional 25% to be randomly inspected from January through March 2018.
- For privately owned motor coaches, 25% of the privately-owned motor coaches to be randomly inspected from October through December 2017. An additional 25% to be randomly inspected from January through March 2018.
- A minimum of 10% of the buses which show defects during the initial inspection to be re-inspected no later than 30 days after the initial inspection.

Cause:

The NDHP did not have a complete list of school buses and entities subject to inspection. The NDHP did not develop monitoring procedures to ensure inspection and re-inspection requirements were met.

Effect or Potential Effect:

Schools did not have the required number of school buses inspected during the 2017-2018 school year according to internal policies.

Recommendation:

We recommend the North Dakota Highway Patrol perform school bus inspections and re-inspections according to internal policies.

North Dakota Highway Patrol's Response:

The NDHP agrees with the finding regarding inspections and reinspection's in the fact that they were not conducted as laid out in NDHP policy. Regarding initial inspections and the steps the agency will take to ensure the proper number of buses being reported and inspected, the response to finding 18-03 will further outline the steps to be taken. For a point of clarification regarding re-inspections, the results of the initial inspections are provided to the school district upon completion. The responsibility to correct deficiencies lies with the school districts. The fact that the required number of buses identified by NDHP policy were not reinspected does not provide for a safer program or bus. The NDHP does not have any authority to impose any further fines, penalties, or sanctions on the school district should the reinspected bus be found in non-compliance. The NDHP will be working with the Department of Public Instruction to revise policy to provide a more efficient and meaningful inspection process which is achievable with reduced NDHP staffing.

Inaccurate School Bus Inspection Database Records (Finding 18-02)**Condition:**

The North Dakota Highway Patrol School Bus Inspection Database records are not complete and consistent. The following issues were noted:

- Bus inspections are not reported under the correct school year or school name. The database indicated 1,676 buses inspected under one school district for the 2018-2019 school year.
- School bus inspections are not tracked under an appropriate school name. There is a school name of "Unknown" in the database. There were 56 inspection IDs with the "Unknown" school name.
- Data fields are blank in the School Bus Inspection Database. The following fields were noted: school year (11 inspection IDs), vehicle make (81 Bus IDs), vehicle year (170 Bus IDs), license number (222 Bus IDs), bus number (1713 Bus IDs), vehicle type (161 Bus IDs), officer name (13 inspection IDs), officer badge (51 inspection IDs), and region where the inspection was completed (10 inspection IDs).

- The school year field has inaccurate or single years for the school year. The database contained 9 inspection IDs with a school year of 20009, 2011, 2013, 2014, or 2018.

Criteria:

North Dakota Century Code section 39-21-27.1 authorizes Highway Patrol officers and all peace officers to make reports of their findings for school bus inspections to the office of the superintendent of public instruction.

According to "Standards for Internal Control in the Federal Government" management is required to design the entity's information system to respond to the entity's objectives and risk. Management designs control activities over the information technology infrastructure to support the completeness, accuracy, and validity of information processing by information technology. (GAO-14-704G para 11.02,11.09)

Cause:

The School Bus Inspection Database was not set up within Microsoft Access with proper settings to eliminate the ability to overwrite an inspection record. Also, the system was not setup to require standard inputs for certain fields when entering the inspection results.

Effect or Potential Effect:

Reporting of inspection results to the North Dakota Department of Public Instruction may not be accurate. Required number of vehicles transporting students may not have been inspected.

Recommendation:

We recommend the North Dakota Highway Patrol ensure complete and consistent records are managed and maintained in the School Bus Inspection Database.

North Dakota Highway Patrol's Response:

The NDHP agrees with this finding and is in the process of updating the database to meet the current inspection process. The database inaccuracies did not affect the quality of the inspections conducted on each individual bus as the deficiencies of each bus were still reported individually to the applicable school district. Information from the database did not dictate the quality of the inspection that was conducted on the same bus in subsequent years. The database deficiencies did not have any impact on the overall level of safety provided to the school bus inspection program.

Incomplete List of Entities and Vehicles to be Inspected (Finding 18-03)

Condition:

The North Dakota Highway Patrol does not have a defined and complete list of entities with school buses and the number of school buses subject to inspection. The necessary population has not been defined within regulations adopted by DPI (NDCC section 39-21-27.1). Without a complete list, NDHP is unable to comply with required inspections in internal policies approved by DPI. These inspection policies were in effect starting for the 2017-2018 school year. Discrepancies were noted in selective comparisons of school district and school bus inventory lists of the

Highway Patrol, Department of Public Instruction, and school district self-reported surveys. "Unknown" named school districts were identified in Highway Patrol's inspection records.

Criteria:

According to "Standards for Internal Control in the Federal Government" management should design a process that uses the entity's objective and related risk to identify the information requirements needed to achieve the objectives and address the risks. As change in the entity and its objectives and risks occurs, management should change information requirements as needed to meet these modified objectives and address these modified risks. Management should obtain relevant data from reliable internal and external sources in a timely manner based on the identified information requirements. Management should process the obtained data into quality information that supports the internal control system. Quality information is appropriate, current, complete, accurate, accessible, and provided on a timely basis. (GAO-14-704G para. 13.01,13.03,13.04, 13.05)

Cause:

NDHP's function is to provide the service of school bus inspections in accordance with regulations adopted by DPI. The internal policies approved by DPI do not define entities and buses subject to inspection.

All school districts and contracted bus vendors did not return the self-reported survey; therefore, the NDHP does not have a complete list of school buses subject to inspection.

Effect or Potential Effect:

All school buses transporting students may not have been inspected based on the criteria set by the North Dakota Highway Patrol. Also, reporting of inspection results to the North Dakota Department of Public Instruction may not be accurate.

Recommendation:

We recommend the North Dakota Highway Patrol ensure entity and school bus listings are defined and complete to carry out changes in internal policies.

North Dakota Highway Patrol's Response:

The NDHP agrees with the statement that the list of buses to be inspected is incomplete. As identified in the conditions of this finding, the NDHP does not have an accurate accounting of all the school buses in the state. The NDHP does not have the authority to require all school districts to report the number of buses that they owned, leased, or are contracted by the district to transport students. The NDHP will work with the Department of Public Instruction to better identify the actual number of buses in operation throughout the state. It is our belief that the Department of Public Instruction is the entity which would have the authority, either directly or through the ability to withhold funding to school districts, if they do not meet the conditions of the school bus inspection program.

Scope

The North Dakota Highway Patrol has its Headquarters office in the State Capitol and two state divisions which each consist of two regions. The following areas were included in the scope of this objective:

- Western Division
 - Northwest Region including offices in Williston and Minot.
 - Southwest Region including offices in Bismarck and Dickinson, Law Enforcement Training Academy (LETA), and the Headquarters Office located in the Judicial Wing of the Capitol.
- Eastern Division
 - Northeast Region including offices in Grand Forks and Devils Lake.
 - Southeast Region including offices in Fargo and Jamestown.

The audit scope for school bus inspections included inspections completed in the 2017-2018 school year. This is the school year when the required number of inspections changed from 100% inspections of all school buses to, if the school district did not have a mechanic on staff, 100% inspection of the school bus fleet and, if a mechanic was on staff, 50% inspection of the school bus fleet.

Requirements for school bus drivers were not included in the scope of this objective. It is the responsibility of the school district to ensure bus drivers meet licensing and training requirements.

Methodology

To meet this objective, we:

- Identified state law (North Dakota Century Code and North Dakota Administrative Code) and internal policies and procedures for school bus inspections.
- Interviewed appropriate agency personnel.
- Tested significant controls and compliance areas surrounding school bus inspections.
- Analyzed data from the School Bus Inspection Database. This is a Microsoft Access database.
- Completed a selective comparison of school districts and school buses reported between Highway Patrol, Department of Public Instruction, and school district self-reported surveys.
- Tested inspection guidelines on the number of vehicles that needed to be inspected based on if a mechanic is or is not on staff at the school district or bus contractor.

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

Internal Control

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.

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 deficiencies in internal control that were significant within the context of our audit objective and based upon the audit work performed. See Findings 18-02 and 18-03.

Maximizing use of Federal Funds

An audit of the North Dakota Highway Patrol's federal grants was conducted to meet the following objective:

Is the North Dakota Highway Patrol maximizing their use of federal funds?

Conclusion

The North Dakota Highway Patrol is not maximizing the use of federal funds in accordance with federal grant requirements.

Background Information and Results

The North Dakota Highway Patrol received federal grant awards for the Motor Carrier Safety Assistance Program (MCSAP), New Entrant (NE) and Border Enforcement Program (BEP).

Each grant award is for a specific dollar amount and has a defined period of performance and North Dakota funded match percentage. The period of performance is two years, with a 90-day grace period after the grant period ended for funds to be spent. The match percentage was 80% federal and 20% state for MCSAP and 100% federal for NE and BEP, until the three programs were combined on October 1, 2017. The match percentage was then changed to 85% federal and 15% state. However, the North Dakota Highway Patrol continued to use the prior match percentages until January 1, 2018.

There were six grants that closed during our audit period and all but one grant returned federal funds, with a total of \$164,583 returned to the Federal Government. In one instance, over 25% of the grant was returned. The state receives federal funds on a reimbursement basis.

Of the six grants that closed during our audit period, three grants had transactions after the period of performance charged to the grant. These transactions totaled \$22,387.

We also found instances where excess state general funds were spent above the required match percentage. This resulted in \$41,895 in excess general funds being used for grants that were open during our audit period. Using the proper match percentages would have reduced the amount returned back to the Federal Government by this amount.

Not Maximizing the Use of Federal Funds (Finding 18-04)

Condition:

The North Dakota Highway Patrol (NDHP) is not maximizing the use of federal funds. The NDHP returned a total of \$164,583 of available grant funds to the Federal Government related to six grants that closed during the audit period. In addition, expenditures of \$22,387 were incurred after the period of performance for these grants which should have increased the amount of grant funds returned to \$186,970. Furthermore, incorrect state match percentages for federal grants resulted in \$41,895 paid from the general fund that were not reimbursed from available federal funds. If the correct matching percentages would have been used, \$145,075 would have been returned to the Federal Government in unused grant awards and the general fund would have an additional \$41,895.

Criteria:

Title 49 CFR Part 350.303 states the Federal Motor Carrier Safety Administration will reimburse at least 85% of the eligible costs incurred under the Motor Carrier Safety Assistance Program and High Priority Program. Prior to October 2017, 80% of eligible costs would have been reimbursed.

According to “Standards for Internal Control in the Federal Government”, management should design control activities so that all transactions are completely and accurately recorded. (GAO-14-704G para. 10.03)

Cause:

The Highway Patrol uses a spreadsheet rather than the state’s accounting system (ConnectND) to track matching requirements. Maintaining two sets of financial records without reconciliation, increases the likelihood of errors.

Effect or Potential Effect:

The North Dakota Highway Patrol returned more federal funds than necessary.

Recommendation:

We recommend the North Dakota Highway Patrol ensure procedures are in place to maximize the use of federal grant funds by complying with federal grant requirements.

North Dakota Highway Patrol Response:

The NDHP agrees with the recommendation. Coordination with the federal program managers will be increased to expend grant awards as close to a 12-month fiscal year as possible and to ensure that all federal transactions are incurred within the period of performance. Reconciliations between the PeopleSoft accounting system and supporting spreadsheets will be done on a regular basis to ensure that both federal reimbursements and state match percentages are correct.

We will work with our federal partners to attempt to bring the end of the grant period closer to the end fiscal year making the process more efficient.

Internal Control

We gained an understanding of internal control surrounding this area 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.

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, a deficiency

in internal control that was significant within the context of our audit objectives and based upon the audit work performed is identified in Finding 18-04.

Scope

This audit of the North Dakota Highway Patrol is for the two-year period ended June 30, 2018.

The North Dakota Highway Patrol has its Headquarters office in the State Capitol and two state divisions which each consist of two regions. The following areas were included in the scope of this objective:

- Western Division
 - Northwest Region including offices in Williston and Minot.
 - Southwest Region including offices in Bismarck and Dickinson, Law Enforcement Training Academy (LETA), and the Headquarters Office located in the Judicial Wing of the Capitol.
- Eastern Division
 - Northeast Region including offices in Grand Forks and Devils Lake.
 - Southeast Region including offices in Fargo and Jamestown.

Methodology

To meet this objective, we:

- Interviewed appropriate agency personnel.
- Compared grant award documentation from the Federal Motor Carrier Safety Administration to federal expenditures.
- Queried the state accounting system to ensure all federal funds awarded were spent during the applicable period of performance and in accordance with the State matching percentage requirements.

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

Statutory Audit Requirements

The objective related to our statutory audit requirements is:

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. Defaults are defined as failures to do something required by duty or law. Bonding coverage provides insurance to state agencies for any default or wrongful act on the part of any public employee or public official.

Conclusion

Except for the following findings, no exceptions relating to our statutorily required audit testing were identified.

Lack of Blanket Bond Coverage (Finding 18-05)

Condition:

The North Dakota Highway Patrol did not have blanket bond coverage starting on January 1, 2018 through February 28, 2019. The NDHP collected \$18,375,264 in revenue from January 1, 2018 until the end of the audit period. Blanket bond coverage is determined based on revenue collected by the NDHP in addition to cash and investments.

Criteria:

North Dakota Century Code section 26.1-21-10(1) states each state agency shall apply to be bonded in the fund no less often than on a biennial basis or when a change in coverage is requested, whichever occurs first.

Cause:

The NDHP was not aware of the coverage lapse.

Effect or Potential Effect:

The NDHP would not have had coverage if a claim was made during the time the coverage had lapsed.

Recommendation:

We recommend the North Dakota Highway Patrol obtain blanket bond coverage and ensure that coverage is renewed on a biennial basis.

North Dakota Highway Patrol Response:

The NDHP agrees with the recommendation. The bond coverage was renewed as of March 1, 2019 and will be renewed again by June 30, 2020 to be in line with the next two-year audit period of fiscal years 2019 and 2020.

Improper Capitalization of Assets (Finding 18-06)

Condition:

The North Dakota Highway Patrol did not properly capitalize assets. Assets with a value greater than \$5,000, determined by purchase price plus trade-in value, are required to be capitalized. Testing noted an instance where 26 assets with a total value of approximately \$140,000 were not capitalized.

Criteria:

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

OMB Fiscal and Administrative Policy states that the book value of trade-in plus monetary consideration equals the value of new asset.

Cause:

The NDHP netted the trade-in value of assets with the purchase price.

Effect or Potential Effect:

The NDHP's assets are undervalued and not capitalized.

Recommendation:

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

North Dakota Highway Patrol Response:

The NDHP agrees with the recommendation. Steps will be taken to communicate more between the accounting and property sections so that the capitalized amount of fixed assets will include all actual costs expended. For clarification, the instance noted with the 26 assets were from one purchase of mobile radios where the trade-in value was not calculated into the total price. This was not a widespread issue with 26 different instances.

Scope

The North Dakota Highway Patrol has its Headquarters office in the State Capitol and two state divisions which each consist of two regions. The following areas were included in the scope of this objective:

- Western Division
 - Northwest Region including offices in Williston and Minot.
 - Southwest Region including offices in Bismarck and Dickinson, Law Enforcement Training Academy (LETA), and the Headquarters Office located in the Judicial Wing of the Capitol.
- Eastern Division
 - Northeast Region including offices in Grand Forks and Devils Lake.
 - Southeast Region including offices in Fargo and Jamestown.

Methodology

To meet this objective, we:

- 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 compliance with appropriation laws and regulations and where necessary internal control which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system for data analysis. Significant evidence was obtained from ConnectND.
- Observed the North Dakota Highway Patrols' processes and procedures.
- Reviewed documentary evidence.
- Reviewed adequacy of blanket bond coverage by comparing coverage to state bonding guidelines.
- Performed an analysis and selected a sample of high-risk transactions, including receipts, journal vouchers, expenditures, payroll, and fixed assets, for further testing.

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

Internal Control

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.

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 a deficiency in internal control that was significant within the context of our audit objectives and based upon the audit work performed. See Finding 18-07.

Authority and Standards

This biennial performance audit of the North Dakota Highway Patrol 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* issued by the Comptroller General of the United States. 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 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).

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<u>Revenues and Other Sources:</u>		
Permits and Fees	\$20,617,835	\$16,296,317
DAPL Reimbursement		3,898,467
Federal Revenue	2,602,087	2,318,335
Sales and Use Tax	89,895	91,471
Conference Fees	51,547	50,227
Miscellaneous Revenue	22,305	5,614
Transfers In	5,356,281	2,781,140
Total Revenues and Other Sources	<u>\$28,739,950</u>	<u>\$25,441,571</u>
<u>Expenditures and Other Uses:</u>		
Salaries and Benefits	\$20,439,884	\$23,005,964
Travel	3,018,882	2,832,839
IT Data Processing/Communications	771,179	807,711
Equipment	692,788	1,504,342
Supplies	466,544	1,226,165
Rent	462,308	432,213
Professional Development	266,737	199,882
Repairs	257,187	342,141
Miscellaneous Operating Expenses	205,695	158,392
Food and Clothing	88,901	506,844
Professional Fees and Services	89,796	493,555
Construction		261,482
Transfers Out		132,574
Total Expenditures and Other Uses	<u>\$26,759,901</u>	<u>\$31,904,104</u>

Source: ConnectND Financials

Statement of Appropriations

For the Year Ended June 30, 2018

Expenditures by Line Item:	Final Appropriation	Expenditures	Unexpended Appropriation
Construction Carryover	\$ 28,171		\$ 28,171
Field Operations	<u>59,263,427</u>	<u>\$26,322,309</u>	<u>32,941,118</u>
Total	<u>\$59,291,598</u>	<u>\$26,322,309</u>	<u>\$32,969,289</u>
Expenditures by Source:			
General	\$42,527,428	\$19,208,579	\$23,318,849
Other	<u>16,764,170</u>	<u>\$7,113,730</u>	<u>9,650,440</u>
Total	<u>\$59,291,598</u>	<u>\$26,322,309</u>	<u>\$32,969,289</u>

Source: ConnectND Financials

For the Biennium Ended June 30, 2017

Expenditures by Line Item:	Final Appropriation	Expenditures	Unexpended Appropriation
Construction Carryover	\$ 660,000	\$ 660,000	
Administration	3,550,401	3,430,342	\$ 120,059
Field Operations	58,783,198	55,108,853	3,674,345
Training Academy	<u>38,000</u>	<u>36,900</u>	<u>1,100</u>
Total	<u>\$63,031,599</u>	<u>\$59,236,095</u>	<u>\$3,795,504</u>
Expenditures by Source:			
General	\$44,468,058	\$43,361,177	\$1,106,881
Other	<u>18,563,541</u>	<u>15,874,918</u>	<u>2,688,623</u>
Total	<u>\$63,031,599</u>	<u>\$59,236,095</u>	<u>\$3,795,504</u>

Source: ConnectND Financials

Status of Prior Recommendations

Improper Coding of Expenditures (Finding 16-1)

Recommendation:

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

Status:

Implemented.

Improper Allocation of Payroll (Finding 16-2)

Recommendation:

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

Status:

Implemented. The North Dakota Highway Patrol is allocating payroll expenditures based on actual hours worked on a program.

Correcting Entries Not Properly Supported (Finding 16-3)

Recommendation:

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

Status:

Implemented.

Improper Approvals of Expenditures (Finding 16-4)

Recommendation:

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

Status:

Not Implemented. This finding was also issued in Single Audit finding 2018-044, which covered the same audit period. Therefore, the finding will not be reissued in this report.

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

Recommendation:

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

Status:

Implemented.

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

Recommendation:

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

Status:

Implemented. The North Dakota Highway Patrol is completing monthly reconciliations.

Correcting Entries Not Properly Approved (Finding 16-7)

Recommendation:

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

Status:

Implemented. The North Dakota Highway Patrol is periodically reviewing queries from ConnectND.

Improper Capitalization of Assets (Finding 16-8)

Recommendation:

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

Status:

Implemented. The North Dakota Highway Patrol is including the costs of installation and freight when determining the capitalized value of assets.

LAFRC Responses

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?

This question is not applicable for performance audits. 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?

Other than our findings addressing "noncompliance with internal policies for school bus inspection (page 5), "lack of blanket bond coverage" (page 14) and "improper capitalization of assets" (page 15), 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 "inaccurate school bus inspection database records" (page 6), "incomplete list of entities and vehicles inspected" (page 7), and "not maximizing the use of federal funds" (page 11) we determined internal control was adequate.

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

Other than our work addressing "not maximizing the use of federal funds" (page 11) there were no indications of lack of efficiency in financial operations and management of the North Dakota Highway Patrol.

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

Seven of the eight prior findings were considered to be implemented. See the status of prior findings on page 20.

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 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 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), School Bus Inspection Database, Fixed Asset Tracking System (Red Beam), and the Receipts System are high-risk information technology systems critical to the North Dakota Highway Patrol.

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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