

North Dakota
Highway Patrol
BISMARCK, NORTH DAKOTA

Audit Report

For the Two-year Period Ended
June 30, 2012

ROBERT R. PETERSON
STATE AUDITOR

Office of the State Auditor
Division of State Audit

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Transmittal Letter

April 24, 2013

The Honorable Jack Dalrymple, Governor
Members of the North Dakota Legislative Assembly
Colonel James Prochniak, Superintendent, North Dakota Highway Patrol

We are pleased to submit this audit of the North Dakota Highway Patrol for the two-year period ended June 30, 2012. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Kristi Morlock. Lindsey Ulrich and Alex Mehring were the staff auditors. Paul Welk, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 328-2241. We wish to express our appreciation to Colonel James Prochniak, Superintendent and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in black ink that reads "Bob Peterson".

Robert R. Peterson
State Auditor

Executive Summary

Introduction

The North Dakota Highway Patrol was established to enforce the provisions of the laws of the state of North Dakota relating to the protection and use of the highways in the state and the operation of motor and other vehicles upon such highways. The North Dakota Highway Patrol shall patrol the highways and cooperate with other law enforcement to enforce the laws regulating the operation of vehicles and the use of the state's highways.

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies. Those items and the Office of the State Auditor's responses are noted below.

Responses to LAFRC Audit Questions

1. What type of opinion was issued on the financial statements?

Financial statements were not prepared by the North Dakota Highway Patrol in accordance with generally accepted accounting principles so an opinion is not applicable. The agency's transactions were tested and included in the state's basic financial statements on which an unqualified 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 NDCC fee collections" (page 17); "noncompliance with NDCC and administrative code" (page 17); and "noncompliance with fixed asset records" (page 18), the 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 finding addressing "reconciliation of federal funds" (page 14), 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?

Five of the prior recommendations have not been implemented, as shown on pages 21-22.

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 23 of this report, along with management's response.

LAFRC Audit Communications

7. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no significant changes in accounting policies, no management conflicts of interest were noted, no contingent liabilities were identified or significant unusual transactions.

8. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The North Dakota Highway Patrol's financial statements do not include any significant accounting estimates.

9. *Identify any significant audit adjustments.*

Significant audit adjustments were not 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), Fixed Asset Tracking System (Red Beam), and Receipts System are high-risk information technology systems critical to the North Dakota Highway Patrol.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the North Dakota Highway Patrol for the two-year period ended June 30, 2012 were to provide reliable, audited financial statements and to answer the following questions:

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

Audit Scope

This audit of the North Dakota Highway Patrol is for the two-year period ended June 30, 2012. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The North Dakota Highway Patrol has operations in the following locations. Each location was included in the audit scope:

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

Audit Methodology

To meet the objectives outlined above, we:

- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report and reviewed management's discussion and analysis of the financial statements.

- Performed detailed analytical procedures including computer-assisted auditing techniques. These procedures were used to identify high-risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently. Non-statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure that particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed North Dakota Highway Patrol's processes and procedures.

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

Management's Discussion and Analysis

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

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

For the two-year period June 30, 2012, operations of the North Dakota Highway Patrol were primarily supported by appropriations from the state's general fund. This funding was supplemented by transfers from the North Dakota Highway Tax Distribution Fund and federal grant funding.

Financial Summary

Revenues consisted primarily of permits and fees, federal funds, and transfers-in (both state and federal) from the North Dakota Department of Transportation (NDDOT), the North Dakota Department of Human Services (NDDHS), and the North Dakota Department of Emergency Services (NDDDES). The only other revenues during the audited period were sales and use taxes and other miscellaneous revenues. Total revenues and transfers-in were \$22,770,440 for the fiscal year ended June 30, 2012, as compared to \$15,363,274 for the fiscal year ended June 30, 2011, for an increase of 48.2%. Direct federal revenues were \$2,227,602 for the fiscal year ended June 30, 2012 compared to \$1,630,364 for the fiscal 2011 for an increase of 36.6%. This increase appears to be the result of increased direct federal salaries and also the timing of the receiving of direct federal reimbursements. Federal pass-thru transfers-in were \$622,315 for fiscal 2012 compared to \$1,006,291 during fiscal 2011 for a decrease of 38.2%. Transfers-in from the ND Highway Tax Distribution Fund amount to \$3,455,211 in fiscal 2012 compared to \$1,516,909 in fiscal 2011 for an increase of \$1,938,302 or 127.8%. The decrease in federal pass-thru transfers-in resulted from decreases in federal overtime and equipment grants obtained and decreased operating expenses due to the expiration of a federal program. Another factor is the timing of the receiving of federal reimbursements passed through from other state agencies. All other revenue did not differ materially from the previous fiscal year.

The North Dakota Highway Patrol also has an agency fund which is used to collect various taxes and fees for the ND Tax Department and NDDOT. For fiscal 2012, the total collected was \$128,745 for the Tax Department and \$15,968,117 for NDDOT. The total collected for fiscal year 2011 was \$84,150 for the ND Tax Department and \$11,106,186 for NDDOT.

Total expenditures and transfers out for the North Dakota Highway Patrol were \$21,638,193 for the fiscal year ended June 30, 2012, as compared to \$21,612,013 for a fiscal year 2011. The 0.12% decrease in total expenditures and transfers out reflects primarily a decrease in federal transfers-out during fiscal 2012 and also federal reimbursements for activities in response to flooding in ND being received during fiscal 2011 but not in fiscal 2012.

Significant Changes in Financial Statement Accounts

Permits and Fees – Continuing yearly increases in commercial vehicle permits activity due mainly to energy development in ND.

Federal Revenue – Higher federal salaries and equipment purchases in fiscal year 2012 than in fiscal year 2011. Also, some fiscal year 2011 federal reimbursements were not received until fiscal year 2012.

Transfers-In – By arrangement with the State Treasurer's Office the transfers are made roughly during the first 18 months of each biennium and so there are about twice as many transfers-in during the first fiscal year of each biennium compared to the second fiscal year.

Salaries and Benefits – Increased FTEs and legislatively authorized salary increases for all FTEs.

Travel – An increase in the motor pool rate per mile in fiscal year 2012 and increased miles driven by sworn officers in fiscal year 2012.

IT Equipment – IT equipment is on a replacement schedule which resulted in a significant number of items being replaced in fiscal year 2012 over fiscal year 2011.

Supplies and Equipment – This is the result of the timing of expenses in each biennium. A significant number of items were ordered in fiscal year 2010 but were not received and paid for until fiscal year 2011. Then due to the end of the biennium occurring at the end of fiscal year 2011, efforts were made to ensure that items ordered in fiscal year 2011 were received so that payment could also be made in fiscal year 2011. Then again in fiscal year 2012 significant items were ordered but not received and paid for until fiscal year 2013.

Transfers-Out – Significant transfers-out were made during fiscal year 2011 where no transfers-out were made during fiscal year 2012.

Strategic Plan

The North Dakota Highway Patrol updated its strategic plan in 2011. The North Dakota Highway Patrol's (NDHP) primary duty is to keep the motoring public safe as they travel the state's 70,000 square miles. We do this through law enforcement and service. We are the main authority for enforcing laws and regulations relating to commercial vehicle safety and the commercial vehicle industry. The NDHP provides security for the State Capitol and elected government officials. The NDHP also partners with local agencies to provide assistance when situations arise that exceed the limits of local resources.

The NDHP currently has 192 authorized positions: 142 sworn and 50 civilian. The Superintendent is the leader, and ultimately responsible for the Patrol. The NDHP is divided into three divisions: Field Operations, Administrative Services, and Support Services. Each division is led at headquarters by a Division Commander.

Field Operations divides the state into four regions: Northeast, Southeast, Northwest, and Southwest. This allows for high visibility on the state's 7,382 miles of highway. Each region is under the supervision of a Regional Commander. Field Operations also includes Motor Carrier Operations, which is overseen by a Commander.

The following is an excerpt from the plan.

Vision

Public safety through quality service.

Mission

The mission of the North Dakota Highway Patrol is to make a difference every day by providing high quality law enforcement services to keep North Dakota safe and secure.

Values

- Loyalty – We will show allegiance to ourselves, our department, the state of North Dakota, our community, and to those who came before us and sacrificed so much to ensure the safety of our citizens.
- Integrity – We are honest, responsible, and ethical. Citizens place the highest trust in the NDHP. Each member must recognize that they are held to a higher standard of accountability than the public. We must always be mindful to NEVER violate the public trust. Our conduct, both on and off duty, must be beyond reproach.
- Commitment – To fulfill the vision of the NDHP each employee must deliberately carry out their duties and responsibilities to the best of their abilities.
- Respect – Because we are a diverse culture we value each other and all members of our community regardless of age, race, gender, appearance, individual beliefs, or lifestyles. We will always show understanding, respect, and appreciation for our similarities and differences.
- Professionalism – To be considered professional we must conform to the technical and ethical standards of our profession. Because we are highly trained and dedicated we are capable of handling the daily demands of law enforcement and devoting our full energy and talents to the department's vision.
- Accountability – Employees at all levels and ranks must accept responsibility for their actions both in their personal life and in their professional life.

Goals

Goal 1 – Provide a Secure Environment

The Highway Patrol continues to strive to meet the changing demands placed on law enforcement across the state. Capital improvements are needed to maintain our compliance with national standards and training. Adequate and updated facilities are needed for the Highway Patrol to operate effectively.

Goal 2 – Public Safety on Highways

Drivers in North Dakota face several dangers while traveling. Impaired, fatigued, or preoccupied drivers can cause a serious collision. Consistently in North Dakota, 40-50% of all fatal crashes involve alcohol. Severe winter weather also poses a significant danger. Increased traffic, especially motor carrier traffic, has presented new challenges and created an emphasis on safety and enforcement of the motor carrier industry.

While statewide survey results show the number of individuals using seatbelts to be slightly higher from past years (76.7%), approximately 69% of those killed traffic crashes in 2011 choose not to use a restraint.

Goal 3 – Enhance Relationships (Stakeholder, Public, etc.)

The NDHP has many stakeholders. Motorists, taxpayers, the Governor, Legislators, and the motor carrier industry are only a few of the groups external to the organization that have some influence on or a vested interest in the Patrol and its services.

Today's technology gives us a wealth of information at our fingertips. By utilizing this tool to complete citizen surveys, we are ensuring that all of our stakeholders have an opportunity to give us their opinion. It is one more way to make sure we are providing quality service to the citizens of North Dakota.

Goal 4 – Enhance Employee Welfare

The Highway Patrol values its employees and wants to ensure that they are treated fairly. Periodically we review duties, responsibilities, and compensation packages.

Many of the NDHP's troopers are relatively young in their career. As a result, when our experienced sworn personnel in leadership positions retire, our current troopers will have to step up to the challenge. By providing the tools necessary for success, we also ensure the well-being of the agency.

Achievements

The following are examples of some of the North Dakota Highway Patrol's program areas and projects:

- Hired a public information specialist.
- Reorganized Field Operations and restructured the Motor Carrier Division.
- Implemented trooper on a bus program.
- Provided bi-annual reports to superintendent on website surveys.
- Conducted training sessions for the motor carrier industry.
- Created a Facebook page.
- Conducted a statewide employee survey.
- Created email accounts for all troopers (previously used only proprietary messaging over mobile data network).
- Established a human resource position.
- Trained several troopers in critical incident and stress management.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
<u>Revenues and Other Sources:</u>		
Permits and Fees	\$ 15,968,847	\$ 11,106,976
Federal Revenue	2,227,602	1,630,364
Sales and Use Tax	128,745	84,150
Miscellaneous Revenue	58,902	1,583
Transfers In	4,386,344	2,540,201
Total Revenues and Other Sources	<u>\$ 22,770,440</u>	<u>\$ 15,363,274</u>
<u>Expenditures and Other Uses:</u>		
Salaries and Benefits	\$ 15,886,320	\$ 15,044,200
Travel	2,443,377	2,212,881
IT – Data Processing / Communications	887,590	750,314
Equipment	560,101	1,176,150
Supplies	363,056	608,263
Professional Services	293,624	272,968
Rent	282,616	231,876
Repairs	206,168	354,034
Miscellaneous Operating Expenses	198,459	170,721
Food and Clothing	170,792	181,818
Operating Fees and Services	151,322	97,038
Grants	98,938	98,423
Professional Development	84,830	48,844
Land and Buildings	11,000	
Transfers Out		364,483
Total Expenditures and Other Uses	<u>\$ 21,638,193</u>	<u>\$ 21,612,013</u>

Statement of Appropriations

For The Year Ended June 30, 2012

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Administration	\$ 3,159,842		\$ 3,159,842	\$ 1,524,052	\$ 1,635,790
Field Operations	41,206,269	\$ 681,870	41,888,139	19,097,659	22,790,480
Training Academy	1,602,488		1,602,488	721,208	881,280
Totals	<u>\$ 45,968,599</u>	<u>\$ 681,870</u>	<u>\$ 46,650,469</u>	<u>\$ 21,342,919</u>	<u>\$ 25,307,550</u>
Expenditures by Source:					
General Fund	\$ 34,443,274	\$ 681,870	\$ 35,125,144	\$ 16,411,833	\$ 18,713,311
Other Funds	11,525,325		11,525,325	4,931,086	6,594,239
Totals	<u>\$ 45,968,599</u>	<u>\$ 681,870</u>	<u>\$ 46,650,469</u>	<u>\$ 21,342,919</u>	<u>\$ 25,307,550</u>

Appropriation Adjustments:

The \$681,870 adjustment to the Field Operations line was approved by the 2011 Legislative Assembly in Senate Bill 2371, Section 21. This adjustment is to add four full-time Patrol Officers or equivalent employees to the Highway Patrol Staff.

Expenditures Without Appropriations Of Specific Amounts:

Motor Carrier Electronic Permit Fund has a continuing appropriation authorized by NDCC section 39-12-02 (\$242,417 of expenditures for this fiscal year).

Conference Fund has a continuing appropriation authorized by OMB Policy 211 (\$46,449 of expenditures for this fiscal year).

Statement of Appropriations

For The Biennium Ended June 30, 2011

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Deferred					
Maintenance	\$ 100,000		\$ 100,000	\$ 97,877	\$ 2,123
Administration	2,926,419	\$ 54,000	2,980,419	2,898,961	81,458
Field Operations	37,378,354	274,000	37,652,354	36,249,872	1,402,482
Training Academy	1,496,942	22,000	1,518,942	1,464,799	54,143
Totals	<u>\$ 41,901,715</u>	<u>\$ 350,000</u>	<u>\$ 42,251,715</u>	<u>\$ 40,711,509</u>	<u>\$ 1,540,206</u>
Expenditures by Source:					
General Fund	\$ 31,007,895	\$ 350,000	\$ 31,357,985	\$ 30,825,439	\$ 532,546
Other Funds	10,893,730		10,893,730	9,886,070	1,007,660
Totals	<u>\$ 41,901,715</u>	<u>\$ 350,000</u>	<u>\$ 42,251,715</u>	<u>\$ 40,711,509</u>	<u>\$ 1,540,206</u>

Appropriation Adjustments:

The \$350,000 adjustments to the Administration, Field Operations, and Training Academy line items were approved by the 2009 Legislative Assembly for market equity pay adjustments.

Internal Control

In our audit for the two-year period ended June 30, 2012, we identified the following areas of the North Dakota Highway Patrol's internal control as being the highest risk:

Internal Controls Subjected to Testing:

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

The criteria used to evaluate internal control is published in the publication *Internal Control – Integrated Framework* from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk. We concluded that internal control was not adequate noting certain matters involving internal control and its operation that we consider to be significant deficiencies.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect (1) misstatements in financial or performance information, (2) violations of laws and regulations, or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we identified the following significant deficiencies in internal control. We also noted other matters involving internal control that we have reported to management of North Dakota Highway Patrol in a management letter dated April 24, 2013.

Reconciliation of Federal Funds (Finding 12-1)

Condition:

The North Dakota Highway Patrol does not reconcile the amount the federal government reports as paid to the North Dakota Highway Patrol and the amount reported on PeopleSoft as received.

Criteria:

Proper internal controls dictate that cash received should be reconciled to documentation received from the federal government showing the amount they have remitted to the agency.

Cause:

A prior recommendation was not implemented. The prior audit included a formal recommendation for the North Dakota Highway Patrol to have someone independent of drawing

down federal funds perform a reconciliation of the federal funds shown on the federal reports to the federal revenue reflected on PeopleSoft, at least annually.

Effect or Potential Effect:

Unauthorized requests for federal funds could potentially be re-routed to a different bank account and go undetected.

Recommendation:

We recommend the North Dakota Highway Patrol have someone independent of drawing down federal funds perform a reconciliation of the federal funds shown on the federal report to the federal revenue reflected on PeopleSoft, at least annually.

North Dakota Highway Patrol Response:

The Highway Patrol agrees with the finding. Due to the recent implementation of a new online reimbursement reporting system by the Federal Motor Carrier Safety Administration (FMCSA), a report with the specific data required has not yet been obtained but the NDHP is working with FMCSA to obtain the information necessary to do a reconciliation at least annually. Meanwhile, we continue to manually track wire transfers received at the State Treasurer's Office to ensure the amounts agree with all federal reimbursement requests.

Compliance With Legislative Intent

In our audit for the two-year period ended June 30, 2012, we identified and tested North Dakota Highway Patrol's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Application of proper statutory fees and penalties relating to revenue (NDCC sections 39-04-18(2)(h), 39-04-19, 39-12-02, 39-12-14.1, 39-25-05, and 57-43.2-39; and NDAC section 38-06-03-01).
- Payments made to patrol officers (2011 Session Laws, House Bill 1011, section 4 and 2009 Session Laws, Senate Bill 2011, section 5).
- Transfer made from State Highway Tax Distribution Fund (2011 Session Laws, House Bill 1011, section 3 and 2009 Session Laws, Senate Bill 2011, section 4).
- Compliance with appropriations (2009 Session Laws, Senate Bill 2011, section 2 and 2011 Session Laws, House Bill 1011, section 2).
- Compliance with Commercial Vehicle Information Exchange (2009 Session Laws, Senate Bill 2011, section 7).
- Compliance with the confiscation and sale of vehicles (NDCC 39-12-20).
- Compliance with the line of credit obtained for the establishment of the online electronic permit system (NDCC 39-12-25).
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with OMB's Purchasing Procedures Manual.
- Travel-related expenditures are made in accordance with OMB policy and statute.
- Proper use of outside bank accounts and petty cash funds.
- Compliance with fixed asset requirement including record keeping, surplus property, lease and financing arrangements in budget requests, and lease analysis requirements.
- Compliance with payroll-related laws including statutory salaries for applicable elected and appointed positions and certification of payroll.
- Proper use of the following legally restricted funds:
 - Highway Fund
 - Motor Carrier Electronic Permit Fund
 - Asset Forfeiture Fund
 - Highway Patrol Special Fund
 - Highway Tax Distribution Fund

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 instances of noncompliance that are required to be reported under *Government Auditing Standards*. These findings are described on the following page. Other than those findings, we concluded there was compliance with the legislative intent

identified above. We also noted certain inconsequential instances of noncompliance that we have reported to management of the North Dakota Highway Patrol in a management letter dated April 24, 2013.

Noncompliance with NDCC Fee Collections (Finding 12-2)

Condition:

The North Dakota Highway Patrol does not have procedures to properly monitor compliance with fee collections. Consequently, of the 60 fees reviewed, 11 were collected for the wrong amount and 8 were coded incorrectly in the North Dakota Highway Patrol Receipt System.

Criteria:

North Dakota Century Code and North Dakota Administrative Code establish the fee amounts the North Dakota Highway Patrol is to collect for the various fees.

Cause:

The North Dakota Highway Patrol has not taken the necessary measures to ensure the proper amounts are collected and the fees are properly coded into the Highway Patrol Receipt System. This was a prior recommendation made in the three previous audits.

Effect or Potential Effect:

The North Dakota Highway Patrol is not in compliance with North Dakota Century Code and North Dakota Administrative Code. Also, transfers made to the Department of Transportation and the Motor Vehicle Department are potentially incorrect due to miscoding and collection of improper amounts for fees.

Recommendation:

We recommend the North Dakota Highway Patrol:

1. Ensure the proper fee amounts are collected in accordance with North Dakota Century Code and North Dakota Administrative Code; and
2. Ensure fees are properly coded into the Receipt System.

North Dakota Highway Patrol Response:

The Highway Patrol agrees with the finding. A new online permit system has recently been implemented which will improve the accuracy of the recording of permit cash receipts. The new system will also better handle the dramatic increase in permits issued. Also, the periodic spot-checking of transactions is being increased in order to improve identification and correction of specific errors as quickly as possible.

Noncompliance with NDCC and Administrative Code (Finding 12-3)

Condition:

The North Dakota Highway Patrol is not following North Dakota Century Code (NDCC) or Administrative Code when collecting ton mile fees. Fee amounts are set in NDCC and Administrative Code but are collected based on an internal policy.

Criteria:

NDCC chapter 39-12 and Administrative Code section 39-06-03-01 address size, width, height restrictions, and applicable fees. However, the North Dakota Highway Patrol is not following their Administrative Rule. Instead, they follow their own internal policy for rates charged for different fees collected.

Cause:

The North Dakota Highway Patrol has not updated their Administrative Code to reflect the internal policies used for determining fees charged.

Effect or Potential Effect:

Improper fees are being charged by the North Dakota Highway Patrol.

Recommendation:

We recommend the North Dakota Highway Patrol collect the proper ton mile fee amounts in accordance with North Dakota Century Code and Administrative Code.

North Dakota Highway Patrol Response:

The Highway Patrol agrees with the finding. The Administrative Code has been updated to bring its provisions into agreement with internal policy regarding the collection of oversize/overweight vehicle permit fees.

Noncompliance With Fixed Asset Records (Finding 12-4)

Condition:

The North Dakota Highway Patrol does not have controls in place to ensure assets are properly recorded when deleted. There were timing differences from when assets were deleted from the PeopleSoft Asset Management System and when the surplus property forms were completed. These timing differences were one of two types:

- The surplus property form was approved several months before the asset was deleted from PeopleSoft.
- The asset was deleted from PeopleSoft before the surplus property form was approved.

Criteria:

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) states that proper controls include a range of activities as diverse as approvals, authorizations,

verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties.

NDCC section 54-27-21 requires all agencies and institutions to include all fixed assets under their control in their financial statements, except those having a value of \$5,000 or less.

Cause:

The North Dakota Highway Patrol did not implement controls to ensure that assets were being deleted timely and that deletions are authorized prior to the asset being deleted from the system. This was a recommendation made in the previous three audits.

Effect or Potential Effect:

Noncompliance with North Dakota Century Code. An asset being deleted before it is approved could allow for an asset to be unrecorded and misplaced.

Recommendation:

We recommend the North Dakota Highway Patrol ensure all asset deletions are completed in a timely manner and that the deletions are authorized prior to being deleted from the PeopleSoft Asset Management System.

North Dakota Highway Patrol Response:

The Highway Patrol agrees with the finding. New procedures have been established by our audit review committee regarding fixed asset deletions \$5,000 and over.

Operations

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

Prior Recommendations Not Implemented

Prior recommendations have been implemented with the exception of the following:

Reconciliation of Federal Funds (Finding 10-5)

Recommendation:

We recommend the North Dakota Highway Patrol have someone independent of drawing down federal funds perform a reconciliation of the federal funds shown on the federal reports to the federal revenue reflected on ConnectND (PeopleSoft), at least annually.

Status:

Not implemented. Recommendation is re-addressed on page 14.

Noncompliance with NDCC Fee Collections (Finding 10-7)

Recommendation:

We recommend the North Dakota Highway Patrol:

1. Ensure the proper fee amounts are collected in accordance with North Dakota Century Code and North Dakota Administrative Code; and
2. Ensure fees are properly coded into the Receipt System.

Status:

Not implemented. This was a prior recommendation not implemented from the two-year period ended June 30, 2006; the two-year period ended June 30, 2008; and the two-year period ended June 30, 2010. Recommendation is re-addressed on page 17.

Noncompliance with NDCC and Administrative Code (Finding 10-8)

Recommendation:

We recommend the North Dakota Highway Patrol collect the proper ton mile fee amounts in accordance with North Dakota Century Code and Administrative Rule.

Status:

Not implemented. Recommendation is re-addressed on page 17.

Noncompliance with Fixed Asset Records (Finding 10-9)

Recommendation:

We recommend the North Dakota Highway Patrol:

- Ensure all asset deletions are properly supported and done in a timely manner.
- Properly utilize the Surplus Property Division of the Office of Management and Budget for equipment no longer needed.

Status:

Not implemented. This was a prior recommendation not implemented from the two-year period ended June 30, 2006; the two-year period ended June 30, 2008; and the two-year period ended June 30, 2010. Recommendation is re-addressed on page 18.

Management Letter (Informal Recommendations)

April 24, 2013

Colonel James Prochniak, Superintendent
North Dakota Highway Patrol
State Capitol
600 E Boulevard Avenue
Bismarck, ND 58505

Dear Colonel Prochniak:

We have performed an audit of the North Dakota Highway Patrol for the two-year period ended June 30, 2012, and have issued a report thereon. As part of our audit, we gained an understanding of the North Dakota Highway Patrol's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

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

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status.

The following present our informal recommendations.

LEGISLATIVE INTENT

Informal Recommendation 12-1: We recommend the North Dakota Highway Patrol follow state procurement's purchasing policies.

REVENUE

Informal Recommendation 12-2: We recommend the North Dakota Highway Patrol implement procedures to properly close out the conference fund within 60 days of the end of the conference.

Informal Recommendation 12-3: We recommend the North Dakota Highway Patrol develop a policy for conducting reviews of receipt numbers for system generated receipts and document all reviews for both handwritten and system generated receipts.

Informal Recommendation 12-4: We recommend the North Dakota Highway Patrol develop a policy related to the review of receipts issued to ensure that the proper fees were charged which should include the following: frequency of review, quantity of review, items to be reviewed, communication of errors, and adequacy of the sample size.

Informal Recommendation 12-5: We recommend the North Dakota Highway Patrol develop and implement procedures to authorize and approve permits being issued as non-billable.

EXPENDITURES

Informal Recommendation 12-6: We recommend the North Dakota Highway Patrol use their purchase card as a form of payment to all vendors accepting purchase cards.

Informal Recommendation 12-7: We recommend the North Dakota Highway Patrol develop proper controls to prevent duplicate payments.

Informal Recommendation 12-8: We recommend the North Dakota Highway Patrol develop procedures to provide support and approve all PeopleSoft entries done by other agencies for the Highway Patrol.

PAYROLL

Informal Recommendation 12-9: We recommend the North Dakota Highway Patrol restrict PeopleSoft HRMS access privileges to ensure the individual that distributes paychecks does not have the ability to process payroll.

GENERAL

Informal Recommendation 12-10: We recommend the North Dakota Highway Patrol have a policy to review PeopleSoft access rights and to complete a review of the access rights on an annual basis.

Management of North Dakota Highway Patrol agreed with these recommendations.

I encourage you to call myself 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,



Kristi Morlock
Auditor in-charge

You may obtain audit reports on the internet at:

www.nd.gov/auditor/

or by contacting the
Division of State Audit

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

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