

North Dakota
Highway Patrol
BISMARCK, NORTH DAKOTA

Audit Report

Two-year Period Ended
June 30, 2014

ROBERT R. PETERSON
STATE AUDITOR

Office of the State Auditor
Division of State Audit

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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVENUE - DEPT. 117
BISMARCK, NORTH DAKOTA 58505

Transmittal Letter

June 2, 2015

The Honorable Jack Dalrymple, Governor
Members of the North Dakota Legislative Assembly
Colonel Michael Gerhart, 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, 2014. 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 Lindsey Ressler. Kevin Scherbenske, CPA and Elizabeth Rogers were the staff auditors. 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 Colonel Michael Gerhart and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in cursive script 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 unmodified opinion was issued.

2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?

Yes.

3. Was internal control adequate and functioning effectively?

Yes.

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

No.

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

The North Dakota Highway Patrol has implemented all recommendations included in the prior audit report.

6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.

Yes, a management letter was issued and is included on page 14 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, 2014 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, 2014. 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 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, 2014, operations of the North Dakota Highway Patrol were primarily supported by appropriations from the state's general fund. This is supplemented by federal funding and fees credited to the agency's operating fund.

Financial Summary

Revenues and Other Sources consisted primarily of permits and fees, federal funds, and transfers-in (both state and federal) from the North Dakota Department of Transportation (NDDOT) 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. Permits and fees revenues were \$21,685,910 for fiscal year 2014 as compared to \$17,398,688 for fiscal year 2013 for an increase of 24.6%. Total federal revenues were \$2,070,835 for fiscal year 2014 compared to \$2,212,292 for fiscal year 2013 for a decrease of 6.4%. All other revenues did not differ materially from the previous fiscal year. Total Expenditures and Other Uses were \$28,239,821 for fiscal year 2014 as compared to \$25,824,837 for fiscal year 2013 for an increase of 9.35%. The main item causing this increase was Salaries and Benefits which were \$18,380,472 for fiscal year 2014 as compared to \$16,577,022 for fiscal year 2013 for an increase of 10.9%. Also, Equipment Expenses were \$1,901,611 for fiscal year 2014 as compared to \$2,707,096 for fiscal year 2013 for a decrease of 29.8%. The reasons for the increases and decreases in the revenue and expense items are listed below.

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 ND Department of Transportation. For fiscal year 2014 the total collected was \$135,270 for the Tax Department and \$18,843,845 for NDDOT. The total collected for fiscal year 2013 was \$113,190 for the ND Tax Department and \$17,307,188 for NDDOT. The increases are the result of higher commercial vehicle activity due mainly to increased energy development throughout the state of North Dakota.

Significant Changes in Financial Statement Accounts

Permit Revenues – The 24.6% increase is the result of increases in commercial vehicle activity in the state due mainly to energy development in ND. Another reason is the collection of a new permit fee which began in fiscal 2014.

Total Federal Revenues – The 6.4% decrease appears to be due to the timing of the receiving of direct federal reimbursements.

Transfers In – The 36.6% increase is due to transfers made by the State Treasurer's Office that occur within the first 18 months of each biennium..

Salaries and Benefits – The 10.9% increase in fiscal 2014 was the result of the approval during the 2013 legislative session of 15 additional FTE's and biennial salary increases.

Equipment Under and Over \$5,000 – The 29.8% decrease in fiscal year 2014 was the result of the timing of equipment expenses during a typical biennium. The bulk of equipment expenses usually takes place in the second year of a biennium due to the time required for ordering and delivery before final payment is made.

Analysis of Significant Variances - Budgeted and Actual Expenditures

Field Operations, Remaining Appropriation - \$1,067,349. Of this variance, \$1,054,048 was unexpended federal funding authority for equipment. The amount of federal grant awards received for equipment was lower than anticipated during the budget request process and so the total of federal equipment expenses was also lower during the 2011-2013 biennium.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
<u>Revenues and Other Sources:</u>		
Permits and Fees	\$21,685,910	\$17,398,688
Federal Revenue	2,070,835	2,212,292
Sales and Use Tax	135,270	113,190
Conference Fees	46,229	45,165
Miscellaneous Revenue	13,041	28,191
Transfers In	5,609,741	4,106,154
Total Revenues and Other Sources	<u>\$29,561,026</u>	<u>\$23,903,680</u>
<u>Expenditures and Other Uses:</u>		
Salaries and Benefits	\$18,380,472	\$16,577,022
Travel	2,731,856	2,627,217
Equipment	1,901,611	2,707,096
Bank of North Dakota Loan Repayment	1,716,939	
Professional Services	808,637	1,045,838
Supplies	778,068	524,218
ITD Data Processing/Communications	775,956	1,060,299
Rent	363,887	281,108
Food and Clothing	226,414	205,955
Miscellaneous Operating Expenses	220,971	283,013
Repairs	217,168	287,649
Professional Development	117,842	92,545
Grants		95,158
Transfers Out		37,719
Total Expenditures and Other Uses	<u>\$28,239,821</u>	<u>\$25,824,837</u>

Statement of Appropriations

For The Year Ended June 30, 2014

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Accrued Leave					
Payments	\$ 1,110,651		\$ 1,110,651	\$ 118,337	\$ 992,314
Administration	3,466,113		3,466,113	1,631,713	1,834,400
Field Operations	49,620,777	\$ 233,254	49,854,031	23,079,787	26,774,244
Training Academy	6,803,043		6,803,043	1,077,633	5,725,410
Totals	<u>\$ 61,000,584</u>	<u>\$ 233,254</u>	<u>\$ 61,233,838</u>	<u>\$ 25,907,470</u>	<u>\$ 35,326,368</u>
Expenditures by Source:					
General Fund	\$ 47,608,042	\$ 233,254	\$ 47,841,296	\$ 23,312,475	\$ 24,528,821
Other Funds	13,392,542		13,392,542	2,594,995	10,797,547
Totals	<u>\$ 61,000,584</u>	<u>\$ 233,254</u>	<u>\$ 61,233,838</u>	<u>\$ 25,907,470</u>	<u>\$ 35,326,368</u>

Appropriation Adjustments:

The increase of \$233,254 to the Field Operations line was a supplemental appropriation made by the 2013 Legislative Assembly under section 6 of House Bill 1015. The funds are for rental assistance and temporary salary increases in areas affected by energy development.

Expenditures Without Appropriations Of Specific Amounts:

Motor Carrier Electronic Permit Fund has a continuing appropriation authorized by North Dakota Century Code section 39-12-02 (\$2,286,121 of expenditures for this fiscal year).

Conference Fund has a continuing appropriation authorized by OMB Policy 211 (\$46,229 of expenditures for this fiscal year).

Statement of Appropriations

For The Biennium Ended June 30, 2013

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	\$ 3,149,111	\$ 10,731
Field Operations	41,206,269	\$ 981,870	42,188,139	41,120,790	1,067,349
Training Academy	1,602,488		1,602,488	1,562,035	40,453
Totals	<u>\$ 45,968,599</u>	<u>\$ 981,870</u>	<u>\$ 46,950,469</u>	<u>\$ 45,831,936</u>	<u>\$ 1,118,533</u>
Expenditures by Source:					
General Fund	\$ 34,443,274	\$ 981,870	\$ 35,425,144	\$ 35,360,659	\$ 64,485
Other Funds	11,525,325		11,525,325	10,471,277	1,054,048
Totals	<u>\$ 45,968,599</u>	<u>\$ 981,870</u>	<u>\$46,950,469</u>	<u>\$ 45,831,936</u>	<u>\$ 1,118,533</u>

Appropriation Adjustments:

The \$981,870 adjustment to the Field Operations line was made up of two separate adjustments. The first adjustment was \$681,870 which was approved by the 2011 Legislative Assembly in Senate Bill 2371, section 21. The purpose was to add four full-time Patrol Officers or equivalent employees to the Highway Patrol staff. The remaining \$300,000 was a deficiency appropriation approved by the 2013 Legislative Assembly in House Bill 1023. The purpose was for unexpected expenditures related to the oil boom.

Expenditures Without Appropriations Of Specific Amounts:

Motor Carrier Electronic Permit Fund has a continuing appropriation authorized by North Dakota Century Code section 39-12-02 (\$1,535,916 of expenditures for the biennium).

Conference Fund has a continuing appropriation authorized by OMB Policy 211 (\$88,770 of expenditures for the biennium).

Internal Control

In our audit for the two-year period ended June 30, 2014, 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 Receipts and Red Beam information systems.
- Controls surrounding the processing of overtime payroll.

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 internal control was adequate.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect: (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 did not identify any significant deficiencies in internal control. However, we noted other matters involving internal control that we have reported to management of the North Dakota Highway Patrol in a management letter dated June 2, 2015.

Compliance With Legislative Intent

In our audit for the two-year period ended June 30, 2014, 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).
- Proper payments made to patrol officers (2013 Session Laws, Senate Bill 2011, section 4 and 2011 Session Laws, House Bill 1011, section 4).
- Proper transfer made from the State Highway Tax Distribution Fund (2013 Session Laws, Senate Bill 2011, section 3, and 2011 Session Laws, House Bill 1011, section 3).
- Compliance with appropriation laws (2013 Session Laws, Senate Bill 2011 and House Bill 1023 and 2011 Session Laws, House Bill 1011).
- 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.
- Proper use of outside bank accounts.
- Compliance with payroll-related laws including statutory salaries for applicable elected and appointed positions and certification of payroll.
- Compliance with fixed asset requirement including record-keeping and surplus property.
- Proper use of the following legally restricted funds:
 - Highway Fund
 - Motor Carrier Electronic Permit Fund
 - Asset Forfeiture Fund
 - Highway Patrol Special 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 require auditors to report all instances of fraud and illegal acts unless they are inconsequential within the context of the audit objectives. Further, auditors are required to report significant violations of provisions of contracts or grant agreements, and significant abuse that has occurred or is likely to have occurred.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above.

Operations

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

Management Letter (Informal Recommendations)

June 2, 2015

Colonel Michael Gerhart, Superintendent
North Dakota Highway Patrol
600 E Boulevard Avenue, Dept 504
Bismarck, ND 58505

Dear Colonel Gerhart,

We have performed an audit of the North Dakota Highway Patrol for the two-year period ended June 30, 2014, 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 a certain condition 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 recommendation to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if this recommendation has been implemented, and if not, we will reconsider its status.

The following is our informal recommendation.

INTERNAL CONTROLS

Informal Recommendation 14-1: We recommend the North Dakota Highway Patrol provide additional continuing education for employees.

Management of the North Dakota Highway Patrol agreed with this recommendation.

I encourage you to call myself or an audit manager at 328-2241 if you have any questions about the implementation of the recommendation included in this letter.

Sincerely,

A handwritten signature in cursive script that reads "Lindsey Ressler".

Lindsey Ressler
Auditor in-charge

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