

Department of Transportation
BISMARCK, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2013

ROBERT R. PETERSON
STATE AUDITOR



Office of the State Auditor
Division of State Audit

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Transmittal Letter

April 15, 2014

The Honorable Jack Dalrymple, Governor
Members of the North Dakota Legislative Assembly
Mr. Grant Levi, Director

We are pleased to submit this audit of the North Dakota Department of Transportation for the biennium ended June 30, 2013. 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 Kevin Scherbenske, CPA. Paul Welk, CPA, was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 328-2241. We wish to express our appreciation to Director Levi 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 State Highway Commission was created in 1913. North Dakota Century Code (NDCC) Title 24 changed the North Dakota State Highway Commission to the North Dakota Department of Transportation (DOT) in 1989. The DOT is responsible for the construction, maintenance, protection, and control of the highways comprising the state highway system.

The DOT is charged with spending state highway funds as to the following priority: 1) maintenance of the state highway system and 2) construction and reconstruction in an amount necessary to ensure federal aid available to the state. Funds not expended under (1) or (2) may be spent for construction, improvement, or maintenance of the state highways (NDCC 24-02-37).

In addition to the state highway system, NDCC 39-01-01.1 describes the general responsibilities of the Drivers License and Traffic Safety Division and the Motor Vehicle Division. The DOT, with the approval of the Public Service Commission, has the authority to qualify the state for rail service assistance under the Railroad Revitalization and Regulatory Reform Act of 1977 (NDCC 49-17.1-02). In addition, the Governor has designated the director of the DOT to act on his behalf to administer the National Highway Safety Act of 1966. The director of the DOT also serves as a liaison to the State Aeronautics Board.

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

Responses to LAFRC Audit Questions

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

Financial statements were not prepared by the North Dakota Department of Transportation in accordance with generally accepted accounting principles so an opinion is not applicable. The agency's transactions were tested and included in the state's basic financial statements on which an unmodified opinion was issued.

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

Yes.

3. Was internal control adequate and functioning effectively?

Other than our finding addressing the "improper reconciliation of motor vehicle clearing account" (page 12), 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?*

Except "improper reconciliation of motor vehicle clearing account" (page 18), the North Dakota Department of Transportation 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 19 of this report, along with management's response.

LAFRC Audit Communications

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

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

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

The North Dakota Department of Transportation's financial statements do not include any significant accounting estimates.

9. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

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

None.

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

None.

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

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

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

None.

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

ConnectND Finance, Human Resource Management System (HRMS), Vehicle Registration and Titling System, Drivers License Master File, Construction Automated Records System, Fleet Focus, Motor Carrier Online System, and Preliminary Automated Construction Electronic Records (PACER) are high-risk information technology systems critical to the Department of Transportation.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the North Dakota Department of Transportation for the biennium ended June 30, 2013 were to provide reliable, audited financial statements and to answer the following questions:

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

Audit Scope

This audit of the North Dakota Department of Transportation is for the biennium ended June 30, 2013. 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 Department of Transportation has its Bismarck office in the State Capitol and eight district offices. District office financial activity is processed through the central office and included in the scope of this audit.

- Central Office
- District 1 - Bismarck
- District 2 - Valley City
- District 3 – Devils Lake
- District 4 – Minot
- District 5 – Dickinson
- District 6 – Grand Forks
- District 7 – Williston
- District 8 - Fargo

Audit Methodology

To meet the objectives outlined above, we:

- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report and developed a 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 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 Department of Transportation'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.

Discussion and Analysis

The accompanying financial statements have been prepared to present the North Dakota Department of Transportation'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).

For the biennium ended June 30, 2013, operations of the North Dakota Department of Transportation were primarily supported by appropriations from federal and special revenue funds.

Financial Summary

The Department of Transportation's capital assets include land, buildings, equipment, infrastructure, and construction in progress, all of which are valued at historical cost. All capital assets with an original cost of \$5,000 or more per unit (\$100,000 or more for infrastructure) and an estimated useful life in excess of one year are capitalized. The Department of Transportation's total capital assets before deducting accumulated depreciation as of June 30, 2013 were approximately \$3.5 billion. The largest category of capital assets is infrastructure. Major infrastructure assets include statewide public systems such as freeways, freeway lighting systems, freeway drainage systems, freeway signs, bridges, bridge lighting systems, etc. Infrastructure as of June 30, 2013 was approximately \$3.2 billion.

Revenues consisted primarily of federal revenues as well as motor vehicle excise tax, licenses, permits, fees, political subdivision cost sharing receipts, and fleet services billings. Total revenue and other sources for fiscal year ended June 30, 2013 was \$920,469,581, compared to \$1,366,911,694 for fiscal year ended June 30, 2012.

The largest decrease in revenue was federal, which is dependent on the projects the Department of Transportation is performing, including the amount and timing of project reimbursement by the federal government.

The majority of the \$370,700,000 transfer from the general fund was authorized by House Bill 1012, Section 7 of the 2011 Legislative Session for use in the Highway Fund.

The Loan Proceeds and Repayments were authorized by House Bill 1012, Section 4 of the 2011 Legislative Session to fund emergency relief projects on the state highway system.

Total expenditures and other uses for the North Dakota Department of Transportation were \$918,975,195 for the year ended June 30, 2013 as compared to \$987,691,153 for the prior year. The largest decrease in expenditures for the audited period was in Highway Contractor Payments resulting from a slower than expected start to the 2013 construction season due to weather related issues.

Analysis of Significant Variances - Budgeted and Actual Expenditures

The unexpended balances in the operating, capital improvements, and grant appropriation lines were primarily attributable to uncertainty surrounding federal funding the Department would receive during the biennium. At the time the 2011-2013 biennium budget was prepared the level of federal funding that was budgeted was based on the best estimate of what may occur over the course of the biennium. The level of federal funding that was estimated did not materialize. Therefore, considerable appropriation authority remained unspent as North Dakota did not receive the federal revenue or the federal authorization to proceed with a higher level of projects.

The unexpended balance in the Enhanced State Highway Investment line was due to the 2013 Legislature appropriating \$620 million in general funds for the construction and maintenance of the state highways in oil impact areas (Senate Bill 2176). This bill was declared to be an emergency and therefore it became effective during the 2011-2013 biennium. The DOT estimated that \$225 million of the \$620 million would be spent by June 30, 2013; accordingly that amount was included in the 2011-2013 appropriation. However, because of a slow start to the 2013 construction season, only \$60.9 million was expended by June 30; the remaining balance was included in the 2013-2015 appropriation.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
<u>Revenues and Other Sources:</u>		
Federal Revenue	\$ 374,712,127	\$ 504,608,984
Motor Vehicle Excise Tax	141,927,569	132,797,252
License, Permits, and Fees	118,356,253	108,876,275
Fleet Services	35,401,702	28,403,988
Loan Proceeds	34,761,256	243,595
Political Subdivisions Cost Share	20,728,498	25,173,662
Sale of Assets	2,748,743	3,720,784
Highway Damage Claims	1,510,708	1,451,392
Indirect Cost Recovery	1,263,805	1,303,921
Other Revenue	1,262,519	1,667,677
Transfers In From General Fund		370,700,000
Transfers In From Highway Tax Distribution Fund	186,852,620	177,868,830
Transfers In From State Disaster Relief Fund		6,000,000
Other Transfers In	943,781	4,095,334
Total Revenues and Other Sources	<u>\$ 920,469,581</u>	<u>\$1,366,911,694</u>
<u>Expenditures and Other Uses:</u>		
Salaries and Benefits	\$ 89,413,747	\$ 79,411,109
Highway Contractor Payments	534,545,306	626,891,211
Grants	96,386,106	130,043,180
Engineer / Engineering Consultants	64,178,913	47,199,602
Loan Repayment	34,988,548	
Road Maintenance Materials / Equipment	27,788,255	31,909,043
Travel	20,982,055	14,854,567
Fleet Vehicles / Vehicle Repairs	13,302,216	23,554,738
IT – Data Processing / Repairs / Equipment	7,451,366	5,595,911
Building Construction / Right-of-Way Purchases	6,540,368	3,826,323
Other Professional Services	5,390,562	5,686,202
Repairs	3,878,822	6,464,576
Supplies / Equipment	3,075,586	3,330,778
Utilities	2,451,434	2,288,145
Other Expenditures	6,734,713	5,910,717
Transfers Out	1,867,198	725,051
Total Expenditures and Other Uses	<u>\$ 918,975,195</u>	<u>\$ 987,691,153</u>

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>
Salaries and Benefits	\$ 165,966,396	\$ 3,600,000	\$ 169,566,396	\$ 168,050,866	\$ 1,515,530
Operating Expenses	204,090,250	137,486,271	341,576,521	243,530,695	98,045,826
Capital					
Improvements	1,063,529,831	317,001,753	1,380,531,584	1,169,461,865	211,069,719
Construction					
Carryover		13,790,401	13,790,401	12,702,782	1,087,619
Enhanced State					
Highway					
Investment	142,000,000	83,000,000	225,000,000	60,890,347	164,109,653
Grants	69,198,407	56,858,454	126,056,861	85,921,960	40,134,901
County & Township					
Road Program		142,000,000	142,000,000	142,000,000	
Federal Stimulus					
Funds	24,119,575		24,119,575	22,810,618	1,308,957
Totals	<u>\$1,668,904,459</u>	<u>\$753,736,879</u>	<u>\$2,422,641,338</u>	<u>\$1,905,369,133</u>	<u>\$517,272,205</u>
Expenditures by Source:					
General Fund	\$ 5,850,000	\$261,138,893	\$ 266,988,893	\$ 98,463,957	\$168,524,936
Other Funds	1,663,054,459	492,597,986	2,155,652,445	1,806,905,176	348,747,269
Totals	<u>\$1,668,904,459</u>	<u>\$753,736,879</u>	<u>\$2,422,641,338</u>	<u>\$1,905,369,133</u>	<u>\$517,272,205</u>

Appropriation Adjustments:

The \$3,600,000 increase in the Salaries and Benefits line was transferred from the Operating Expenses line as authorized by House Bill (HB) 1012, Section 8 of the 2011 Legislative Session Laws.

The \$137,486,271 increase in the Operating Expenses line included \$66,086,271 of Emergency Commission approved increases for additional federal funding, \$75,000,000 transfer from the Capital Improvements line, and a \$3,600,000 transfer to the Salaries and Benefits line as authorized by HB1012, Section 8 of the 2011 Session Laws.

The \$317,001,753 increase in the Capital Improvements line included \$269,862,860 of Emergency Commission approved increases for additional federal funding, \$36,138,893 increase as authorized by HB1023 of the 2013 Session Laws (emergency measure), \$86,000,000 increase as authorized by Senate Bill 2371 of the 2011 Session Laws to increase the Department's borrowing authority from the Bank of North Dakota and appropriation for grants to counties, and a \$75,000,000 transfer to the Operating Expense line as authorized by HB1012, Section 8 of the 2011 Session Laws.

The \$13,790,401 Construction Carryover increase was for road projects and equipment and was authorized by section 54-44.1-11 of the North Dakota Century Code and was approved by the Carryover Committee.

The \$83,000,000 Enhanced State Highway Investment includes an increase of \$225,000,000 of additional authority as authorized by SB2371, Section 1 of the 2013 Session Laws (emergency measure) and a decrease of \$142,000,000 which was mistakenly included under the original appropriation amount and should have been included under the County and Township Road Program line.

The \$56,858,454 increase in the Grants line was approved by the Emergency Commission for additional federal funding.

The \$142,000,000 increase in the County and Township Road Program line was done to correct the original appropriation amount which was mistakenly put under Enhanced State Highway Investment line.

Expenditures Without Appropriations Of Specific Amounts:

Highway Fund has a continuing appropriation authorized by NDCC section 24-02-35.2 (\$207,397 of expenditures for this biennium).

Insurance Recovery Property Fund has a continuing appropriation authorized by NDCC section 54-44.1-09.1 (\$1,089,815 of expenditures for this biennium).

Drivers License Trust Fund is authorized by NDCC section 39-16-10 to account for cash received and to make payments and refunds to/from motor vehicle operators involved in accidents that have no automobile liability policy (\$20,500 of expenditures for this biennium).

Internal Control

In our audit for the biennium ended June 30, 2013, we identified the following areas of the North Dakota Department of Transportation's internal control as being the highest risk:

Internal Controls Subjected to Testing:

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenditures.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.
- Controls surrounding the following information systems:
 - Vehicle Registration and Titling System (VRTS).
 - Construction Automated Records System (CARS).

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 a certain matter involving internal control and its operation that we consider to be a significant deficiency.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect (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 deficiency in internal control. We also noted other matters involving internal control that we have reported to management of the North Dakota Department of Transportation in a management letter dated April 15, 2014.

Improper Reconciliation of Motor Vehicle Clearing Account (Finding 13-1)

Condition:

The Department of Transportation is not properly reconciling the motor vehicle clearing account. Monies are transferred to the State Treasurer on a monthly basis, but the Department of Transportation is unable to completely identify the proper allocation of the remaining funds. Consequently, monies remain undisbursed from the motor vehicle clearing account each month.

Criteria:

Proper reconciliation procedures are identified as critically important controls by COSO (*Internal Control - Integrated Framework* by the Committee of Sponsoring Organizations of the Treadway Commission).

Cause:

The Department of Transportation failed to implement this recommendation in the past two audits as the Vehicle Registration and Titling System (VRTS) was not designed to provide the necessary reconciliations.

Effect or Potential Effect:

Without a proper reconciliation, there is an unacceptably high risk of errors in the management of the motor vehicle clearing account and monthly transfer to the State Treasurer and related distributions.

Recommendation:

We recommend the Department of Transportation properly reconcile the motor vehicle clearing account.

Department of Transportation Response:

NDDOT agrees with the finding and recommendation.

It should be noted that Motor Vehicle management and NDDOT internal audit staff have reviewed the collection and deposit activities for the Motor Vehicle Division and have determined that all revenues received are being deposited into the Motor Vehicle clearing account in the Bank of North Dakota.

Existing controls as well as controls that have been implemented are designed to ensure segregation of duties and verification that all funds are properly deposited and accounted for. Existing controls include the following: Online transactions are automatically deposited into the Motor Vehicle Clearing account at the Bank of North Dakota. In-house transactions are reconciled daily to the daily drawer report from the Vehicle Registration Titling System (VRTS). Motor Carrier funds received in house are reconciled daily to the Commercial Vehicle Information System Network (CVISN).

Controls that have been implemented include: Each month the Bank of North Dakota clearing account is reconciled to ensure that proper supporting documentation is attached for all debits and credits passing through the account during the month. Branch payments are reconciled to drawer reports from VRTS once received in the Bismarck office. Should Motor Vehicle or Motor Carrier drawer report be over/short cash the discrepancy is tracked and reported to the employee's supervisor. This ensures that there are no patterns or consistency in the same individual having discrepancies. Motor Vehicle accounting staff has created a schedule to conduct random audits of any employee using a cash drawer. Each drawer will be audited once per quarter to ensure that the drawer is being used for its intended purpose and that all moneys are accounted for throughout the day.

All funds are properly deposited and accounted for in the clearing account; however, the problem lies in the fact that the funds are not all being distributed out of the clearing account and transferred to the ND State Treasurer's Office for subsequent distribution.

Reconciliation of the motor vehicle clearing account is a very complex undertaking. The primary system involved in the processing of the related transactions is the Vehicle Titling and Registration System (VRTS). This system is extremely complex and it is used to process a multitude of unique transactions that are allocated to many separate funds as directed by our legislature. The reconciliation problems that have been encountered likely stem from procedural and/or information technology issues as related to the VRTS system since the VRTS system was not designed to have a financial reconciliation function. Also, any problems with distribution may stem from the fact that the current VRTS system is incapable of handling the complex and multiple distributions required by law.

To attempt to resolve this issue, NDDOT assembled a large, multi-disciplinary task force made up of individuals with accounting, auditing, Motor Vehicle, and information technology expertise. This group actively worked on the reconciliation project for more than two years. Each unique category of transaction was researched, mapped and traced through the VRTS system in a test environment. As discrepancies were revealed through this process, procedural and/or information technology solutions were developed, implemented, and further tested to ensure that a satisfactory solution was put in place.

While the task force identified and resolved several issues affecting the reconciliation, they were not able to fully reconcile the Motor Vehicle clearing account.

NDDOT addressed the VRTS problems with the 2013 Legislature. It was emphasized that the VRTS system is approximately 12 years old and has major deficiencies that very significantly hinder the ability to meet the current Motor Vehicle registration and reporting needs, including the account reconciliation issue. To address the numerous problems with the VRTS system, the 2013 Legislature approved a major IT project to replace the system and appropriated funding for the replacement. Accordingly, the NDDOT efforts to reconcile the clearing account under the VRTS system have been discontinued and efforts are now focused on obtaining and implementing a replacement to the VRTS system. One of the requirements for the new system is that it must fully support reconciliation of all related accounts.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2013, we identified and tested the North Dakota Department of Transportation's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Followed advertising requirements for highway improvements in excess of \$50,000 (North Dakota Century Code (NDCC) 25-05-04.2).
- Adequate rental fees charged and deposited into the state highway fund for independent motor vehicle branch sites (NDCC 39-02-03).
- Appropriate bids were obtained for construction improvement projects (NDCC 24-02-17 and 24-02-22).
- Surety bonds were received for awarded contracts (NDCC 24-02-23).
- Proper distribution of Public Transportation Funds (NDCC 39-04.2-04(2)).
- CDL medical certificate requirements (NDCC 39-06.2-08.1).
- Proper collection and deposit of the following Motor Vehicle fees:
 - Motor Vehicle fee – Unsatisfied Judgment (NDCC 26.1-23-03).
 - Duplicate certificate of title fee (NDCC 39-05-09.1).
 - Release of lien fee (NDCC 39-05-16.1).
 - Transfer certificate of title fee (NDCC 39-05-17(4)).
 - Removal of damage disclosure from certificate of title (NDCC 39-05-17.2(2)).
 - Involuntary transfer of title fee (NDCC 39-05-19).
 - Reconstructed salvaged certificate of title fee (NDCC 39-05-20.2).
 - Additional dealer plates (NDCC 39-18-01).
 - Certificate of Title for mobile homes, house trailers, and travel trailers (NDCC 39-18-03).
 - Dealer renewal application after expiration of license fee (NDCC 39-22-18).
 - Motor Vehicle Dealer auto show permit (NDCC 39-22-20).
 - Trailer dealer renewal application after expiration of license fee (NDCC 39-22.1-02.1).
 - Low speed vehicle registration fees (NDCC 39-29.1-03(4)).
 - Low speed vehicle dealer license fee (NDCC 39-29.1-04).
 - National Guard terminated eligibility reissuance plate fee (NDCC 39-04-10.8).
 - Firefighters association terminated eligibility reissuance plate fee (NDCC 39-04-10.11).
 - Gold star number plate fee (NDCC 39-04-10.14).
 - Trailer dealer's license fee (NDCC 39-22.1-01).
 - Registration of unconventional vehicle fees (NDCC 39-29.2-03(5)).
- Proper collection of the following Driver's License fees:
 - Non-driver photo ID card (NDCC 39-06-49(2a)).
 - Renewal of operator's license (NDCC 39-06-49 (2g)).
 - Commercial driver's license or permit application (NDCC 39-06.2-19 (2b)).

- Proper use of the following legally restricted funds:
 - Highway fund (NDCC 24-02.37, 24-02-41).
 - Motor Vehicle fund (39-04-39.3, 39-05-30).
 - Abandoned Motor Vehicle fund (39-26-11, 39-26-12).
 - Highway Rail Grade Crossing Safety fund (NDCC 24-09, 57-43.2-19, 54-27-19).
 - Motorcycle Safety fund (39-28-05, 39-28-02).
 - Dealer Enforcement fund (NDCC 39-22-05.1).
 - State Infrastructure Bank fund (NDCC 24-02-43).
 - Special Road fund (NDCC 24-02-37(3)).
 - Public Transportation fund (NDCC 39-04.2-02, 39-04.2-04).
 - Employment of People with Disabilities fund (NDCC 39-01-15(5)).
 - Snowmobile fund (NDCC 39-24-05).
 - State Rail fund (NDCC 49-17.1-02).
 - Highway Tax Distribution fund (NDCC 54-27-19).
 - State Aid Distribution fund (NDCC 57-39.2-26.1).
 - Driver's License Trust fund (NDCC 39-16-10).
 - Veteran's Cemetery fund (NDCC 37-03-14).
 - Trail Tax Transfer fund (NDCC 39-29-05(2)).
 - Fleet Services Fund (NDCC 24-02-03.5).
 - Department of Transportation Debt Service fund (NDCC 24-02-40.1).
- Compliance with appropriations and related transfers (2011 North Dakota Session HB1012).
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset proper capitalization requirements.

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.

While we did not find any items that were required to be reported in accordance with *Government Auditing Standards*, we noted certain inconsequential or insignificant instances of non-compliance that we have reported to management of the North Dakota Department of Transportation in a management letter dated April 15, 2014.

Operations

This audit did not identify areas of North Dakota Department of Transportation's operations where we determined it was practical at this time to help to improve efficiency or effectiveness. However, we did note a certain matter involving operations that we have reported to management of the North Dakota Department of Transportation in a management letter dated April 15, 2014.

Prior Recommendations Not Implemented

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

Inadequate Procedures Surrounding Revenue Collections (Finding 11-2)

Recommendation:

We recommend the Department of Transportation properly reconcile the motor vehicle clearing account.

Status:

Not implemented. See new recommendation on page 13.

Management Letter (Informal Recommendations)

April 15, 2014

Mr. Grant Levi, Director
Department of Transportation
608 E. Boulevard Avenue
Bismarck, ND 58505-0700

Dear Mr. Levi:

We have performed an audit of the North Dakota Department of Transportation for the biennium ended June 30, 2013, and have issued a report thereon. As part of our audit, we gained an understanding of the North Dakota Department of Transportation's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

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

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

The following present our informal recommendations.

LEGISLATIVE INTENT

Informal Recommendation 13-1: We recommend the Department of Transportation deposit fees collected under section 39-22.1-01 and chapter 39-29.1 of the North Dakota Century Code (NDCC) into the proper funds or consider changing or adding wording to the NDCC to deposit the fees into the desired fund.

Informal Recommendation 13-2: We recommend the Department of Transportation develop policies and procedures to ensure the amounts of the surety bonds furnished by the Motor Vehicle branch managers are sufficient.

OPERATIONAL

Informal Recommendation 13-3: We recommend the Department of Transportation ensure the Code of Conduct policy is approved and effectively communicated to all employees.

Informal Recommendation 13-4: We recommend the Department of Transportation complete their fraud risk assessment and identify controls in place to mitigate potential fraud risks as required by Office of Management and Budget policy 216.

REVENUE

Informal Recommendation 13-5: We recommend the Department of Transportation document their reconciliation of the district deposits to the driver's license system.

Management of North Dakota Department of Transportation 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,



Kevin Scherbenske
Auditor in-charge

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or by contacting the
Division of State Audit

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

(701) 328-2241