

Department  
of Transportation  
BISMARCK, NORTH DAKOTA

# Audit Report

For the Biennium Ended  
June 30, 2015

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*

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July 14, 2016

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, 2015. 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*

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## *Introduction*

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

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

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

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

## *Responses to LAFRC Audit Questions*

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

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

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

Yes.

### *3. Was internal control adequate and functioning effectively?*

Other than our finding addressing the "improper reconciliation of motor vehicle clearing account" (page 13), 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?*

As noted at “improper reconciliation of motor vehicle clearing account” (page 13), the North Dakota Department of Transportation has not implemented the formal recommendation from 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 18 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, Driver's 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***

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## ***Audit Objectives***

The objectives of this audit of the North Dakota Department of Transportation for the biennium ended June 30, 2015 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, 2015. 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 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 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***

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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, 2015, operations of the North Dakota Department of Transportation were primarily supported by appropriations from general, 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, 2015 were approximately \$3.8 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, 2015 was approximately \$3.5 billion.

Revenues consisted primarily of federal funds, 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 the fiscal year ended June 30, 2015 was \$1,414,670,752, compared to \$871,528,839 for the fiscal year ended June 30, 2014. The primary reason for the increase was a \$565,000,000 transfer in from the Strategic Investment and Improvement Fund.

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

Total expenditures and other uses for the North Dakota Department of Transportation were \$1,130,236,266 for the year ended June 30, 2015 as compared to \$1,256,637,571 for the prior year. The Building Construction expenditures were larger in fiscal year 2014 primarily due to the right-of-way purchased in Williams and McKenzie counties for the Highway 85 construction project.

### ***Analysis of Significant Variances - Budgeted and Actual Expenditures***

The majority of the remaining appropriation authority is federal funding; which the Department is uncertain of the amount they will receive when preparing their budget. Fluctuations occur due to federal funding levels and weather-related construction season changes.

# Financial Statements

## Statement of Revenues and Expenditures

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
<b><u>Revenues and Other Sources:</u></b>		
Federal Revenue	\$ 317,108,977	\$ 351,386,387
Motor Vehicle Excise Tax	152,261,521	149,947,575
Licenses, Permits, and Fees	129,511,882	126,264,797
Political Subdivisions Cost Share	33,545,986	29,185,261
Fleet Services	9,745,309	11,409,289
Sale of Assets	3,507,852	3,522,937
Highway Damage Claims	1,454,305	1,543,503
Indirect Cost Recovery	1,379,300	1,358,546
Miscellaneous Revenue	1,213,059	973,855
Transfer in from Strategic Investment and Improvement Fund	565,000,000	
Transfer in from Highway Tax Distribution Fund	199,768,362	195,765,723
Other Transfers In	174,199	170,966
<b>Total Revenues and Other Sources</b>	<b><u>\$1,414,670,752</u></b>	<b><u>\$ 871,528,839</u></b>
<b><u>Expenditures and Other Uses:</u></b>		
Salaries and Benefits	\$ 97,336,359	\$ 94,626,248
Highway Contractor and Easement Payments	678,404,513	707,795,996
Grants	154,920,897	204,762,836
Engineers/Engineering Consultants	73,403,101	77,480,877
Road Maintenance Supplies	31,943,276	30,304,276
Fleet Vehicles/Vehicle Repairs	19,721,935	16,389,684
Travel	17,440,571	17,173,937
Other Professional Fees and Services	10,567,614	9,489,761
Building Construction	10,549,397	65,675,306
IT Services	9,675,821	6,617,625
Repairs	5,530,163	4,910,624
Operating Fees and Services	5,440,824	6,977,072
Supplies and Equipment	4,997,030	3,613,329
Road Maintenance Equipment	4,616,794	6,071,668
Utilities	2,792,608	2,576,748
Rentals and Leases	1,646,938	1,356,738
Transfers Out	1,248,425	814,846
<b>Total Expenditures and Other Uses</b>	<b><u>\$1,130,236,266</u></b>	<b><u>\$1,256,637,571</u></b>

## Statement of Appropriations

For The Biennium Ended June 30, 2015

<b>Expenditures by Line Item:</b>	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 187,477,585	\$ 3,711,338	\$ 191,188,923	\$ 191,188,854	\$ 69
Accrued Leave Payments	7,280,897	(288,600)	6,992,297	773,752	6,218,545
Operating Expenses	376,721,715	(125,583,962)	251,137,753	222,499,777	28,637,976
Capital Improvements	732,411,207	126,010,016	858,421,223	739,674,231	118,746,992
Construction Carryover		13,323,437	13,323,437	9,075,617	4,247,820
Enhanced State Highway Invest	1,161,600,000	139,109,652	1,300,709,652	870,993,216	429,716,436
Grants	89,788,030		89,788,030	61,124,183	28,663,847
County & Township Road Program	160,000,000	82,400,000	242,400,000	162,690,601	79,709,399
Non-Oil Producing Counties	120,000,000	33,000,000	153,000,000	117,744,044	35,255,956
General Fund Transfer	542,700,000		542,700,000	542,700,000	
General License Plate Issue	6,820,000		6,820,000		6,820,000
<b>Totals</b>	<u>\$3,384,799,434</u>	<u>\$271,681,881</u>	<u>\$3,656,481,315</u>	<u>\$2,918,464,275</u>	<u>\$738,017,040</u>
<b>Expenditures by Source:</b>					
General Fund	\$1,464,020,000	\$(57,618,060)	\$1,406,401,940	\$1,382,730,957	\$ 23,670,983
Other Funds	1,920,779,434	329,299,941	2,250,079,375	1,535,733,318	714,346,057
<b>Totals</b>	<u>\$3,384,799,434</u>	<u>\$271,681,881</u>	<u>\$3,656,481,315</u>	<u>\$2,918,464,275</u>	<u>\$738,017,040</u>

### Appropriation Adjustments:

The \$3,711,338 adjustment to the Salaries and Benefits line included the following amounts:

- \$646,407 increase in appropriation authority authorized by the Emergency Commission on September 10, 2013 for additional salaries from the state agency energy development impact pool authorized by House Bill 2015, section 6 of the 2013 Legislative Session.
- \$892,805 increase in appropriation authority authorized by the Emergency Commission on December 10, 2013 for additional salaries from the state agency energy development impact pool authorized by House Bill 2015, section 6 of the 2013 Legislative Session.

- \$931,710 increase in appropriation authority authorized by the Emergency Commission on June 17, 2014 for additional salaries from the state agency energy development impact pool authorized by House Bill 2015, section 6 of the 2013 Legislative Session.
- \$912,258 increase in appropriation authority authorized by the Emergency Commission on November 17, 2014 for additional salaries from the state agency energy development impact pool authorized by House Bill 2015, section 6 of the 2013 Legislative Session.
- \$288,600 increase was a transfer from the Accrued Leave Payments line.
- \$39,558 increase was authorized by House Bill 1015, section 8 of the 2013 Legislative Session for OMB to reimburse agencies for health premiums for certain temporary employees from the health insurance pool.

The (\$125,583,962) adjustment to the Operating Expenses line included the following amounts:

- \$94,368 increase in appropriation authority authorized by the Emergency Commission on September 10, 2013 for rental assistance from the state agency energy development impact pool authorized by House Bill 2015, section 6 of the 2013 Legislative Session.
- \$99,888 increase in appropriation authority authorized by the Emergency Commission on December 10, 2013 for rental assistance from the state agency energy development impact pool authorized by House Bill 2015, section 6 of the 2013 Legislative Session.
- \$103,014 increase in appropriation authority authorized by the Emergency Commission on June 17, 2014 for rental assistance from the state agency energy development impact pool authorized by House Bill 2015, section 6 of the 2013 Legislative Session.
- \$128,784 increase in appropriation authority authorized by the Emergency Commission on November 17, 2014 for rental assistance from the state agency energy development impact pool authorized by House Bill 2015, section 6 of the 2013 Legislative Session.
- (\$85,800,000) decrease was due to an error in inputting the agency original appropriation authority which resulted in moving this amount from Operating Expenses line to the Capital Improvements line.
- (\$40,210,016) decrease was to move authority from the Operating Expenses line to the Capital Improvements line to accommodate a change in methodology used to account for state funded road maintenance projects.

The \$126,010,016 increase in the Capital Improvements was made up of the \$85,800,000 and \$40,210,016 adjustments noted above in the Operating Expenses adjustments.

The \$13,323,437 increase in the Construction Carryover line was approved by the Capital Construction Carryover Committee.

The \$139,109,652 increase in the Enhanced State Highway Investment line included the following adjustments:

- \$200,000,000 increase authorized in Senate Bill 2013, sections 2 and 4 of the 2015 Legislative Session as an emergency measure to begin new biennium projects.
- (\$60,890,347) decrease to reduce expenditures authorized in Senate Bill 2176, section 1 of the 2013 Legislative Session which was declared an emergency measure and was spent in the previous biennium.

The \$82,400,000 increase in the County & Township Road Projects and the \$33,000,000 increase in the Non-Oil Producing Counties lines were authorized in Senate Bill 2013, sections 2 and 4 of the 2015 Legislative Session as an emergency measure to begin new biennium projects.

#### **Expenditures Without Appropriations Of Specific Amounts:**

The North Dakota Department of Transportation has a continuing appropriation authority for sale of road materials from the Highway Fund by NDCC section 24-02-35.2 (\$105,143 of expenditures for this biennium).

The Statewide Conference Fund is nonappropriated in accordance with OMB policy 211 (\$192 of expenditures for this biennium).

The Public Transportation Fund has a continuing appropriation authorized by NDCC section 39-04.2-04 (\$11,547,664 of expenditures for this biennium).

The Insurance Recovery Fund has a continuing appropriation authorized by NDCC section 54-44.1-09.1 (\$1,074,785 of expenditures for this biennium).

The Driver's License Trust Fund is authorized by NDCC section 39-16-10 to account for cash received and to make payments and refunds to/from motor vehicle operators involved in accidents that have no automobile liability policy (\$61,000 of expenditures for this biennium).

#### **General Fund Transfer Line**

The General Fund Transfer line item (\$542,700,000) is not included on the Statement of Revenues and Expenditures as they are transfers from the General Fund to the Highway Fund. As these monies are spent out of the Highway Fund, they are reported as expenditures on the Statement of Revenues and Expenditures.

## *Internal Control*

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In our audit for the biennium ended June 30, 2015, 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)
  - Fuel File System
  - Contract Management System
  - Workforce Administration System
  - Driver's License System
  - Motor Carrier Online System

The criteria used to evaluate internal control is published in the publication *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States (Green Book, GAO-14-704G). Agency management must establish and maintain effective internal control in accordance with Office of Management and Budget (OMB) Policy 216 and, for programs receiving federal funds, the Code of Federal Regulation as set forth by the federal government (2 CFR 200.303).

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

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect: (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 July 14, 2016.

## ***Improper Reconciliation of the Motor Vehicle Clearing Account (Finding 15-1)***

### **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 *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States (Green Book, GAO-14-704G).

### **Cause:**

The Department of Transportation failed to implement this recommendation in the past several 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 North Dakota Department of Transportation properly reconcile the motor vehicle clearing account.

### ***Department of Transportation Response:***

*NDDOT agrees with the finding and recommendation.*

*To attempt to resolve the reconciliation issue, NDDOT assembled a large, multi-disciplinary task force made up of individuals with accounting, auditing, Motor Vehicle, and information technology expertise. 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. Accordingly, the 2013 Legislature approved a major IT project to replace the system and appropriated funding for the replacement.*

*NDDOT entered into a contract with an entity to replace the VRTS system. Work commenced on the new system in mid-February, 2015. The new system became operational in June of 2016 and staff is currently fine-tuning the system. We fully expect this finding will be fully resolved in the very near future.*



## *Compliance With Legislative Intent*

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In our audit for the biennium ended June 30, 2015, we identified and tested North Dakota Department of Transportation's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Proper disposal of older airplane fleet and purchase of newer airplane fleet (2013 North Dakota Session Laws, House Bill 1033).
- Compliance with \$640,000 cap on highway-rail grade crossing safety projects (2013 North Dakota Session Laws, Senate Bill 2012, section 4).
- Compliance with \$6,820,000 cap on costs associated with the general license plate issue (2013 North Dakota Session Laws, Senate Bill 2012, section 8).
- Proper distribution of \$240,000,000 to oil-producing counties based on infrastructure needs (2015 North Dakota Session Laws, Senate Bill 2103, section 2).
- Proper use of \$450,000,000 for construction and maintenance of state transportation infrastructure (2015 North Dakota Session Laws, Senate Bill 2103, section 4).
- Proper distribution of Public Transportation Funds (NDCC 39-04.2-04).
- Proper collection and deposit of the following motor vehicle fees:
  - Information request fee (NDCC 39-02-05)
  - Trailer dealer's license fee (NDCC 39-22.1-01)
  - Low speed vehicle registration fee (NDCC 39-29.1-03(4))
  - Low speed vehicle dealer license fee (NDCC 39-29.1-04)
- Proper use of the following legally restricted funds:
  - State Highway Fund (NDCC 24-02.37, 24-02-41)
  - Motor Vehicle Fund (NDCC 39-04-39.3, 39-05-30)
  - Public Transportation Fund (NDCC 39-04.2-02, 39-04.2-04)
  - State Rail Fund (NDCC 49-17.1-02)
  - Fleet Services Fund (NDCC 24-02-03.5)
- Application of proper statutory rates relating to Motor Vehicle and Driver's License revenue.
- Compliance with procurement requirements for construction improvements (NDCC 24-02-17 and NDCC 24-02-22).
- Compliance with bonding requirements for construction improvement projects (NDCC 24-02-23).
- Compliance with procurement requirements for public building projects (NDCC 48-01.2-02.1).
- Compliance with OMB's Purchasing Procedures Manual.
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations (2013 North Dakota Session Laws, Senate Bill 2012, NDCC 54-27-10, and NDCC 54-44.1-09).
- Adequate blanket bond coverage of employees (NDCC 26.1-21-08).
- Compliance with fixed asset requirements including record-keeping and annual inventory.
- Compliance with payroll-related laws including certification of payroll.
- Proper approval of stand-alone computer systems by the ConnectND Steering Committee.

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 July 14, 2016.

## *Operations*

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Our audit of the Department of Transportation included reviewing the Transportation Alternatives Program (TAP) grant program.

The TAP program was authorized under Section 1122 of the current transportation bill, *Moving Ahead for Progress in the 21st Century (MAP-21)*.

Our audit of the Department of Transportation's TAP program was designed and conducted to meet the following objectives:

- Were grants awarded using an adequate selection process?
- Are grantees required to submit status updates on their progress toward the established goal of the award?
- Do grant agreements include all important information, such as necessary reports grantees must submit, conflict of interest, expected results, and any potential consequences?
- Are there established performance measures to identify whether funds received by grantees are being used to achieve objectives or require additional action due to noncompliance?
- Were the results of the grant reviewed to establish whether identified goals were achieved?

Our audit did not identify areas for improvement in the Department's Transportation Alternatives grant program.

## ***Prior Recommendations Not Implemented***

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There was one prior formal recommendation and it was not implemented as noted below.

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

**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)***

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July 14, 2016

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, 2015, 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 15-1: We recommend the Department of Transportation deposit fees collected under section 39-22.1-01 of the North Dakota Century Code (NDCC) into the Highway Tax Distribution fund or consider changing or adding wording to NDCC to deposit the fees into the desired fund.

## **OPERATIONAL**

Informal Recommendation 15-2: We recommend the Department of Transportation ensure the Code of Conduct policy is approved and effectively communicated to all employees.

Informal Recommendation 15-3: 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.

## **EXPENDITURES**

Informal Recommendation 15-4: We recommend the Department of Transportation retain records to support when a vehicle is purged from the Vehicle Registration and Titling System (VRTS).

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

I encourage you to call me 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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