

# Office of the State Auditor

*Division of State Audit*

## Information Technology Department Bismarck, North Dakota

Audit Report for the  
Two-Year Period Ended June 30, 2008  
Client Code 112

*Robert R. Peterson*  
*State Auditor*



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## *Transmittal Letter*

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April 27, 2009

The Honorable John Hoeven, Governor  
Members of the North Dakota Legislative Assembly  
Ms. Lisa Feldner, CIO, Information Technology Department

We are pleased to submit this audit of the Information Technology Department for the two-year period ended June 30, 2008. 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 Michael W. Schmitcke, CPA. Kevin Scherbenske, CPA, and Aaron Petrowitz were the staff auditors. Cindi Pedersen, CPA, was the audit supervisor. Inquiries or comments relating to this audit may be directed to the audit supervisor by calling (701) 328-4743. We wish to express our appreciation to Ms. Feldner and her 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 Information Technology Department (ITD) is established with the responsibility for all wide area network services planning, selection, and implementation for all state agencies, including institutions under the control of the State Board of Higher Education, counties, cities, and school districts. In exercising its powers and duties, ITD is responsible for computer support services, standards for providing information to other state agencies and the public through the internet, technology planning, process redesign, and quality assurance.

## **RESPONSES TO LAFRC AUDIT QUESTIONS**

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The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies.

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

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

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

Other than our finding addressing "noncompliance with appropriation laws" (page 19) the Information Technology Department was in compliance with significant statutes, laws, rules, and regulations under which it was created and is functioning.

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

Other than our finding addressing the "fraud risk assessment activities" (page 15), 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. *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 21 of this report, along with management's response.

### **LAFRC AUDIT COMMUNICATIONS**

1. *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.

2. *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 Information Technology Department's financial statements do not include any significant accounting estimates.

3. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

4. *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.

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

None.

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

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

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

None.

8. *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), Data Processing Billing System, Telecommunication Billing System, Customer Information System, and 4D System are high-risk information technology systems critical to the Information Technology Department.

# *Audit Objectives, Scope, and Methodology*

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## *Audit Objectives*

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The objectives of this audit of the Information Technology Department for the two-year period ended June 30, 2008 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the Information Technology Department'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 Information Technology Department and are they in compliance with these laws?
3. Are there areas of the Information Technology Department's operations where we can help to improve efficiency or effectiveness?

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## *Audit Scope*

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This audit of the Information Technology Department is for the two-year period ended June 30, 2008. 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 Information Technology Department has operations in the following locations. Each location will be included in the audit scope:

- The central office in the Capitol Building;
- Dakota Carrier Network Building;
- ND Association of Counties Building;
- Northbrook Mall; and
- NDSU Campus in Fargo, ND.

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## *Audit Methodology*

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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. Nonstatistical sampling was used and the results were projected to the population.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) ERP system.
- Observed the Information Technology Department'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***

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The accompanying financial statements have been prepared to present the Information Technology Department'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 Information Technology Department'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, 2008, operations of the Information Technology Department were primarily supported by revenue receipts from the agency's services. This was supplemented by appropriations from the state's general fund.

### ***FINANCIAL SUMMARY***

The Information Technology Department (ITD) operates as an internal service fund. ITD tracks and monitors the cost and revenue of each service in cost centers to ensure that one service is not subsidizing another. The federal government does not allow state central service agencies to accumulate an excess fund balance. Regulations establish specific standards for determining allowable costs for services in federally funded projects. ITD monitors the cost centers and adjust rates accordingly.

Revenues increased 12% from fiscal year 2007 to fiscal year 2008. Total revenues were \$48,873,189 for the year ended June 30, 2008 as compared to \$43,694,474 for the year ended June 30, 2007. Computer service revenue increased \$2,309,209 from 2007 to 2008 due to rate increases for the 2007-2009 biennium implemented in July 2007. ITD also received \$4,034,925 in loan proceeds during fiscal year 2008. The majority of the loan proceeds are for an equipment and software financing agreement related to the MMIS project at the Department of Human Services.

Total expenses were \$55,666,454 for the year ended June 30, 2008 as compared to \$46,399,920 for the year ended June 30, 2007, an increase of 20%. The increase in expenses was in four main areas. Salaries and wages increased by \$1,987,945 due to increased staffing levels and normal compensation increases,

both authorized by the 2007 Legislative Session. Payments for IT service contracts increased by \$1,030,979 from 2007 to 2008 due to a two-year service contract paid in the first year of the new biennium and service contracts related to new hardware for the MMIS project. Expenses for IT software increased by \$1,825,957 due to rising software maintenance costs and initial software purchases related to customer IT projects. Lastly, expenses for IT hardware increased \$2,671,789 for equipment for customer IT projects.

In addition to ITD's traditional role of providing services to customers on a charge back basis, the 2001 Legislative Session expanded ITD's responsibility to oversee several general funded technology programs. A brief description of these programs follows.

The Center for Distance Education (CDE) was established in 1935 by the North Dakota Legislative Assembly to provide distance education courses for students in grades K-12 and adults. It is regionally accredited by the North Central Association Commission on Accreditation and School Improvement and is a member of the University Continuing Education Association. CDE offers a broad curriculum of middle level and high school distance education courses free of time and place constraints, enhanced through the use of new instructional technologies and delivery systems. CDE currently offers 165 print courses and 110 online courses for grades 6 through 12. During 2006-2007, 4,885 students were enrolled in 8,016 courses from 49 states and 23 foreign countries. More information can be obtained from CDE's home page at: [www.ndcde.org](http://www.ndcde.org).

Senate Bill 2251 of the fifty-seventh legislative assembly created the Education Technology Council (ETC) as an entity within ITD to coordinate educational technology initiatives for elementary and secondary education. More information can be obtained from the ETC's home page at: [www.ndetc.k12.nd.us](http://www.ndetc.k12.nd.us).

EduTech provides technical support and services to K-12 users of STAGEnet and is responsible for professional development of K-12 administrators and teachers in the use of technology to improve teaching and learning. More information can be obtained at [www.edutech.nodak.edu](http://www.edutech.nodak.edu).

A specific general fund appropriation was given to ITD to support the deployment and operation of STAGEnet to the K-12 schools throughout the state. The general funds cover the costs not funded by the federal E-Rate Program.

A specific general fund appropriation was given to ITD to support the deployment and operation of a centralized Geographic Information System (GIS) hub to make data more easily available

and reduce costs by pooling the resources and data used by all levels of government.

A specific general fund appropriation was given to ITD to support the deployment and operation of a centralized Criminal Justice Information Sharing (CJIS) hub to make data more easily available and reduce costs by pooling the resources and data used by all levels of law enforcement agencies.

### **ACCOMPLISHMENTS/INITIATIVES**

ITD continues to focus on becoming a stronger customer-centric organization. ITD started setting expectations through service level objectives to resolve 90% of incidents within the timeframe originally conveyed to customers. In January 2007 we added a new online method for customers to report problems, ask questions, request information, and offer feedback. In addition, ITD moved the Service Desk and the Network Operations Center into one location to serve customers better. During fiscal year 2008, ITD resolved more than 53,000 incidents with an overall customer satisfaction rating of 99.8%. Over 32,000 service requests were processed, and 93% of our customers were pleased with the quality of our work.

ITD continued to grow and enhance project management practices. North Dakota's Project Management Mentor Program was selected as NASCIO's (National Association of State Chief Information Officers) winner in the project and portfolio management category for work accomplished last year.

Usage of the Statewide Government and Education Network (StageNet) continues to grow. This network keeps information flowing to more than 80,000 computers and 10,000 telephones. ITD deployed a new system to support the scheduling of video conferences and distance learning classes in June 2007. In addition, we completed the deployment of a new secure wireless access system in the Capitol. ITD continues to architect the network to support customer requirements over the next several years and recently awarded contracts for additional bandwidth at network endpoint locations. Conversion to the new circuits is expected to begin in earnest in June 2009.

Created to improve public safety, the CJIS Portal includes information systems used to capture and share complete, accurate, and timely information, so that law enforcement entities can make better informed decisions across jurisdictional and organizational boundaries statewide. The portal has grown to more than 1,200 authorized users processing more than a million transactions. Thirty-eight agencies use the Law Enforcement Records Management System (NetRMS), totaling 257 users with 173 full-time officers. Six counties use State's Attorney Reporting

System (Justware). The mobile component of NetRMS Cruiser was made available to interested pilot agencies. Master Search capabilities of court protection orders with the full text were made available through the CJIS Portal.

ITD publishes an annual report that discusses our major IT accomplishments in more detail. The report can be found at [www.nd.gov/itd/pubs](http://www.nd.gov/itd/pubs).

### ***FUTURE CRITICAL ISSUES***

Our staff is the core to the services we provide and primarily responsible for the success we achieve. Accordingly, recruiting, developing, and retaining a top-notch technology staff continue to be a focus for the ITD management team. We continue to work with interim legislative committees to discuss compensation issues in state government and innovative ways to address employee compensation and retention.

Information technology security and related privacy issues are a primary focus for ITD in the operation of the Statewide Government and Technology Network and the state's computing infrastructure. All divisions within ITD work together to provide expertise and leadership in securing the state of North Dakota's information technology resources. We recognize that our success on security projects is often dependent on corresponding projects and processes within state agencies and we appreciate the efforts and input we receive from our customers to help strengthen the state's security practices.

ITD operates a second data center for disaster recovery purposes. ITD's initial focus has been to minimize data loss in the event of a disaster – this is commonly referred to as the recovery point objective (RPO) and measures the time (relative to the disaster) to which you can recover your data. The second data center houses the backup data for all systems and allows ITD to perform real-time data mirroring for critical systems. In addition to improving recovery point objectives for the state's data, ITD is working with agencies on the recovery time objective (RTO) for their applications. RTO is a measure of how long it takes for a system to resume normal operations. We expect more agencies to ask ITD to make investments in our technology infrastructure to improve agencies RTO for critical business functions.

We are encouraged by the level of agency participation in the Enterprise Architecture process. Continued participation by state agencies in the enterprise architecture process has many benefits. It helps ensure that IT investments are ultimately helping agencies fulfill their mission. It connects the selection, creation and implementation of IT solutions to specific business purposes. Enterprise architecture assures policy-makers that agencies are creating new systems and eliminating old ones through a consistent process.

# Financial Statements

## STATEMENT OF REVENUES AND EXPENDITURES

	June 30, 2008	June 30, 2007
<b><u>Revenues and Other Sources:</u></b>		
Computer Service	\$ 41,801,620	\$ 39,492,411
Loan Proceeds	4,034,925	
Sale of Publications	1,353,178	1,166,441
Student Fees	961,309	1,013,896
Telecommunication Relay Service	318,425	369,783
Miscellaneous Revenue	403,732	1,651,943
<b>Total Revenues and Other Sources</b>	<b>\$ 48,873,189</b>	<b>\$ 43,694,474</b>
<b><u>Expenditures and Other Uses:</u></b>		
Salaries and Benefits	\$ 19,009,589	\$ 17,021,644
IT Equipment over \$5,000	3,602,779	930,990
Other Capital Payments	2,697,770	2,696,229
Grants	2,070,307	1,698,301
Equipment Over \$5,000	407,421	168,163
Major Operating Expenses:		
IT Contractual Services	10,985,786	9,954,807
Supplies – IT Software	9,058,390	7,232,433
IT – Communications	2,680,306	2,821,326
IT Equipment under \$5,000	1,022,435	707,990
Repairs	747,524	191,845
Rent of Building Space	739,061	588,496
IT – Data Processing	527,476	371,435
Professional Development	468,266	346,757
Travel	369,836	323,001
Office Supplies	346,282	394,309
Printing	260,634	159,921
Other Operating Expenses	672,592	792,273
<b>Total Expenditures and Other Uses</b>	<b>\$ 55,666,454</b>	<b>\$ 46,399,920</b>

**STATEMENT OF APPROPRIATIONS**

**For The Fiscal Year Ended June 30, 2008**

<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 Wages	\$ 37,682,129	\$ 131,456	\$ 37,813,585	\$ 16,436,942	\$ 21,376,643
Operating Expenses	57,062,912		57,062,912	25,710,166	31,352,746
Capital Assets	12,145,250		12,145,250	5,383,162	6,762,088
Center for Distance Education	6,472,457	110,139	6,582,596	2,900,330	3,682,266
Statewide Data System	227,954		227,954	125,109	102,845
Education Technology Grants	1,136,267		1,136,267	612,547	523,720
Edu Tech	2,722,348		2,722,348	1,727,395	994,953
Wide Area Network	4,066,519		4,066,519	1,796,366	2,270,153
Geographic Info. System	798,149	75,000	873,149	355,036	518,113
Criminal Justice Information	2,352,196	1,410,160	3,762,356	619,403	3,142,953
<b>Totals</b>	<u>\$124,666,181</u>	<u>\$ 1,726,755</u>	<u>\$126,392,936</u>	<u>\$ 55,666,456</u>	<u>\$ 70,726,480</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 11,659,411		\$ 11,659,411	\$ 6,012,099	\$ 5,647,312
Other Funds	113,006,770	\$ 1,726,755	114,733,525	49,654,357	65,079,168
<b>Totals</b>	<u>\$124,666,181</u>	<u>\$ 1,726,755</u>	<u>\$126,392,936</u>	<u>\$ 55,666,456</u>	<u>\$ 70,726,480</u>

**Appropriation Adjustments:**

The \$131,456 increase in the salary and wages line item and the \$110,139 increase in the Center for Distance Education line item were due to additional appropriation authority granted by Senate Bill 2189 for market equity increases for classified state employees.

Emergency Commission Request number 1644 increased the spending authority for the geographic info system line item by \$75,000. The increase was granted to accept additional federal funding related to the Geographic Information System.

Emergency Commission Request number 1645 increased the spending authority for the criminal justice information line item by \$1,410,160. The increase was granted to accept additional federal funding related to the Statewide Automated Victim and Information Notification System (SAVIN).

**STATEMENT OF APPROPRIATIONS**

**For The Biennium Ended June 30, 2007**

<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 Wages	\$ 29,327,174	\$ 354,000	\$ 29,681,174	\$ 28,312,275	\$ 1,368,899
Operating Expenses	48,908,146	146,000	49,054,146	40,967,736	8,086,410
Capital Assets	10,361,163		10,361,163	8,338,627	2,022,536
Center for Distance Education	6,016,779		6,016,779	5,337,953	678,826
Education Technology Grants	886,597		886,597	885,773	824
Edu Tech	2,652,348		2,652,348	2,652,339	9
Wide Area Network	7,542,950		7,542,950	3,592,572	3,950,378
Geographic Info System	686,980		686,980	686,898	82
Criminal Justice Information	2,525,090		2,525,090	976,805	1,548,285
<b>Totals</b>	<u>\$108,907,227</u>	<u>\$ 500,000</u>	<u>\$109,407,227</u>	<u>\$ 91,750,978</u>	<u>\$ 17,656,249</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 9,972,837		\$ 9,972,837	\$ 9,958,740	\$ 14,096
Other Funds	98,934,390	\$ 500,000	99,434,390	81,792,238	17,642,153
<b>Totals</b>	<u>\$108,907,227</u>	<u>\$ 500,000</u>	<u>\$109,407,227</u>	<u>\$ 91,750,978</u>	<u>\$ 17,656,249</u>

**Appropriation Adjustments:**

Emergency Commission Request number 1576 increased the Information Technology Department's spending authority for salaries and wages by \$354,000 and operating expenses by \$146,000. The increases were to cover the additional costs associated with the transition of developer functions that used to be performed by the Bank of North Dakota that will now be performed by the Information Technology Department.

## *Internal Control*

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In our audit for the two-year period ended June 30, 2008, we identified the following areas of the Information Technology Department's internal control as being the highest risk:

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### Internal Controls Subjected To Testing

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- 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 computer-based Data Processing System, Telecommunication System, Customer Information System, and 4D.

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 Information Technology Department in a management letter dated April 27, 2009.

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### Finding 08-1

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#### **FRAUD RISK ASSESSMENT ACTIVITIES**

The Information Technology Department does not have a documented process in place to assess the risks related to possible instances of fraud or fraudulent activities in the Department's financial and operational areas.

The most important guidance relating to internal control is contained in *Internal Control – Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This guidance dictates that a Fraud Risk Assessment program be established and practiced to identify risks within the department’s control environment including fraudulent type activities, when special circumstances arise, when changing operating environments, and for restructuring. In addition, the Information Technology Department does not have the necessary control activities designed/documentated to ensure fraud exposures are identified and mitigated.

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Audit Recommendation  
and Agency Response

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**Recommendation:**

We recommend the Information Technology Department:

Establish and perform a fraud risk assessment on a recurring basis; and

Design and document the necessary control activities to ensure each fraud exposure identified during the risk assessment process has been adequately mitigated.

***Information Technology Department Response:***

*We agree with the recommendation and plan to implement a fraud risk assessment program utilizing the guidance published by COSO and OMB.*

## *Compliance With Legislative Intent*

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In our audit for the two-year period ended June 30, 2008, we identified and tested the Information Technology Department's compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

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Legislative Intent Included In  
Our Audit Scope

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- Salary of the Chief Information Officer (NDCC section 54-59-03).
- Deposit of monies into the Information Technology Fund (NDCC section 54-59-17).
- Calculation of the telephone access line surcharge rate (NDCC section 54-44.8-08 subsection 1).
- Compliance with special appropriations (2005 North Dakota Session Laws chapters 49 and 13, sections 5 and 6, and 4 and 5, respectively and 2007 North Dakota Session Laws chapter 21 sections 5, 6, 7, and 11).
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with OMB's Purchasing Procedures Manual.
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Proper use of outside bank accounts.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including record keeping, surplus property, lease, and financing arrangements in budget requests, and lease analysis requirements.
- Compliance with payroll related laws including statutory salaries for applicable elected and appointed positions, and certification of payroll.

The criteria used to evaluate legislative intent are the laws as published in the *North Dakota Century Code* and the *North Dakota Session Laws*.

*Government Auditing Standards* requires auditors to report all instances of fraud and illegal acts unless they are inconsequential within the context of the audit objectives. Further, auditors are required to report significant violations of provisions of contracts or grant agreements, and significant abuse that have occurred or are likely to have occurred.

The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*. The finding is described below. Other than this finding, we concluded there was compliance with the legislative intent identified above. We also noted certain inconsequential

instances of noncompliance that we have reported to management of the Information Technology Department in a management letter dated April 27, 2009.

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## **NONCOMPLIANCE WITH APPROPRIATION LAWS**

Finding 08-2

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The Information Technology Department did not properly monitor one of their special appropriation laws, and as a result, they overspent the special amount appropriated for the 2005-2007 biennium related to the distribution of a North Dakota studies textbook and workbook.

Per House Bill 1013, section 4 of the 2005 Session Laws, the sum of \$148,800 was appropriated to the Center for Distance Education (a division of the Information Technology Department) for the purpose of developing, publishing, and distributing a North Dakota studies textbook and workbook including civic education for both grades four and eight, for the biennium beginning July 1, 2005 and ending June 30, 2007. The Center for Distance Education had expenditures totaling \$151,393 related to this special appropriation. Therefore, the Information Technology Department overspent this special appropriation by \$2,593.

Section 54-16-03 of the North Dakota Century Code (NDCC) states that it is unlawful to expend more than appropriated. As a result, the Information Technology Department is not in compliance with NDCC.

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Audit Recommendation  
and Agency Response

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### **Recommendation:**

We recommend the Information Technology Department:

- a) Develop control procedures for monitoring special appropriations; and
- b) Comply with Section 54-16-03 of the North Dakota Century Code by not overspending its special appropriation laws.

### **Information Technology Department Response:**

*We agree with the recommendation. We plan to continue to monitor special appropriations in addition to the line item and funding source appropriations using the PeopleSoft system. The overspend occurred due to a payroll coding error that was not able to be corrected prior to the close of the biennium. This error did not result in overspending our total appropriation, our line item appropriations or our funding source appropriations.*

## *Operations*

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This audit did not identify areas of the Information Technology Department's operations where we determined it was practical at this time to help to improve efficiency or effectiveness.

## ***Management Letter (Informal Recommendations)***

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April 27, 2009

Ms. Lisa Feldner, CIO  
Information Technology Department  
600 E. Boulevard Avenue  
Bismarck, ND 58505

Dear Ms. Feldner:

We have performed an audit of the Information Technology Department for the two-year period ended June 30, 2008, and have issued a report thereon. As part of our audit, we gained an understanding of the Information Technology Department'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.

### **PERVASIVE CONTROLS**

Informal Recommendation 08-1: We recommend the Information Technology Department develop a code of ethics and code of business conduct and ensure that employees adhere to the policy.

## **ACCOUNTS PAYABLE/EXPENDITURES**

Informal Recommendation 08-2: We recommend the Information Technology Department not pay sales tax and stop paying for the costs of employee vaccinations and health risk assessments.

## **PAYROLL**

Informal Recommendation 08-3: We recommend the Center for Distance Education ensure personnel action forms (PAF) forms are sent from OMB to an individual at the Center for Distance Education who does not have access to process payroll changes.

Informal Recommendation 08-4: We recommend the Information Technology Department ensure PAF forms are sent from OMB to an individual at the Information Technology Department who does not have access to process payroll changes.

## **LEGISLATIVE INTENT**

Informal Recommendation 08-5: We recommend the Information Technology Department either comply with NDCC section 54-59-15 and deposit federal funds received into their operating fund or get this section of NDCC changed.

Informal Recommendation 08-6: We recommend the Center for Distance Education comply with OMB procurement guidelines.

## **GENERAL PROGRAM**

Informal Recommendation 08-7: We recommend the Center for Distance Education establish policies and procedures for proper NDGOV account management and that responsibility for annually reviewing security access roles be assigned to an appropriate individual.

Management of the Information Technology Department 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,



Michael W. Schmitcke, CPA  
Auditor in-charge