

Information Technology  
Department  
BISMARCK, NORTH DAKOTA

**Audit Report**

Two-year Period Ended  
June 30, 2010

ROBERT R. PETERSON  
STATE AUDITOR



Office of the State Auditor  
Division of State Audit

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STATE AUDITOR  
ROBERT R. PETERSON



PHONE  
(701) 328 - 2241  
FAX  
(701) 328 - 1406

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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March 1, 2011

The Honorable Jack Dalrymple, 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, 2010. 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. Delan Hellman and Lindsey Ressler 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) 328-2241. 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.

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 response 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 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 "lack of procurement procedures" (page 18), 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?*

Yes.

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

Other than our work addressing "increased usage of the purchase card" (page 19) there were no indications of a lack of efficiency in financial operations and management of the Information Technology Department.

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

The Information Technology Department 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 21 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 Information Technology Department'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), Data Processing Billing System, Telecommunications 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***

The objectives of this audit of the Information Technology Department for the two-year period ended June 30, 2010 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?

## ***Audit Scope***

This audit of the Information Technology Department is for the two-year period ended June 30, 2010. 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 was included in the audit scope:

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

## ***Audit Methodology***

To meet the objectives outlined above, we:

- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report and reviewed management's discussion and analysis of the financial statements.
- Performed detailed analytical procedures including computer-assisted auditing techniques. These procedures were used to identify high-risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed

- consistently. Non-statistical sampling was used and the results were projected to the population.
- Interviewed appropriate agency personnel.
  - Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
  - 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 ended June 30, 2010, 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 and federal funding.

### ***Financial Summary***

The Information Technology Department (ITD) operates as an internal service fund. ITD tracks and monitors the expense 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 3% from fiscal year 2009 to fiscal year 2010. Total revenues were \$54,202,152 for the year ended June 30, 2010 as compared to \$52,521,039 for the year ended June 30, 2009. Computer Service revenues increased \$3,131,743 from 2009 to 2010 due to rate increases for the 2009-2011 biennium implemented in July 2009. ITD also received \$3,294,453 in loan proceeds during fiscal year 2009. The majority of the proceeds are the final loan proceeds for equipment and software financing agreements related to the MMIS project at the Department of Human Services. In 2010 the loan proceeds dropped to \$1,012,406 which was for equipment related to replacing equipment infrastructure for the STAGEnet core and endpoints.

Total expenses were \$60,115,327 for the year ended June 30, 2010 as compared to \$56,307,372 for the year ended June 30, 2009, an increase of 7%. The increase in expenses occurred in two main areas. Salaries and wages increased by \$2,936,741 due to increased staffing levels and normal compensation increases, both authorized by the 2009 Legislative Session. Salary expenses increased and Grant expenses decreased due to EduTech becoming a division within ITD. Prior to July 2009, EduTech was funded by pass through grants from ITD. Expenses for IT Equipment increased by \$1,990,100 as a result of equipment purchases for the STAGEnet equipment refresh and the beginning of our Voice over IP rollout.

In addition to ITD's traditional role of providing services to customers on a charge back basis, the Legislature has 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 138 print courses and 193 online courses for grades 6 through 12. During 2009-2010, 3,644 students were enrolled in 5,518 courses from 49 states and 30 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 operation of the health information technology office. The office is responsible for implementing a statewide interoperable health information infrastructure and promoting the use and adoption of electronic health records and associated health information technologies.

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. The 2007-2009 budget contained general and federal funds for several CJIS projects and a Statewide Automated Victim Information and Notification system. Since these are multi-year projects they resulted in carryover appropriations in the 2009-2011 budget. The general fund carryover of \$497,718 was appropriated in appropriation line 51. The federal fund continuing grant of \$1,055,345 was appropriated in appropriation line 78.

### ***Accomplishments/Initiatives***

While many states are now envisioning a private cloud for government and education, North Dakota has been doing that since 2000. One of ITD's recent implementations was PowerSchool, a student information system used by North Dakota K-12 schools. PowerSchool data imports into ViewPoint and ndSLEDS (North Dakota State Longitudinal Education Data System), ITD hosted data warehouse applications, which provide educators with a data-driven decision-making environment used to improve instruction and student achievement statewide.

The STAGEnet 2009 Education upgrade delivered a much needed equipment refresh to K-12 schools and also refreshed equipment used in Higher Education entities and the State's core network. Many endpoints used in K-12 schools were running out of capacity due to growing IT needs, primarily due to video and Voice over Internet Protocol (VoIP). This project involved collaboration with over 18 local telecommunication companies, 175 K-12 facilities, 25 Higher Education facilities, nine libraries, and six tribal facilities. Previously, most K-12 facilities had a single T1 servicing them for a bandwidth of 1.5 Mbps. Today, most have a 10 Mbps Ethernet connection. During the 2009-10 school year, average bandwidth usage increased by more than 200 percent.

The STAGEnet upgrade also improved the network architecture at the network endpoints. Each endpoint employs a VPN firewall that builds a split tunnel to the State's service center. This design provides a stable yet fluid underlying network transport which allows the State to provide many types of network transport services from one or any number of providers for all 1,025 customer locations.

As agency demand for server hosting has increased the physical space in our data center had become a concern. ITD has addressed some of the concerns in this area through server virtualization. To date, roughly 60 percent of the ITD's consolidated server farm is now virtualized. This virtualization initiative is reducing server hardware at a ratio of 12 physical servers to one blade server. ITD intends to have more than 80 percent Intel server virtualization by July 2011.

ITD's success is linked to the success of our customers as we are actively involved in developing and/or providing project management for IT projects. In FY2010 state agencies completed 12 large IT projects with individual budgets in excess of \$250,000 and a total budget of \$7,208,499. Eight of the 12 projects were completed on or under budget with none of the projects exceeding the 20 percent negative variance threshold. Five of the 12 projects were completed on schedule and two additional projects completed within the 20 percent negative variance threshold.

ITD assists agencies with procuring information technology in order to maximize the value of the State's overall investment. As part of this function ITD reviewed 62 contracts and requests for proposals. New State Term Contracts were established for application security testing and data-warehousing. ITD also led a multi-state consortium in developing standard PC configurations and special pricing that resulted in an average savings of 39 percent below the standard WSCA-NASPO contract pricing.

Through the Enterprise Architecture (EA) process, state agencies collaborate to set the future direction of IT in the State of North Dakota. Last year, 133 people from 27 agencies were involved with several projects and studies including: social media, encryption of data-at-rest on mobile computing devices and collaborative application development and resource sharing.

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

## ***Future Critical Issues***

A new buzz word in IT is Business Intelligence. ITD is now working with several agencies to create data marts where agencies can share data with each other. Currently, a statewide longitudinal data system is being created to provide analytics on education and workforce data, which will help the State address education and training needs.

Health Information Technology continues to be a focus for ITD. In 2009, the North Dakota Legislature passed Senate Bill 2332, which established a Health Information Technology Advisory Committee (HITAC), to help implement a comprehensive system to manage health information. They additionally appropriated \$5 million dollars for a low interest revolving loan fund to help providers acquire certified electronic health record systems. Health IT will allow for comprehensive management of medical information and its private and secure exchange between health care providers and consumers. HITAC consists of representatives from the Governor's Office, ITD, Department of Health, and Department of Human Services, as well as 19 stakeholders appointed by the Governor, who represent providers, consumers, and trade associations.

Computer storage in North Dakota is following global trends with transactional data growing by 21 percent and unstructured data increasing by 60 percent annually. This explosive growth has provided challenges in meeting customer demand for affordable storage tiers and in meeting our backup windows for the large amount of data that needs to be backed up. ITD has taken measures to help manage this growth, but we anticipate that this will be a continuing challenge to agency budgets and a continuing challenge to ITD to find the right mix of technologies and service levels to provide managed storage platforms for our customers.

Our staff is the core to the services we provide and primarily responsible for the success we achieve. We make considerable investments in equipping our employees to perform their jobs. Accordingly, recruiting, developing and retaining a top-notch technology staff continue to be a focus for the ITD management team.

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 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.

# Financial Statements

## Statement of Revenues and Expenditures

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
<b><u>Revenues and Other Sources:</u></b>		
Computer Service	\$ 49,550,071	\$ 46,418,328
Loan Proceeds	1,012,406	3,294,453
Federal Revenue	962,673	372,599
Student Fees	904,006	878,908
Sale of Publications	772,673	986,002
Miscellaneous Revenue	546,901	293,133
Telecommunication Relay Service	453,422	277,616
<b>Total Revenues and Other Sources</b>	<b><u>\$ 54,202,152</u></b>	<b><u>\$ 52,521,039</u></b>
<b><u>Expenditures and Other Uses:</u></b>		
Salaries and Benefits	\$ 23,756,701	\$ 20,819,960
IT Equipment Over \$5,000	4,932,475	2,942,375
Bond Payments	2,700,145	2,700,991
Grants	134,133	1,348,783
Major Operating Expenses:		
IT Contractual Services	11,511,757	11,979,428
Supplies – IT Software	9,610,142	9,300,850
IT – Communications	2,518,804	2,706,312
IT Equip under \$5,000	989,703	830,903
IT – Data Processing	924,468	814,953
Rent of Building Space	774,206	732,609
Repairs	423,101	526,824
Travel	418,929	220,260
Professional Development	359,492	337,468
Fees and Services	292,480	119,737
Office Supplies	239,701	269,426
Other Operating Expenses	529,090	656,493
<b>Total Expenditures and Other Uses</b>	<b><u>\$ 60,115,327</u></b>	<b><u>\$ 56,307,372</u></b>

## Statement of Appropriations

For The Fiscal Year Ended June 30, 2010

<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	\$ 42,564,943	\$ 927,132	\$ 43,492,075	\$ 18,885,527	\$ 24,606,548
Operating Expenses	55,208,550	500,000	55,708,550	22,635,629	33,072,921
Capital Assets	11,970,746	500,000	12,470,746	6,214,107	6,256,639
Technology Project Carryover		497,718	497,718	333,342	164,376
Deferred Maintenance	60,000		60,000		60,000
Center for Distance Education	6,287,917	337,868	6,625,785	2,442,480	4,183,305
Statewide Data System	2,466,325	10,000,000	12,466,325	188,972	12,277,353
Education Technology Grants	974,986	25,000	999,986	317,275	682,711
Edu Tech	7,753,602		7,753,602	3,621,845	4,131,757
Wide Area Network	5,976,970		5,976,970	3,270,489	2,706,481
Geographic Info System	789,678		789,678	385,214	404,464
Health Info Technology Office	8,350,000		8,350,000	136,435	8,213,565
Criminal Justice Information	3,609,239		3,609,239	1,104,638	2,504,601
Federal Stimulus Funds - 2009	82,263,883	2,000,000	84,263,883	579,372	83,684,511
<b>Totals</b>	<u>\$228,276,839</u>	<u>\$14,787,718</u>	<u>\$243,064,557</u>	<u>\$ 60,115,325</u>	<u>\$182,949,232</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 19,105,785	\$ 562,718	\$ 19,668,503	\$ 9,172,418	\$ 10,496,085
Other Funds	209,171,054	14,225,000	223,396,054	50,942,907	172,453,147
<b>Totals</b>	<u>\$228,276,839</u>	<u>\$14,787,718</u>	<u>\$243,064,557</u>	<u>\$ 60,115,325</u>	<u>\$182,949,232</u>

### Appropriation Adjustments:

The \$927,132 increase in the salary and wages line item and the \$337,868 increase in the Center for Distance Education line item were due to additional appropriation authority granted by Chapter 15, section 18, of the 2009 Legislative Session for market equity increases for classified state employees.

Emergency Commission Request number 1717 increased the spending authority for the operating expenses and capital assets line items by \$500,000 each. The increase was granted to accept additional federal funding related to enhanced 911 services.

The \$497,718 increase in the technology project carryover line item was approved by OMB's Carryover Committee. Unexpended authority from the 2007-2009 biennium related to the Criminal Justice Information System was carried over to be expended in the current biennium.

Emergency Commission Request number 1718 increased the spending authority for the statewide data system line item by \$10,000,000. The increase was granted to accept additional federal funding related to Longitudinal Data System.

Emergency Commission Request number 1715 increased the spending authority for the education technology grants line item by \$25,000. The increase was granted to allow the Educational Technology Committee to accept additional grants.

Emergency Commission Request number 1716 increased the spending authority for the federal stimulus funds – 2009 line item by \$2,000,000. The increase was granted to accept additional federal funding for conducting an assessment of broadband availability and demand in North Dakota.

## Statement of Appropriations

For The Biennium Ended June 30, 2009

<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	\$ 34,573,534	\$ 3,240,051
Operating Expenses	57,062,912	(1,500,000)	55,562,912	48,806,393	6,756,519
Capital Assets	12,145,250	1,500,000	13,645,250	12,150,733	1,494,517
Center for Distance Education	6,472,457	110,139	6,582,596	5,636,127	946,469
Statewide Data System	227,954		227,954	227,750	204
Education Technology Grants	1,136,267		1,136,267	1,134,748	1,519
Edu Tech	2,722,348		2,722,348	2,722,347	1
Wide Area Network	4,066,519		4,066,519	3,854,130	212,389
Geographic Info System	798,149	75,000	873,149	822,169	50,980
Criminal Justice Information	2,352,196	1,410,160	3,762,356	2,045,896	1,716,460
<b>Totals</b>	<u>\$124,666,181</u>	<u>\$ 1,726,755</u>	<u>\$126,392,936</u>	<u>\$111,973,827</u>	<u>\$ 14,419,109</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 11,659,411		\$ 11,659,411	\$ 11,157,270	\$ 502,141
Other Funds	113,006,770	\$ 1,726,755	114,733,525	100,816,557	13,916,968
<b>Totals</b>	<u>\$124,666,181</u>	<u>\$ 1,726,755</u>	<u>\$126,392,936</u>	<u>\$111,973,827</u>	<u>\$ 14,419,109</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.

Appropriation authority was transferred from the operating expenses line item to the capital assets line item as authorized by House Bill 1021, section 4 of the 2007 Legislative Session, which allows the Information Technology Department to make transfers between line items at the request of the chief information officer.

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).

## *Internal Control*

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In our audit for the two-year period ended June 30, 2010, we identified the following areas of the Information Technology Department'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:
  - Data Processing System
  - Telecommunication System
  - Customer Information System
  - 4D
- Controls surrounding access granted to ITD employees to applications supported by ITD for other agencies.

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

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk. We concluded internal control was adequate.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect: (1) misstatements in financial or performance information; (2) violations of laws and regulations; or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any significant deficiencies in internal control. However, we noted other matters involving internal control that we have reported to management of the Information Technology Department in a management letter dated March 1, 2011.

## *Compliance With Legislative Intent*

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In our audit for the two-year period ended June 30, 2010, we identified and tested the Information Technology Department's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Salary of 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).
- Authorization of scholarship fund investments (NDCC section 15-19-06 subsection 3).
- Compliance with special appropriations: 2007 North Dakota Session Laws chapter 21 (sections, 6, 7, and 11) and 2009 North Dakota Session Laws chapters 49 (sections 3, 5, and 9), 518 (sections 1 and 2), and 519 (sections 1, 2, 3, 4, 5, 7, and 10).
- 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, petty cash funds, and proper authority for investments outside the Bank of North Dakota.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including record keeping, 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 has occurred or is likely to have occurred.

The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*. The finding is described on the following page. 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 March 1, 2011.

## ***Lack of Procurement Procedures (Finding 10-1)***

### Condition:

Individuals from the Information Technology Department and Center for Distance Education who did not have the required level II procurement training certification made purchases over \$2,500 totaling approximately \$19,879. These purchases were also made without obtaining three informal bids or proposals.

### Criteria:

OMB's State Procurement Manual states for purchases of \$2,500.01 to \$25,000 agencies are required to solicit no fewer than three vendors, insofar as practical, to submit oral or written informal bids or proposals. If three bids are not received, the agency needs to provide written justification (e.g., "only two known vendors" or "contacted three vendors, only two responded").

The State Procurement Training and Certification Program requires level II certification for all employees who make purchases up to \$25,000.

### Cause:

The Information Technology Department and Center for Distance Education do not have procedures in place to ensure that all purchases over \$2,500 are made after the appropriate bids are obtained and that purchases are procured by individuals that have the proper level of procurement training through the State Procurement Office.

### Effect or Potential Effect:

The Information Technology Department and Center for Distance Education have made purchases without ensuring items are purchased at a competitive cost therefore possibly spending more than is necessary to purchase these items.

### **Recommendation:**

We recommend the Information Technology Department and Center for Distance Education establish procedures to ensure all purchases made are subject to the bidding and training requirements established by the State Procurement Office.

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

*ITD agrees with the recommendation and will implement appropriate training and procedures to ensure our purchasing processes comply with requirements established by the State Procurement Office.*

## ***Operations***

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Our audit of the Information Technology Department identified the following area of potential improvement to operations, as expressed by our operational objective:

- Did the Information Technology Department utilize the P-card program so as to maximize the amount of applicable purchases made on the P-card versus making payment through the Accounts Payable (AP) module?

### ***Increased Usage of the Purchase Card (Finding 10-2)***

Condition:

The Information Technology Department is not utilizing the purchase card (P-card) to the extent possible. Based on an analysis of expenditures during fiscal year 2010 that could have been paid with a P-card, we noted the Information Technology Department only made 1% of those payments with the P-card.

Criteria:

- *OMB Purchasing Card manual* – denotes some of the benefits of using the P-card to include: 1) reducing administrative costs for the state; 2) reducing the amount of paperwork; and 3) reducing the number of checks issued, among other benefits.
- *Government Finance Officers Association (GFOA) Recommended Best Practices* – use of purchasing cards improves the efficiency of purchasing procedures and reduces overall purchase processing costs.
- *National Association of Purchasing Professionals* – estimates that P-cards can save 55% to 90% off the cost of a payment transaction.
- *RPMG Research Corp.* – 2003 Purchasing Card Benchmarking Study demonstrated that P-cards reduce the procurement cycle by 74%.
- *RPMG Research Corp.* – 2005 Purchasing Card Benchmarking Study Highlighted the cost savings of using a P-card ranges from \$24 (normal purchase process) up to \$67 (making a purchase via a purchase order) per transaction.

Cause:

The Information Technology Department has not fully examined the cost savings of the P-card program to the state or the Information Technology Department.

Effect or Potential Effect:

At least \$300,000 of revenue would have been available to the state general fund through the rebate program with JP Morgan had the Information Technology Department paid eligible expenditures with the P-card during fiscal year 2010.

**Recommendation:**

We recommend the Information Technology Department use their p-card as a form of payment to all vendors accepting p-cards.

***Information Technology Department Response:***

*ITD understands the rationale for this recommendation. We will coordinate with OMB and our vendors to determine what payments can be made via p-cards without diminishing our ability to analyze expenditure trends and research payment issues within the PeopleSoft modules.*

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

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March 1, 2011

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, 2010, 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.

### **ACCOUNTS PAYABLE/EXPENDITURES**

Informal Recommendation 10-1: We recommend the Information Technology Department develop procedures to approve all ConnectND entries done by other agencies for the Information Technology Department.

## LEGISLATIVE INTENT

Informal Recommendation 10-2: We recommend the Information Technology Department properly safeguard assets by:

- Developing a process to ensure access to the CIS system is properly restricted;
- Ensuring access listings generated by the CIS system provide sufficient detail to determine access privileges granted;
- Implementing proper safeguarding controls over fixed asset items not specifically assigned to an individual; and
- Ensuring asset locations in CIS are updated when assets change location.

Informal Recommendation 10-3: We recommend the Information Technology Department update North Dakota Century Code section 54-59-15 to ensure Federal funds are not required to be deposited into the Information Technology Department's operating fund.

Informal Recommendation 10-4: We recommend the Information Technology Department implement procedures to ensure:

- In-state lodging is reimbursed at the state rate;
- Miscellaneous expenditures are coded correctly; and
- Proper supporting documentation is obtained for all travel expenses being reimbursed.

## PERVASIVE CONTROLS

Informal Recommendation 10-5: We recommend the Information Technology Department and Center for Distance Education complete the fraud risk assessment that has been started.

Management of 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

You may obtain audit reports on the internet at:

[www.nd.gov/auditor/](http://www.nd.gov/auditor/)

or by contacting the  
Division of State Audit

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

(701) 328-2241