

INFORMATION TECHNOLOGY
DEPARTMENT
BISMARCK, NORTH DAKOTA

Audit Report

For the Two-year Period Ended
June 30, 2012

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
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BISMARCK, NORTH DAKOTA 58505

Transmittal Letter

May 20, 2013

The Honorable Jack Dalrymple, Governor
Members of the North Dakota Legislative Assembly
Dr. Lisa Feldner, Chief Information Officer

We are pleased to submit this audit of the Information Technology Department for the two-year period ended June 30, 2012. 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 Richard Fuher, CPA. Andrea Wike and Jacqueline Castleberry were the staff auditors. 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 Dr. Feldner and her staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Bob Peterson".

Robert R. Peterson
State Auditor

Executive Summary

Introduction

The North Dakota 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 the state. In exercising its powers and duties, ITD is responsible for computer support services, host software development, statewide communications 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 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 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?

Yes.

3. Was internal control adequate and functioning effectively?

Yes.

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

There were not any indications of a lack of efficiency in financial operations and management of the Information Technology Department, although in our follow-up operational work addressing "increased usage of the purchase card" (page 18), we did note an area where greater efficiency could be achieved.

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

Except "increased usage of the purchase card" as shown on page 18, 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 and Human Resource Management System (HRMS) are high-risk information technology systems critical to the Information Technology Department.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the Information Technology Department for the two-year period ended June 30, 2012 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, 2012. 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:

- Bismarck office locations.
- EduTech Fargo office.
- EduTech Valley City office.
- Center for Distance Education, 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 reviewed management's discussion and analysis of the financial statements.
- Performed detailed analytical procedures including computer-assisted auditing techniques. These procedures were used to identify high-risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed

consistently. Non-statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure that particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.

- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed 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

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.

Financial Summary

The Information Technology Department (ITD) operates primarily 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 consisted primarily of fees received from state agencies and political subdivisions for ITD computer services. Other significant revenues during the audited period included PowerSchool revenue, the sale of publications and student fees for the Center for Distance Education (CDE), and revenue from federal grants.

Overall revenues decreased 2% from fiscal year 2012 to fiscal year 2011. Total revenues were \$57,392,435 for the year ended June 30, 2012 as compared to \$58,831,223 for the year ended June 30, 2011. The overall decrease is a result of no financing agreements or associated loan proceeds in 2012. Computer Service revenues increased \$2,185,207 from 2011 to 2012 due to rate increases for the 2011-2013 biennium implemented in July 2011. K-12 PowerSchool revenue increased due to a change in the way the Legislature funded the PowerSchool program. During the 2009-2011 biennium the legislature partially funded the PowerSchool program with a general fund appropriation to ITD with the remaining portion funded by billings to individual schools. In the 2011-2013 biennium the Legislature funded the PowerSchool program as part of the per student formula appropriated to the Department of Public Instruction who in turn makes a monthly transfer to ITD based on the number of students in enrolled in public schools.

Overall expenses decreased 7% from fiscal year 2012 to fiscal year 2011. Total expenses were \$64,095,814 for the year ended June 30, 2012 as compared to \$68,867,151 for the year ended June 30, 2011. The overall decrease is a result of no financing agreements or associated loan payments in 2012. Other changes for 2012 occurred in three main areas. Expenses for equipment increased by \$1,003,541 as a result of equipment purchases for STAGEnet and equipment related to upgrading the power and cooling at the primary data center. Repair expenses also increased by \$757,917 for expenses related to the power and cooling upgrade. IT Software and supplies increased by \$1,555,564 for expenses related to our Voice over IP migration, software related to agency IT projects, and normal software maintenance increases.

Analysis of Significant Variances - Budgeted and Actual Expenditures 2009-2011 Biennium

ITD received \$84,263,883 in federal stimulus fund appropriations for potential federal stimulus grants related to the Health Information Exchange (\$80,000,000), Statewide Longitudinal Data System (\$2,263,883), and Broadband Mapping project (\$2,000,000). ITD received \$5,343,733 in federal grants for the Health Information Technology Planning and \$2,000,000 in federal grants for Broadband Mapping. Both grants are multiple year grants and expenditures for these grants started in fiscal year 2010 and will continue into the 2013-2015 biennium. ITD also received an \$8,000,000 special fund appropriation in the Health Information Technology Office line item for matching dollars related to the federal stimulus grants for Health Information Technology Planning and the Health Information Exchange. Since actual grants received were less than anticipated a portion of the matching dollars appropriated remained unexpended at the end of the 2009-2011 biennium.

ITD received \$10,000,000 in federal fund appropriations for potential federal grants in the Statewide Data System line item related to the Statewide Longitudinal Data System along with \$2,263,883 in general fund appropriations for the state share of the project. ITD did not receive any grants related to this initiative since available federal grants were eventually received by the Department of Public Instruction (DPI). ITD and DPI are working together to implement this system.

The Center for Distance Education (CDE) received a \$6,625,785 appropriation consisting of a \$1,249,504 general fund appropriation and a \$5,376,281 special fund appropriation. The general fund appropriation covers a portion of the base operating costs for CDE with the special fund appropriation for the other portion of the base operating costs and any costs for additional education supplies and contract teachers if demand for courses exceeds initial projections. The expenditures were less than the appropriation since the demand remained within the base operating projections.

The unexpended appropriations of \$1,248,642 in the Criminal Justice Information Sharing program are a result of projected CJIS projects that were not initiated and several projects that were still in progress and carried into the 2011-2013 biennium.

\$500,000 of the unexpended appropriations in the Capital Assets line item was related to the Enhanced 911 federal grant. This is a multi-year grant and no equipment expenditures related to this grant were made in the 2009-2011 biennium.

Highlights and Significant Changes in Operations

There were no significant changes in ITD during the audit period.

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. 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. More information can be obtained from CDE's home page at 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.

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.

A general fund and special 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 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 general fund and special 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 general fund and special 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.

ITD also publishes an annual report that discusses our major accomplishments and performance measures in more detail. The report can be found at www.nd.gov/itd/publications.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
<u>Revenues and Other Sources:</u>		
Computer Service	\$ 52,442,968	\$ 50,257,761
Loan Proceeds		3,980,303
PowerSchool Revenue	2,159,894	493,762
Federal Revenue	985,414	1,087,870
Sale of Publications	599,596	920,396
Student Fees	602,762	573,424
Telecommunication Relay Service	348,458	446,771
Miscellaneous Revenue	253,343	570,936
Transfers In		500,000
Total Revenues and Other Sources	<u>\$ 57,392,435</u>	<u>\$ 58,831,223</u>
<u>Expenditures and Other Uses:</u>		
Salaries and Benefits	\$ 26,424,420	\$ 24,972,948
Loan Payments		10,034,079
Equipment Over \$5000	3,295,176	2,291,635
Bond Payments	2,701,992	2,699,585
Grants	257,356	514,767
Major Operating Expenses:		
IT Contractual Services and Repairs	11,467,949	11,268,773
Supplies – IT Software	11,086,524	9,530,960
IT – Communications	2,470,544	2,730,202
IT – Data Processing	1,055,851	958,624
Rent of Building Space	983,350	776,639
Repairs	1,243,808	485,891
Equipment Under \$5000	970,185	674,053
Travel	501,366	465,256
Professional Development	373,664	455,582
Professional Services	335,125	200,084
Office Supplies	208,747	282,111
Other Operating Expenses	408,808	525,962
Transfers Out	310,949	
Total Expenditures and Other Uses	<u>\$ 64,095,814</u>	<u>\$ 68,867,151</u>

Statement of Appropriations

For The Fiscal Year Ended June 30, 2012

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Wages	\$ 45,603,386	\$ 1,779,791	\$ 47,383,177	\$ 21,095,099	\$ 26,288,078
Operating Expenses	53,152,191	16,066,286	69,218,477	24,941,068	44,277,409
Capital Assets	15,035,666	1,500,000	16,535,666	5,705,296	10,830,370
Technology Project Carryover		2,376,580	2,376,580	331,896	2,044,684
Center for Distance Education	6,649,238		6,649,238	2,610,421	4,038,817
Statewide Data System	3,626,867		3,626,867	220,440	3,406,427
Education Technology Grants	1,075,403		1,075,403	475,061	600,342
Edu Tech	7,926,447		7,926,447	3,707,715	4,218,732
Wide Area Network	5,206,992		5,206,992	1,998,135	3,208,857
Geographic Info System	1,112,065		1,112,065	374,814	737,251
Health Info Technology Office	13,959,238		13,959,238	203,274	13,755,964
Criminal Justice Information	2,981,394		2,981,394	1,144,945	1,836,449
Federal Stimulus Funds - 2009	8,000,000		8,000,000	976,701	7,023,299
Totals	<u>\$164,328,887</u>	<u>\$21,722,657</u>	<u>\$186,051,544</u>	<u>\$ 63,784,865</u>	<u>\$122,266,679</u>
Expenditures by Source:					
General Fund	\$ 19,252,204	\$ 2,376,580	\$ 21,628,784	\$ 8,018,404	\$ 13,610,380
Other Funds	145,076,683	19,346,077	164,422,760	55,766,461	108,656,299
Totals	<u>\$164,328,887</u>	<u>\$21,722,657</u>	<u>\$186,051,544</u>	<u>\$ 63,784,865</u>	<u>\$122,266,679</u>

Appropriation Adjustments:

Chapter 578, section 2, of the 2011 Special Session Laws appropriated \$19,346,077 to the Information Technology Department for the purpose of defraying the costs of the Department of Human Services eligibility system. The amount was allocated between \$1,779,791 to the Salaries and Benefits line item, \$16,066,286 to the operating line item, and \$1,500,000 to the Capital Assets line item.

The \$2,376,580 adjustment to the Technology Project Carryover line item was approved by the Capital Construction Carryover Committee for the completion of the State Longitudinal Data System and Criminal Justice Information Sharing projects.

Statement of Appropriations

For The Biennium Ended June 30, 2011

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Wages	\$ 42,564,943	\$ 927,132	\$ 43,492,075	\$ 39,006,589	\$ 4,485,486
Operating Expenses	55,208,550	500,000	55,708,550	54,816,935	891,615
Capital Assets	11,970,746	500,000	12,470,746	11,217,442	1,253,304
Technology Project Carryover		497,718	497,718	466,953	30,765
Deferred Maintenance	60,000		60,000		60,000
Center for Distance Education	6,287,917	337,868	6,625,785	4,696,286	1,929,499
Statewide Data System	2,466,325	10,000,000	12,466,325	537,012	11,929,313
Education Technology Grants	974,986	50,000	1,024,986	1,021,273	3,713
Edu Tech	7,753,602	2,240	7,755,842	6,901,227	854,615
Wide Area Network	5,976,970		5,976,970	5,567,500	409,470
Geographic Info System	789,678		789,678	711,677	78,001
Health Info Technology Office	8,350,000		8,350,000	408,049	7,941,951
Criminal Justice Information	3,609,239		3,609,239	2,360,597	1,248,642
Federal Stimulus Funds - 2009	82,263,883	2,000,000	84,263,883	1,270,937	82,992,946
Totals	<u>\$228,276,839</u>	<u>\$14,814,958</u>	<u>\$243,091,797</u>	<u>\$128,982,477</u>	<u>\$114,109,320</u>
Expenditures by Source:					
General Fund	\$ 19,105,785	\$ 564,958	\$ 19,670,743	\$ 17,016,957	\$ 2,653,786
Other Funds	209,171,054	14,250,000	223,421,054	111,965,520	111,455,534
Totals	<u>\$228,276,839</u>	<u>\$14,814,958</u>	<u>\$243,091,797</u>	<u>\$128,982,477</u>	<u>\$114,109,320</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 Session Laws 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 numbers 1715 and 1744 increased the spending authority for the education technology grants line item by \$25,000 each. The increase was granted to allow the Educational Technology Committee to accept additional grants.

The \$2,240 increase in the Edu Tech line item was provided to Edu Tech as an eligible agency from the State Student Internship Program pursuant to Chapter 15, section 10, of the 2009 Session Laws.

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.

Internal Control

In our audit for the two-year period ended June 30, 2012, 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 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 May 20, 2013.

Compliance With Legislative Intent

In our audit for the two-year period ended June 30, 2012, we identified and tested Information Technology Department's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Calculation of the telephone access line surcharge rate (NDCC section 54-44.8-08 subsection 1).
- Deposit of monies into the Information Technology Fund (NDCC section 54-59-14).
- Requiring criminal history record checks for individuals who have unescorted physical access to the facilities or other security-sensitive areas of the department (NDCC section 54-59-20).
- Access limited to the Criminal Justice Data Information Sharing system (NDCC section 54-59-21 subsection 3).
- Use of general funds provided for the Statewide Longitudinal Data System only to the extent that federal funds are not available (2009 North Dakota Session Laws chapter 49, section 3).
- Proper use of the electronic health information exchange fund (NDCC section 54-59-27).
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations laws (2009 North Dakota Session Laws chapter 49 and 2011 North Dakota Session Laws chapter 20) and budget section changes to appropriations.
- 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 capitalization and fixed asset record-keeping 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 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 Information Technology Department in a management letter dated May 20, 2013.

Operations

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

- Did the Information Technology Department implement the prior recommendation to use their P-card as a form of payment to all vendors accepting P-cards?

We also noted a certain matter involving operations that we have reported to management of the Information Technology Department in a management letter dated May 20, 2013.

Increased Usage of the Purchase Card (Finding 12-1)

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 2012 that could have been paid with a P-card, we noted the following:

- 1.7% of those payments were made with the P-card, based on total dollar amount;
- 31% of those payments under \$2,500 were made with a P-card (25% overall), based on number of transactions; and
- 1,969 vouchers under \$2,500 were processed to pay 20 commonly used vendors.

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 department.

Effect or Potential Effect:

Time savings from utilizing the P-card over the processing of a check are not realized. If the Information Technology Department had paid those 1,969 vouchers to the 20 most commonly used vendors with the P-card then its P-card usage for payments under \$2,500 would have been 74% (58% overall) based on number of transactions.

Operational Improvement:

We recommend the Information Technology Department Use their P-card as a form of payment to vendors accepting P-cards.

Information Technology Department Response:

ITD understands the rationale for this recommendation. OMB has implemented recent changes that allow the vendor that was paid (rather than just the credit card company) to be reflected in the ConnectND system. We will analyze the categories of purchases noted by the audit and identify opportunities to expand the use of the p-card as a form of payment.

Prior Recommendations Not Implemented

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

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

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

Status: Not implemented. See re-issued finding “increased usage of the purchase card” (Finding 12-1) on page 18.

Management Letter (Informal Recommendations)

May 20, 2013

Dr. Lisa Feldner
Chief Information Officer
Information Technology Department
State Capitol
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, 2012, 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.

Inventory

Informal Recommendation 12-1: We recommend the Center for Distance Education establish documented inventory instructions/procedures and ensure, at a minimum,

- Individuals responsible for taking the inventory sign off on the inventory count sheets;
- Inventory count sheets do not list the quantities from the perpetual records;
- Quantity and unit costs are entered properly; and
- Adjustments to perpetual records are approved by the business manager or director.

Legislative Intent

Informal Recommendation 12-2: We recommend the Information Technology Department propose legislation to 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 account.

Informal Recommendation 12-3: We recommend the Information Technology Department determine the appropriate use for the IT technology account or propose legislation to update North Dakota Century Code section 54-59-14.

Informal Recommendation 12-4: We recommend the Information Technology Department and Center for Distance Education comply with state procurement guidelines by ensuring noncompetitive procurements are properly approved and contracts for services are properly bid.

Pervasive Controls

Informal Recommendation 12-5: We recommend the Information Technology Department and the Center for Distance Education includes a description of what constitutes fraudulent behavior as part of their Code of Ethics/Code of Business Conduct policies.

Informal Recommendation 12-6: We recommend the Information Technology Department ensure its fraud risk assessment is performed on each of their functions and divisions.

Revenue

Informal Recommendation 12-7: We recommend the Information Technology Department reconcile federal funds deposited on PeopleSoft to a cumulative amount provided by the federal government as paid to the agency, at least quarterly. This reconciliation should be done by someone independent of the individual responsible for drawing down federal funds.

Informal Recommendation 12-8: We recommend the Information Technology Department establish policies and procedures to review the Public Service Commission's list of registered telecommunications providers for newly registered companies at least annually.

Informal Recommendation 12-9: We recommend the Center for Distance Education establishes policies and procedures to ensure someone without access to cash approves a detailed listing of all credit memos on a monthly basis.

Operational Improvement

Informal Recommendation 12-10: We recommend the Information Technology Department establish documented policies and procedures to control ITD employees' access to systems owned by state agencies and hosted by ITD.

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,

A handwritten signature in cursive script that reads "Richard Fuher".

Richard Fuher, CPA
Auditor in-charge

You may obtain audit reports on the internet at:

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