

Information Technology Department

BISMARCK, NORTH DAKOTA

Audit Report

Two-year Period Ended
June 30, 2016



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 19, 2017

The Honorable Doug Burgum, Governor
Members of the North Dakota Legislative Assembly
Mr. Shawn Riley, Chief Information Officer

We are pleased to submit this audit of the Information Technology Department for the two-year period ended June 30, 2016. 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 Jacqueline Ressler. Elizabeth Rogers and Megan Reis 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 Mr. Riley and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Joshua C. Gallion".

Joshua C. Gallion
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 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 unmodified opinion was issued.

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

Yes.

3. Was internal control adequate and functioning effectively?

Yes.

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

No.

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

There were no 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.

No, a management letter was not issued.

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, management conflicts of interest, contingent liabilities, 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), and CIS 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, 2016 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, 2016. We conducted our 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) primarily 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 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 increased 10.5% from fiscal year 2015 to fiscal year 2016. Total revenues were \$67,786,876 for the year ended June 30, 2016 as compared to \$61,336,738 for the year ended June 30, 2015. The majority of the \$6,450,138 increase is due to rate increases for the 2015-2017 biennium. Included in the rate increases is \$1,199,654 for new services offered in fiscal year 2016 that were not available in 2015. PowerSchool revenue increased \$523,395 from fiscal year 2015 as a result of increased student enrollments.

Overall expenses decreased 8.5% from fiscal year 2016 to fiscal year 2015. Total expenses were \$76,130,758 for the fiscal year ended June 30, 2016 as compared to \$83,169,643 for the fiscal year ended June 30, 2015. The \$3,937,141 decrease in contractual services is a result of the completion of a major IT project in October 2015 and negotiating lower costs for vendor contracts. The \$2,135,857 decrease in IT equipment is a result of one-time equipment costs for ITD's move to a centralized location in fiscal year 2015 as well as computing and disk storage hardware purchases that occurred in fiscal year 2015 and were not needed in fiscal year 2016. The \$1,346,814 decrease in fees and services was largely due to a one-time payment to the Federal government in fiscal year 2015.

Analysis of 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 the Statewide Longitudinal Data System (SLDS), a P20W data warehouse that integrates data from Pre-K, K-12, postsecondary, and workforce training programs. This system allows state and local entities to leverage approved data from education and workforce training programs for use in reporting, program evaluation and research for the purpose of improving participant outcomes of education and workforce training programs

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/about-us/publications.

Analysis of Significant Variances - Budgeted and Actual Expenditures 2013-2015 Biennium

ITD received \$6,800,000 in federal fund appropriations for in the 2013-15 biennium to continue the work for federal stimulus grants (Line Item 79) related to the Health Information Exchange (\$4,500,000) and the Broadband Mapping project (\$2,300,000) awarded in fiscal year 2010. Both grants expired during the 2013-15 biennium. No additional federal grants were received in either of these area, thus creating the unexpended appropriations variance.

\$2,400,000 of the unexpended appropriations in Equipment (Line Item 50) was related to delayed equipment purchases for various projects. The remaining unexpended appropriation was due to planned equipment replacements extending into the 2015-2017 biennium.

The unexpended appropriations of \$2,044,000 for Accrued Leave Payment (Line Item 12) are due to fewer actual accrued leave payouts to employees than what was required to be set aside for by the 63rd Legislative Assembly. Legislation for the 2013-15 biennium required accrued leave to be tracked as a separate line item, whereas in prior biennium it is normally included within the salary and wages line item.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<u>Revenues:</u>		
Computer Services	\$ 62,987,358	\$ 56,573,671
PowerSchool Revenue	2,648,593	2,125,198
Student Fees	608,638	557,137
Federal Revenue	475,741	633,590
Sale of Publications	452,041	411,938
Telecommunication Relay Services	363,647	387,765
Miscellaneous General Revenue	250,858	647,439
Total Revenues	\$ 67,786,876	\$ 61,336,738
<u>Expenditures:</u>		
Salaries and Benefits	\$ 34,261,848	\$ 32,926,487
IT Equipment Over \$5,000	2,339,606	4,475,463
Grants	557,401	645,411
Major Operating Expenses		
IT Contractual Services	13,098,208	17,035,349
Supplies – IT Software	15,436,904	15,322,277
IT – Data Processing	2,782,302	3,384,003
IT – Communications	2,153,381	2,371,789
Rent of Building Space	2,090,522	2,032,338
IT Equip under \$5,000	832,716	710,242
Office Supplies	798,500	519,052
Travel	524,250	621,230
Professional Development	397,036	427,431
Repairs	303,966	579,887
Fees and Services	130,521	1,477,335
Other Operating Expenses	423,597	641,349
Total Expenditures	\$ 76,130,758	\$ 83,169,643

Statement of Appropriations

For the Fiscal Year Ended June 30, 2016

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 58,009,110		\$ 58,009,110	\$ 26,892,371	\$ 31,116,739
Operating Expenses	72,497,177		72,497,177	30,495,327	42,001,850
Capital Assets	8,850,000		8,850,000	1,945,120	6,904,880
Technology Project Carryover		\$ 708,249	708,249	552,075	156,174
Center for Distance Education	9,246,605		9,246,605	4,351,551	4,895,054
Statewide Data System	6,027,708		6,027,708	2,282,164	3,745,544
Education Technology Grants	2,620,656		2,620,656	1,091,028	1,529,628
Edu Tech Wide Area Network	9,146,683		9,146,683	4,461,980	4,684,703
Geographic Info System	5,003,448		5,003,448	1,944,270	3,059,178
Health Info Technology Office	1,222,886		1,222,886	553,209	669,677
	5,864,561		5,864,561	1,561,663	4,302,898
Totals	<u>\$ 178,488,834</u>	<u>\$ 708,249</u>	<u>\$179,197,083</u>	<u>\$ 76,130,758</u>	<u>\$ 103,066,325</u>
Expenditures by Source:					
General Fund	\$ 26,775,795	\$ 708,249	\$ 27,484,044	\$ 12,086,391	\$ 15,397,653
Other Funds	151,713,039		151,713,039	64,044,367	87,668,672
Totals	<u>\$ 178,488,834</u>	<u>\$ 708,249</u>	<u>\$179,197,083</u>	<u>\$ 76,130,758</u>	<u>\$ 103,066,325</u>

Appropriation Adjustments:

The \$708,249 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.

For the Biennium Ended June 30, 2015

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 51,553,251	\$ (651,913)	\$ 50,901,338	\$ 50,467,950	\$ 433,388
Accrued Leave Payments	2,626,084	(437,525)	2,188,559	143,947	2,044,612
Operating Expenses	64,834,643	(250,000)	64,584,643	64,308,709	275,934
Capital Assets	12,500,600		12,500,600	9,715,937	2,784,663
Technology Project Carryover		3,704,757	3,704,757	3,704,757	
Center for Distance Education	5,868,391	671,282	6,539,673	6,441,885	97,788
Statewide Data System	1,870,754	33,222	1,903,976	1,412,522	491,454
Education Technology Grants	1,814,609	13,713	1,828,322	1,100,371	727,951
Edu Tech	8,052,094	493,344	8,545,438	8,545,205	233
Wide Area Network	4,928,177	36,039	4,964,216	4,834,154	130,062
Geographic Info System	1,460,294	9,703	1,469,997	1,311,843	158,154
Health Info Technology Office	4,750,723	51,123	4,801,846	3,228,953	1,572,893
Criminal Justice Information	3,869,361	31,012	3,900,373	3,113,472	786,901
Federal Stimulus Funds - 2009	6,800,000		6,800,000	2,490,849	4,309,151
Totals	<u>\$170,928,981</u>	<u>\$ 3,704,757</u>	<u>\$174,633,738</u>	<u>\$160,820,554</u>	<u>\$ 13,813,184</u>
Expenditures by Source:					
General Fund	\$ 21,254,428	\$ 3,704,757	\$ 24,959,185	\$ 24,167,771	\$ 791,414
Other Funds	149,674,553		149,674,553	136,652,783	13,021,770
Totals	<u>\$170,928,981</u>	<u>\$ 3,704,757</u>	<u>\$174,633,738</u>	<u>\$160,820,554</u>	<u>\$13,813,184</u>

Appropriation Adjustments:

Chapter 52, section 3, of the 2013 Legislative Session granted the director of the Office of Management and Budget the authority to make transfers of funds between line items as requested by the Chief Information Officer of the Information Technology Department as determined necessary for the development and implementation of information technology projects. \$1,339,438 was moved from the Salaries and Benefits, Accrued Leave Payments, and Operating Expenses lines into the various lines.

The \$3,704,757 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.

Internal Control

In our audit for the two-year period ended June 30, 2016, 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.

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

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

Compliance with Legislative Intent

In our audit for the two-year period ended June 30, 2016, 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:

- Deposit of moneys into the Information Technology Fund (NDCC section 54-59-14).
- 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).
- Proper fund authorization.
- Compliance with OMB's Purchasing Procedures Manual.
- Compliance with appropriations and related transfers (2013 North Dakota Session Laws chapter 52, section 1 and 2015 North Dakota Session Laws chapter 21, section 1).
- 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).
- Proper use of the Bank of North Dakota as the state credit card administrator (NDCC section 54-06-08.2).
- Compliance with fixed asset requirements including record-keeping and annual inventory.
- 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.

Operations

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.

You may obtain audit reports on the internet at:

www.nd.gov/auditor/

or by contacting the
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