

North Dakota Information Technology Department

BISMARCK, NORTH DAKOTA

Audit Report

For the Two-Year Period Ended
June 30, 2018

Joshua C. Gallion
State Auditor

Office of the State Auditor
Division of State Audit



Why We Conducted this Audit

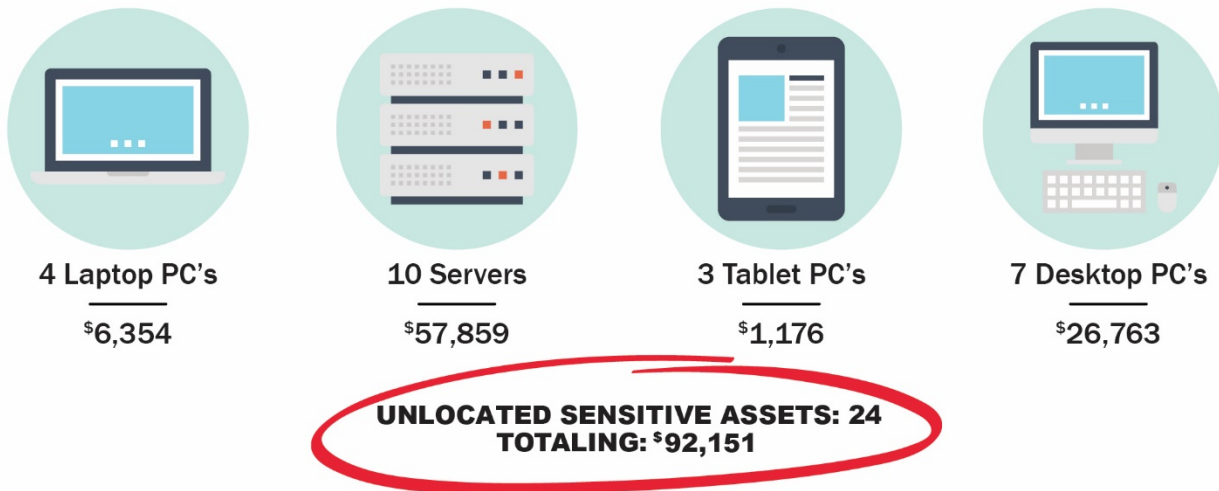
The purpose of this audit was to determine that financial transactions including expenditures were made in accordance with law and appropriation requirements.

What We Found

The North Dakota Information Technology Department complied with law and appropriation requirements except for inadequate annual inventory procedures surrounding assets.

ITD is responsible for over 6,500 assets totaling more than \$25.3 million. These assets include office equipment, network equipment and computer equipment. 81% of these assets are within ITD, the remaining 19% are used by other state agencies for desktop support. Office of Management and Budget (OMB) policy requires each agency to maintain a complete and current inventory record including sensitive assets at risk of loss. ITD did complete the annual physical inventory for 2018 however, they were unable to locate 217 assets. During the audit period, the State Auditor's Office identified 24 out of the 217 assets which could have sensitive information on them. While ITD relies on encryption to secure sensitive information, 3 laptops were found to not be encrypted.

Unlocated Sensitive Assets and Cost by Device Type



Source: Information Technology Department's Computer Information System (CIS) for 7/1/2017 to 6/30/2018



HB 1021 2019-21 Legislative Session

During the 66th Legislative Assembly (2019-21), House Bill 1021 passed to include funding for IT Unification for 5 additional agencies: Department of Trust Lands, Department of Human Services, Adjutant General - Department of Emergency Services, Parks and Recreation Department, and the Department of Transportation. With the IT Unification of these additional agencies comes more assets and greater responsibility on the part of ITD to develop and follow reliable internal processes to ensure all assets are managed properly.

Source: 66th Legislative Assembly 2019-21, House Bill 1021 – Bill text 19.0209.03003

AUDITOR AND AGENCY PERSONNEL

State Auditor Personnel

**Allison Bader, MBA, Audit Manager
Kristi Morlock, MBA, Audit Supervisor
Delan Hellman, Senior Auditor
Dustin Walcker, Senior Auditor
Holly Runia, Auditor
Paige Chapman, M.Acc, Auditor**

Primary State Agency Contacts

**Shawn Riley, CIO
Dan Sipes, Director of Operations/Deputy CIO
Greg Hoffman, Director of Administrative Services**

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OFFICE OF THE STATE AUDITOR
STATE CAPITOL
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Transmittal Letter

April 17, 2019

The Honorable Doug Burgum, Governor
Members of the North Dakota Legislative Assembly
State Information Technology Advisory Committee (SITAC)
Mr. Shawn Riley, North Dakota Chief Information Officer

We are pleased to submit this audit of the North Dakota Information Technology Department for the two-year period ended June 30, 2018. 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.

The primary consideration in determining the contents of these audits is to produce informative audits to improve government. Statutory audit requirements are an important part of these audits and are addressed by our standard audit objective. Additionally, whenever possible additional audit objectives are included to increase responsiveness and effectiveness of state government.

Allison Bader 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,

/S/

Joshua C. Gallion
State Auditor

Audit Results

Statutory Audit Requirements

The objective related to our statutory audit requirements is:

Are there any exceptions to report relating to statutorily required audit testing?

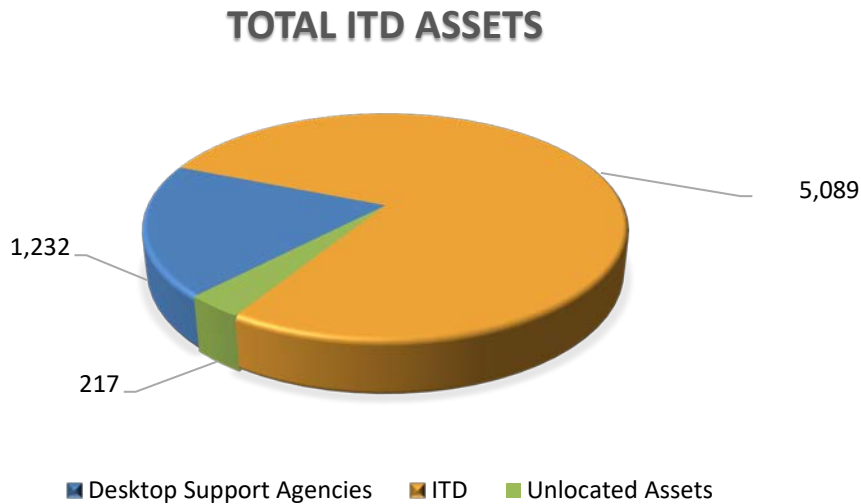
Statutorily required audit testing includes: performing the post audit of financial transactions, detecting and reporting any defaults, determining that expenditures have been made in accordance with law, appropriation acts, and emergency commission action, and evaluating blanket bond coverage. Defaults are defined as failures to do something required by duty or law. Bonding coverage provides insurance to state agencies for any default or wrongful act on the part of any public employee or public official.

Conclusion

The North Dakota Information Technology Department complied with law and appropriation requirements except for inadequate annual inventory procedures surrounding assets.

Background Information and Results

The North Dakota Information Technology Department (ITD) is responsible for over 6,500 assets totaling more than \$25.3 million. These assets include office equipment, network equipment and computer equipment. Examples are: office furniture, servers, routers, hard drives, computers, monitors, printers, and phones. 81% of these assets are ITD's assets, the remaining 19% are used by desktop support agencies. Desktop support agencies are state agencies that are required to utilize ITD's services per North Dakota Century Code (NDCC) section 54-59-22.1(1). ITD provides desktop services to 19 different state agencies.



Source: Information Technology Department's Computer Information System (CIS) for 7/1/2017 to 6/30/2018

Desktop support services include technical assistance and device management relating to the use of personal computers and peripheral devices including keyboards, mice, phones, scanners, and printers. The 1,232 assets for desktop support agencies are broken down into the number of assets by state agency for fiscal year 2018.

FISCAL YEAR 2018 DESKTOP SUPPORT ASSETS



Source: Information Technology Department's Computer Information System (CIS) for 7/1/2017 to 6/30/2018

The agencies included in the remaining 10 agencies portion of the graph are the Office of the Governor, Department of Labor and Human Rights, Office of the State Treasurer, Department of Veterans Affairs, Securities Department, Aeronautics Commission, Council on the Arts, Indian Affairs Commission, Office of Administrative Hearings, and North Dakota Racing Commission.

OMB Fiscal and Administrative Policy 205 states each agency is required to maintain a complete and current inventory record of all property of sufficient value and permanence. Each agency is to establish a policy that specifies the dollar level that will be used to implement the accountability threshold and include the inventory of assets that are particularly at risk or vulnerable to loss. ITD completed the annual inventory for 2018 and had 217 unlocated assets. ITD did not identify sensitive assets at risk of loss to comply with OMB Policy. The State Auditor's Office identified 24 out of the 217 assets which could have sensitive information on them. ITD relies on encryption as a safety net to secure sensitive information for assets not located during annual physical inventory. During a review of encrypted computers during the Service Organization Control Attestation in 2018, we noted 3 laptops were found to not be encrypted.



During the 66th Legislative Assembly (2019-21), House Bill 1021 passed to include funding for IT unification for 5 additional agencies: Department of Trust Lands, Department of Human Services, Adjutant General - Department of Emergency Services, Parks and Recreation Department, and Department of Transportation. With the IT unification of these additional agencies comes more

assets and greater responsibility on the part of ITD to develop and follow reliable internal processes to ensure all assets are managed properly.

Inadequate Annual Inventory Procedures (Finding 18-01)

Condition:

The North Dakota Information Technology Department did not locate 217 assets during the fiscal year 2018 annual physical inventory. Of the 217 assets, 24 were identified as assets containing potentially sensitive information. These assets included servers, laptops, tablets, and desktop computers. The Department relies on encryption as a safety net for assets with sensitive information not located during the annual physical inventory. During our review of encryption, we noted 3 laptops were not encrypted.

Criteria:

North Dakota Office of Management and Budget (OMB) Fiscal and Administrative Policy 205 requires each agency to establish a policy that specifies the dollar level that will be used to implement the accountability threshold of inventory to safeguard assets. This policy should include the inventory of assets that are particularly at risk or vulnerable to loss. This will include risk associated with data security on mobile or portable devices and managing small and attractive assets including personal computers, tablets, smart phones, and electronic items.

Information Technology Department Encryption Standard – Policy Code: ST007-05.2 states all portable computers containing sensitive data shall employ full-disk encryption.

Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States requires management to establish physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, securities, inventories, and equipment that might be vulnerable to risk of loss or unauthorized use. Management also periodically counts and compares such assets to control records. (Green Book, GAO-14-704G para.10.03).

Cause:

The Department has not developed policies and procedures to identify assets that are particularly at risk or vulnerable to loss. Also, the Department has not documented whether the follow-up on sensitive assets not found during the annual physical inventory was completed.

Effect:

Assets not located during the annual physical inventory could pose a security risk if sensitive information was contained on the asset.

Recommendation:

We recommend the North Dakota Information Technology Department implement adequate annual physical inventory procedures to ensure:

- sensitive assets at risk of loss are identified,
- data on assets is properly encrypted, and
- follow-up is completed on sensitive assets not located.

North Dakota Information Technology Department Response:

The Information Technology Department agrees with the recommendation. We have existing procedures in place to encrypt all desktops, laptops and tablets. We updated fiscal policies to document the required follow-up for assets that are not located during initial inventory process. In addition, we implemented a new fixed asset system that reduces the amount of manual data entry as assets are moved from location to location. This will reduce the risk of clerical errors that were the root cause of most of the 2018 inventory exceptions.

Internal Control

We gained an understanding of internal control 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.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect (1) misstatements in financial or performance information, (2) violations of laws and regulations, or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we identified a deficiency in internal control that was significant within the context of our audit objective and based upon the audit work performed. See Finding 18-01.

Scope

This audit of the North Dakota Information Technology Department is for the two-year period ended June 30, 2018.

The North Dakota Information Technology Department has operations in the following locations. Each location was included in the audit scope:

- Central Office – 4201 Normandy Street, Bismarck, ND
- EduTech – 2000 44th Street South, Floor 3, Fargo, ND

Methodology

To meet this objective, we:

- 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.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system for data analysis. Significant evidence was obtained from ConnectND.
- Observed the North Dakota Information Technology Department's processes and procedures.
- Reviewed documentary evidence.
- Tested compliance with appropriation laws and regulations including related emergency commission action. Where necessary, internal control was tested which included selecting representative samples to determine if controls were operating effectively and if laws were being followed consistently.

- Reviewed adequacy of blanket bond coverage by comparing coverage to state bonding guidelines.
- Performed an analysis and selected a sample of high-risk transactions, including expenditures and inventory, for further testing.
- Tested compliance with OMB's Purchasing Procedures Manual.
- Tested compliance with OMB's fixed asset capitalization requirements.
- Tested compliance with OMB's physical inventory requirements

In aggregate, there were no significant limitations or uncertainties related to our overall assessment of the sufficiency and appropriateness of audit evidence.

Authority and Standards

This biennial performance audit of the North Dakota Information Technology Department has been conducted by the Office of the State Auditor pursuant to authority within North Dakota Century Code Chapter 54-10.

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States. 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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).

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Revenues and Other Sources:		
Computer Services	\$ 62,209,504	\$ 59,966,685
Assessed Communication Services Fee	3,658,773	
Program Income	1,046,334	424,818
Center for Distance Education - Student Fees	916,782	815,491
Equipment Usage – Interoperable Radio Network	710,918	
Telecommunication Relay Services	355,830	360,395
Federal Revenue	232,348	246,947
Contributions and Private Grants	105,000	100,000
Miscellaneous General Revenue	41,753	79,009
Transfers In	2,563,000	2,319,992
Total Revenues and Other Sources	\$ 71,840,242	\$ 64,313,337
Expenditures and Other Uses:		
Salaries and Benefits	\$ 35,369,631	\$ 35,331,792
IT Software Supplies	14,828,370	13,280,101
IT Contractual Services	13,108,502	15,720,888
IT Data Processing	2,958,189	2,070,084
IT Communications	2,293,020	2,297,563
Rent of Building Space	2,119,474	2,114,097
IT Equipment and Software Over \$5,000	699,843	1,838,675
IT Equipment Under \$5,000	597,062	1,592,251
Travel	419,869	412,921
Office Supplies	287,949	375,797
Professional Development	286,137	281,138
Repairs	177,853	338,943
Fees and Services	77,178	378,682
Education Technology Grants	3,310	942,494
Other Operating Expenses	292,549	418,086
Total Expenditures and Other Uses	\$ 73,518,936	\$ 77,393,512

Source: ConnectND Financials

Statement of Appropriations

For the Year Ended June 30, 2018

Expenditures by Line Item:	Final Appropriation	Expenditures	Unexpended Appropriation
Salaries and Wages	\$ 59,359,772	\$28,441,353	\$ 30,918,419
Operating Expenses	73,927,998	29,862,166	44,065,832
Capital Assets	32,995,000	636,886	32,358,114
Center for Distance Education Statewide Longitudinal Data System	9,079,116	3,537,846	5,541,270
Educational Technology Council	4,310,561	2,140,196	2,170,365
Edutech	1,121,472	237,456	884,016
K-12 Wide Area Network	9,752,767	4,227,578	5,525,189
Geographic Information System	4,534,278	2,067,423	2,466,855
Health Information Technology Office	1,147,716	498,310	649,406
	<u>48,870,642</u>	<u>1,869,722</u>	<u>47,000,920</u>
Total	<u>\$245,099,322</u>	<u>\$73,518,936</u>	<u>\$171,580,386</u>
Expenditures by Source:			
General	\$ 20,532,334	\$10,025,732	\$ 10,506,602
Other	<u>224,566,988</u>	<u>63,493,204</u>	<u>161,073,784</u>
Total	<u>\$245,099,322</u>	<u>\$73,518,936</u>	<u>\$171,580,386</u>

Source: ConnectND Financials

For the Biennium Ended June 30, 2017

Expenditures by Line Item:	Final Appropriation	Expenditures	Unexpended Appropriation
Salaries and Wages	\$ 58,014,870	\$ 55,222,976	\$ 2,791,894
Operating Expenses	72,432,915	60,953,775	11,479,140
Capital Assets	8,850,000	3,511,455	5,338,545
Technology Project Carryover	708,249	708,249	
Center for Distance Education Statewide Longitudinal Data System	9,091,690	8,022,290	1,069,400
Educational Technology Council	5,858,941	5,858,941	
Edutech	2,568,007	2,088,979	479,028
K-12 Wide Area Network	9,052,048	8,628,177	423,871
Geographic Information System	4,880,862	4,880,862	
Health Information Technology Office	1,192,978	1,041,637	151,341
	<u>5,854,633</u>	<u>2,606,929</u>	<u>3,247,704</u>
Total	<u>\$178,505,193</u>	<u>\$153,524,270</u>	<u>\$24,980,923</u>
 Expenditures by Source:			
General	\$ 26,786,394	\$ 25,835,025	\$ 951,369
Other	<u>151,718,799</u>	<u>127,689,245</u>	<u>24,029,554</u>
Total	<u>\$178,505,193</u>	<u>\$153,524,270</u>	<u>\$24,980,923</u>

Source: ConnectND Financials

LAFRC Responses

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?

This question is not applicable for performance audits. 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?

Other than our finding addressing "inadequate annual inventory procedures" (page 3), the North Dakota Information Technology Department was in compliance with significant statutes, laws, rules, and regulations under which it was created and is functioning.

3. Was internal control adequate and functioning effectively?

Other than our finding addressing "inadequate annual inventory procedures" (page 3), we determined internal control was adequate.

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

No.

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

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 identified.

8. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The North Dakota 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), BILLIT, Records Management System (RMS), Service/Incident Management System, Workforce Time Entry System, Work Management System (WMS), Computer Information System (CIS), and Network Resource Center (NRC) are high-risk information technology systems critical to the North Dakota Information Technology Department.

You may obtain audit reports on the internet at:

www.nd.gov/auditor

or by contacting the Office of the State Auditor at:

Email: ndsao@nd.gov

Phone: (701) 328-2241

Office of the State Auditor

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