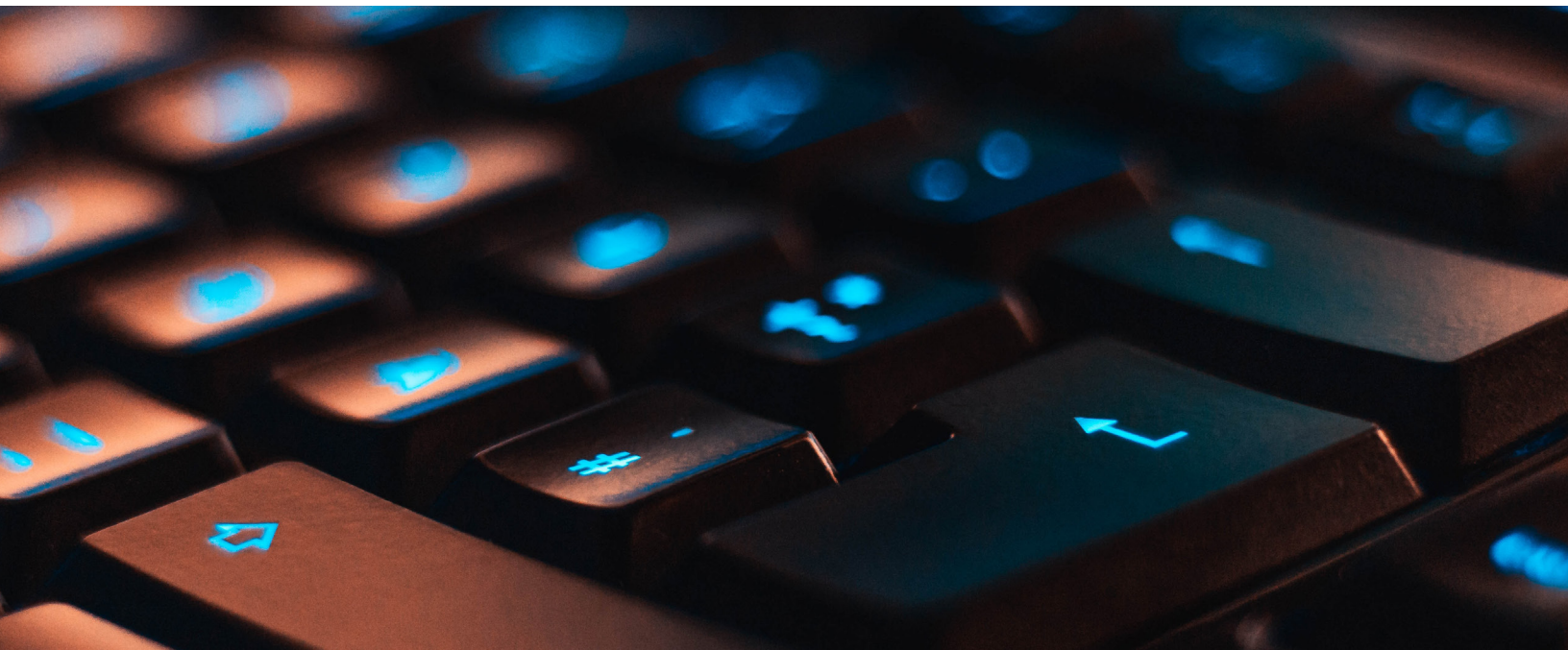# NORTH DAKOTA
OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

North Dakota Information Technology Department

For the Two-Year Period Ended June 30, 2020

Client Code 112

Office of the State Auditor

WHAT WE LOOKED AT AND WHY

North Dakota state law requires our team to identify any errors, internal control weaknesses, or potential violation of law in significant or high-risk functions of the agency.

WHAT WE FOUND

This audit did not identify any areas of concern.

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KEY PERSONNEL

Dustin Walcker
AUDIT MANAGER

Delan Hellman
LEAD AUDITOR

Josh Hulm
AUDITOR

Jason Kovacevich
AUDITOR

Brandon Steckler
AUDITOR

HAVE QUESTIONS? ASK US.

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Introduction

North Dakota Information Technology Department
June 16, 2021

We are pleased to submit this audit of the North Dakota Information Technology Department for the two-year period ended June 30, 2020. 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. Whenever possible, additional audit objectives are included to increase responsiveness and effectiveness of state government.

Dustin Walcker 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 the North Dakota Information Technology Department staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

 /S/

JOSHUA C. GALLION
NORTH DAKOTA STATE AUDITOR

TERMS USED IN REPORT

Appropriation: An amount authorized by the North Dakota Legislative Assembly to be spent for a specific purpose.

Blanket Bond Coverage: Insurance to state agencies for any default or wrongful act on the part of any public employee or public official.

ConnectND: The accounting system for North Dakota.

Internal Control: Policies and procedures that ensure reliable financial reporting, safeguard assets, promote accountability and efficiency, and prevent fraud.

Noncompliance: Failure to act in accordance with a wish or command.

North Dakota Century Code (N.D.C.C.): Collection of all the statutes passed by the North Dakota Legislative Assembly.

Performance Audit: Engagements that provide objective analysis, findings, and conclusion to assist management and those charged with governance and oversight to improve program performance and operations, reduce costs, facilitate decision making, and contribute to public accountability.

Session Laws: Published after each regular and special legislative session and contain the laws enacted during that session.

Audit Results

◥ **OBJECTIVE**

Are there any errors, internal control weaknesses, or potential violations of law for significant and high-risk functions of the agency?

CONCLUSION

No areas of concern were identified.

INTERNAL CONTROL

We obtained an understanding of internal control through inquiries, observations, and inspection of documents and electronic data records. We planned our audit work to assess the design, implementation, and effectiveness of those internal controls that were significant to our audit objective. Specifically, our work related to internal control included the following components and underlying principles based on guidance issued by the U.S. Government Accountability Office.

COMPONENT: CONTROL ENVIRONMENT

Principal: The oversight body should oversee the entity's internal control system.

COMPONENT: CONTROL ACTIVITIES

Principal: Management should design control activities to achieve objectives and respond to risks.

Principal: Management should design the entity's information system and related control activities to achieve objectives and respond to risks.

Prinicipal: Management should implement control activites through policies.

The specific internal control testing completed for this audit objective is identified below:

• Segregated preparation and approval of expenditures is tested statewide in the State of North Dakota Annual Financial Report.

• Reviewed results of initial appropriation input and adjustment authorization tested statewide in the State of North Dakota Annual Financial Report.

• Reviewed approval of procurement transactions.

• Reviewed receipts are being reconciled to the individual purchase card statements.

• Reviewed individual purchase card statements are being reconciled to the cardholder/company statement by a non-card holder.

• Reviewed purchase card expenditures are approved by a designated supervisor.

There were no deficiencies identified.

SCOPE

The audit of the North Dakota Information Technology Department is for the two-year period ended June 30, 2020.

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:

• Used non-statistical sampling and the results were projected to the population.

• Interviewed appropriate agency personnel.

• Reviewed adequacy of blanket bond coverage by comparing coverage to state bonding guidelines (N.D.C.C. Chapter 26.1-21-08, N.D.C.C. Chapter 26.1-21-10).

• Observed the North Dakota Information Technology Department's processes and procedures.

• Inspected documentary evidence.

• Analyzed financial data in ConnectND to determine areas of risk.

• Tested compliance with appropriation laws and regulations. (2017 North Dakota Session Laws Chapter 46 (S.B. 2021 Section 3), 2019 North Dakota Session Laws Chapter 21 (H.B. 1021 Sections 2, 4, and 6)).

• Tested compliance with applicable session laws and regulations. (2019 North Dakota Session Laws Chapter 293 (H.B. 1435 Section 1 and 8) and Chapter 469 (H.B. 1048 Section 1).

• Selected a random sample of purchases subject to procurement rules to ensure compliance with law (N.D.C.C. Chapter 54-44.4, N.D.C.C. Chapter 48-01.2).

• Selected a random sample of items purchased through state issued credit cards (PCard) to ensure compliance with law (N.D.C.C. Chapter 44-08-05.1).

• Selected a random sample of operating expenditures to ensure expenditures were within legal restrictions (N.D.C.C Chapter 44-08-05.1).

• Selected a random sample of expenditures paid out of Fund 325 to ensure expenditures were within legal restrictions (N.D.C.C. 54-59-27).

• Analyzed and reviewed expenditures paid out of Fund 476 to ensure expenditures were within legal restrictions (N.D.C.C. 37-17.3-12).

• Selected a random sample of general ledger correcting entries (ONL's) involving Fund 325 and Fund 476 to ensure the entries were within legal restrictions (N.D.C.C. 54-59-27 and N.D.C.C 37-17.3-12).

• Selected a judgmental sample of accounts payable module adjusting entries to ensure compliance with law (N.D.C.C. 54-44.1-09, N.D.C.C. 54-44.1-10, N.D.C.C. 44-08-05.11a, and N.D.C.C. 54-16-03).

• Selected a random sample of credit to appropriation transactions to ensure compliance with law (N.D.C.C. 54-16-03 and Office of Management and Budget (OMB) Policy 214).

• Ensured Health Information Exchange fees were set and then deposited in accordance with law (N.D.C.C. 54-59-26 #2h).

AUTHORITY AND STANDARDS

This biennial 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. 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 standards used to evaluate internal control are 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).

Responses to LAFRC Audit Questions

1. WHAT TYPE OF OPINION WAS ISSUED ON THE FINANCIAL STATEMENTS?

Revenues, expenditures and appropriation information was not prepared by the North Dakota 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. We did not identify any deficiencies in internal control that were significant within the context of our audit objectives.

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?

Yes. The North Dakota Information Technology Department has implemented the recommendaiton 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 revenues, expenditures and appropriation information does 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 Capital Management (HCM), Billing System (BILLIT), Records Management System (RMS), Workforce Time Entry System (WFS), Work Request System (WMS), Network Resource Center (NRC), Service/Incident Management System (ServiceNow), and Project Portfolio Management (NDView) are high-risk information technology systems critical to the North Dakota Information Technology Department.

Financials

Revenues and Expenditures

REVENUES AND OTHER SOURCES	JUNE 30, 2020	JUNE 30, 2019
Computer Services	$ 75,506,285	$ 64,861,264
Health Information Exchange Reimbursement	7,153,510	6,249,547
Assessed Communication Services Fee	4,437,537	4,479,423
Equipment Usage - Interoperable Radio Network	1,480,105	705,696
Program Income	661,384	1,164,699
Federal Revenue	298,493	27,015
Telecommunication Relay Services	221,154	283,063
Miscellaneous General Revenue	174,599	76,357
Center for Distance Education - Student Fees	149	1,120,211
Transfers In	27,841,785	2,614,275
Total Revenue and Other Sources	**$ 117,775,001**	**$ 81,581,550**

Source: ConnectND Financials

Continued on the next page

Financials

Revenues and Expenditures

EXPENDITURES AND OTHER USES	JUNE 30, 2020	JUNE 30, 2019
Salaries and Benefits	$ 41,462,005	$ 35,620,503
IT Contractual Services	34,398,159	19,887,674
IT Software/Licenses	18,314,086	15,106,421
IT Equipment Over $5,000	4,243,621	1,712,458
IT-Data Processing	3,905,473	2,575,296
IT - Phone Communications	2,488,478	2,337,887
Data Processing Supply	1,725,894	494,268
IT Equipment Under $5,000	1,665,200	1,334,262
Rent of Building Space	1,410,780	2,100,495
Miscellaneous Grants	846,875	656,666
Travel	420,631	499,005
Professional Development	384,535	417,277
Repairs	380,522	132,224
Utilities	98,019	140,987
Office Supplies	42,843	575,386
Professional Fees and Services	69,990	334,813
Other Operating Expenses	222,460	325,745
Transfers Out	896,266	-
Total Expenditures and Other Uses	**$ 112,975,837**	**$ 84,251,367**

Source: ConnectND Financials

Appropriations

For the Year Ended June 30, 2020

	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATIONS
Expenditures by Line Item			
Salaries and Wages	$ 81,389,501	$ 36,781,991	$ 44,607,510
Operating Expenses	105,357,364	48,177,525	57,179,839
Capital Assets	4,253,117	970,255	3,282,862
Statewide Data System	4,387,145	1,791,313	2,595,832
EduTech	9,645,773	4,735,112	4,910,661
Wide Area Network	5,167,970	1,951,792	3,216,178
Geographic Info System	2,202,629	561,848	1,640,781
Health Info Technology Office	48,434,279	7,503,387	40,930,892
Interoperability Radio Network	132,330,000	9,210,454	123,119,546
CARES Act Funding - 2020	66,868,226	395,894	66,472,332
Totals	**$ 460,036,004**	**$ 112,079,571**	**$ 347,956,433**
Expenditures by Source			
General	$ 28,580,311	$ 18,145,654	$ 10,434,657
Other	431,455,693	93,933,917	337,521,776
Totals	**$ 460,036,004**	**$ 112,079,571**	**$ 347,956,433**

Source: ConnectND Financials

NORTH DAKOTA INFORMATION TECHNOLOGY DEPARTMENT

Appropriations

For the Biennium Ended June 30, 2019

	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATIONS
Expenditures by Line Item			
Salaries and Wages	$ 59,359,772	$ 56,872,811	$ 2,486,961
Operating Expenses	73,927,998	64,515,178	9,412,820
Capital Assets	32,995,000	2,056,500	30,938,500
Center for Distance Education	9,079,116	7,406,135	1,672,981
Statewide Data System	4,310,561	4,310,561	-
Education Technology Grants	1,121,472	506,983	614,489
EduTech	9,752,767	8,654,374	1,098,393
Wide Area Network	4,534,278	4,434,278	100,000
Geographic Info System	1,147,716	1,072,716	75,000
Health Info Technology Office	48,870,642	7,940,767	40,929,875
Totals	**$ 245,099,322**	**$ 157,770,303**	**$ 87,329,019**
Expenditures by Source			
General	$ 20,532,334	$ 20,518,412	$ 13,922
Other	224,566,988	137,251,891	87,315,097
Totals	**$ 245,099,322**	**$ 157,770,303**	**$ 87,329,019**

Source: ConnectND Financials

Status of Prior Recommendations

Inadequate Annual Inventory Procedures (Finding 18-01)

Implemented

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.
- Follow-up is completed on sensitive assets not located.

Status: Implemented. The North Dakota Information Technology Department developed annual physical inventory policies and procedures and identified what they consider sensitive assets at risk of loss. No follow up was required on encryption since all inventory assets were found during the fiscal year.