

NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

INFORMATION TECHNOLOGY COMMITTEE

Wednesday, March 2, 2005
Brynhild Haugland Room, State Capitol
Bismarck, North Dakota

Senator Larry Robinson, Chairman, called the meeting to order at 3:00 p.m.

Members present: Senators Larry Robinson, Randel Christmann, Rich Wardner; Representatives Eliot Glassheim, Keith Kempenich, Bob Skarphol, Ken Svedjan, Robin Weisz; Chief Information Officer Curtis L. Wolfe

Members absent: Senators Randy A. Schobinger, Tom Seymour

Others present: See attached appendix

RELATIONSHIP BETWEEN BANK OF NORTH DAKOTA AND INFORMATION TECHNOLOGY DEPARTMENT

Mr. Eric Hardmeyer, President, Bank of North Dakota, commented on an analysis completed by Cornerstone Advisors, Inc., regarding the information technology relationship between the Bank of North Dakota and the Information Technology Department. He said the Bank of North Dakota is the nation's only state-owned bank and the Bank operates differently than other state agencies. He said for those reasons the Bank has a complex relationship with the Information Technology Department and, therefore, the Bank and the Information Technology Department agreed to have an outside review completed of the relationship.

Mr. Bill McFarland, Senior Director, Cornerstone Advisors, Inc., Scottsdale, Arizona, provided information regarding an analysis of the information technology relationship between the Bank of North Dakota and the Information Technology Department. A copy of the information is on file in the Legislative Council office. He said the purpose of the analysis was to:

- Assess current services provided to the Bank of North Dakota by the Information Technology Department.
Assess the current hardware and software standards developed by the Information Technology Department and how the standards apply to systems installed or being contemplated by the Bank of North Dakota and to future Bank strategic initiatives.
Recommend any specific items that should be exempt from standards developed by the Information Technology Department due to the

unique nature of banking and banking systems.

- Determine the Information Technology Department staff's understanding of the Bank of North Dakota's mission and services.

Mr. McFarland said banks are highly regulated through the Federal Financial Institution Examination Council. Banks that fail to pass examinations are put under memorandums of understanding that immediately limit growth or expansion until problems are corrected. Failure to rectify problems can trigger closure and sale. He said the Bank of North Dakota is not insured through the Federal Deposit Insurance Corporation and, therefore, the Bank is not subject to the rigorous examinations of the Federal Financial Institution Examination Council.

Mr. McFarland summarized the following issues and recommendations relating to the Cornerstone Advisors, Inc., analysis:

Table with 2 columns: Issue, Recommendations. Contains details on business continuity planning and standards and procedures.

Issue	Recommendations
<p>a state-defined waiver or exception process.</p>	<p>should not debate the general purpose standards proposed by the Information Technology Department which are technologically sound.</p>
<p>Procurement - The Information Technology Department is to monitor information technology investments over \$250,000, and the Bank of North Dakota may act independently within guidelines for purchase of information technology investments under \$25,000.</p>	<p>The state should leave procurement guidelines in place for the Bank of North Dakota with a goal of expedited approval processes that recognize the need for variances.</p>
<p>Project management and return on investment - As a state agency, the Bank of North Dakota must use the state's return on investment and project management methodology.</p>	<p>The state should exempt the Bank's ITI and ancillary banking system installations from state project management tools and guidelines and require the Bank to comply with the Information Technology Department standards in all other instances.</p>
<p>Active directory - The Bank of North Dakota has requested an exemption from the Information Technology Department policy that requires state agencies utilizing active directory to also be joined to the Information Technology Department active directory.</p>	<p>Cornerstone Advisors, Inc., believes the Information Technology Department can meet the Bank's security needs, and technical discussions are underway to validate that assertion.</p>
<p>Service level agreements - Bank of North Dakota and Information Technology Department service level agreements must match those a bank would have with a bank technology vendor.</p>	<p>The Bank should negotiate service level agreements with the Information Technology Department within 60 days. The agreements should contain easily measurable metrics that reflect banking standards. The agreements should include language that explicitly allows the Bank to select another outsourcing partner if the Information Technology Department does not meet the service level agreement metrics.</p>
<p>Relationship management - Communication and coordination at the senior operating level has been poor or nonexistent.</p>	<p>The Bank of North Dakota and the Information Technology Department should exercise more professionalism. Senior-level staff members of the Information Technology Department should be an active participant in regular monthly information technology steering committee meetings at the Bank of North Dakota.</p>

Mr. McFarland said both the Bank of North Dakota and the Information Technology Department would be well-served by a positive relationship exhibiting

mutual respect and understanding. He said both of the entities have issues that must be addressed in order to be viable partners with each other.

In response to a question from Senator Robinson, Mr. McFarland said the final report regarding the analysis of the information technology relationship between the Bank of North Dakota and the Information Technology Department will be available in a few weeks.

In response to a question from Representative Skarphol, Mr. McFarland said Cornerstone Advisors, Inc., recommends the Information Technology Department obtain an SAS 70 audit. He said SAS 70 is an auditing standard designed to enable an independent auditor to evaluate and issue an opinion on a service organization's controls. The audit report contains the auditor's opinion, a description of the controls placed in operation, and description of the auditor's tests of operating effectiveness.

In response to a question from Senator Robinson, Mr. McFarland said the Bank of North Dakota and the Information Technology Department are working on developing an estimate for the cost of an SAS 70 audit.

In response to a question from Representative Svedjan, Mr. McFarland said the state's current exemption process regarding information technology policies, standards, and guidelines is adequate.

Mr. Hardmeyer said the Bank of North Dakota is committed to the recommendations made by Cornerstone Advisors, Inc., and the Bank is prepared to make the necessary changes.

Mr. Curtis L. Wolfe, Chief Information Office, Information Technology Department, said the department is comfortable with the recommendations made by Cornerstone Advisors, Inc. He said disaster recovery is a difficult issue for the state as a whole.

The committee adjourned subject to the call of the chair at 4:15 p.m.

Roxanne Woeste
Senior Fiscal Analyst

Jim W. Smith
Legislative Budget Analyst and Auditor

ATTACH:1