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**DEPARTMENT OF NATURAL RESOURCES**

**SPECIAL REVIEW OF UNAUTHORIZED  
LONG DISTANCE TELEPHONE CALLS**

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**JULY 1992**

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**Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota**

**92-43**



**DEPARTMENT OF NATURAL RESOURCES**

**SPECIAL REVIEW OF UNAUTHORIZED  
LONG DISTANCE TELEPHONE CALLS**

**JULY 1992**



# DEPARTMENT OF NATURAL RESOURCES

## SPECIAL REVIEW OF UNAUTHORIZED LONG DISTANCE TELEPHONE CALLS

Public Release Date: July 10, 1992

No. 92-43

### OBJECTIVES:

We conducted a special review of \$56,692 in unauthorized long distance telephone calls charged to the Department of Natural Resources, Detroit Lakes office. The DNR central office notified us of the improprieties. Our review addressed the following questions:

- Were any state employees responsible for the unauthorized telephone calls?
- Who is liable for the cost of the unauthorized telephone calls?

### CONCLUSIONS:

We found no evidence that the DNR Detroit Lakes area office employees were responsible for the unauthorized telephone calls. The Detroit Lakes office had taken reasonable measures to protect the security of its long distance access codes.

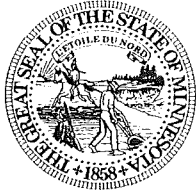
The Department of Administration paid MCI for the long distance service. Administration staff did not pursue the issue of liability with MCI, who provides the service, or U.S. West, the company from which it purchased the telephone access system.

We believe it is unjust for the DNR Detroit Lakes office to bear the full liability for this theft. Responsibility for restricting access to the system was shared by U.S. West, the Department of Administration, and the DNR Detroit Lakes office. We are referring this matter to the Attorney General. We also referred the telephone bills and other information to the United States Secret Service, which has jurisdiction over this type of criminal activity.

Contact the Financial Audit Division for additional information.

*FINANCIAL AUDIT DIVISION*





STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

CENTENNIAL BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann Rest, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Rodney Sando, Commissioner  
Department of Natural Resources

Dana Badgerow, Commissioner  
Department of Administration

## **Audit Scope**

We conducted a special review of unauthorized long distance telephone calls charged to the Department of Natural Resources (DNR) Detroit Lakes office. The Department of Administration notified the Detroit Lakes office of a possible misuse of the state telephone system. The DNR central office notified the Legislative Auditor of the improprieties on November 8, 1991.

Our review addressed the following issues:

1. Were any state employees responsible for the unauthorized telephone calls?  
Did a state employee:
  - make the telephone calls?
  - distribute the access code for personal gain?
  - allow the access code to be stolen due to carelessness or inadequate security?
2. Who is liable for the cost of the unauthorized telephone calls?
  - How was the access code distributed?
  - Is there evidence that the state agency was negligent in protecting its access code?
  - Did the state respond properly?

## **Audit Techniques**

We reviewed the September and October 1991 telephone bills for the Detroit Lakes office. We reviewed memorandums prepared by office employees recounting the events surrounding their notification of the long distance telephone calls. We took testimony under oath from employees of the DNR Detroit Lakes office. We also interviewed employees from the

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Department of Administration and other persons having access to the area office building. We also reviewed an investigative report prepared by MCI, the telephone company which provided long distance service.

## **Background**

The Detroit Lakes office telephone bills included \$56,692.09 of unauthorized telephone calls for the period September 1 through October 25, 1991. One Detroit Lakes long distance access code was used to make approximately 3,000 calls. All calls originated in the southern California region in or near Los Angeles. About 1,500 international calls totalling about \$55,000 were made September 1 through 3, 1991. Several calls were made simultaneously and ranged in length from less than a minute to over four hours. Guatemala received 331 calls and Honduras 115 calls.

On September 3, 1991 the Department of Administration received calls from various state employees unable to make long distance calls using their access codes. The department requested that U.S. West Communications service the equipment. A U.S. West technician notified Administration that the equipment was working and that most of the callers on the line were speaking Spanish. This was the state's first indication of problems with the telephone lines. Administration instructed MCI to block international calls for all state lines. Administration also requested a detail list of the calls. However, Administration did not receive the list from MCI until early October. After the international calls were discontinued, about 1,500 telephone calls were made within the United States totalling about \$1,700. The calls were short in duration and most were made to west coast cities.

The Department of Administration notified the Detroit Lakes office of the long distance telephone calls on October 4, 1991. Detroit Lakes personnel told us they understood that the situation was corrected and did not request discontinuance of the access code. The access code was not changed until October 25, 1991 when the business office received the telephone bill. The Department of Administration paid the telephone bill although it knew of the problems. The DNR has not reimbursed Administration for the telephone calls.

The state purchases its long distance service from MCI. However, it purchased the centrex system which provides the security for the access codes from U.S. West. In order to use the long distance service, several steps must be executed. When away from the office, callers must dial an 800 number to gain initial access to the system. The caller then must enter the number calling, followed by a unique individual access code. The codes must be entered in the proper sequence at the proper times.

The Detroit Lakes office has several access codes, each assigned to specific employees. The office secretary has the access codes programmed in her telephone. However, she

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does not have the 800 number recorded. Two employees shared the access code which was used to make the unauthorized calls. These employees had the individual access code programmed into their phones. However, the employees did not have the 800 number programmed into the phone system.

MCI investigated the telephone calls. The MCI report stated that "call sale operations originating from these areas of Los Angeles are a big business." It found that 2,154 calls originated from six individual pay phones and two banks of pay phones. Other pay phones were used for a lower number of calls. Several calls were made from six residential telephones. MCI attempted to locate the persons who had placed the calls. However, either the telephones had been disconnected, no one answered the calls, or the person denied any knowledge of the calls. MCI could not determine how the access code had been obtained.

We also called a few of the numbers on the telephone bill. The numbers were to personal residences. The persons answering the telephone claimed not to remember who had called previously.

## **Conclusions**

### **Responsibility for Loss**

We found no evidence that the Detroit Lakes area office employees were responsible for the unauthorized telephone calls. We obtained sworn statements from the DNR employees who knew the access code which was misused. All employees denied any involvement with distributing the code. Also, because of the volume and locations of the calls, it is obvious that the DNR employees did not place the calls directly.

Most likely, the access code was stolen and used to establish an illegal long distance outlet. There are no signs that the Detroit Lakes DNR offices were broken into and robbed. However, in cases outside Minnesota, computer hackers have been responsible for the theft of long distance access codes. In yet other cases, the thieves have learned the codes by observing callers using public telephones. The stolen codes are used to obtain an outbound long distance line. Use of the line is sold at a low price, often to immigrants who want to call home.

In our view, the DNR Detroit Lakes office had taken reasonable measures to protect the security of its access codes. We found no evidence that the office was negligent or careless with the codes.

### Financial Liability

The Department of Administration paid MCI \$52,559 for the long distance service related to the unauthorized calls. Administration then billed DNR \$56,692 which included the department's indirect costs. Administration staff believed the state was liable according to its contract with MCI. They also found no basis for pursuing the liability against U.S. West, the company from which it purchased the telephone access system.


We are concerned that the Department of Administration did not dispute the state's liabilities for the MCI billing. Also, the department did not seek advice from the Attorney General regarding the liability. Now, the Department of Administration expects the DNR Detroit Lakes office to assume full liability for the cost of the unauthorized calls.

We believe it is unjust for the DNR Detroit Lakes office to bear the full liability for this theft. The office used the system, and respected the security considerations in good faith. It seems that the other parties should at least share in the liability. Ultimately, the thieves were stealing services from MCI. Responsibility for restricting access to the system was shared by U.S. West, the Department of Administration, and the DNR Detroit Lakes office.

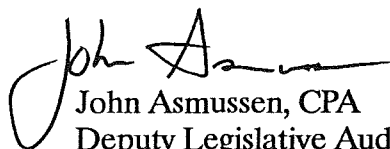
Because this report concerns two state agencies, we invited both the Departments of Natural Resources and Administration to respond in writing. Letters from the two commissioners are attached.

Pursuant to Minn. Stat. Section 3.975, we are referring this matter to the Attorney General. The Attorney General has the responsibility to ensure the recovery of state funds, and in fulfilling that role, may negotiate the propriety of individual claims. Furthermore, we referred the telephone bills and other information to the United States Secret Service, which has jurisdiction over this type of criminal activity.

This report is intended for the information of the Legislative Audit Commission, the Department of Natural Resources, and the Department of Administration. This restriction is not intended to limit the distribution of this report, which was released as a public document on July 10, 1992.



James R. Nobles  
Legislative Auditor



John Asmussen, CPA  
Deputy Legislative Auditor

Report Signed On: July 2, 1992



STATE OF  
MINNESOTA

DEPARTMENT OF NATURAL RESOURCES

500 LAFAYETTE ROAD, ST. PAUL, MINNESOTA 55155-4037

OFFICE OF THE  
COMMISSIONER

DNR INFORMATION  
(612) 296-6157

June 22, 1992

Mr. James R. Nobles, Legislative Auditor  
Office of the Legislative Auditor  
First Floor, Centennial Office Building  
St. Paul, Minnesota 55155

Dear Mr. Nobles:

RE: UNAUTHORIZED LONG DISTANCE TELEPHONE CALLS

We agree with the conclusion of the Office of the Legislative Auditor that the Detroit Lakes area employees were not responsible for the unauthorized calls.

The Department of Natural Resources does not believe that we have any financial responsibility for these unauthorized phone calls. Throughout this entire incident, the Department of Administration did not take any of the necessary actions to minimize the effects of the access code being in the hands of unauthorized personnel.

The Department of Administration was notified of these calls on September 3, 1991, but did not inform the Department of Natural Resources until October 4, 1991--fully one month after the calls were made.

When the Department of Administration was notified on September 3, instead of immediately canceling the access code, they simply changed what types of calls were allowable with the access code. This caused an additional number of unauthorized calls to be made.

The Department of Administration paid the entire phone bill without consulting the Attorney General's office to determine the amount of liability that the State has in a situation of this nature. In fact, they did not notify the Attorney General's office that this had even occurred.

Sincerely,

*Rodney W. Sandoz*  
Rodney W. Sandoz  
Commissioner



# Department of Administration



June 26, 1992

Mr. James R. Nobles  
Legislative Auditor  
Office of the Legislative Auditor  
1xx Veterans Service Building  
20 West 12th Street  
St. Paul, MN 55155

Dear Mr. Nobles:

This letter is to serve as the Department of Administration's response to your letter and report of June 9, 1992, concerning unauthorized long distance phone calls charged to the Department of Natural Resources Detroit Lakes office. As stated in the letter, you also invited a review of the report for accuracy. Bernie Conlin, Assistant Commissioner, InterTech; and Roger Nelson, Acting Director, Business Technologies Division, InterTech, met with John Asmussen, Deputy Auditor; Margaret Jenniges, Auditor Manager; and Lawrence Goga, Investigator, to review the report for accuracy. In that meeting, it was agreed that the actual payment to the carrier was less than the amount stated in the report. The correct amount is being researched and will be available to you today. With that correction, the background section is essentially correct.

With regard to the conclusions - responsibility for loss - the Department of Administration notified customers of the high degree of security awareness necessary with the 800 service. The Business Technologies Division conducts training and prints newsletters for customers' agency telecommunications coordinators - part of which deals with the issues of ID code security. In addition, ID codes are issued only to the coordinators who have been instructed to treat each ID code the same as a personal charge card number. The coordinators have responsibility to assign the codes to agency employees and instruct those employees in their proper use. The Business Technologies Division does not know to whom the codes are issued, or how the codes are used. Despite the precautions taken, there is ample evidence that codes are not appropriately safeguarded by customer agency personnel. In this case, the code numbers were programmed into the individual desk telephones. This is not an adequate safeguard, particularly on a display panel telephone. The responsibility for unauthorized use rests with the customer agency - it is a cost, and a risk of doing business.

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50 Sherburne Avenue  
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Volunteer Services

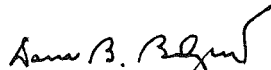
Mr. James R. Nobles  
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Regarding financial liability, the report concluded that the Department of Administration should have disputed payment to the carrier as well as sought advice from the Attorney General regarding the liability. In similar cases, the courts and the FCC have held that carriers (in the case MCI) cannot be held responsible for unauthorized use of their facilities. The same is true for the provider (U S West) of equipment which allows remote access to a company's network. U S West's tariffs, which are approved by the Minnesota Public Utilities Commission, state that they cannot be held responsible for anything other than the cost of the product they provide. As a result of this incident, we proposed language during negotiation of the STARS contract which would have either held MCI responsible for future toll fraud, or would have required MCI to share responsibility with the state. MCI refused that language and representatives from the Attorney General's Office concluded that we could not hold MCI responsible.

Based on precedent, and the position of the Attorney General's Office on the STARS contract, we believe we pursued the correct course of action by paying the bill.

Thank you for the opportunity to review the report and provide comments.

Sincerely,



Dana B. Badgerow  
Commissioner  
(612) 296-3862

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