

# Department of Economic Security

## Financial Audit

For the Fiscal Year Ended June 30, 1996

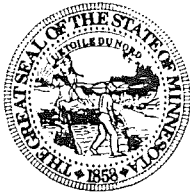
April 1997

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Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota

97-17





STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

CENTENNIAL BUILDING, 658 CEDAR STREET • ST. PAUL, MN 55155 • 612/296-4708 • TDD RELAY 612/297-5353

JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Members of the Legislative Audit Commission

Ms. R. Jane Brown, Commissioner  
Department of Economic Security

We have audited selected programs of the Department of Economic Security, for the fiscal year ended June 30, 1996, as further explained in Chapter 1. The work conducted in the department is part of our Statewide Audit of the state of Minnesota's fiscal year 1996 financial statements and Single Audit. The Comprehensive Annual Financial Report for the year ended June 30, 1996, includes our report, issued thereon dated December 2, 1996. The Minnesota Financial and Compliance Report on Federally Assisted Programs for the year ended June 30, 1996, will include our reports on the supplementary information schedule, internal control structure, and compliance with laws and regulations. We anticipate issuing this report in June 1997. Therefore, we emphasize that this has not been a complete audit of all financial activities of the Department of Economic Security. The following Summary highlights the audit objectives and conclusions. We discuss our concerns more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards require that we design the audit to provide reasonable assurance that the Department of Economic Security complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the Department of Economic Security is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of the Department of Economic Security. This restriction is not intended to limit the distribution of this report, which was released as a public document on April 11, 1997.

A handwritten signature in cursive script, reading "James R. Nobles".

James R. Nobles  
Legislative Auditor

A handwritten signature in cursive script, reading "John Asmussen".

John Asmussen, CPA  
Deputy Legislative Auditor

End of Fieldwork: February 7, 1997

Report Signed On: April 8, 1997



# SUMMARY

State of Minnesota

Office of the Legislative Auditor

1st Floor Centennial Building

658 Cedar Street • St. Paul, MN 55155

(612)296-1727 • FAX (612)296-4712

TDD Relay: 1-800-627-3529

email: auditor@state.mn.us

URL: <http://www.auditor.leg.state.mn.us>

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## Department of Economic Security

### Financial Audit

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Public Release Date: April 11, 1997

No. 97-17

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#### Agency Background

The Department of Economic Security is responsible for providing an employment, rehabilitation, and income support system to increase the economic independence of Minnesotans. A few of the major programs administered by the department include: Reemployment Insurance, Rehabilitation Services, Job Service, Low Income Energy Assistance, and Job Training Partnership Act. Ms. R. Jane Brown serves as the commissioner of the department.

#### Audit Areas and Conclusions

Our audit scope was limited to those activities material to the state of Minnesota's Comprehensive Annual Financial Report for the year ended June 30, 1996, and to the requirements of the Single Audit Act of 1984, relating to federal financial assistance.

We reviewed reemployment insurance revenues and benefit payments. The Department of Economic Security materially complied with statutory requirements for disbursing reemployment insurance benefits. In addition, our testing showed that the department appropriately accounted for and deposited reemployment insurance revenues. However, we found that the department needs to improve computer access controls over employer tax rates.

We reviewed specific compliance requirements related to federal programs under the Single Audit Act. We found that the department materially complied with most of these requirements. However, we found that the department inappropriately based a portion of the state match it reported to the federal government for federal fiscal years 1993, 1994, 1995, and 1996 on estimates for the Rehabilitation Services Basic Support Program (CFDA 84.126).

We also reviewed administrative expenditures. The department used a cost accounting system to allocate costs. Our testing showed that the department properly classified costs. In addition, the system accurately allocated costs based on time distribution. However, we believe the Workforce Preparation Branch used an unacceptable method to determine employee hours worked.

Finally, we reviewed the department's computing environment. Our review noted the department's critical data is vulnerable to unauthorized access. Also, the department does not have a comprehensive disaster recovery plan.



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## Table of Contents

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	Page
Chapter 1. Introduction	1
Chapter 2 Reemployment Insurance	3
Chapter 3 Federal Programs	7
Chapter 4 Administrative Expenditures	11
Chapter 5 The Computing Environment	15
Agency Response	23

### Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Warren Bartz, CPA	Audit Manager
Beth Hammer, CPA, CISA	Auditor-in-Charge
Sonya Hill, CPA	Auditor
Mark Mathison, CPA	Auditor
Margie Caneff	Auditor
Eric Wion	Auditor
Atia Alam	Intern

### Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Department of Economic Security on March 26, 1997:

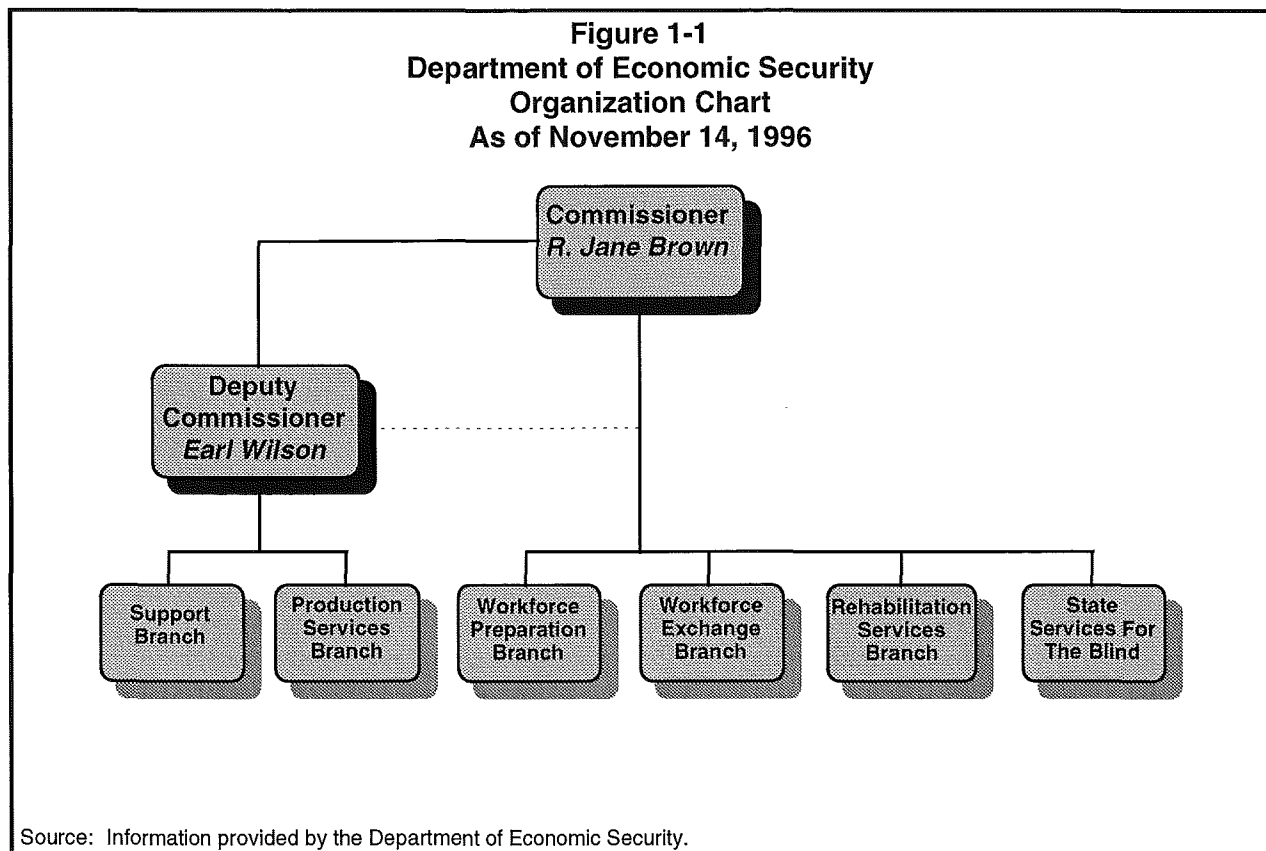
Earl Wilson	Deputy Commissioner
Richard Davis	Assistant Commissioner, Services for the Blind
Al St. Martin	Assistant Commissioner, Production Services
Kathy Sweeney	Assistant Commissioner, Workforce Preparation
John Stavros	Director, Administration and Finance
Frank Schneider	Director, Workforce Preparation Program Support
Ken Niemi	Chief Information Officer
Mark Butala	Director, Internal Security
Tim Langlie	Director, General Accounting
Charles Hartfiel	Director, Reemployment Program
James Korkki	Director, Jobs and Training Partnership Act
Jack Andrews	Supervisor, Rehabilitation Services
Leland Schuster	Supervisor, Tax Liability
David Johnson	Information Technician Specialist



## Chapter 1. Introduction

The mission of the Department of Economic Security is to help Minnesotans help themselves achieve economic security. The department accomplishes this mission by providing an accessible, integrated employment and training system for all Minnesotans.

Figure 1-1 depicts the current structure of the department. Except for the support branch, which reports directly to the deputy commissioner, each branch reports to an assistant commissioner. The commissioner has overall responsibility for the department. The Governor appointed R. Jane Brown as commissioner effective February 8, 1991.



Source: Information provided by the Department of Economic Security.

Each branch provides specific services to meet the department's mission.

- **Support Services** provides departmentwide services to the other branches such as fiscal services, human resources, and planning and technology.
- **Production Services** performs high volume processes and other compliance oriented activities. One example is the collection and deposit of reemployment revenues.
- **Workforce Preparation** oversees training and other support services needed prior to work search.

## Department of Economic Security

- **Workforce Exchange** administers the operation of reemployment and employer services.
- **Rehabilitation Services** serves individuals with disabilities.
- **State Services for the Blind** serves visually impaired individuals.

The department is financed primarily from federal grants, General Fund appropriations, and the collection of reemployment taxes from employers. Our audit scope focused on 1996 expenditures for the programs included in Table 1-1. In addition, we included reemployment insurance revenues totaling \$448,318,000 in our audit scope. These financial activities were material to the state's financial statements and to the Single Audit objectives.

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**Table 1-1**  
**Department of Economic Security**  
**Selected Expenditures by Program for Fiscal Year 1996**

<u>Reemployment Insurance Fund: (1)</u>	
Reemployment Insurance Benefits	\$381,476,000
 <u>Federal Fund: (2)</u>	
Rehabilitation Services Basic Support (CFDA #84.126)	\$ 49,255,594
Low Income Energy Assistance (CFDA #93.568)	47,609,239
Unemployment Insurance Administration (CFDA #17.225)	43,133,218
Job Training Partnership Act Title II(CFDA #17.250)	20,743,365
Employment Services Administration (CFDA #17.207)	16,176,288
Social Security - Disability Determination (CFDA #96.001)	13,425,171
Employment & Training Assistance for Dislocated Workers (CFDA #17.246)	10,399,790
Food Distribution (CFDA #10.550)	1,501,442

Sources:

- (1) State of Minnesota's Comprehensive Annual Financial Report for fiscal year 1996.
  - (2) Minnesota's Financial and Compliance Report on Federally Assisted Programs.
- 

Beginning July 1, 1997, several state and federal programs administered by the Workforce Preparation Branch will be transferring to the Department of Children, Family & Learning. The Low Income Energy Assistance and Food Distribution Programs are among those transferring.

In Chapter 2 we discuss a finding related to reemployment insurance revenues. In Chapter 3 we discuss a finding regarding the Rehabilitation Services Basic Support Program. In Chapter 4 we discuss a finding on how the Workforce Preparation Branch determined hours worked for some employees. Chapter 5 discusses findings related to the department's computing environment over state and federal programs.

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## Chapter 2. Reemployment Insurance

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### *Chapter Conclusions*

*The Department of Economic Security properly accounted for and complied with statutory requirements for disbursing reemployment insurance benefits in all material respects. In addition, the department appropriately accounted for and deposited reemployment insurance revenues in all material respects. However, we found that the department needs to improve computer access controls over employer tax rates.*

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Reemployment insurance provides economic relief to unemployed persons. The program serves workers seeking reemployment, who are unemployed through no fault of their own. Minnesota law established a Reemployment Insurance Fund to be administered by the Department of Economic Security. The department is to use the fund to accumulate money from employers during periods of employment to provide benefits for periods of unemployment. Figure 2-1 depicts the major sources and uses of money to the fund during fiscal year 1996.

### **Audit Objectives and Scope**

The objectives for our review of reemployment insurance included:

- Did the department report the program's financial activities on the department's accounting system and in compliance with generally accepted accounting principles with reasonable accuracy?
- Did the department comply with material laws and regulations?

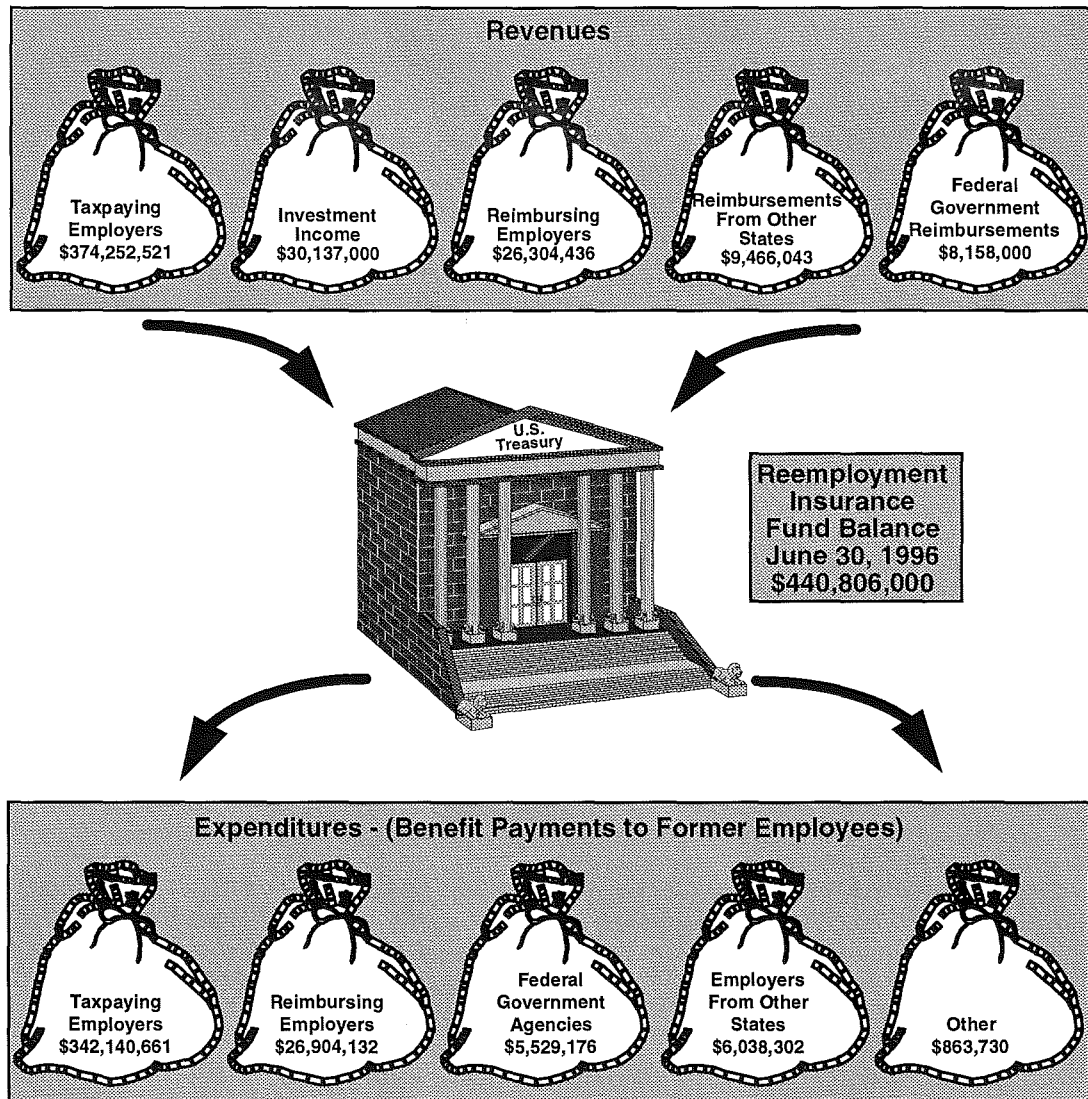
To address these objectives, we conducted interviews and reviewed the department's process for recording revenues and benefit payments in its accounting system. We also completed detail transaction testing and analytical reviews to determine compliance with laws and regulations.

The Department of Economic Security disburses benefit payments to unemployed workers who meet specific criteria established in Minnesota law. As part of our audit of Minnesota's Reemployment Insurance Program, we reviewed material compliance requirements relating to disbursing benefit payments to claimants. For transactions tested, the department complied with compliance requirements.

Each taxpaying employer makes a quarterly tax payment to the department based on a tax rate and the employer's taxable payroll. Some nonprofit organizations and government units do not have a tax rate. Rather, those organizations directly reimburse the fund for payments made to their unemployed workers.

## Department of Economic Security

**Figure 2-1**  
**Department of Economic Security**  
**Reemployment Insurance Fund Activity**  
**Fiscal Year 1996**



Source: Information Provided by the Department of Economic Security.

The Department of Economic Security's Production Services Branch is responsible for determining employer liability, assigning tax rates, processing quarterly tax and wage reports, and collecting and accounting for reemployment taxes. Annually, the branch calculates a tax rate for taxpaying employers based on a complex formula established in Minnesota law. The formula measures an employer's experience with unemployment. The less unemployment experienced by an employer, the lower the employer's tax rate becomes.

Our audit also included a review of reemployment revenues. Our testing verified that the department was appropriately collecting and depositing these revenues in the Reemployment

## Department of Economic Security

Insurance Fund. In addition, we verified the accuracy of employer tax rate calculations. Our testing showed the department's process for calculating tax rates is adequate. However, we noted in our fiscal year 1995 audit report two weaknesses in the control structure that could result in the department assigning inaccurate tax rates to employers. One weakness was the lack of a process to review the accuracy or reasonableness of tax rate changes. Beginning in April 1996, the department reinstituted a quality control review process to test the accuracy of all revenue transactions, including tax rate changes.

In addition, our fiscal year 1995 report discussed the large number of employees with the ability to change employer tax rates. The department has not corrected this issue and we discuss this weakness again in Finding 1.

Finally, we completed a review of additional computer access controls over the reemployment insurance revenue system. We discuss this review in Chapter 5.

### **1. Prior Finding Not Resolved: The Department of Economic Security has inadequate access controls over employer tax rates.**

A large number of employees have the ability to change employer tax rates. Many of these employees do not need this ability to fulfill their job responsibilities.

The Department of Economic Security's reemployment insurance tax system contains an employer master record screen. Most employees use this screen to add or make adjustments to routine data such as federal tax identification numbers. However, some employees use this screen to change tax rates. The dual functionality of this screen causes a weakness in the department's control structure.

The department's security software controls access at the screen level. The department needs to limit access to employer tax rates based on an employee's job responsibilities. Since employees can change tax rates on the same screen as other data, the department is not able to limit access to employer tax rates. The quality control function does not provide sufficient protection to ensure that errors and irregularities are not occurring. We believe the department must remove the ability to make tax rate changes from the employer master record screen and add this function to a separate screen.

### *Recommendations*

- *The Department of Economic Security should ensure that only employees with a job responsibility to change tax rates have this ability.*
- *The Department of Economic Security should remove the ability to change employer tax rates from the employer master record screen.*

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## Chapter 3. Federal Programs

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### *Chapter Conclusions*

*The Department of Economic Security materially complied with most general and specific requirements for its major federal programs. However, we found that the department improperly based a portion of the state match it reported to the federal government for federal fiscal years 1993, 1994, and 1995 on estimates for the Rehabilitation Services Basic Support Program (CFDA #84.126).*

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The Department of Economic Security administered over 30 federal programs in fiscal year 1996. Eight of these programs are major federal programs under the Single Audit Act. The Single Audit Act defines major federal programs in Minnesota as a program expending at least \$10 million in federal funds in fiscal year 1996. We focused our audit on the major federal programs identified in Table 3-1.

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**Table 3-1**  
**Department of Economic Security**  
**Major Federal Program Expenditures for Fiscal Year 1996**

Major Federal Programs:

Rehabilitation Services Basic Support (CFDA #84.126)	\$49,255,594
Low Income Energy Assistance (CFDA #93.568)	47,609,239
Unemployment Insurance Administration (CFDA #17.225)	43,133,218
Job Training Partnership Act Title II (CFDA #17.250)	20,743,365
Employment Services Administration (CFDA #17.207)	16,176,288
Social Security - Disability Determination (CFDA #96.001)	13,425,171
Employment & Training Assistance for Dislocated Workers (CFDA #17.246)	10,399,790
Food Distribution (CFDA #10.550) *	1,501,442

\* The Food Distribution Program is considered a major program due to the value of food distributed by both the Department of Economic Security and the Department of Children, Family, and Learning.

Source: Minnesota's Financial and Compliance Report on Federally Assisted Programs.

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The department contracts with community-based agencies to provide services for the Low Income Energy Assistance, Job Training Partnership, and Food Distribution Programs. Employees in the Workforce Preparation Branch administer these programs by monitoring, training, and providing technical assistance. The department directly administers the remaining programs.

## Department of Economic Security

The following is a brief description of each major program reviewed during our audit.

- **Rehabilitation Services Basic Support** serves individuals who have disabilities. The Rehabilitation Services Branch administers 82 percent of the total grant received by the state. Some of the services provided by the branch include vocational planning, employment information and referrals, and guidance to maintain employment.

State Services for the Blind administers the remaining 18 percent of the grant. This branch serves adults and children who are blind or visually handicapped. The program supports services including: counseling, instruction in Braille, vocational training, job placement, and adaptive equipment. In addition, the branch provides a business enterprise program which creates small business franchise opportunities for clients.

- **Low Income Energy Assistance** assists low income households in meeting energy costs. These costs may include: heating payments, energy conservation education, or repairs to heating systems.
- **Unemployment Insurance Administration** provides funding for the administration of the Reemployment Insurance Program discussed in Chapter 2.
- **Job Training Partnership Act Title II** provides disadvantaged adults and youth with training services that prepare them for entry into the labor force. Program goals include increasing employment and earnings, increasing educational and occupational skills, and decreasing welfare dependency.
- **Employment Service Administration** provides funding for the Job Service Program that operates as a labor exchange for employers and job seekers.
- **Social Security - Disability Determination Services** determines eligibility for individuals requesting Social Security disability insurance benefits.
- **Employment and Training Assistance for Dislocated Workers** (Title III under Job Training Partnership Act) provides training and support for clients dislocated from long held jobs due to certain factors. These factors include technological changes, investment decisions, and changes in consumption and competition. The state of Minnesota supplements the federal funds with state resources.
- **Food Distribution** distributes food commodities to low income households and individuals through food shelves, soup kitchens, and emergency shelters.

## Audit Objectives and Methodology

The objectives of the Single Audit Act related to federal financial assistance include:

- Did the Department of Economic Security comply with rules and regulations applicable to major federal programs?

## Department of Economic Security

- Were internal controls related to major federal programs adequate?
- Did the department record financial activities properly?

To address these objectives, we conducted interviews and reviewed the department's internal controls for managing the eight major federal programs. We also tested financial transactions for the major programs to determine compliance with program regulations. Our audit included a review of administrative expenditures charged to programs, which we discuss in Chapter 4.

Several statutory and regulatory requirements govern federal financial assistance programs. The general requirements include: political activity, Davis-Bacon Act, civil rights, cash management, relocation assistance and real property acquisition, federal financial reports, allowable cost principles, Drug-Free Workplace Act, and administrative requirements. Our audit scope included testing the department's compliance with most of these general requirements.

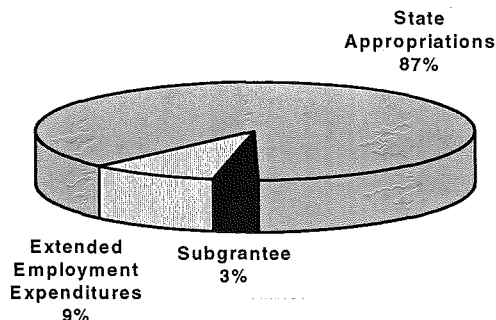
The U.S. Office of Management and Budget Compliance Supplement discusses each program's objective. In addition, it contains specific compliance requirements that the state must meet in order to receive federal grants. The supplement categorizes these requirements into: types of services allowed or unallowed, eligibility, matching, level of effort, special reporting, and special tests and provisions. We tested the department's adherence to the specific requirements outlined in each compliance supplement. Our testing showed that the department materially complied with most of these requirements. However, the department improperly based a portion of the Rehabilitation Services Branch's match on estimates, which we discuss in Finding 2.

### **2. Prior Finding Not Resolved: The Department of Economic Security improperly based a portion of the required state match on estimates for the Rehabilitation Services Basic Support Program (CFDA #84.126) for federal fiscal year 1993, 1994, 1995, and 1996.**

The Department of Economic Security based the state match, supported by Extended Employment Program expenditures, on estimates for federal fiscal years 1993, 1994, 1995, and 1996. The Basic Support grant funds the majority of the programs administered by the Vocational Rehabilitation Services Branch. In addition, the state of Minnesota provides required matching funds, which is equal to 21.3 percent of total Basic Support expenditures. Federal regulations require the department to meet the match on a federal fiscal year basis. The department's state match for federal fiscal year 1995 was \$7,735,971. Federal fiscal year 1995 was from October 1, 1994, through September 30, 1995. As seen in Figure 3-1, the department met the majority of the match with state appropriations. Beginning in federal fiscal year 1993, the department began to use a portion of expenditures from the state funded Extended Employment Program to match the Basic Support grant. The department met the remaining match requirement with subgrantee funds.

## Department of Economic Security

**Figure 3-1**  
**Department of Economic Security**  
**Basic Support (CFDA #84.126) - State Match Funding Sources**  
**Federal Fiscal Year 1995**



Source: Data provided by Department of Economic Security employees.

In our fiscal year 1995 audit, we reported that the Department of Economic Security did not have adequate documentation to support the Extended Employment Program expenditures for federal fiscal year 1993, 1994, and 1995. We had found that the department based expenditures on estimates rather than actual expenditures. Table 3-2 shows the estimated Extended Employment Program expenditures reported to the U.S. Department of Education for the four federal fiscal years.

**Table 3-2**  
**Department of Economic Security**  
**Extended Employment Expenditures**  
**Used to Match the Basic Support Federal Grant (CFDA 84.126)**

Federal Fiscal Year	Extended Employment Estimated Expenditures Used for Match	Extended Employment Actual Expenditures (1)	Basic Support Federal Funds Received Based on Estimated Expenditures (2)
1993	\$663,037	\$719,997	\$2,449,813
1994	709,283	799,495	2,620,684
1995	716,376	746,254	2,646,892
1996	716,376	592,965	2,646,892

(1) In January 1997, the department calculated actual expenditures. However, the department has not established the reliability of their calculated amounts with the federal government.

(2) Auditor calculated amount. See Figure 3-1 for other components of match.

Source: Data provided by Department of Economic Security employees.

In January 1997, the department completed an analysis and calculated actual expenditures for the Extended Employment Program. The department needs to work with the U. S. Department of Education to establish the reliability of the actual amounts calculated.

### *Recommendation*

- *The Department of Economic Security should work with the U.S. Department of Education to establish the reliability of actual Extended Employment Program expenditures for Federal fiscal years 1993, 1994, 1995 and 1996.*

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## Chapter 4. Administrative Expenditures

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### *Chapter Conclusions*

*The Department of Economic Security allocated administrative expenditures to programs using a cost accounting system (SESA). SESA allocated payroll and pooled costs to programs based on hours reported by employees. Our testing showed that the system accurately allocated costs to programs and that the department properly classified expenditures. However, we found that the Workforce Preparation Branch employees did not accurately report hours worked on specific programs.*

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Agencies administering federal programs have a number of constraints and cost accounting requirements imposed by federal regulations. To help fulfill the department's fiduciary duties and ensure compliance with these requirements, the Department of Economic Security uses a cost accounting system called the State Employment and Security Agency system (SESA). SESA is a mainframe based application that allows the department to directly charge costs to specific programs and proportionately allocate joint or "pooled" costs.

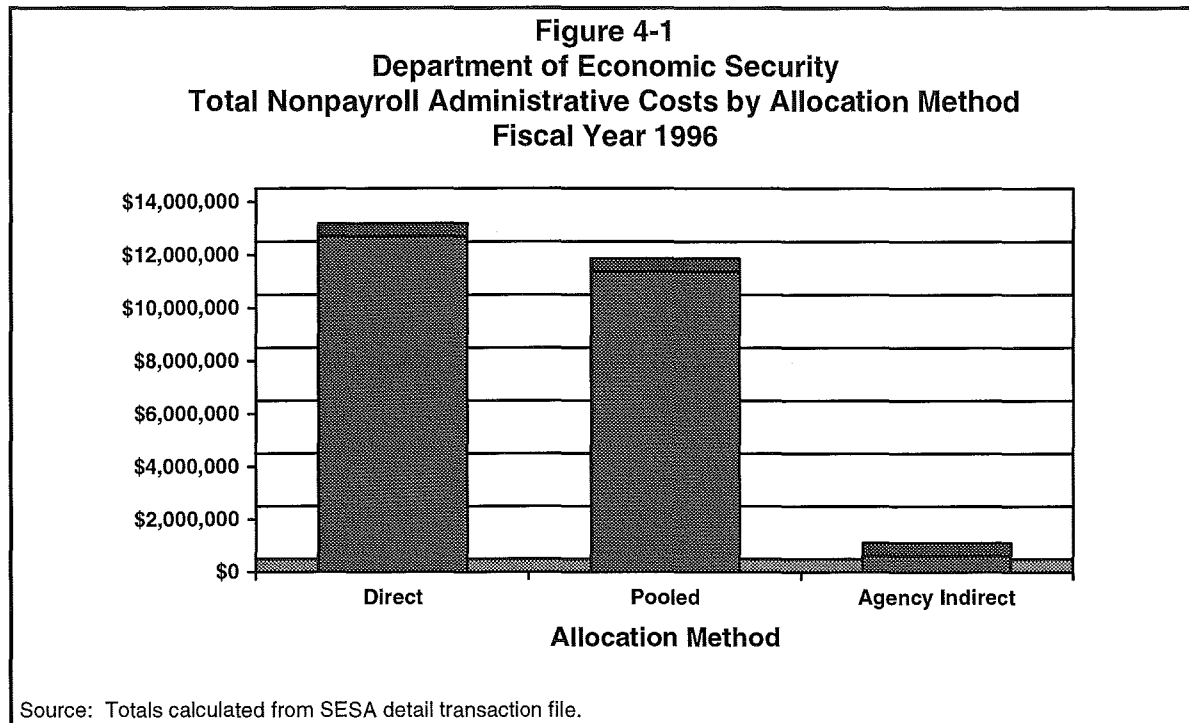
The federal government also limits the types of costs that administering agencies can charge to federal programs. Attachment B of the Office of Management and Budget's Circular A-87 (OMB A-87) outlines the federal government's allowable cost principles and specifies broad categories of unallowable costs.

Employees use special coding on invoices and other data entry documents to indicate how SESA should allocate a cost. SESA uses three methods to allocate costs:

- **Direct Costs** directly benefit or relate to specific programs. Almost all grant and payroll expenditures are direct costs.
- **Pooled costs** are allocated across programs within individual cost centers. For example, a copy machine benefits many programs in an individual field office or "cost center." The department uses SESA to allocate the copy machine's cost across all programs benefited in the cost center.
- **Agency Indirect Costs** are allocated across all programs administered by the agency. These costs benefit many programs or cost centers. The commissioner's salary is an example of such a cost.

## Department of Economic Security

Some examples of administrative costs are salaries, rent, information systems, supplies, and travel. Figure 4-1 displays total fiscal year 1996 nonpayroll administrative costs by allocation method.



Department employees complete a monthly timesheet specifying hours worked on individual programs. Each unit enters the program codes and hours worked into SESA's time distribution component. These hours combined with the employees hourly rate determine monthly payroll charges to individual programs. SESA also uses these hours to calculate program percentages within individual cost centers and across the entire agency. SESA uses these percentages to allocate pooled and agency indirect costs.

### Audit Objectives and Methodology

We focused our review of administrative expenditures on the following objectives:

- Did the Department of Economic Security charge costs to federal programs according to federal regulations and guidelines?
- Did the Department of Economic Security properly classify costs as either direct, pooled, or agency indirect?
- Did the Department of Economic Security accurately record hours worked in SESA?

To address these objectives, we conducted interviews and reviewed the department's internal controls for determining allowable costs and allocating costs to programs. In addition, we completed analytical reviews of expenditures and hours charged to programs. We also performed detailed tests of transactions.

## Department of Economic Security

Our testing showed that the Department of Economic Security charged allowable costs to federal programs. In addition, the department properly classified costs. Finally, the department accurately recorded hours worked in SESA according to individual timesheets. However, we question the method used by the Workforce Preparation Branch to allocate employee hours on monthly timesheets. We discuss this issue in Finding 3.

### **3. The Department of Economic Security's Workforce Preparation Branch used an unacceptable method to allocate employee hours worked to programs.**

Some employees in the Workforce Preparation Branch did not charge time to specific programs worked on. Rather, these employees completed a monthly timesheet based on an allocation set by the Workforce Preparation Branch's Director of Support Services. For example, an employee may work several hours a day on the Low Income Energy Assistance Program. However, under the current process, the employee may not charge time to that program. According to the Director of Support Services, another employee would charge more time to that program than worked. Our testing also showed some exceptions in how employees charged time using the director's allocation method. OMB Circular A-87 states: "Amounts charged to grant programs for personal services, regardless of whether treated as direct or indirect costs, will be based on payrolls. Payrolls must be supported by appropriate time and attendance or equivalent records for individual employees."

The federal government made significant cuts to programs administered by the Workforce Preparation Branch during federal fiscal year 1996. Due to decreases in funding, we anticipated a decrease in hours charged to individual programs in proportion to the funding cuts. As Table 4-1 on the following page shows, the Workforce Preparation Branch did have significant fluctuations in how employees charged hours to programs during fiscal year 1996 compared to fiscal year 1995. However, the table also shows that the percentage differences between expenditures did not correspond to differences in hours.

## Department of Economic Security

**Table 4-1**  
**Department of Economic Security**  
**Workforce Preparation Branch**  
**Percentage of Hours Charged to Programs Compared to Program Expenditures between**  
**Fiscal Year 1995 and 1996 (1)**

<u>Program Name</u>	<u>Percent Difference in Expenditures from FY 1995 to FY 1996</u>	<u>Percent Difference in Hours from FY 1995 to FY 1996</u>
Federal Programs:		
Low Income Energy Assistance	(27.05%)	(17.16%)
Job Training Partnership Act		
Adult and Youth	(24.73%)	(41.18%)
Dislocated Worker	(29.73%)	(19.10%)
Weatherization	(21.19%)	( 3.02%)
Community Services Block Grant	(15.79%)	25.49%
State Programs:		
Minnesota Economic		
Opportunity Grant	3.51%	69.51%
Dislocated Worker	<u>6.33%</u>	<u>23.15%</u>
Total	<u>(24.75%)</u>	<u>( 4.85%)</u>

(1) Analysis does not include all programs administered by the branch.

Source: Calculated from SESA time distribution

Table 4-1 shows that there was a significant increase in the hours employees charged to the Minnesota Economic Opportunity Grant (MEOG) in fiscal year 1996 compared to fiscal year 1995. Employees stated the department can use the funds in the MEOG and Community Service Block Grant (CSBG) programs to fund the administration of the majority of the programs within the Workforce Preparation Branch. These employees also stated the department cannot fund administration of the Job Training Partnership Act programs with the MEOG or CSBG funds.

Since some employees did not charge time to actual programs worked on, we cannot determine if the department properly allocated employees time to programs. This problem is compounded because other costs are allocated to programs based on payroll hours. Therefore, if employees are not charging time to actual programs worked on, the department may be allocating both payroll charges and pooled costs incorrectly.

### *Recommendation*

- *The Workforce Preparation Branch should require employees to charge time to programs based on actual work hours.*

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## Chapter 5. The Computing Environment

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### *Chapter Conclusions*

*The Department of Economic Security uses several different computer platforms to support programs. Our review of security found that the department's critical data is vulnerable to unauthorized access. We found that the department needs to strengthen security controls in the following areas:*

- The department does not have adequate security administration procedures.*
- Several employees and production jobs have inappropriate access to data and computer resources.*
- Security controls over two Reemployment Insurance Revenue System applications have several weaknesses.*

*Finally, the department does not have a comprehensive disaster recovery plan.*

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The Department of Economic Security is a large, complex state agency. The department has responsibility for over 40 state and federal programs and has annual financial activity exceeding \$1 billion dollars. The department has several information systems to support these activities. The Planning and Technology Section maintain applications residing on the department's mainframe. In addition, the department has applications on several other platforms, including local area networks and IBM AS400s.

Controlling access to computer resources and sensitive data is difficult in complex computing environments. To make effective access decisions, the department must determine the computer resources and data necessary for employees to complete their job responsibilities. The department also must be familiar with the various security software packages that control access to those computer resources and data.

The department uses a software package called ACF2 to control access to the mainframe computer. ACF2 protects against unauthorized destruction, disclosure, modification, or use of data and computer resources. The software acts as an extension to the computer's operating system and protects all data by default. ACF2 will not permit a user access to data or use a computer resource, such as an on-line screen, unless the data owner explicitly authorizes that access.

Currently, the department's Internal Security Unit is responsible for administering ACF2 security. Individual system administrators are responsible for securing the department's other platforms.

## **Department of Economic Security**

### **Audit Scope and Objectives**

We reviewed computer access controls as part of our annual financial audit of the Department of Economic Security. We focused our work on how the department secures its computerized information systems and data that reside on the mainframe. Specifically, we attempted to answer the following questions:

- Did the department give employees access to only data and computer resources needed to complete their job responsibilities?
- Did the department properly secure computer resources and data for its critical business functions?

To answer these questions, we interviewed Internal Security and Planning and Technology employees. We also analyzed security reports for the Reemployment Insurance Revenue system. Finally, we interviewed department staff to determine the policies and procedures in place for security over the department's other platforms.

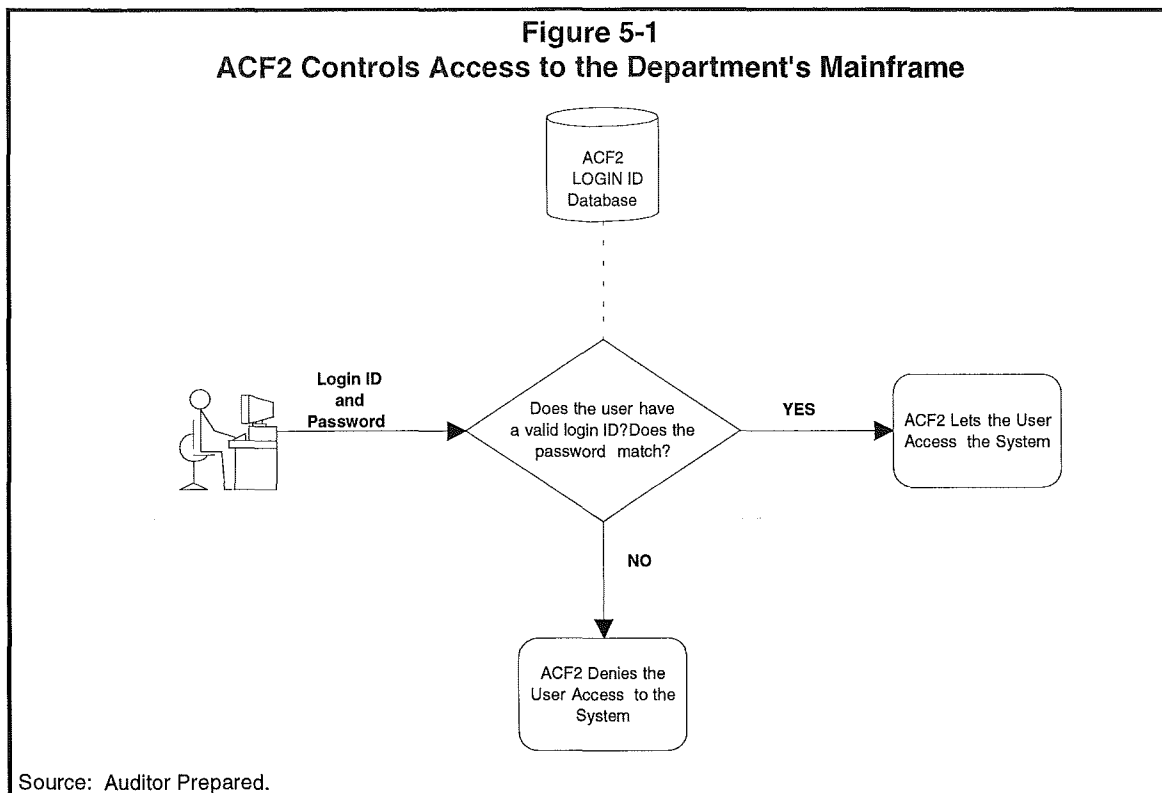
We found a security weakness in controls over employer tax rates in our review of reemployment insurance revenues. We discussed this issue in Finding 1 of Chapter 2.

### **The Functions of ACF2**

ACF2 controls access at two primary levels. The software secures initial access to the system and it secures access to data and resources within the system.

ACF2 uses unique logon IDs and passwords to control access to the system. All users must enter their logon ID and password to access the mainframe. ACF2 compares this user information to data stored in its logon ID database. The software denies access to users with unknown logon IDs or incorrect passwords. It also denies access to users with canceled or suspended logon IDs. Figure 5-1 illustrates in a simplified form how ACF2 uses logon IDs and passwords to control initial access to the system.

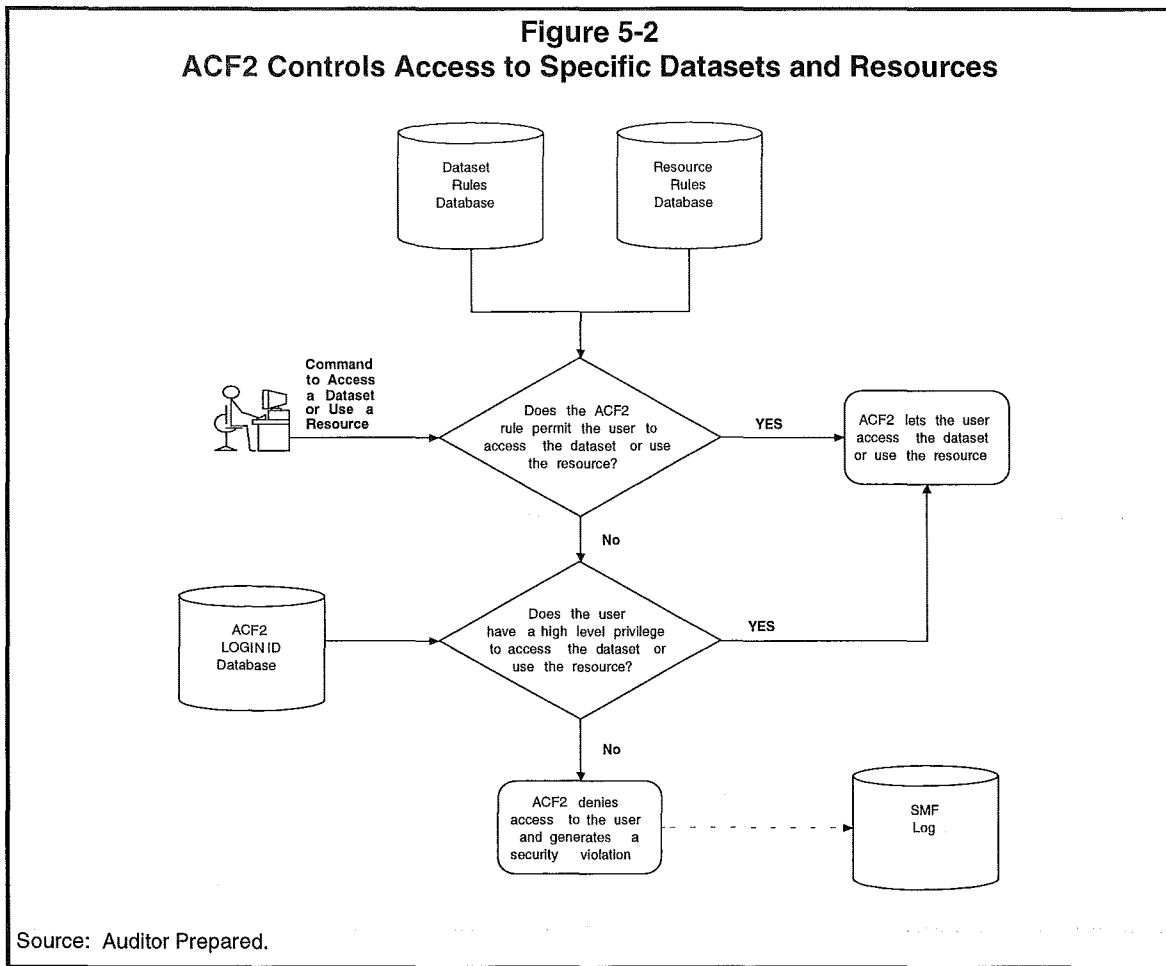
ACF2 uses rules to control access to data and computer resources. ACF2 makes either an allow or deny decision each time a user tries to access data or use a computer resource, such as an on-line screen. In general, users cannot access any data or use computer resources unless permitted by a rule. However, some users with powerful "privileges" can bypass ACF2's rule validation process. However, the system records all actions taken by these users. Figure 5-1 shows the ACF2 controls access to the department's mainframe.



The department's security officers write rules which ACF2 uses to make its allow or deny decisions on behalf of data owners. The security officers also grant privileges to users who need them to fulfill their job responsibilities. ACF2 stores all rules in two internal databases: one containing data access rules and another containing computer resource access rules. The software stores each user's privilege information in their logon ID record. Figure 5-2 illustrates, in a simplified form, how ACF2 uses rules and privileges to control access to data and computer resources.

### ACF2 Privileges

Most users need one or more data access privileges to fulfill their job responsibilities. For example, security officers frequently give privileges to people who enter on-line transactions. Some ACF2 privileges, such as "security," are very powerful and must be tightly controlled. The security privilege indicates that a user is an ACF2 security officer. Security officers can access all data, protected programs, and computer resources. In addition, security officers can create, change, and delete ACF2 rules and logon ID records. Table 5-1 describes some powerful ACF2 privileges which we reviewed during our audit. Except as discussed in Finding 6, the department had exercised effective controls over these powerful privileges.



We identified several weaknesses in the department's security administrative procedures, which we discuss in Finding 4. As discussed in Finding 5, the department may have difficulty recovering its critical business functions in a time of crisis.

Finally, our analysis of the reemployment insurance revenue system determined that the department relies on an additional level of internal security for some of its applications. Once ACF2 grants access to these applications, another security program provides access to specific transactions. We examined security controls within these applications and found some weaknesses. Finding 7 discusses these security concerns in more detail.

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**Table 5-1**  
**Powerful ACF2 Privileges Reviewed During Our Audit**

<b>Privilege Name</b>	<b>Privilege Description</b>
<b>SECURITY</b>	Indicates that this user is an ACF2 security officer. Security officers have unrestricted access to data, protected programs, and computer resources. Security officers can create, maintain, and delete ACF2 access rules and login ID records.
<b>NON-CNCL</b>	Indicates that this user cannot be canceled for ACF2 security violations.
<b>READALL</b>	Indicates the user can read all data.
<b>MAINT</b>	Indicates that the user can access all resources without ACF2 rule validation. However, the user must use a specific program which resides in a predefined library. Also, this program must identify the specific data to access.
<b>ACCOUNT</b>	Indicates the user can insert, delete, and change Login ID records.

Note: This table only lists the five powerful ACF2 privileges that we reviewed during our audit. We selected these privileges because they give users the ability to bypass or change ACF2's rule validation process. ACF2 has many other privileges that we did not review.

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#### **4. The Department of Economic Security has insufficient security administration procedures.**

The Department of Economic Security's administrative procedures have several weaknesses. First, the department has not specified employees as security liaisons. In addition, employees making security decisions do not have a clear understanding of security concepts. Finally, the department has not fully documented security decisions.

The department has not designated specific employees to serve as security liaisons. Currently, security officers within the Internal Security Unit are responsible for ACF2 mainframe security. The security officers, however, do not have a complete list of supervisors authorized to approve access request forms or know the scope of each supervisor's authority.

The department does not have a clear understanding of all security concepts. The department implemented ACF2 security in the late 1980s. The department's first security officer left in the fall of 1995. This employee was responsible for initially implementing ACF2 security. Our review found that the department either did not document many of the initial implementation issues or did not retain this documentation. Currently, the department's security officers are trying to rebuild this documentation. Without this documentation, employees responsible for security decisions and security officers cannot make informed security decisions. For example, we found that both security liaisons and security officers do not understand ACF2 security

## Department of Economic Security

profiles. These profiles group job functions together. Currently, when a user requests access to the mainframe, revenue system users rely on cloning existing users.

To add complexity to security decisions, the department decentralizes security decisions. The Internal Security Unit is only responsible for ACF2 security. All other platforms are the responsibility of individual system administrators. In addition, data owners are responsible for applications with internal security. The current process adds vulnerability for unauthorized access to critical data. For example, if the department terminated an employee, there is no process to ensure the employee's access would be canceled on all platforms. Also, the department cannot ensure that employees do not have incompatible access on multiple platforms. We feel the department needs to organize and coordinate their security effort.

Finally, the department has not fully documented security decisions and concepts. Data maintained by the department is an important asset. To preserve the integrity of data residing on all platforms, the department needs to formalize key security decisions.

### *Recommendations*

- *For mainframe data and applications, the Department of Economic Security should designate specific department employees to act as security liaisons.*
- *For all platforms, the Department of Economic Security should organize and coordinate internal security.*
- *The Department of Economic Security should gain an understanding of security features and document security responsibilities in a policy.*

### **5. The Department of Economic Security may have difficulty recovering its critical business functions in a crisis situation.**

The Department of Economic Security does not have comprehensive written disaster recovery procedures. Therefore, should a disaster occur, the department may have difficulty recovering its critical business functions. A disaster recovery plan provides a road map to recover critical business functions within an acceptable time period. A comprehensive disaster recovery plan does more than provide a strategy to restore computer operations. It also addresses other needs that may occur in a time of crisis, such as personnel, facilities, and supplies.

### *Recommendation*

- *The Department of Economic Security should develop a comprehensive disaster recovery plan.*

### **6. Several users have inappropriate access to mainframe data and resources.**

The Department of Economic Security granted inappropriate access to several employees and production jobs. First, the department granted broad access to computer operations, help desk, and mainframe technical support employees to critical computer resources. This access gives these employees the ability to update and change critical data.

## Department of Economic Security

In addition, the department granted an extremely powerful ACF2 privilege to four employees and several production jobs. The powerful ACF2 privilege is called NON-CNCL. This privilege allows users and jobs access to any data and resources within the system. Users with this privilege have the ability to update, modify, or delete any data regardless of what the data owner authorized.

### *Recommendations*

- *The Department of Economic Security should limit access granted to mainframe support staff, computer operations staff, and some production jobs.*
- *The department should review the NON-CNCL privilege it has granted to these four employees.*

### **7. Security controls over two reemployment insurance revenue system applications are weak.**

Two reemployment insurance revenue system applications have security weaknesses. The department does not use ACF2 to control access to individual transactions for two reemployment revenue applications. The department built internal security into these applications since it developed the systems prior to implementing ACF2 security. We found weaknesses in the internal security. In one case, the department did not limit the number of users with the ability to grant access to transactions. In another case, the department did not implement sufficient security within the application.

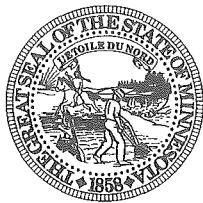
The department did not limit the number of users with the ability to grant access to UDIP transactions. This application processes over 50 nonroutine transactions. For example, the application has the capability to update one of the department's most critical files, the employer contribution file. We found that the department granted 20 employees with the ability to grant transaction access to users. The department needs to limit the number of users with the ability to grant access.

The department also has not implemented adequate security over the URPT application. The URPT application requires an authorization code to determine an employee's ability to inquire, modify, or update the employer contribution file. The department has a simple formula for determining each employee's code. Employees can easily decipher other employee's codes. Thus, an employee could improperly use the code of a co-worker who had more extensive access. In addition, the application displays the code as users complete transactions. Finally, there is no limit established to deny access to a user entering incorrect codes. The department needs to strengthen security over this code to ensure that users only complete authorized transactions.

### *Recommendations*

- *The Department of Economic Security should limit the number of users with the ability to grant access to UDIP transactions.*
- *The Department of Economic Security should strengthen controls over the URPT authorization code.*

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Office of the Commissioner

# Minnesota Department of Economic Security

390 North Robert Street • St. Paul, Minnesota 55101  
(612) 296-3711 • TTY/TDD (612) 282-5909 • FAX (612) 296-0994

April 7, 1997

Mr. James R. Nobles  
Legislative Auditor  
First Floor, Centennial Office Building  
658 Cedar Street  
St. Paul, Minnesota 55155

Dear Mr. Nobles:

The following information is offered in response to your draft audit report dated March 26, 1997. Please include this information in your final report.

## Recommendation 1

- **The Department of Economic Security should ensure that only employees with a job responsibility to change tax rates have this ability.**
- **The Department of Economic Security should remove the ability to change employer tax rates from the employer master record screen.**

The recommended change was completed and implemented on March 7, 1997.

Responsible Individual: Al St. Martin

## Recommendation 2

- **The Department of Economic Security should work with the U.S. Department of Education to establish the reality of actual Extended Employment Program expenditures for Federal fiscal years 1993, 1994, 1995 and 1996.**

The expenditures have been validated and revised Financial Status Reports for fiscal years 1993, 1994, and 1995 have been submitted to the U.S. Department of Education.

Responsible Individual: Norena Hale

### **Recommendation 3**

- **The Workforce Preparation Branch should require employees to charge time to programs based on actual work hours.**

Some support staff work primarily in specific program categories. These staff can more easily distinguish which programs they are working on than the more general branch support staff. Some support staff work exclusively for Energy and OEO programs and others work exclusively for Employment and Training programs. Each of these two divisions have 21 regular administrative budget areas in addition to some one-time grants. It is the time charging of these few individuals that we believe has caused the most concern. The assertion by the Minnesota Legislative Auditor is that staff time charges do not reflect, on a program by program basis, the hours charged in relation to hours worked.

Collectively the hours charges by staff to the programs reflect the hours worked on behalf of these programs. Exceptions exist where state funds were used to support the administration of various anti-poverty programs.

We will review the time charging process and establish a methodology which will more clearly reflect each employee's hours worked. The capability of the cost accounting system will be reviewed to determine if the costs can be allocated from a cost center pool. The difference in this potential future system from past practice will not be the number of hours charged to each program, but the number of employees charging to each program. Some programs have administrative dollars that can be used to support related programs. Those funds with the greatest flexibility will be used by the support staff to minimize the complexity of a coding structure necessary to modify our record keeping.

Responsible Individual: Frank Schneider

### **Recommendation 4:**

- **For mainframe data and applications, the Department of Economic Security should designate specific department employees to act as security liaisons.**

The data security officers are currently involved in a project to reestablish specific "unit security profiles". Included in this project is the identification of each unit's Data Guardian appointed by each unit, who will also act as the suggested security liaison person. As these liaisons are identified, they will be educated on their responsibilities and roles within the ACF2 security functions, policies and procedures.

- **For all platforms, the Department of Economic Security should organize and coordinate security.**

The Internal Security Director has formed a Network Administrator's Group comprised of the various platform administrators to address policies and procedures related to security issues. Additionally, the Internal Security Office staff is involved in the State Network Security Professionals Group which is developing statewide policies for networking platforms. As these statewide policies are developed they will be reviewed and implemented within MDES as appropriate.

- **The Department of Economic Security should gain an understanding of security features and document security responsibilities in a policy.**

MDES Policy and Procedures Manual, Section 609, contains the Data Security Policy. This is being updated. It currently focuses on the mainframe, but it is the natural place for the policies related to other platforms.

Responsible Individual: Al St. Martin

#### **Recommendation 5:**

- **The Department of Economic Security should develop a comprehensive disaster recovery plan.**

An office of MDES will be designated with lead accountability for the Disaster Recovery Plan. This office will then begin the coordination effort and identify all gaps and prioritize the planning process.

Responsible Individual: Al St. Martin

#### **Recommendation 6:**

- **The Department of Economic Security should limit access granted to mainframe support staff, computer operations staff, and some production jobs.**

Privileges will be reviewed and a return to the more appropriate fire call practice will be examined for any barriers to business activity. A report of the adoption of the previous practice or the rationale for modification will be filed.

James Nobles  
Page Four  
April 7, 1997

- **The department should discontinue the NON-CNCL privilege it has granted to four employees.**

Reasons and rationale for this practice will be examined. In absence of sound business reasons, the privileges will be revoked.

Responsible Individual: Ken Niemi

**Recommendation 7:**

- **The Department of Economic Security should limit the number of users with the ability to grant access to UDIP transactions.**
- **The Department of Economic Security should strengthen controls over the URPT authorization code.**

In answer to both recommendations: Restricted authorization represents a serious impediment to using flexibility in the deployment of staff. The application and systems securities required to assign authorizations by the situation of today's assignment, or current priority, is too expensive to contemplate. There is a trust between MDES Tax Management and staff in which authorizations are based upon the work being performed. This has been working. The vulnerability represented by limiting this trust is small in comparison to the cost of restricting access in the current system. These recommendations will be incorporated into the planning of new systems, and all possible safeguards will be installed. The new applications are being developed and installed over a 4-year period.

Responsible Individual: Al St. Martin

Sincerely,



R. Jane Brown  
Commissioner

RJB:mes