

Department of Economic Security

Financial Audit

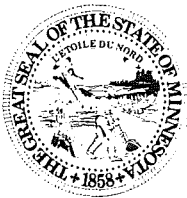
Fiscal Year Ended June 30, 1997

March 1998

*This document can be made available in
alternative formats, such as large print,
Braille, or audio tape, by calling 296-1727.*

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

98-19



STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Deanna Wiener, Chair
Legislative Audit Commission

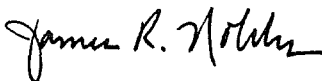
Members of the Legislative Audit Commission

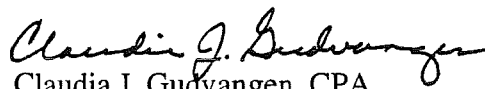
Ms. R. Jane Brown, Commissioner
Department of Economic Security

We have audited selected programs of the Department of Economic Security for the fiscal year ended June 30, 1997, 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 1997 financial statements and Single Audit. The Comprehensive Annual Financial Report for the year ended June 30, 1997, includes our report, issued thereon dated December 8, 1997. The Minnesota Financial and Compliance Report on Federally Assisted Programs for the year ended June 30, 1997, will include our reports on the supplementary information schedule, internal control structure, and compliance with laws and regulations. We anticipate issuing this report in March 1998. 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 auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. 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 March 20, 1998.


James R. Nobles
Legislative Auditor


Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: January 23, 1998

Report Signed On: March 13, 1998

SUMMARY

State of Minnesota

Office of the Legislative Auditor

1st Floor Centennial Building

658 Cedar Street • St. Paul, MN 55155

612/296-4708 • FAX 612/296/4712

TDD Relay: 1-800-627-3529

email: auditor@state.mn.us

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

Department of Economic Security

Financial Audit

Fiscal Year Ended June 30, 1997

Public Release Date: March 20, 1998

No. 98-19

Agency Background

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. Some of the major programs administered by the department include: Reemployment Insurance, Low Income Energy Assistance, Rehabilitation Services, and Job Training Partnership Act. Ms. R. Jane Brown serves as 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, 1997, and to the requirements of the Single Audit Act, relating to federal financial assistance.

We reviewed reemployment insurance revenues and benefit payments. The Department of Economic Security fairly presented the financial activity for the Reemployment Insurance Program in the state of Minnesota's financial statements for fiscal year 1997 in accordance with generally accepted accounting principles. The department complied, in all material respects, with the federal requirements for disbursing reemployment insurance benefits. In addition, our testing showed that the department properly accounted for and deposited reemployment insurance revenues.

We reviewed compliance requirements related to federal programs under the Single Audit Act. We found that the department complied, in all material respects, with the federal laws and regulations governing the federal programs included in the audit scope. The department designed internal controls to provide reasonable assurance that financial activities were properly recorded in the accounting system and programs were managed in compliance with federal rules and regulations. However, we found that certain Workforce Preparation Branch employees did not record actual hours worked on specific programs. Rather, these employees used an allocation method to charge time to some programs. We cannot determine if this method resulted in the proper allocation of payroll hours to programs. This allocation method may adversely impact the distribution of pooled administrative costs to department programs.

Finally, we reviewed the department's computing environment. We found that the department's critical data is vulnerable to unauthorized access. Security administration procedures are ineffective, security rules are not documented and understood, and the department has not yet finalized its comprehensive disaster recovery plan.

The department agreed with the audit report's findings and recommendations. They plan to take the necessary measures to resolve the issues raised.

Department of Economic Security

Table of Contents

	Page
Chapter 1. Introduction	1
Chapter 2 Reemployment Insurance	3
Chapter 3 Federal Programs	7
Chapter 4 The Computing Environment	13
Status of Prior Audit Issues	21
Agency Response	23

Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Brad White, CPA, CISA	Audit Manager
Chris Buse, CPA, CISA	Information Technology Audit Manager
Susan Rumpca, CPA	Auditor-in-Charge
Fubara Dapper, CPA	Auditor
Brad Falteysek	Auditor
Sonya Hill, CPA	Auditor
Mark Mathison, CPA	Auditor
Eric Wion	Auditor
Sean Bagan	Intern

Exit Conference

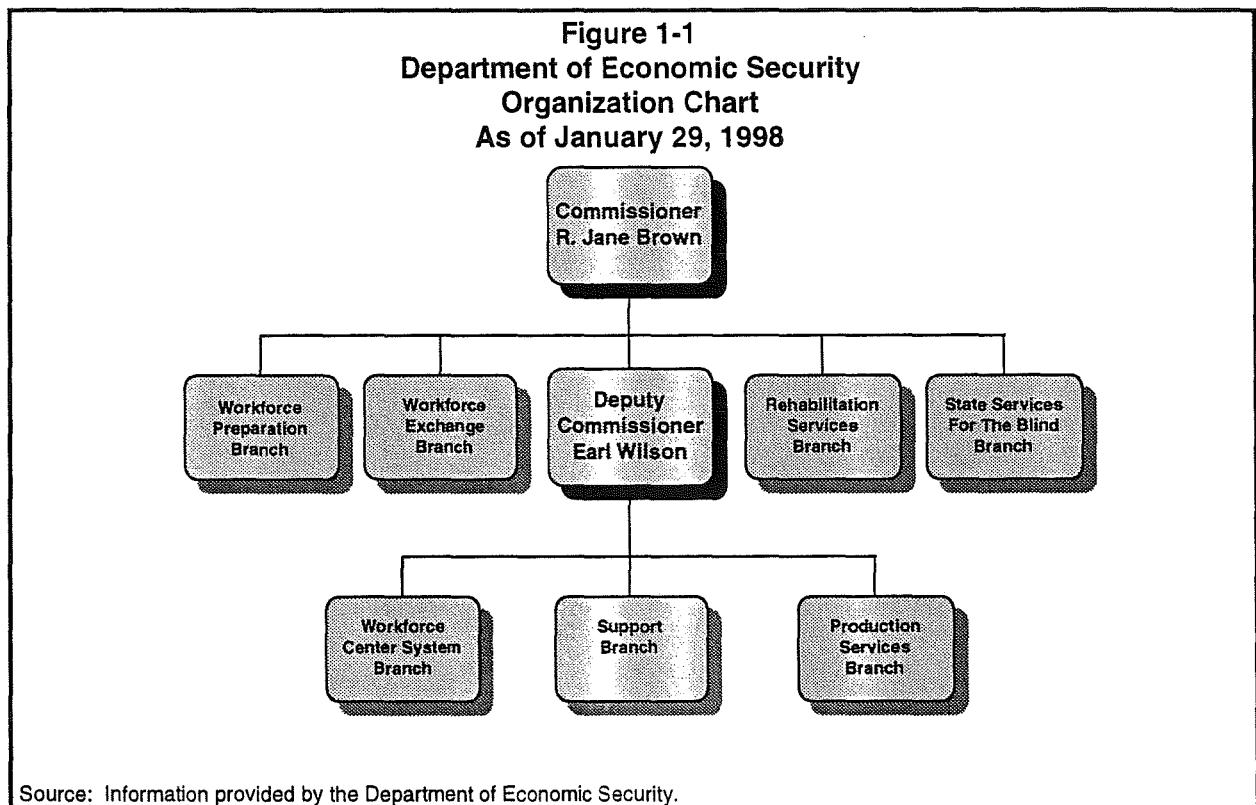
The findings and recommendations in this report were discussed with the following staff of the Department of Economic Security on March 5, 1998:

R. Jane Brown	Commissioner
Earl Wilson	Deputy Commissioner
Kathy Sweeney	Assistant Commissioner, Workforce Preparation
Al St. Martin	Assistant Commissioner, Production Services
Jack Weidenbach	Assistant Commissioner, Workforce Exchange
Ken Niemi	Chief Information Officer
John Stavros	Chief Financial Officer
Mark Butala	Director, Internal Security
Tim Langlie	Director, General Accounting
Mike Young	State Services for the Blind, Client/Staff Support

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. Each branch reports to the deputy commissioner or an assistant commissioner. The commissioner has overall responsibility for the department. The Governor appointed R. Jane Brown as commissioner effective February 8, 1991.



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

- **Workforce Center System** brings together state, county, and private non-profit employment and training related services, providing a seamless and comprehensive system to job seekers and employers.
- **Support** provides department-wide functions, such as fiscal services, human resources, and planning and technology to the other branches.
- **Production Services** performs high volume processes and other compliance oriented activities. One example is the collection and deposit of reemployment revenues.

Department of Economic Security

- **Workforce Preparation** oversees training and other support services needed prior to work search.
- **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.

Department activities are financed primarily from federal grants, General Fund appropriations, and the collection of reemployment taxes from employers. Our audit scope focused on 1997 expenditures for the programs included in Table 1-1. In addition, we included reemployment insurance revenues totaling \$426,540,000 in our audit scope. The reemployment insurance revenue included reemployment insurance taxes, federal revenue, investment and interest income, and employers' voluntary contributions. These financial activities were material to the state's financial statements and to the Single Audit objectives.

Table 1-1
Department of Economic Security
Selected Expenditures by Program for Fiscal Year 1997

<u>Reemployment Insurance Fund: (1)</u>	
Reemployment Insurance Benefits	\$379,042,000
<u>Federal Fund: (2)</u>	
Low Income Energy Assistance (CFDA #93.568)	\$ 50,631,159
Rehabilitation Services Basic Support (CFDA #84.126)	47,766,286
Unemployment Insurance Administration (CFDA #17.225)	38,923,128
Job Training Partnership Act Title II (CFDA #17.250)	16,461,056
Employment Services Administration (CFDA #17.207)	16,062,668
Weatherization Assistance (CFDA #81.042)	5,433,177

Sources:

- (1) State of Minnesota's Comprehensive Annual Financial Report for fiscal year 1997.
 - (2) Minnesota's Financial and Compliance Report on Federally Assisted Programs.
-

In accordance with a reorganization order, several state and federal programs administered by the Workforce Preparation Branch transferred to the Department of Children, Families & Learning on July 1, 1997. The Low Income Energy Assistance and Weatherization Assistance Programs were among the programs transferred.

We discuss our conclusions on Reemployment Insurance in Chapter 2 and on federal programs in Chapter 3. In Chapter 4, we discuss issues related to the department's computing environment over state and federal programs.

Chapter 2. Reemployment Insurance

Chapter Conclusions

The Department of Economic Security fairly presented the financial activity for the Reemployment Insurance Program in the state of Minnesota's financial statements for fiscal year 1997 in accordance with generally accepted accounting principles. The department complied, in all material respects, with the federal requirements governing the Reemployment Insurance Program.

The reemployment insurance system is a unique federal-state partnership, founded in federal law but implemented through state law. 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 administered by the Department of Economic Security. The department must use the fund to accumulate money from employers during periods of employment to provide benefits for periods of unemployment. In addition, the United States Department of Labor provides some funding for the administration of the program.

The Department of Economic Security's Production Services Branch is responsible for determining employer liability, assigning tax rates, processing quarterly tax and wage reports, collecting reemployment taxes, and recording 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. Employers with lower unemployment levels have lower tax rates. Each taxpaying employer makes a quarterly tax payment to the department based on a tax rate and the employer's taxable payroll. However, 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.

The Department of Economic Security disburses benefit payments to unemployed workers who meet specific criteria established in Minnesota law. The law defined a formula for calculating the maximum benefit amount payable for any benefit year.

Table 2-1 shows the major sources and uses of the Reemployment Insurance Fund during fiscal year 1997.

Department of Economic Security

Table 2-1
Department of Economic Security
Reemployment Insurance Fund Activity
Fiscal Year 1997

	<u>Amount</u>	<u>Percent</u>
Beginning Fund Balance	\$440,806,000	
<u>Revenues</u>		
Taxpaying Employers	352,595,000	82.7%
Investment Income	32,816,000	7.7%
Reimbursing Employers	24,491,000	5.7%
Reimbursements from Other States (1)	10,174,000	2.4%
Federal Government Reimbursements (2)	<u>6,464,000</u>	<u>1.5%</u>
Total Revenues	\$426,540,000	100.0%
<u>Expenditures</u> (Benefit Payments to Former Employees)		
Taxpaying Employers	\$342,744,000	90.4%
Reimbursing Employers	25,573,000	6.8%
Federal Government Agencies	4,795,000	1.3%
Employers from Other States	4,649,000	1.2%
Other	<u>1,281,000</u>	<u>.3%</u>
Total Expenditures	\$379,042,000	100.0%
Ending Fund Balance	<u>\$ 488,304,000</u>	

Notes:

- (1) The corresponding expenditures were included in taxpaying employers expenditures.
- (2) Disaster unemployment assistance revenue was included in federal government reimbursements. The expenditures were included in taxpaying employers expenditures.

Source: State of Minnesota Comprehensive Annual Financial Report for fiscal year 1997 and supporting records.

Audit Objectives and Scope

We had two primary objectives in our audit of the Reemployment Insurance Program:

- Were revenues and expenditures for the Reemployment Insurance Program fairly presented in the state of Minnesota's Comprehensive Annual Financial Report, in accordance with generally accepted accounting principles?
- Did the department comply with material federal laws and regulations, and were accounting systems and controls designed to provide reasonable assurance that it managed the Reemployment Insurance Program in compliance with federal laws and regulations?

To address these objectives, we obtained an understanding of the design of relevant policies and procedures. We conducted interviews and reviewed the department's process for recording revenues and benefit payments in the department's accounting system. We reviewed the process

Department of Economic Security

used for financial reporting. We also completed detail transaction testing and analytical reviews to determine compliance with laws and regulations.

Conclusions

The Department of Economic Security fairly presented the financial activity for the Reemployment Insurance Program in the state of Minnesota's financial statements for fiscal year 1997 in accordance with generally accepted accounting principles. The department complied, in all material respects, with the federal requirements governing the Reemployment Insurance Program revenues and benefit payments.

This page intentionally left blank.

Chapter 3. Federal Programs

Chapter Conclusions

The Department of Economic Security complied, in all material respects, with the federal laws and regulations governing the federal programs included in the audit scope. The department designed internal controls to provide reasonable assurance that financial activities were properly recorded in the accounting system and programs were managed in compliance with federal rules and regulations. However, we found that certain Workforce Preparation Branch employees did not record actual hours worked on specific programs. Rather, they used an allocation method to charge time to some programs. We cannot determine if this method resulted in the proper allocation of payroll hours to programs. This concern also impacts other departmental allocations of administrative costs to programs based on payroll hours. If actual time is not charged to programs on which these employees worked, the department may be incorrectly allocating payroll and pooled administrative costs to its federal programs.

The Department of Economic Security administered over 30 federal programs in fiscal year 1997. Six of these programs were examined pursuant to the Single Audit Act. We focused our audit on the federal programs identified in Table 3-1.

Table 3-1
Department of Economic Security
Federal Program Expenditures Included in the Audit Scope
Fiscal Year 1997

Program Name	<u>Subgrant Expenditures</u>	<u>Administrative Expenditures</u>	<u>Total Expenditures</u>
Low Income Energy Assistance (CFDA #93.568)	\$49,779,465	\$ 851,694	\$50,631,159
Rehabilitation Services Basic Support (CFDA #84.126)	18,371,814	29,394,472	47,766,286
Unemployment Insurance Administration (CFDA #17.225)	2,404,760	36,518,368	38,923,128
Job Training Partnership Act Title II (CFDA #17.250)	15,649,187	811,869	16,461,056
Employment Services Administration (CFDA #17.207)	1,322,636	14,740,032	16,062,668
Weatherization Assistance (CFDA #81.042)	4,969,511	463,666	5,433,177

Source: Minnesota's Financial and Compliance Report on Federally Assisted Programs for fiscal year 1997.

Department of Economic Security

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

- **Low Income Energy Assistance** provides funding to low income households to assist in meeting energy costs. These costs may include: heating payments, energy conservation education, and repairs to heating systems.
- **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, Braille instruction, vocational training, job placement, and adaptive equipment. In addition, the branch provides a business enterprise program which creates small business franchise opportunities for clients.

- **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. It also provides funding to implement workforce centers.
- **Weatherization Assistance** provides funding to increase the energy efficiency of dwellings owned or occupied by low income persons, reduce residential energy expenditures, and improve the health and safety of elderly, handicapped, and young individuals.

The department contracted with community-based agencies and local government agencies to provide services for all programs in the audit scope and included program expenditures and subgrant administrative expenditures. These expenditures were classified as subgrant expenditures. Department employees administered the programs by monitoring, training, and providing technical assistance. The expenditures related to these activities were classified as administrative expenditures. Some examples of administrative expenditures are salaries, rent, information systems, supplies, and travel.

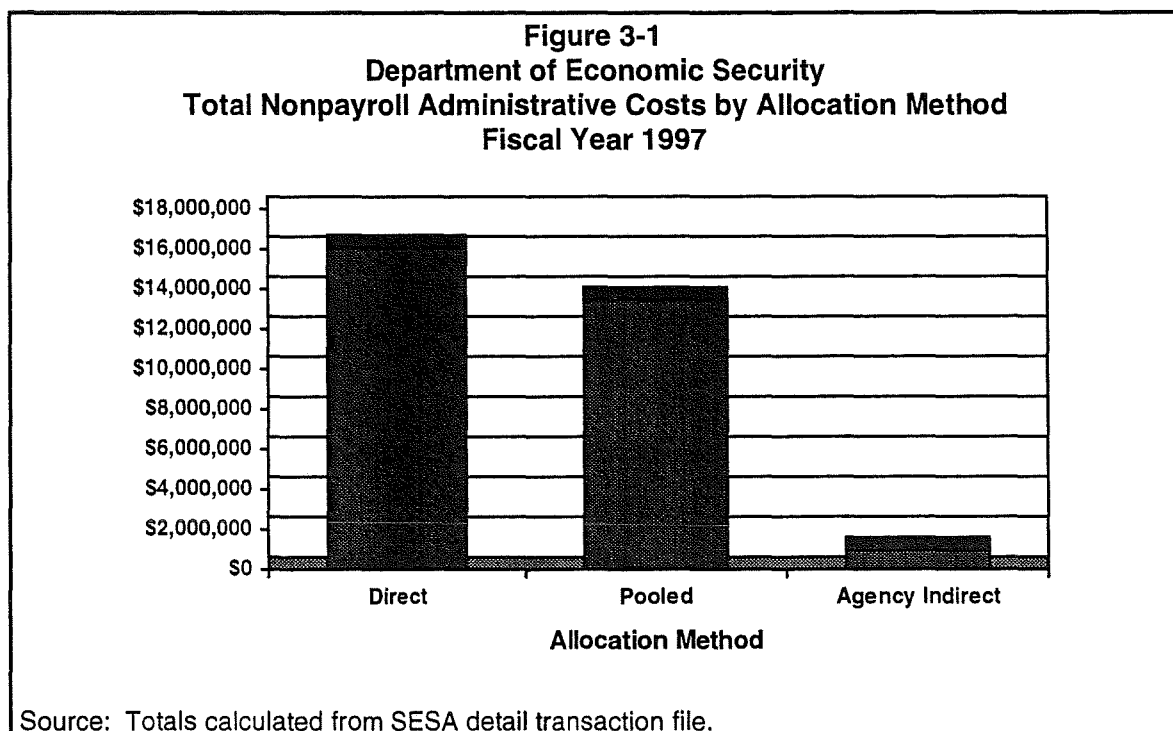
Agencies administering federal programs have a number of constraints and cost accounting requirements imposed by federal regulations. The federal government also limits the types of costs that administering agencies can charge to federal programs. Attachment B of the Office of Management and Budget's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

Department of Economic Security

To help fulfill the department's fiduciary duties and ensure compliance with these requirements, the Department of Economic Security used a cost accounting system called the State Employment and Security Agency system (SESA). The department also used SESA for federal reporting purposes. SESA is a mainframe-based application that allows the department to directly charge costs to specific programs and proportionately allocate joint or "pooled" costs. Employees used special coding on invoices and other data entry documents to indicate how SESA should allocate a cost. SESA used 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 used 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 an agency indirect cost.

For payroll costs, totaling \$69 million in fiscal year 1997, department employees completed a monthly timesheet specifying hours worked on individual programs. Each unit entered the program codes and hours worked into SESA's time distribution component. These hours, combined with the employees' hourly rates, determined monthly payroll charges to individual programs. SESA also used these hours to calculate program percentages within individual cost centers and across the entire agency. SESA used these percentages to allocate pooled and agency indirect costs. Figure 3-1 displays total fiscal year 1997 nonpayroll administrative costs by allocation method.



Department of Economic Security

Audit Objectives and Methodology

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

- Did the department comply with federal laws and regulations applicable to these major federal programs?
- Did the department design internal controls to provide reasonable assurance that federal assistance financial activities were properly recorded in the accounting system and that it managed federal programs in compliance with federal laws and regulations?

The U.S. Office of Management and Budget (OMB) Compliance Supplement contains the key compliance requirements. These requirements include activities allowed or unallowed; allowable costs/cost principles; cash management; Davis-Bacon Act; eligibility; equipment and real property management; matching, level of effort, earmarking; period of availability of federal funds; procurement and suspension and debarment; program income; real property acquisition and relocation assistance; reporting; subrecipient monitoring; and special tests and provisions. We tested the department's compliance with these requirements.

To address the objectives, we obtained an understanding of the design of relevant internal control policies and procedures at the state level. We conducted interviews and reviewed the department's process for managing these federal programs. We also tested financial transactions for these programs to determine compliance with program regulations. In addition, we reviewed the process the department used to ensure that the community-based agencies administered the program in compliance with federal regulations. We did not, however, review local level controls established to ensure compliance with federal regulations.

Conclusions

The Department of Economic Security complied, in all material respects, with the federal laws and regulations governing the federal programs included in the audit scope. The department designed internal controls to provide reasonable assurance that financial activities were properly recorded in the accounting system and programs were managed in compliance with federal rules and regulations. However, we found that certain Workforce Preparation Branch employees did not record actual hours worked on specific programs, as discussed in Finding 1.

1. PRIOR FINDING NOT RESOLVED: The Department of Economic Security's Workforce Preparation Branch used an unacceptable method to allocate certain employees' payroll hours to programs.

Many department employees directly charged time to the programs on which they worked; however, certain employees in the Workforce Preparation Branch did not follow this practice. These employees did not identify actual payroll hours for programs on which they worked. Instead, they completed a monthly timesheet based on a time allocation method determined by the Workforce Preparation Branch's Director of Support Services. These employees mainly provided support services to the branch's programs. If employees do not record actual payroll hours, we cannot determine the reasonableness of payroll hours allocated to the department's

Department of Economic Security

programs. The lack of actual payroll allocation has a broader impact since the department allocates other administrative costs to programs based on payroll hours. Therefore, if employees are not charging actual time to programs on which they worked, the department may be incorrectly allocating payroll costs and pooled administrative costs to its programs.

The time allocation process used by the branch had multiple steps. Using historical hours charged to each program, which was a combination of actual and estimated hours, the branch director calculated the proportion of time each employee should charge to each program. The director also determined the total time each program should be charged. To make it easier for employees, the director distributed the total time that should be charged to each program among employees so that each employee charged to only a few programs. However, we observed several problems with this process:

- most programs received distributed employee time which was greater than or less than the calculated time;
- some programs did not have distributed employee time even though the initial calculation revealed that time should have been charged;
- employees did not always charge time according to the time allocation; and
- the time allocation process did not consider differences among employee salaries.

According to OMB Circular A-87, when employees work on multiple activities or cost objectives, a distribution of their salaries must be supported by personnel activity reports or equivalent documentation that reflects an after-the-fact distribution of actual time for each employee. Budget estimates or other distribution percentages determined before services are performed cannot be used to support charges to Federal awards. Estimates or other distribution percentages may be used in the interim, provided that periodic comparisons of actual costs to estimated distributions are performed and the appropriate adjustments are made. Substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports. These substitute systems, however, are subject to approval if required by the cognizant agency.

The Workforce Preparation Branch performed no comparison of actual results to their initial allocation estimates. Since these employees did not record actual hours worked on specific programs, we cannot determine if the department properly allocated payroll hours to programs. In addition, the time allocation process used by these branch employees was not supported by any after-the-fact distribution of actual activity. The lack of actual payroll allocation impacts other departmental allocations of administrative costs to programs based on payroll hours. If Workforce Preparation Branch employees are not charging actual time to programs they worked on, the department may be incorrectly allocating payroll and pooled administrative costs to its programs.

Recommendation

- *The Workforce Preparation Branch should develop a time charging method which complies with OMB Circular A-87.*

This page intentionally left blank.

Chapter 4. The Computing Environment

Chapter Conclusions

Controls governing access to data and computer resources on the Department of Economic Security's mainframe computer are inadequate. Critical components of the department's complex security infrastructure are undocumented and poorly understood by employees who make security decisions. Staff shortages and turnover in the security administration function have compounded these weaknesses. In fact, for one critical business system that we reviewed, we were unable to find any employee with a complete understanding of the underlying security infrastructure. In addition, the department has not yet finalized its disaster recovery plan.

The Department of Economic Security is a complex state agency with responsibility for many state and federal programs. The department supports these programs with many different computerized information systems. The Planning and Technology Section of the Support Branch maintains the information systems that reside on the department's mainframe. However, the department also has other information systems that run on local area networks and midrange computer platforms.

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 to access data or use a computer resource, such as an on-line screen, unless the data owner explicitly authorizes that access.

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 question:

Department of Economic Security

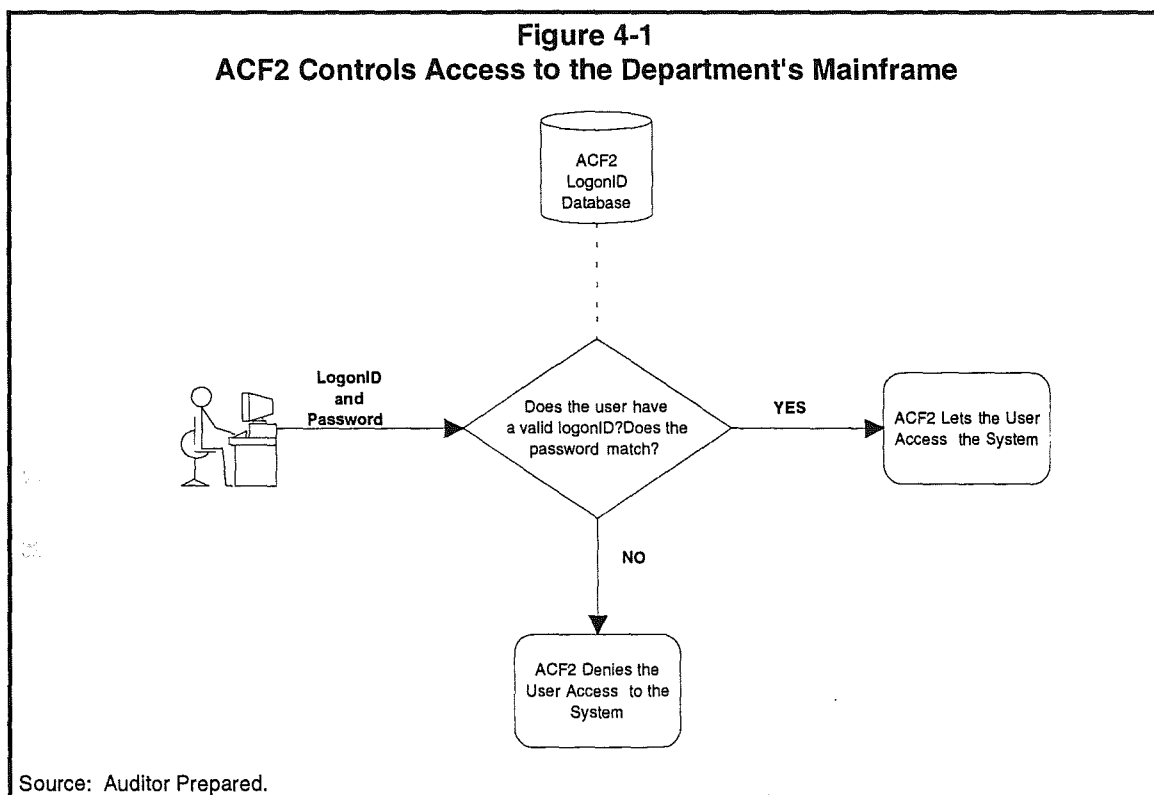
- Did the department give employees access to only the data and computer resources needed to complete their job responsibilities?

To answer this question, we interviewed employees within the Internal Security, Reemployment Insurance Tax, and Planning and Technology Sections of the Support Branch. We also analyzed a variety of different ACF2 security reports for the Reemployment Insurance Revenue System.

The Functions of ACF2

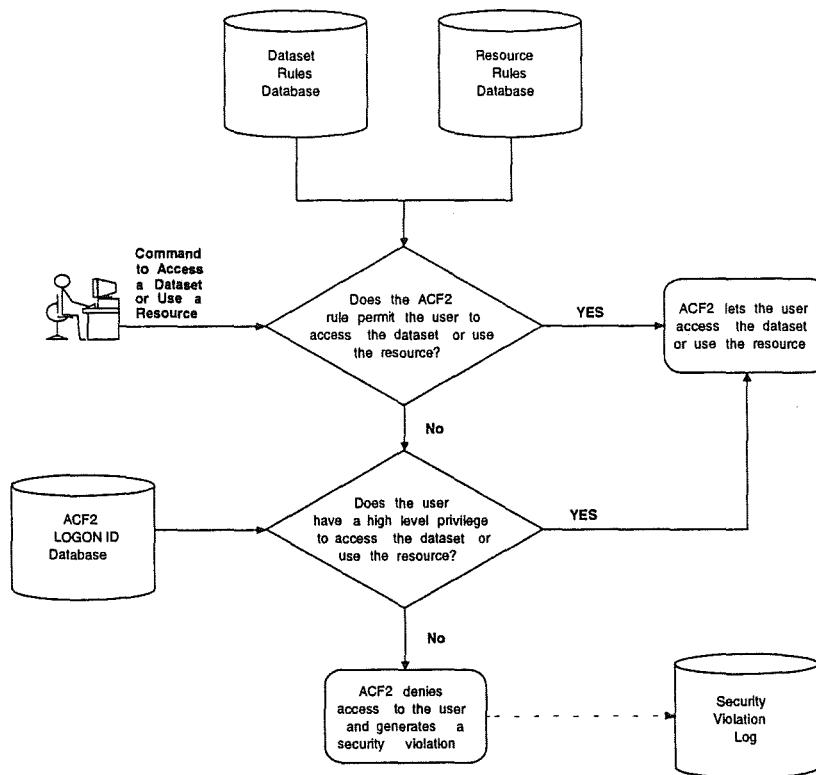
ACF2 controls access at two primary levels. The software secures initial access to the system and it secures access to data and resources within the system.

ACF2 uses unique logonIDs and passwords to control access to the system. Each user must enter their logonID and password to access the mainframe. ACF2 compares this user information to data stored in its logonID database. The software denies access to users with unknown logonIDs or incorrect passwords. It also denies access to users with canceled or suspended logonIDs. Figure 5-1 illustrates how ACF2 uses logonIDs 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. Figure 4-2 illustrates how ACF2 uses rules and privileges to control access to data and computer resources.

Figure 4-2
ACF2 Controls Access to Specific Datasets and Resources



Source: Auditor Prepared.

The department's security administrators write the rules that ACF2 uses to make its allow or deny decisions. Security administrators write these ACF2 rules on behalf of the people who own, or are custodians of, the particular data files or computer resources. Security administrators 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 logonID record.

Most users need one or more privilege to fulfill their job responsibilities. For example, security administrators 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 administrator. Security administrators can access all data, protected programs, and computer resources. In addition, security administrators can create, change, and delete ACF2 rules and logonID records. Table 4-1 describes some powerful ACF2 privileges which we reviewed during our audit.

Table 4-1
Powerful ACF2 Privileges Reviewed During Our Audit

Privilege Name	Privilege Description
SECURITY	Indicates that this user is an ACF2 security administrator. Security administrators have unrestricted access to data, protected programs, and computer resources. Security administrators can create, maintain, and delete ACF2 access rules and logonID records.
NON-CNCL	Indicates that this user can access any data or resource within the system.
MAINT	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.
ACCOUNT	Indicates the user can insert, delete, and change logonID records.

Note: This table only lists four powerful ACF2 privileges that were 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.

Conclusions

Weaknesses in the department's security administration procedures may lead to inappropriate security clearances. In our prior audit report, released in April 1997, we concluded that the department's critical business data was vulnerable to unauthorized access. This conclusion was based primarily on the fact that the department had inadequate security administration procedures and poor security documentation. We also found that employees who made key security decisions had an insufficient understanding of the department's underlying security infrastructure. We reached a similar conclusion during this audit. In fact, we believe that the control environment has further deteriorated due to the continued turnover of security administrators with specialized ACF2 training. The department began fiscal year 1997 with two trained ACF2 security administrators. Near the end of our fieldwork, the only remaining security administrator with ACF2 training requested a job transfer.

In Finding 2, we discuss security administration and documentation weaknesses. In Finding 3, we discuss restricted logonIDs with unnecessarily high security clearances. Finding 4 discusses our concerns with the maintenance of the ACF2 logonID and rules databases. Finally, Finding 5 discusses disaster recovery planning weaknesses.

Department of Economic Security

2. PRIOR AUDIT FINDING NOT RESOLVED: The department did not have effective ACF2 security administration procedures.

The department did not identify specific employees to serve as owners or security liaisons for all mainframe data and computer resources. Data owners, or their designated security liaisons, are typically managers or supervisors who must approve access requests for specific computer systems. It is very important to formally document the owner or security liaisons for every data file and computer resource. Without this documentation, security administrators have difficulty challenging the appropriateness of specific access requests. When questioned, the department's security administrator told us that he tried to analyze access requests to determine if they had been approved by an appropriate person. However, documentation shortcomings made this difficult. This was particularly true when he first started as a security administrator and had only a limited understanding of the department's various business systems. The department currently has thousands of data files and computer resources that are secured by ACF2.

The department also had an insufficient understanding and inadequate documentation for its ACF2 security groups. Security administrators design security groups to give users access to predefined sets of computer resources, mainly on-line transaction screens. Security groups are very important because they provide the necessary foundation to separate incompatible business functions. For example, security groups can be used to limit users to the screens for a particular computer system. They also can limit users to specific components of a particular system. We asked the security administrator to provide us with a list of security groups for the Reemployment Insurance Revenue System. We also requested a list of screens that each group could access. The security administrator could not provide us with this information. Instead, he told us that the department never had this type of documentation when he originally took the security administrator position. Compounding this problem, Reemployment Insurance Revenue Section supervisors that we spoke to also did not know what security groups exist. Therefore, to give a new user mainframe access, the department relied on cloning the security clearance of an existing user. We feel that this practice is extremely risky because the department did not understand the security groups held by the users being cloned. This could lead to the inadvertent spread of inappropriate security clearances to new users.

Finally, the department had an insufficient understanding and inadequate documentation for its security rules. The department has a very complex security infrastructure with well over 1,000 ACF2 rules. In many cases, several different ACF2 security rules interact with internally developed security programs to control access. When questioned, the department's security administrator and the lead system developer could not explain how or what ACF2 rules control access to some critical Reemployment Insurance Revenue System computer resources. Unfortunately, previous security administrators who designed the security infrastructure either did not prepare or did not save any high-level security documentation. Without this documentation, the department now may need to study numerous detailed computer programs to learn how its own security infrastructure works.

Department of Economic Security

Recommendations

- *The department should document the owner or security liaisons for every data file and computer resource. Security administrators should use this documentation to scrutinize the appropriateness of individual access requests.*
- *The department should document the functionality provided by all ACF2 security groups and give this documentation to the supervisors who make security decisions.*
- *The department should prohibit the cloning of security clearances.*
- *The department should document how ACF2 security rules and internally developed security programs collectively control access to computer resources and data.*

3. Internal controls over restricted logonID records need improvement.

The department did not properly control its restricted logonID records. A restricted logonID is a special type of ACF2 logonID record that requires no password. ACF2 will not allow a person to use a restricted logonID to sign on to the mainframe computer. However, a restricted logonID can be used to run one or more computer programs, collectively referred to as a job. ACF2 has a special security feature, called program pathing, that helps mitigate the unique risks posed by restricted logonID records. Of greatest significance, program pathing can limit the scope of a restricted logonID record so that it can only run a specific computer program that resides in a predefined library. This significantly reduces the risks associated with having powerful logonID records that are not password protected. At the time of our audit, the department was not using program pathing to control restricted logonID records.

Recommendation

- *The department should add program pathing controls to its restricted logonID records.*

4. The department did not perform timely maintenance of its ACF2 security databases.

A large number of logonID records in the department's ACF2 LogonID Database have been inactive for an extended period of time. Controlling inactive accounts is a very important security administration responsibility. When left uncontrolled, inactive accounts can provide unauthorized users with a way to access computer resources and data. The department had a computer program to automatically remove unused logonIDs from the ACF2 database. However, we were told that this job was not run during fiscal year 1997.

We also found many dormant rules in the ACF2 rules databases. Dormant rules are rules that cannot grant or restrict access to any user. Dormant rules can lead to future ACF2 security problems. New logonIDs which happen to meet the criteria specified in a dormant rule can

Department of Economic Security

access the data or computer resource that the rule was originally intended to protect. Therefore, it is important to periodically remove all dormant rules from the ACF2 rules databases.

Software packages currently exist to help security administrators streamline ACF2 maintenance procedures. However, the department did not own any of these software packages.

Recommendations

- *The department should periodically cancel or suspend logonID records that are no longer used.*
- *The department should periodically purge all dormant rules from the ACF2 rules databases.*

5. PRIOR AUDIT FINDING NOT RESOLVED: The Department of Economic Security may have difficulty recovering its critical business functions in a crisis situation.

The Department of Economic Security did not have comprehensive written disaster recovery procedures. 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 the replacement of essential personnel, facilities, and supplies.

The department has entered into an agreement with the Department of Administration's InterTechnologies Group to develop a disaster recovery plan. However, the two departments were only in the initial planning stage at the conclusion of our audit.

Recommendation

- *The Department of Economic Security should continue its development of a comprehensive disaster recovery plan.*

This page intentionally left blank.

Status of Prior Audit Issues

As of January 23, 1998

Most Recent Audit

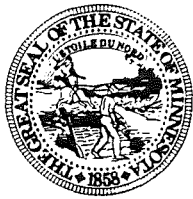
April 1997 Legislative Audit Report 97-17 covered the fiscal year ending June 30, 1996. The audit scope included those activities material to the state of Minnesota's Comprehensive Annual Financial Report and to the requirements of the Single Audit Act relating to federal financial assistance. The audit also included a review of the department's computing environment.

The audit cited seven audit findings. Two of these findings were prior audit issues from the fiscal year 1995 report. The department implemented both findings. A third issue had not been resolved and was restated as Finding 1 in this report. The remaining four issues dealt with the computing environment. The department resolved two findings; however, the remaining issues dealt with security administration and disaster recovery which we found necessary to repeat in our current report.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University and quasi-state organizations, such as the metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

This page intentionally left blank.



Office of the Commissioner

Minnesota Department of Economic Security

390 North Robert Street • St. Paul, Minnesota 55101
(612) 296-3711 • TTY (612) 282-5909 • FAX (612) 296-0994
Home Page Address: www.des.state.mn.us

March 13, 1998

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 report for the fiscal year ended June 30, 1997.

Finding 1

- **The Department of Economic Security's Workforce Preparation Branch used an unacceptable method to allocate certain employees' payroll hours to programs.**

We agree. We revised the methodology used in 1996, to provide an improved allocation process. The change did not include acceptable documentation. After consultation with the auditors, we implemented a revised methodology in February 1998 which complies with OMB Circular A-87.

Responsible Individual: Kathy Sweeney

Finding 2

- **The department did not have effective ACF2 security administration procedures.**

We agree. We will review the procedures and develop a plan to adequately document data files and computer resource managers, security group functionality, security clearance cloning, security rules and internal security programs to properly control access.

Responsible Individual: Al St. Martin



James Nobles
Page Two
March 13, 1998

Finding 3

- **Internal controls over restricted login ID records need improvement**

We agree. We plan to investigate and implement program pathing to improve control over restricted logon ID records.

Responsible Individual: Al St. Martin

Finding 4

- **The Department did not perform timely maintenance of its ACF2 security databases.**

We agree. The inactive logon ID's job will be run and the inactive IDs purged. Also, a review of the dormant rules will be conducted to determine which ones should be purged.

Responsible Individual: Al St. Martin

Finding 5

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

We agree. We will continue the development of a comprehensive disaster recovery plan.

Responsible Individual: Al St. Martin

Sincerely,

A handwritten signature in cursive script that reads "Jane Brown".

R. Jane Brown
Commissioner

RJB:plb