
Department of Economic Security

**Statewide Audit – Selected Audit Areas
Fiscal Year Ended June 30, 1998**

March 1999

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

99-21

SUMMARY

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Department of Economic Security

Statewide Audit - Selected Audit Areas

For the Year Ended June 30, 1998

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Background Information

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 integrated employment and training system for all Minnesotans. Some of the programs administered by the department include: Reemployment Insurance, Rehabilitation Services, Social Security Disability Insurance, Senior Community Services Employment Program, Employment Services Programs, and the Job Training Partnership Act. Mr. Earl Wilson was appointed commissioner of the Department of Economic Security in February 1999, replacing Ms. R. Jane Brown, who served as the commissioner during the period under audit.

Selected Audit Areas and Conclusions

Our audit scope was limited to those activities material to the State of Minnesota’s general purpose financial statements for the year ended June 30, 1998. Our primary audit objective was to render an opinion on the State of Minnesota’s financial statements. Our scope within the Department of Economic Security included cash, taxes, investment income, and grants for the Reemployment Insurance Fund.

We qualified our report, dated December 1, 1998, on the State of Minnesota’s general purpose financial statements because insufficient audit evidence exists to support the State of Minnesota’s disclosures with respect to the year 2000. Auditing the state’s year 2000 compliance efforts was not an objective of this audit. As a result, we do not provide assurance that the Department of Economic Security is or will be year 2000 ready, that its year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Department of Economic Security does business will be year 2000 ready.

For the areas audited, the Department of Economic Security’s financial activities were fairly presented in the State of Minnesota’s general purpose financial statements for the year ended June 30, 1998. For the federal programs tested, the department complied, in all material respects, with the compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1998. However, the department did not obtain certifications regarding suspended and debarred parties for some subrecipients. In addition, the department has inadequate security access controls over data and computer resources on the department’s mainframe computer.

The department agreed with the audit report’s findings and recommendations. They will continue their efforts to resolve the issues raised.

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
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Susan Rumpca, CPA	Auditor-in-Charge
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Carl Otto, CPA, CISA	Auditor
Laura Peterson, CPA	Auditor
Patrick Phillips, CPA	Auditor

Exit Conference

The findings and recommendations in this report were discussed with the following officials of the Department of Economic Security at an exit conference held on March 3, 1999:

Al St. Martin	Deputy Commissioner
Jim Korkki	Acting Assistant Commissioner, Workforce Preparation Branch
Kathy Nelson	Acting Assistant Commissioner, Workforce Center System Branch
Harlan Hanson	Chief Information Officer
John Stavros	Chief Financial Officer
Mark Butala	Director of Internal Security
Tim Langlie	Accounting Director, Fiscal Services
Frank Schneider	Program Support Director, Workforce Preparation Branch
Howard Glad	Quality Resources and Planning Director



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

Representative Dan McElroy, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Earl Wilson, Commissioner
Department of Economic Security

We have performed certain audit procedures at the Department of Economic Security as part of our audit of the financial statements of the State of Minnesota as of and for the year ended June 30, 1998. We also have audited certain federal financial assistance programs administered by the Department of Economic Security as part of our audit of the state's compliance with the requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1998. We emphasize that this has not been a comprehensive audit of the Department of Economic Security.

Table 1-1 identifies the financial activities within the Department of Economic Security that were material to the state's financial statements. We performed certain audit procedures on these Department of Economic Security programs as part of our objective to obtain reasonable assurance about whether the State of Minnesota's financial statements for the year ended June 30, 1998, were free of material misstatement.

Table 1-1
Department of Economic Security
Programs Material to the State's Financial Statements
Fiscal Year 1998
(in thousands)

	<u>Amount</u>
Reemployment Insurance Cash	\$566,598
<u>Revenue Areas</u>	
Reemployment Insurance Taxes	\$382,829
Reemployment Insurance Investment Income	\$36,517
<u>Expenditure Areas</u>	
Reemployment Insurance Grants	\$354,839

Source: State of Minnesota Comprehensive Annual Financial Report for fiscal year 1998.

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Table 1-2 identifies the State of Minnesota's major federal programs administered by the Department of Economic Security. We performed certain audit procedures on these Department of Economic Security programs as part of our objective to obtain reasonable assurance about whether the State of Minnesota complied with the types of compliance requirements that are applicable to each of its major federal programs.

Table 1-2
Department of Economic Security
Major Federal Programs Administered by the Department of Economic Security
Fiscal Year 1998
(in thousands)

<u>CFDA #</u>	<u>Program Name</u>	<u>Federal</u>	<u>State</u>	<u>Total</u>
17.225	Unemployment (Reemployment) Insurance (1)	\$390,011	\$ 0	\$390,011
84.126	Rehabilitation Services Basic Support	49,429	10,010	59,439
96.001	Social Security-Disability Insurance	17,131	0	17,131
17.235	Senior Community Service Employment	1,733	336	2,069
	Employment Service Cluster:			
17.207	Employment Service	\$16,622	\$ 0	\$16,622
17.801	Disabled Veterans' Outreach Program	1,422	0	1,422
17.804	Local Veterans' Employment	1,751	0	1,751
	Total Employment Service Cluster	<u>\$19,795</u>	<u>\$ 0</u>	<u>\$19,795</u>
	Job Training Partnership Act Cluster:			
17.250	Job Training Partnership Act (JTPA Title II)	\$17,735	\$ 0	\$17,735
17.246	Employment and Training Assistance – Dislocated Workers (JTPA Title III)	8,454	0	8,454
	Total Job Training Partnership Act Cluster	<u>\$26,189</u>	<u>\$ 0</u>	<u>\$26,189</u>

Note: (1) Expenditures include \$349,923 of state reemployment insurance grants, \$3,988 in federal reemployment insurance grants, and \$36,100 of federal administrative reimbursements.

Source: State Employment Security Agency System (SESA) Cost Accounting System for fiscal year 1998.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Conclusions

We qualified our report dated December 1, 1998, on the State of Minnesota's general purpose financial statements because of uncertainties about the potentially adverse effect the year 2000 computer issue may have on state operations. Information technology experts believe that many computer applications in private businesses and government may fail as a result of data integrity problems and erroneous calculations beyond December 31, 1999. The state is currently addressing year 2000 issues related to its computer systems and other electronic equipment. During fiscal year 1996, the state established the Minnesota Year 2000 Project Office to develop and monitor the overall statewide effort for executive branch agencies. The project office is tracking over 1,300 mission-critical applications owned by state agencies. As of September

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1998, the project office believed that 75 percent of the applications were compliant or had completed the necessary modifications. However, because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter.

Auditing the state's year 2000 compliance efforts was not an objective of this audit. As a result, we do not provide assurance that the Department of Economic Security is or will be year 2000 ready, that its year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Department of Economic Security does business will be year 2000 ready.

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 1, 1998, on our consideration of the State of Minnesota's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. At a later date, we will issue our report on compliance with requirements applicable to each major federal program and internal control over compliance in accordance with OMB *Circular A-133*.

For the areas audited, the Department of Economic Security's financial activities were fairly presented in the general purpose financial statements of the State of Minnesota's Comprehensive Annual Financial Report for the year ended June 30, 1998. For the federal programs tested, the department complied, in all material respects, with the compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1998. However, as a result of our procedures, we identified the following instances of noncompliance with finance-related legal provisions or program requirements and the following weaknesses in internal control at the Department of Economic Security:

1. The Department of Economic Security did not obtain required federal certifications regarding suspended and debarred parties from certain subrecipients.

The Department of Economic Security did not obtain certifications regarding suspended and debarred parties from subrecipients of Rehabilitation Services (CFDA #84.126) grants. Approximately \$1.6 million was disbursed to subrecipients during fiscal year 1998. Federal regulations prohibit the state from making grant awards to parties that are suspended or debarred or whose principals are suspended or debarred. States are required to obtain certifications from all subrecipients acknowledging that the organization and its principals are not suspended or debarred. We were unable to find these certifications on file at the department.

Recommendation

- *The Department of Economic Security should ensure that it does not disburse federal funds to subrecipients that are suspended or debarred by the federal government.*

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The Computing Environment

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. Controlling access to computer resources, sensitive data, and financial resources is difficult in this complex computing environment. 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. 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.

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 also 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.

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.

During prior audits, we performed in-depth testing of the department's controls over access to its information systems and resources. From those audits, we concluded that the department's critical business data and financial resources were vulnerable to unauthorized access. Those conclusions were based primarily on the fact that the department had inadequate security administration procedures, poor security documentation, and a lack of understanding of the department's underlying security infrastructure. During the current audit, we focused on the progress the department was making towards implementing prior audit recommendations.

We concluded that the department has made some progress to reduce its risk exposures. However, as discussed below, these prior audit concerns regarding the department's computerized systems were not fully resolved.

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

The department has not identified specific employees to serve as owners or security liaisons for all mainframe data and computer resources. Data owners, or their designated liaisons, are typically managers or supervisors who must approve access requests or programming modifications for specific computer systems. It is very important to formally document the

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owner or security liaisons for every data file and computer resource. The department currently has thousands of data files and computer resources that are secured by ACF2. Without knowing who is responsible for making access decisions, security administrators have difficulty challenging the appropriateness of specific access requests and may grant access to an inappropriate user. During fiscal year 1998, the department began a process to identify and establish data owners. However, it has not completed this process for all data and resources.

The department also has not fully developed and documented a sufficient understanding of its ACF2 security groups. For example, the department lacked documentation for security groups of the Reemployment Insurance Revenue System. 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. The department recently began trying to identify resources that various security groups can access, and comparing those with business functions to determine the appropriate level of security; however, this process has not been completed. Therefore, to give a new user mainframe access, the department still relies on cloning the security clearance of an existing user. We feel that this practice is extremely risky, particularly when the department does 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 has not fully developed and documented a sufficient understanding of 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. The department's security administrator and the lead system developer cannot 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. During our current audit, the department informed us that it was working to develop the necessary understanding.

Recommendations

- *The Department of Economic Security 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.*

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3. PRIOR AUDIT FINDING NOT RESOLVED: Internal controls over privileged logonID records need improvement.

The department is not properly controlling its logonID records with the “Restrict” privilege. A logonID with the “Restrict” privilege is a special type of ACF2 logonID record that requires no password. ACF2 will not allow a person to use a logonID with the “Restrict” privilege to sign on to the mainframe computer. However, those restricted logonIDs can be used to run one or more computer programs, collectively referred to as a job.

The developers of the ACF2 security package recognized the vulnerability with these types of logonIDs. As such, they developed mitigating controls. 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 from a specific pre-approved computer program that resides in a predefined and secure library. Program pathing can be designated in ACF2 rules as well as in logonID records. The Department of Economic Security does not use either method of program pathing to control its restricted logonID records.

The department currently uses a software package called Control-M to process its jobs. However, the department did not limit the use of restricted logonID records to the Control-M package. Therefore, users have the ability to use the restricted logonID records to run jobs outside of a controlled environment. The department has over 3,000 logonID records with the “Restrict” privilege that potentially could be used inappropriately by over 150 users with the capability of running a job program. By implementing program pathing, the department would significantly reduce the risks of someone using the powerful logonID inappropriately.

Recommendation

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

4. 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 does 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 initially responded to this issue with a projected completion date of October 1999. However, the department has only completed an initial planning stage to identify key business functions. As such, it would appear that the department will not be able to complete its planning, perform testing, and implement a successful business recovery plan by the proposed completion date.

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Recommendation

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

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 18, 1999.

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen
Deputy Legislative Auditor

End of Fieldwork: January 29, 1999

Report Signed On: March 11, 1999

Status of Prior Audit Issues As of January 29, 1999

March 1998, Legislative Audit Report 98-19 examined the department's activities and programs material to the State of Minnesota's Comprehensive Annual Financial Report and the Single Audit for the year ended June 30, 1997. The scope included material selected activities for the Reemployment Insurance Fund and the following federal programs: Low Income Energy Assistance, Rehabilitation Services Basic Support, Unemployment Insurance Administration, Job Training Partnership Act Title II, Employment Services Administration, and Weatherization Assistance.

The report contained five findings. The department resolved Findings 1 and 4 pertaining to an unacceptable method to allocate certain employees' payroll hours to programs and the timely maintenance of its ACF2 security databases. However, the department has not resolved Findings 2, 3, and 5 dealing with the computing environment. These findings are restated as Findings 2, 3, and 4 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 of Minnesota, any quasi-state organizations, such as the metropolitan agencies, or the State Agricultural Society, the state constitutional officers, or the judicial branch.

**Office of the
Commissioner**



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March 9, 1999

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

Dear Mr. Nobles:

The following information is offered in response to your draft report for the fiscal year ended June 30, 1998.

Finding 1

- **The Department of Economic Security did not obtain required federal certification regarding suspended and deferred parties from certain subrecipients (Rehabilitation Services CFDA #84.126).**

We agree. We will immediately ensure that our suspended or debarred certification procedures are followed to include all subrecipients of federal funds.

Responsible Individual: Mick Coleman

Finding 2

- **Prior audit finding not resolved: The Department does not have effective ACF2 security administration procedures.**

We agree. The mainframe access requestors must complete a security administration form specifying the business reasons for access and obtain their supervisor's and the data owner's approval. The Reemployment Insurance Program data owner has delegated authority to approve requests to its managers and supervisors. We feel that this delegation represents the data owner's approval. All data owners for every data file and computer resource should be identified by December 31, 1999.

In the past year, the department has established security groups for many of its business units. The practice of security clearance cloning will be ended. All managers and supervisors will have a current security profile from which to request access for users by December 31, 1999.

The documentation of how ACF2 security rules interact with internally developed security controls will be completed by June 30, 2000.

Responsible Individual: Mark Butala

Finding 3

- **Prior audit finding not resolved: Internal controls over privileged Logon ID records need improvement.**

We agree. The Department has begun implementing the following security controls to reduce the vulnerability created by its use of restricted logon ID records.

Phase 1: Effective February 17, 1999, the Data Security staff have begun adding SUBAUTH and PGM(CTMSUB) fields to the logon ID records for production jobs submitted through Control M.

For jobs not submitted by Control M, security staff will update these logon ID records to allow only specific programs to submit those jobs. Adding these additional controls to all production jobs will be completed by June 30, 1999. These same controls will immediately be included in all new production jobs.

Phase 2: All unused restricted logon ID's will be deleted. All dormant restricted logon ID's will be removed by September 30, 1999.

Phase 3: Agency security staff will review, and wherever possible, consolidate more than 1,300 multiple restricted logon ID's so that related programs will use a single restricted logon ID. This review and consolidation will be completed prior to December 31, 2000.

Responsible Individual: Mark Butala

James Nobles
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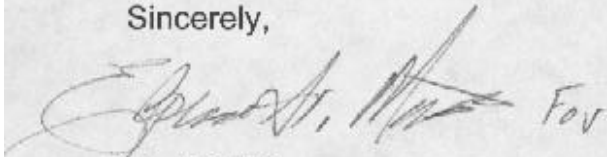
Finding 4

- **Prior audit finding not resolved: The Department of Economic Security may have difficulty recovering its critical business functions in a crisis situation.**

We agree. We will have developed a comprehensive disaster recovery plan before December 31, 1999.

Responsible Individual: Mark Butala

Sincerely,

A handwritten signature in dark ink, appearing to read "Earl R. Wilson", followed by the word "For" written in a cursive script.

Earl R. Wilson
Commissioner