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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

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– Article IV, Section 53 of the Michigan Constitution

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September 8, 2010

Mr. Kenneth D. Theis, Director
Department of Technology, Management & Budget
Lewis Cass Building
Lansing, Michigan

Dear Mr. Theis:

This is our report on our follow-up of the 1 material condition (Finding 1) and 1 corresponding recommendation reported in the performance audit of Computer Equipment Surplus and Salvage, Department of Information Technology (DIT) and Department of Management and Budget (DMB). That audit report was issued and distributed in November 2004. Additional copies are available on request or at <<http://www.audgen.michigan.gov>>. In March 2010, Executive Order No. 2009-55 renamed DMB as the Department of Technology, Management & Budget (DTMB). It also transferred all of the authority, powers, duties, functions, responsibilities, records, personnel, property, equipment, and appropriations of DIT to DTMB and abolished DIT.

Our follow-up disclosed that DTMB had partially complied with the 1 recommendation. DTMB had completed some corrective action, but a reportable condition still exists.

If you have any questions, please call me or Scott M. Strong, C.P.A., C.I.A., Deputy Auditor General.

AUDITOR GENERAL

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**COMPUTER EQUIPMENT SURPLUS AND SALVAGE
DEPARTMENT OF TECHNOLOGY,
MANAGEMENT & BUDGET
FOLLOW-UP REPORT**

INTRODUCTION

This report contains the results of our follow-up of the material condition and corresponding recommendation and the agency's preliminary response as reported in our performance audit of Computer Equipment Surplus and Salvage, Department of Information Technology (DIT) and Department of Management and Budget (DMB) (50-515-04), which was issued and distributed in November 2004. That audit report included 1 material condition (Finding 1) and 1 other reportable condition (Finding 2).

PURPOSE OF FOLLOW-UP

The purpose of this follow-up was to determine whether the Department of Technology, Management & Budget (DTMB) has taken appropriate corrective measures in response to the 1 material condition and 1 corresponding recommendation.

BACKGROUND

Network computer equipment and desktop computer equipment are used by State employees to process and store data for State of Michigan operations. Network and desktop computer equipment that is no longer needed is disposed of through the surplus and salvage process.

At the time of the original audit in 2004, DIT processed the disposal of computer equipment for executive branch departments. The computer equipment that was disposed of was either reused by another executive branch department or sold at a State surplus auction. DMB managed the State Surplus Property Program.

In March 2010, Executive Order No. 2009-55 renamed DMB as DTMB. It also transferred all of the authority, powers, duties, functions, responsibilities, records, personnel, property, equipment, and appropriations of DIT to DTMB and abolished DIT.

DTMB now processes the disposal of computer equipment for executive branch departments. The computer equipment that is disposed of is either reused by an executive branch department or sold to a vendor that specializes in providing computer surplus services. For the equipment that is sold, the vendor is contractually responsible for properly destroying data on the equipment and for disposing of the equipment through destruction or resale. The vendor is required to comply with the State's security policies for information technology equipment and resources when processing the surplus equipment.

SCOPE

Our fieldwork was performed between February and April 2010. We interviewed employees from DTMB to determine the status of compliance with the audit recommendation. We reviewed policies, procedures, and the contract related to the surplus and salvage process. We visited DTMB's and the vendor's storage sites to observe the safekeeping and processing of computer equipment. We also reviewed two surplus hard drives to determine whether all confidential data was properly destroyed before they were sold by the vendor.

FOLLOW-UP RESULTS

EFFECTIVENESS OF CONTROLS IN PREVENTING UNAUTHORIZED DISCLOSURE OF DATA ON SURPLUS AND SALVAGE COMPUTER EQUIPMENT

RECOMMENDATION AND RESPONSE AS REPORTED IN NOVEMBER 2004:

1. Surplus and Salvage Computer Equipment

RECOMMENDATION

We recommend that DIT establish effective controls to ensure the removal or destruction of confidential and sensitive State data on surplus and salvage computer equipment.

AGENCY PRELIMINARY RESPONSE

DIT agreed with the finding for the time period covered by the audit and will continue its efforts to establish effective controls to ensure the removal or destruction of confidential and sensitive State data on surplus and salvage computer equipment. During the audit, DIT tested, purchased, and implemented software, which was approved by the U.S. Department of Defense and the DIT Office of Enterprise Security, to clean and sanitize hard drives. DIT informed us that senior DIT management held awareness training across the State to ensure that DIT employees are aware of and follow the latest salvage procedures.

FOLLOW-UP CONCLUSION

We concluded that DTMB had not fully addressed 1 of the 5 conditions cited in this finding and, therefore, had only partially complied with the recommendation to establish effective controls to ensure the removal or destruction of data on surplus and salvage computer equipment. A reportable condition still exists. Specifically, our follow-up disclosed:

- a. DTMB communicated procedures and provided guidance and training for the disposal of computer equipment with confidential and sensitive data.
- b. DTMB did not document how it ensured that overwriting data on hard drives sufficiently destroyed the data before the hard drives were sold at auction. In

2006, DTMB began selling its surplus computers to a vendor that specializes in computer surplus services. The vendor was contractually responsible for overwriting data on the hard drives and disposing of the equipment. DTMB informed us that it reviewed the vendor's process and also reviewed a sample of hard drives quarterly to ensure that the vendor was sufficiently destroying the data before it was resold. However, DTMB could not provide documentation to show that it performed the reviews and that the results were satisfactory.

DTMB contracted with a vendor and monitored to ensure the timely destruction of surplus desktop hard drives. The contract required that the vendor pick up the equipment in a timely manner (within 72 hours from notification) and provide a settlement report within 30 business days certifying that the hard drives were destroyed or that the data was properly removed. Failure by the vendor to comply with the terms of the contract may result in termination of the contract and the vendor being held liable for damages to the State. During our observation of the State's and the vendor's warehouses, the inventory of surplus hard drives did not appear excessive.

- c. DTMB developed guidance for executive branch departments for the disposal of equipment, including hard drives, containing confidential data. In October 2005, DTMB issued a memorandum to agencies stating that all computer equipment that will be disposed of or redeployed to another State agency must be sent to DTMB first. Executive branch departments follow this process because they are charged for the maintenance of the equipment until it is returned to DTMB. When DTMB receives the equipment, access to the equipment is limited and the process for moving the equipment is very well-defined to ensure that access to confidential data is restricted. Therefore, DTMB controls the disposal of the equipment instead of allowing other executive branch departments to do so.
- d. DTMB defined responsibilities for the disposal of equipment by communicating the surplus and salvage procedures and the effective date of those procedures to executive branch departments.

