# Office of the Auditor General
## Performance Audit Report

# Michigan Integrated
# Data Automated System (MiDAS)

Unemployment Insurance Agency, Department of Talent and Economic Development and Department of Technology, Management, and Budget

February 2016

State of Michigan Auditor General
Doug A. Ringler, CPA, CIA

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

*Article IV, Section 53 of the Michigan Constitution*

# OAG
## Office of the Auditor General

# Report Summary

*Performance Audit*

*Michigan Integrated Data Automated System (MiDAS)*

*Unemployment Insurance Agency (UIA), Department of Talent and Economic Development and Department of Technology, Management, and Budget (DTMB)*

**Report Number:**
641-0593-15

**Released:**
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MiDAS is an automated information system used by UIA to collect unemployment taxes from employers and to pay unemployment insurance benefits to eligible claimants. DTMB contracted for the design, configuration, and implementation of MiDAS to replace a 30-year-old mainframe system. MiDAS was fully implemented in October 2013. The goals of MiDAS included improved customer service, increased data accuracy, improved data security and privacy, reduced operating costs, increased automation, and improved integration of UIA functions. In fiscal year 2014, UIA paid $1 billion in unemployment insurance benefits for 611,503 claims.

| Audit Objective | Conclusion |
|---|---|
| Objective #1: To assess the effectiveness of UIA and DTMB's security and access controls over MiDAS. | Moderately effective |

| Findings Related to This Audit Objective | Material Condition | Reportable Condition | Agency Preliminary Response |
|---|---|---|---|
| UIA had not fully implemented a comprehensive security management program to ensure the security of MiDAS (Finding #1). | X | | Agrees |
| DTMB did not fully establish effective security and access controls over the operating systems on MiDAS servers, increasing the risk of loss of or unauthorized access to confidential data (Finding #2). | X | | Agrees |
| UIA did not implement effective MiDAS application access controls to ensure the security of unemployment data (Finding #3). | | X | Agrees |
| UIA and DTMB did not maintain effective security and access controls over the MiDAS database to help prevent or detect inappropriate access to claimant data and to ensure the integrity of benefit payments (Finding #4). | | X | Agrees |

| Audit Objective | | | Conclusion |
|---|---|---|---|
| Objective #2: To observe and evaluate the sufficiency of selected unemployment claim processing controls in MiDAS. | | | Sufficient with exceptions |
| **Findings Related to This Audit Objective** | **Material Condition** | **Reportable Condition** | **Agency Preliminary Response** |
| UIA did not implement automated controls within MiDAS to detect claimants who had not submitted evidence of their work search efforts.  As a result, UIA did not have a method to identify payments to claimants who were not actively seeking work in accordance with State law (Finding #5). | | X | Agrees |
| UIA and DTMB did not fully analyze and review MiDAS data to help identify unemployment insurance benefit payments needing further review (Finding #6). | | X | Agrees |
| UIA had not fully implemented processing controls within MiDAS to help ensure appeals process efficiency (Finding #7). | | X | Agrees |
| UIA did not fully review and implement methods to further automate MiDAS claim processing to reduce significant UIA staff time spent manually entering data (Finding #8). | | X | Agrees |

February 5, 2016

Ms. Sharon A. Moffett-Massey, Director
Unemployment Insurance Agency
Cadillac Place
Detroit, Michigan
and
Ms. Stephanie Comai, Director
Talent Investment Agency
201 North Washington Square
Lansing, Michigan
and
Mr. Steven Arwood, Director
Department of Talent and Economic Development
300 North Washington Square
Lansing, Michigan
and
Mr. David B. Behen
Director, Department of Technology, Management, and Budget
Chief Information Officer, State of Michigan
Lewis Cass Building
Lansing, Michigan

Dear Ms. Moffett-Massey, Ms. Comai, Mr. Arwood, and Mr. Behen:

I am pleased to provide this performance audit report on the Michigan Integrated Data Automated System (MiDAS), Unemployment Insurance Agency, Department of Talent and Economic Development and Department of Technology, Management, and Budget.

We organize our findings and observations by audit objective. Your agency provided preliminary responses to the recommendations at the end of our fieldwork. The *Michigan Compiled Laws* and administrative procedures require an audited agency to develop a plan to comply with the recommendations and submit it within 60 days of the date above to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

*Doug Ringler*

Doug Ringler
Auditor General

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## MICHIGAN INTEGRATED DATA AUTOMATED SYSTEM (MiDAS)

# AUDIT OBJECTIVES, CONCLUSIONS, FINDINGS, AND OBSERVATIONS

# EFFECTIVENESS OF SECURITY AND ACCESS CONTROLS

**BACKGROUND**

Security* and access controls* limit or detect inappropriate access, which is important to ensure the availability*, confidentiality*, and integrity* of data.

Security and access controls are primarily enforced at three distinct levels:  the operating system*, the database*, and the application.

The Federal Information System Controls Audit Manual* (FISCAM) is a methodology for performing information system control audits published by the U.S. Government Accountability Office (GAO).

Control Objectives for Information and Related Technology* (COBIT) is a framework adopted by the Department of Technology, Management, and Budget (DTMB) as a best practice for information technology management and governance.

**AUDIT OBJECTIVE**

To assess the effectiveness* of the Unemployment Insurance Agency (UIA) and DTMB's security and access controls over the Michigan Integrated Data Automated System (MiDAS).

**CONCLUSION**

Moderately effective.

**FACTORS IMPACTING CONCLUSION**

- UIA and DTMB implemented significant security and access controls within MiDAS, such as defined processes for requesting and approving user access, audit logs of user activity, and the capture of user activity via video files.

- The MiDAS database was generally configured securely and access was appropriately restricted to a limited number of users.

- UIA and DTMB informed us that they had not detected any security breaches of MiDAS data.

- Two material conditions* related to an enhanced security management program (Finding #1) and improved operating system security and access controls (Finding #2).

- Two reportable conditions* related to better control over access to the MiDAS application (Finding #3) and improved security for the MiDAS database (Finding #4).

*See glossary at end of report for definition.*

## FINDING #1

**MiDAS security management program needs to be enhanced.**

UIA had not fully implemented a comprehensive security management program to ensure the security of MiDAS.

FISCAM states that a security management program should be implemented to provide security for the information and information systems that support the operations of the agency.

Our review of the MiDAS security management program disclosed:

Inadequate assignment of responsibilities existed.

a. Inadequate assignment of information security responsibilities.

A properly designed security management program should clearly define the duties of those responsible for overseeing security. These duties were not definitively assigned in MiDAS.

Incomplete security plan and risk assessment was in place.

b. Incomplete information security plan and risk assessment (DTMB-0170*) for MiDAS.

A completed security plan and risk assessment is important to ensure that security vulnerabilities* and threats* that expose UIA data to security breaches are identified and addressed. Sections of the DTMB-0170 that were not fully completed included:

- Information type and security categorization (low, moderate, or high).

- Security impact levels.

- Applicable regulatory compliance.

- Information system network environment.

- Information system hardware.

- Information system software.

c. The need for periodic security training specific to MiDAS data for UIA's employees and its partners.

Section 421.11 of the *Michigan Compiled Laws* states that data in MiDAS, such as names, social security numbers, and wages, is confidential and shall not be disclosed or open to public inspection. Periodic security training would help improve security awareness and decrease the likelihood of inappropriate disclosure. At the time of our review, UIA had drafted a governance policy for security awareness responsibilities but had not communicated the policy to MiDAS users.

*\* See glossary at end of report for definition.*

**RECOMMENDATION**

We recommend that UIA fully implement a comprehensive MiDAS security management program.

**AGENCY PRELIMINARY RESPONSE**

UIA provided us with the following response:

a. *UIA acknowledges the need for definitive management responsibility assignment as a facet of a security plan. Further, UIA has defined management roles and created a security review role and a Data Security Office.*

b. *UIA agrees that the DTMB-0170 should be completed and will work with its partner, DTMB, to ensure it is done.*

c. *UIA acknowledges the concern and confirms that the implementation of a systematic training process has been completed. All employees have attended a training session on UIA data governance and UIA has committed to this as an annual process.*

## FINDING #2

**Improvements are needed to operating system security and access controls.**

DTMB did not fully establish effective security and access controls over the operating systems on MiDAS servers, increasing the risk of loss of or unauthorized access to confidential data.

A well-secured operating system helps provide a stable environment for MiDAS. DTMB Administrative Guide policy 1340.00 requires the secure establishment, maintenance, and administration of servers, including operating system software and the data residing on the servers. In addition, COBIT states that the agency should ensure that servers are secured according to the defined security requirements of the information processed, stored, or transmitted.

Our review of operating system security and access controls for 10 of 96 MiDAS servers disclosed:

Operating systems should be configured to industry standards.

a. The lack of a routine process to review operating system configuration* settings to ensure compliance with industry standards.

Upon our request, DTMB generated an automated report of operating system configuration settings which identified settings that deviated from industry standards. DTMB had not fully reviewed and documented the rationale for the deviations to determine if they were appropriate. Operating system security settings should be properly configured to decrease the likelihood and scope of a system attack and protect against inappropriate access to MiDAS data.

b. An ineffective process for applying security patches to the MiDAS server operating systems.

All 10 of the MiDAS servers sampled were missing required security patches.

Administrator access should be further restricted.

c. Inappropriate administrator access to MiDAS server operating systems.

Twenty-six users with administrator access to the MiDAS operating systems did not require the access to perform their daily job duties.

d. Ineffective monitoring of users with administrator access to MiDAS server operating systems.

During our audit period, DTMB did not monitor administrator activity for the MiDAS server operating systems.

*See glossary at end of report for definition.*

**RECOMMENDATION**

We recommend that DTMB fully establish effective security and access controls over the operating systems on MiDAS servers.

**AGENCY PRELIMINARY RESPONSE**

UIA and DTMB provided us with the following response:

*UIA and DTMB agree with the facts as presented and the recommendation. DTMB has initiated a project and purchased the necessary automation tools to assist in rapidly deploying, maintaining, and auditing operating system security and access controls. The automated configuration management tools will assist in preventing changes from the required minimal service configurations and deviations from the approved operating system configuration settings. The tools will also assist in deploying operating system patches and providing reports to help determine what patches are missing. In addition, DTMB is creating an operations compliance report which will be run weekly to monitor administrator access. Updated procedures will include requiring the server team managers and server administrators to review monitoring reports periodically. The MiDAS servers have not been subject to a breach or loss of data since implementation.*

**FINDING #3**

**Access to the MiDAS application should be better controlled.**

UIA did not implement effective MiDAS application access controls to ensure the security of unemployment data.

DTMB policy requires the establishment of a process to control and document the assignment of application access rights based on current job responsibilities. The policy also requires access to be managed, controlled, and periodically reviewed to ensure that user access is based on the principle of least privilege*.

Our review of selected application access controls disclosed:

a. Ineffective user account management.

**33 of the 1,245 user accounts belonged to former employees.**

We noted that 33 of the 1,245 MiDAS user accounts belonged to users who were no longer employed by the State, with 4 of the accounts being used in MiDAS after the employee departed. We also noted that 283 of the 1,245 user accounts had not been used in over 120 days but had not been disabled. To prevent misuse, UIA should disable user accounts on a timely basis.

b. The assignment of user access rights without a valid business purpose.

**17 users with excessive access rights.**

We judgmentally selected 26 users to review the appropriateness of their access rights, which included the ability to approve invoices, benefit payments, and tax payments. We noted 7 users who should not have had some or all of these access rights based on their job duties and position in UIA. We also noted 10 other users who should have had read-only access rights that had the ability to edit the Web profiles of claimants. UIA should limit access rights to those necessary for users to perform their day-to-day tasks to reduce the potential of inappropriate use of MiDAS.

c. The lack of a process for periodically reviewing user access rights.

UIA had not performed a comprehensive review of user access rights since MiDAS was implemented in 2013. Periodic reviews help ensure that privileges granted to each user are still appropriate for the user's job responsibilities.

d. The lack of a process to routinely monitor the appropriateness of user activity.

*See glossary at end of report for definition.*

Examples of user activity that should be monitored include security personnel granting access to users and privileged users who can circumvent claim processing controls by having access to both wage and benefit data. Without routine monitoring, inappropriate user activity may go undetected. In addition, user awareness that monitoring occurs can be a deterrent for inappropriate activity.

**RECOMMENDATION**

We recommend that UIA implement effective MiDAS application access controls.

**AGENCY PRELIMINARY RESPONSE**

UIA provided us with the following response:

a. *UIA acknowledges the incidence of the 33 departed employees still active, but those exceptions have been corrected. Further, UIA has implemented strict controls to continually find and disable inactive accounts using the 120-day rule.*

b. *UIA acknowledges the finding and has addressed the identified user profiles. The review of user access is a part of the Security Review Plan that is in development with the new data security role.*

c. *UIA acknowledges the finding; the periodic review of access will be a part of the Security Review Plan that is in development.*

d. *UIA acknowledges that access to MiDAS should be tracked, recorded, and reviewed. While user activities are tracked and recorded, the review process is under development.*

## FINDING #4

**Security improvements are needed to the MiDAS database containing confidential claimant information.**

UIA and DTMB did not maintain effective security and access controls over the MiDAS database to help prevent or detect inappropriate access to claimant data and to ensure the integrity of benefit payments.

According to DTMB Technical Standard 1340.00.15, database administrators are required to implement security controls in order to prevent data loss and unauthorized access. Implementation of these controls will provide best practices toward data confidentiality, integrity, and risk management.

The MiDAS database stores confidential information, such as claimants' names, wages, and social security numbers; therefore, it is important to properly secure the database to reduce the risk that data could be disclosed inappropriately. Our review of selected MiDAS database security and access controls disclosed:

a. A lack of communication between DTMB and the contractor who manages the MiDAS database when DTMB updates its security policies.

   As a result, the contractor was unaware of and did not implement all DTMB policies regarding database security and access.

b. No routine monitoring of database administrator* (DBA) activity.

   DBAs can perform high-risk activities, such as changing the recipient or amount of a benefit payment. Although DBA access is necessary for the daily operation of MiDAS, it is important to routinely monitor access to ensure that all activity within the database is appropriate.

c. MiDAS database security configurations not in compliance with best practices.

   Because of the confidentiality of database configurations, we summarized our testing results for presentation in this portion of the finding and provided the detailed results to UIA and DTMB management.

d. A lack of periodic reviews to ensure that privileges granted to database users were appropriate for the users' job responsibilities.

## RECOMMENDATION

We recommend that UIA and DTMB maintain effective security and access controls over the MiDAS database.

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*\* See glossary at end of report for definition.*

**AGENCY
PRELIMINARY
RESPONSE**

UIA and DTMB provided us with the following response:

*UIA and DTMB agree with the facts as presented. Improvements to the security and access controls of the MiDAS database are a result of continuous improvement efforts. The MiDAS database has not been subject to a breach or loss of data since implementation. DTMB is working to fill the DBA position which supports the MiDAS environment. In addition, DTMB is establishing monthly reviews of security updates and access log reviews with the vendor and DTMB support staff.*

# SUFFICIENCY OF CLAIM PROCESSING CONTROLS

**BACKGROUND**

Claimants who lose their jobs through no fault of their own can file unemployment insurance claims with UIA either online or by telephone.  To be eligible for unemployment insurance benefits, the claimants must be unemployed, be able and available to work, be registered with a Michigan Works! Agency*, and have earned a minimum amount of wages during the past 18 months.

UIA processes the claims in MiDAS by performing verification of the claimants' wages and identity.  MiDAS then issues determinations to the claimants indicating whether they qualify for benefits, the amount of the weekly benefit, and the number of weeks that benefits can be received.  To continue to receive benefits, claimants must continue to meet eligibility criteria, apply for at least two jobs per week, and contact UIA biweekly to certify their claim.  Claimants may be eligible for up to $362 per week for a maximum of 20 weeks.  In fiscal year 2014, UIA paid over $1 billion in benefit payments to claimants.

**AUDIT OBJECTIVE**

To observe and evaluate the sufficiency of selected unemployment claim processing controls in MiDAS.

**CONCLUSION**

Sufficient with exceptions.

**FACTORS IMPACTING CONCLUSION**

• Implementation of important benefit processing controls, such as the verification of claimants' wages and social security numbers.

• Four reportable conditions related to automated controls to identify claimants who have not submitted evidence of work search efforts, additional analysis of MiDAS to identify payments needing further review, inefficiency of the MiDAS appeals process, and further automation of MiDAS claim processing (Findings #5 through #8).

*See glossary at end of report for definition.*

## FINDING #5

**Automated controls needed to identify claimants who have not submitted evidence of work searches.**

UIA did not implement automated controls within MiDAS to detect claimants who had not submitted evidence of their work search efforts. As a result, UIA did not have a method to identify payments to claimants who were not actively seeking work in accordance with State law.

Section 421.28 of the *Michigan Compiled Laws* requires most unemployed individuals claiming unemployment insurance benefits to be actively engaged in seeking work. After receiving benefits, claimants are required to submit the details of their work search within one month of payment using one of the following methods: using the Michigan Web Account Manager system (MiWAM), UIA's online reporting system; filing a written report with UIA by mail or facsimile; or appearing in person at a Michigan Works! Agency office.

UIA established limited manual controls in the form of random audits as required by the U.S. Department of Labor. Audit results routinely indicated a need for process improvement because claimants did not meet the work search documentation requirement. For example, the April 2015 audits indicated that 63% of the claimants audited had not submitted sufficient work search documentation for the benefit week. If a claimant was not selected for random audit, no other controls existed to ensure that work search documentation was submitted as required by law.

Although MiDAS was not designed with automated controls to verify if claimants have submitted evidence of their work search efforts, UIA should evaluate the feasibility of implementing automated controls to improve the rate of claimant compliance with work search requirements.

### RECOMMENDATION

We recommend that UIA implement automated controls within MiDAS to detect claimants who have not submitted evidence of their work search efforts.

### AGENCY PRELIMINARY RESPONSE

UIA provided us with the following response:

*UIA agrees with the recommendation.*

*UIA acknowledges that the opportunity exists for implementation of further controls above and beyond U.S. Department of Labor regulations. The analysis of cost-effective and plausible improvements to verifying work search efforts would be required.*

*However, with the multiplicity of channels for submitting work search documentation allowed by the Michigan Employment Security Act, the effectiveness of automated methods is limited.*

*State law also includes a provision relating to the audit of work search which provides as follows: "the work search conducted by the claimant is subject to random audit by the unemployment agency." Michigan Employment Security Act, Section 28(7). Because UIA engages in "random audits," it submits that it is in compliance with this State law provision.*

**FINDING #6**

**Additional data analysis will help detect payments needing further review.**

UIA and DTMB did not fully analyze and review MiDAS data to help identify unemployment insurance benefit payments needing further review.

COBIT states that analysis of transaction data, client information, and fraud patterns is an important part of detecting and preventing fraud. In addition, Section 421.6g of the *Michigan Compiled Laws* states that UIA is responsible for implementing automated systems for fraud control.

UIA has implemented several data matches to identify improper payments, including matches to identify deceased claimants and claimants using invalid social security numbers. However, our review of unemployment insurance benefit payments between October 2013 and March 2015 identified payments showing the potential for additional data analysis and review, such as:

  a. Payments to claimants reported as incarcerated.

**$65,000 paid to individuals in State prisons.**

  We noted instances in which approximately $65,000 was paid to claimants whose social security numbers matched individuals incarcerated in State prisons. Incarcerated claimants are not available for work and, therefore, are not eligible to collect unemployment insurance benefits. Our analysis did not consider individuals who were incarcerated in county jails as this data was not readily available for our review.

  b. Payments sent to the address of UIA employees.

**Payments sent to 62 UIA employees' addresses.**

  We noted unemployment insurance benefits paid to claimants with the same address as 62 UIA employees. Payments sent to the addresses of UIA employees are appropriate in many situations; however, UIA should identify and be aware of these payments to ensure their validity and verify that employees do not have access to these cases in MiDAS. UIA indicated that it previously attempted to obtain State employee data to match against UIA data but has been unsuccessful in executing an agreement with the Michigan Civil Service Commission.

  c. Concentrations of payments to the same residences or mailing addresses.

**Multiple payments to the same address.**

  Our analysis disclosed instances of payments to multiple individuals residing at the same address or addresses in close proximity and instances of many individuals using the same mailing address. Frequently, there are valid reasons for concentrations of payments; however, UIA should review these

payments to ensure their propriety. For example, we noted:

- Unemployment insurance benefit payments to 171 claimants in 100 residences within the same mobile home park.

- Unemployment insurance benefit payments to 28 claimants using the same mailing address with as many as 26 of the 28 claimants paid during the same month.

UIA's efforts to conduct data analysis to identify improper payments have primarily focused on contracting with a vendor to implement a fraud detection system. The system is a coordinated effort between UIA and other State departments intended to analyze payment trends and identify improprieties. However, the system was not implemented as scheduled; therefore, UIA had not fully analyzed the MiDAS data.

**RECOMMENDATION**

We recommend that UIA and DTMB fully analyze and review MiDAS data to help identify unemployment insurance benefit payments needing further review.

**AGENCY PRELIMINARY RESPONSE**

UIA and DTMB provided us with the following response:

*UIA and DTMB agree with the recommendation.*

*DTMB will work with UIA to further expand the current efforts to analyze and review MiDAS data to help identify unemployment insurance benefit payments needing further review.*

a. *UIA acknowledges the need for a data crossmatch of incarcerated individuals and a project to implement that crossmatch is in active development.*

b. *UIA questions the inclusion of this topic. The existence of payments made to addresses shared by UIA employees is not automatically indicative of improper payments. All 62 cases noted above were reviewed and were found to be valid. There does not appear to be a report of impropriety noted. Further, UIA does not have access to civil service data to identify these cases.*

c. *UIA acknowledges the need for review of unemployment insurance claims with the same address.*

## FINDING #7

**Changes are needed to improve the appeals process.**

UIA had not fully implemented processing controls within MiDAS to help ensure appeals process efficiency. The number of outstanding unemployment appeals has increased since the implementation of MiDAS from 2,280 as of June 2013 to 22,473 as of June 2015 (see Exhibit #1).

COBIT states that management should review the operation of business process controls to ensure their effectiveness and enable management to identify control deficiencies and initiate improvements.

When a claimant applies for unemployment insurance benefits, UIA determines whether to pay the benefits, the weekly payment amount, and the number of weeks that the benefits will be paid. If the claimant or his/her employer disagrees with the determination, either party can protest the decision. UIA will then review the case and issue a redetermination. A claimant or employer who disagrees with a redetermination can file an appeal with UIA to request a hearing with the Michigan Administrative Hearing System* (MAHS). The appeal request is input into MiDAS and transferred from MiDAS to MAHS's information system, myCaseLoad*, to schedule the hearing.

Our review of appeals processing by MiDAS disclosed:

a. MiDAS did not efficiently transfer primary and secondary cases to myCaseLoad.

   Certain appeals consist of a primary case and a secondary misrepresentation case. The primary and secondary cases must be heard together because the primary case is critical to the understanding of the secondary misrepresentation case. Prior to the implementation of MiDAS, UIA combined related cases before forwarding them to MAHS. Since MiDAS implementation, the primary and secondary cases are transferred to myCaseLoad separately because MiDAS was not designed to combine them. Transferring the cases separately creates an inefficient appeals process because of the duplicate work required by MAHS to process each case separately.

   The number of secondary case appeals has increased from almost no appeals per month before MiDAS implementation to 1,559 appeals in June 2015, underlining the need for UIA to modify MiDAS to combine related appeals.

b. UIA should continue to work with MAHS to evaluate appeals decisions to improve MiDAS.

*See glossary at end of report for definition.*

UIA sent 51,207 appeals to MAHS between October 2013 and June 2015. Of these appeals, 3,460 were secondary misrepresentation cases and 47,747 were other types of cases. If MAHS agrees with UIA's redetermination decision, MAHS affirms UIA's decision. MAHS's affirmation rate was 8% for secondary cases and 21% for other types of cases. Also, MAHS returned 22% of the secondary cases to UIA for lack of necessary information to hear the appeal as required by Section 421.33 of the *Michigan Compiled Laws*. The appeals outcomes and the number of cases returned to UIA for lack of necessary information demonstrate the need to review the process to improve efficiency (see Exhibit #2 for the number of unemployment appeals decisions by MAHS).

During the audit period, UIA made some efforts to improve the appeals process in MiDAS. For example, UIA configured MiDAS to prevent claimants or employers from appealing redeterminations that were already in their favor. In addition, UIA and MAHS initiated a project to discuss potential efficiency improvements. Continued efforts and more comprehensive review of appeals outcomes may identify additional improvements to deciding cases in MiDAS and decreasing the number of outstanding appeals.

**RECOMMENDATION**

We recommend that UIA fully implement processing controls within MiDAS to help ensure appeals process efficiency.

**AGENCY PRELIMINARY RESPONSE**

UIA provided us with the following response:

*UIA agrees with the recommendation.*

    a. *There have been a series of changes implemented to support this process and this process continues. A control report created out of MiDAS was developed for MAHS review to assist in determining which appeals are outstanding. As the separate issues have distinct fact sets, they must be transferred separately and heard. UIA acknowledges that improvements to the efficiency of the appeals process as it applies to UIA and MAHS should continue to be implemented.*

    b. *Undeniably, the statutory appeals process, which involves an administrative hearing before an administrative law judge (ALJ), is inherently a more robust and thorough opportunity for the parties and the ALJ to delve more deeply into the facts and circumstances challenging UIA redeterminations. In contrast to UIA's fact finding processes, the ALJ possesses the opportunity to question the parties,*

*relevant witnesses, and documentary evidence at the same time, i.e., during the same hearing.  Also, the ALJ is able to do so in real time, e.g., compare testimony from witnesses A and B during the same hearing.  Further, such hearings can last several hours.  Finally, there is an intrinsic formality associated with administrative hearings where witnesses often arrive with documents in-hand, are sworn-in to provide testimony, and the testimony is recorded for the purposes of appellate review.  The statutory appeal process, therefore, is fundamentally different than UIA's administrative decision process, where the lawfully prescribed means to ascertain the facts and circumstances of an issue between UIA and the appeals process are so fundamentally different that a facial attempt to compare results is often of limited value.*

**FINDING #8**

**Opportunities exist for additional automation using MiDAS.**

UIA did not fully review and implement methods to further automate MiDAS claim processing to reduce significant UIA staff time spent manually entering data.

COBIT states that organizations should continually assess and monitor business process activities to identify inefficiencies and initiate improvements.

To further automate MiDAS claim processing, UIA should:

a. Evaluate more efficient ways to input and process fact finding letters.

UIA issues fact finding letters to claimants and employers to gather evidence for making eligibility determinations. Claimants and employers respond to the fact finding letters either electronically through UIA's online system (MiWAM) or manually by mail or facsimile. Claimant and employer responses input through MiWAM are automatically updated to MiDAS, allowing UIA to make more timely eligibility determinations. When responses are returned by mail or facsimile, UIA staff must scan the letter into a document imaging system called FileNet and then manually input the responses from FileNet into MiDAS so that an eligibility determination can be made.

UIA has over 300 different fact finding letters. Between October 2013 and April 2015, UIA received approximately 641,000 letters. A comprehensive cost-benefit analysis of alternative methods for inputting and processing fact finding letters may identify ways to reduce UIA staff time and processing time.

b. Further encourage employers to use MiWAM or other electronic methods to protest claims.

Responses submitted by mail or facsimile typically take longer for UIA to process than responses submitted electronically. In addition, because of staffing levels and the focus of resources on implementing MiDAS, UIA has a backlog of responses received by mail or facsimile.

We reviewed 30 cases and noted that, in 6 of the cases, the employers protested the claimants' eligibility for unemployment insurance benefits. The employers returned their responses by mail or facsimile in all 6 cases. Because of the backlog, UIA took between 31 and 214 days to process the protests. As a result of the processing delays, UIA paid 5 of the 6 claimants who were later determined ineligible. The following table shows the number of days it took UIA to process the

5 employer protests and the amounts paid to claimants who were later determined ineligible:

| Claimant | Number of Days to Process Protest | Amount Paid |
|---|---|---|
| 1 | 56 | $ 5,034 |
| 2 | 214 | $ 3,002 |
| 3 | 55 | $ 1,204 |
| 4 | 60 | $ 4,440 |
| 5 | 31 | $ 1,027 |

Increasing the use of MiWAM or other electronic methods will help improve the timeliness of processing, identify ineligible claimants sooner, and reduce the backlog of cases.

**RECOMMENDATION**

We recommend that UIA fully review and implement methods to further automate MiDAS claim processing.

**AGENCY PRELIMINARY RESPONSE**

UIA provided us with the following response:

*UIA agrees with the recommendation.*

a. *The number of fact finding responses received through MiWAM has been steadily increasing. However, UIA will continue to explore opportunities to improve efficiency.*

b. *UIA has been encouraging customers to utilize MiWAM but is unable to "make" customers use MiWAM for fact finding. The increase in users created and customer activity in MiWAM attest to UIA's success. MiWAM employer accounts have risen from 160,000 in January 2014 to 253,000 in July 2015. UIA received 103,000 Web requests from employers outside of filing quarterly reports in July 2015. (There were 541,000 claimant users in MiWAM in July 2015. UIA received 717,000 Web requests from claimants including claim filings and certifications in July 2015.)*
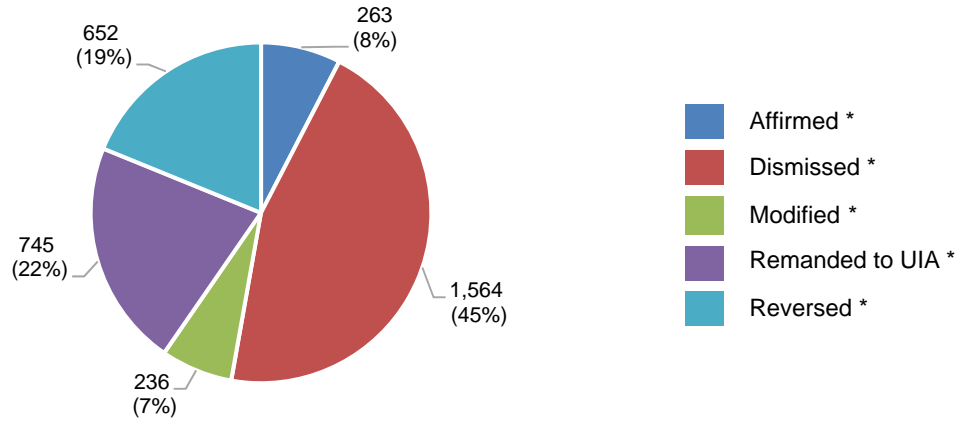
# SUPPLEMENTAL INFORMATION

MICHIGAN INTEGRATED DATA AUTOMATED SYSTEM (MiDAS)
Number of Outstanding Unemployment Appeals by Month
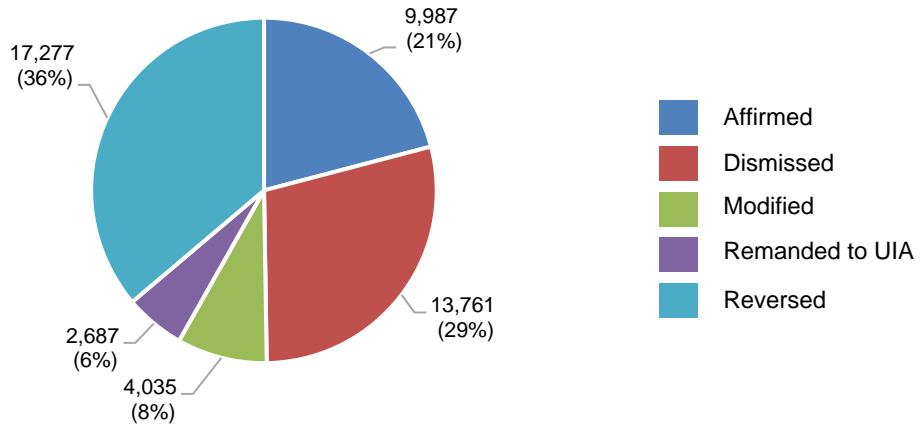For the Period June 2013 Through June 2015
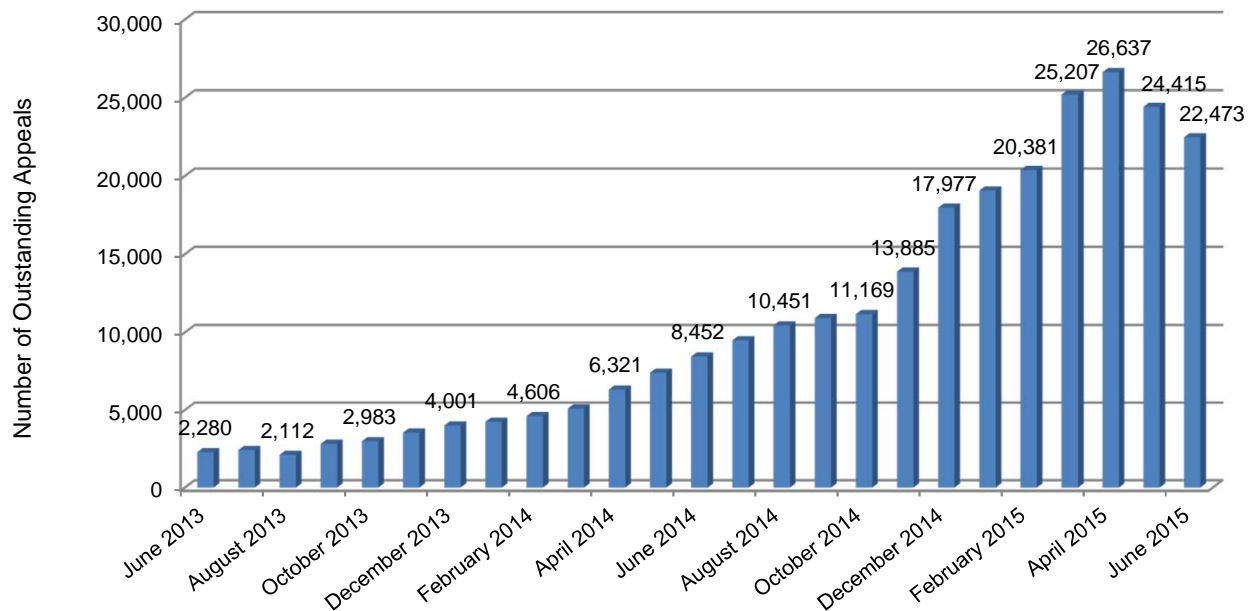


Source:  Prepared by the Office of the Auditor General using data obtained from MAHS's myCaseLoad.

## MICHIGAN INTEGRATED DATA AUTOMATED SYSTEM (MiDAS)
### Number of Unemployment Appeals Decisions by MAHS
### For the Period October 2013 Through June 2015

Appeals Decisions - Misrepresentation

263
(8%)

652
(19%)

745
(22%)

1,564
(45%)

236
(7%)

- Affirmed *
- Dismissed *
- Modified *
- Remanded to UIA *
- Reversed *

Appeals Decisions - All Other

9,987
(21%)

17,277
(36%)

2,687
(6%)

4,035
(8%)

13,761
(29%)

- Affirmed
- Dismissed
- Modified
- Remanded to UIA
- Reversed

Source:  Prepared by the Office of the Auditor General using data obtained from MAHS's myCaseLoad.

* *See glossary at end of report for definition.*

# SYSTEM DESCRIPTION

MiDAS is an automated information system used by UIA to collect unemployment taxes from employers and to pay unemployment insurance benefits to eligible claimants in accordance with the Michigan Employment Security Act.  In fiscal year 2014, UIA paid $1 billion in unemployment insurance benefits for 611,503 claims.

DTMB contracted with Fast Enterprises, LLC, for $47 million for the design, configuration, and implementation of MiDAS, which replaced a 30-year-old mainframe system.  MiDAS is a commercial off-the-shelf tax and benefit system that has been customized for the State of Michigan.  MiDAS was fully implemented in October 2013 when the benefits portion of the system was launched.  The goals of MiDAS included improved customer service, increased data accuracy, improved data security and privacy, reduced operating costs, increased automation, and improved integration of UIA functions.

# AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

**AUDIT SCOPE**     To examine the information processing and other records related to MiDAS.  We conducted this performance audit* in accordance with generally accepted government auditing standards.  Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.  We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit did not include a review of MiDAS's identification of fraudulent claims, which was included in the scope of another performance audit.

**PERIOD**     Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered the period October 1, 2013 through July 31, 2015.

**METHODOLOGY**     We conducted a preliminary survey of MiDAS to formulate a basis for defining our audit objectives and scope.  During our preliminary survey, we:

- Interviewed UIA management and staff to obtain an understanding of MiDAS.

- Reviewed the Michigan Employment Security Act, which governs the State's unemployment insurance program.

- Reviewed UIA and DTMB policies and procedures related to MiDAS and MiDAS security.

- Reviewed system documentation, including the contract for MiDAS development, implementation methodology, and system configurations.

- Obtained an understanding of UIA's processes for:

  o Granting and monitoring user access to MiDAS.

  o Managing database and operating system configurations and access.

  o Receiving unemployment claims and paying unemployment insurance benefits.

*See glossary at end of report for definition.*

**OBJECTIVE #1**

To assess the effectiveness of UIA and DTMB's security and access controls over MiDAS.

To accomplish our first audit objective, we:

- Judgmentally selected and tested 10 of 96 MiDAS servers to determine if UIA and DTMB:

    o Maintained operating system configuration settings in accordance with industry best practices.

    o Documented their rationale for deviations in configuration settings from industry best practices.

    o Installed required operating system patches.

    o Appropriately granted administrative access rights to the operating system.

    o Judgmentally selected and tested 3 MiDAS servers to determine if UIA and DTMB maintained database configuration settings in accordance with industry best practices and restricted DBA access rights.

- Judgmentally selected MiDAS access rights to determine if the principle of least privilege was followed in granting rights.

- Obtained a list of active MiDAS users and tested for:

    o Active accounts that had not logged into MiDAS in at least 120 days.

    o Active accounts assigned to users no longer employed by the State.

- Reviewed documentation to determine whether UIA assigned responsibility for MiDAS security, completed a security plan and risk assessment, and provided security training to UIA employees.

**OBJECTIVE #2**

To observe and evaluate the sufficiency of selected unemployment claim processing controls in MiDAS.

To accomplish our second audit objective, we:

- Performed data analysis and matches using unemployment benefit data to identify irregularities and trends, such as:

    o Claim concentration by address.

    o Claims sent to addresses of UIA employees.

o Benefits paid to incarcerated claimants.

o Claimants identified by the Michigan Department of Health and Human Services as deceased.

- Randomly selected and reviewed issues generated for nonregistration by claimants with a Michigan Works! Agency to determine whether the issues were properly generated and resolved.

- Reviewed work search data to determine if claimants had received unemployment insurance benefits without submitting work search documentation to UIA.

- Reviewed and assessed manual forms returned to UIA for potential inefficiencies.

- Judgmentally selected and reviewed 100 of 5,201 MiDAS change requests to determine if UIA had sufficiently addressed the identified issues.

- Obtained an understanding of how appeals are created and transferred to MAHS and reviewed the process for inefficiencies.

**CONCLUSIONS**

We base our conclusions on our audit efforts and the resulting material conditions and reportable conditions.

When selecting activities or programs for audit, we direct our efforts based on risk and opportunities to improve State government operations. Consequently, we prepare our performance audit reports on an exception basis.

**AGENCY RESPONSES**

Our audit report contains 8 findings and 8 corresponding recommendations. UIA and DTMB's preliminary response indicates that they agree with all of the recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion at the end of our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require an audited agency to develop a plan to comply with the recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

**SUPPLEMENTAL INFORMATION**

Our audit report includes supplemental information presented as Exhibits #1 and #2.  Our audit was not directed toward expressing a conclusion on this information.

# GLOSSARY OF ABBREVIATIONS AND TERMS

access controls | Controls that protect data from unauthorized modification, loss, or disclosure by restricting access and detecting inappropriate access attempts.

affirmed | An appeals decision in which an ALJ agrees with and confirms UIA's decision.

ALJ | administrative law judge.

availability | Timely and reliable access to data and information systems.

confidentiality | Protection of data from unauthorized disclosure.

configuration | The way a system is set up. Configuration can refer to either hardware or software or the combination of both.

Control Objectives for Information and Related Technology (COBIT) | A framework, control objectives, and audit guidelines published by the IT Governance Institute as a generally applicable and accepted standard for good practices for controls over information technology.

database | A collection of information that is organized so that it can be easily accessed, managed, and updated.

database administrator (DBA) | The person responsible for both the design of the database, including the structure and contents, and the access capabilities of application programs and users of the database. Additional responsibilities include operation, performance, integrity, and security of the database.

dismissed | An appeals decision in which the appealing party does not appear; therefore, UIA's decision stands. This is considered a "lack of prosecution" case.

DTMB | Department of Technology, Management, and Budget.

DTMB-0170 | A document establishing an information system security plan and risk assessment for evaluating the security controls in place or planned for a system.

effectiveness | Success in achieving mission and goals.

| | |
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| Federal Information System Controls Audit Manual (FISCAM) | A methodology published by the U.S. Government Accountability Office (GAO) for performing information system control audits of federal and other governmental entities in accordance with *Government Auditing Standards.* |
| integrity | Accuracy, completeness, and timeliness of data in an information system. |
| material condition | A matter that, in the auditor's judgment, is more severe than a reportable condition and could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program. |
| Michigan Administrative Hearing System (MAHS) | An independent and autonomous agency within the Department of Licensing and Regulatory Affairs that was created to provide fair, timely, and efficient hearings and timely and unbiased decisions. |
| Michigan Works! Agency | One of the 25 local agencies that administer the day-to-day operations of local workforce development programs and services. |
| MiDAS | Michigan Integrated Data Automated System. |
| MiWAM | Michigan Web Account Manager system. |
| modified | An appeals decision in which a part of UIA's decision is amended or changed. |
| myCaseLoad | MAHS's information system used to schedule and record the outcome of hearings. |
| operating system | The essential program in a computer that manages all the other programs and maintains disk files, runs applications, and handles devices such as the mouse and printer. |
| performance audit | An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties |

with responsibility to oversee or initiate corrective action, and contribute to public accountability.

| principle of least privilege | The practice of limiting access to the minimal level that will allow normal functioning. Applied to employees, the principle of least privilege translates to giving people the lowest level of user access rights that they can have and still do their jobs. The principle is also applied to things other than people, including programs and processes. |
|---|---|
| remanded to UIA | An appeals decision in which jurisdiction is transferred back to UIA for further consideration. |
| reportable condition | A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the audit objectives; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred. |
| reversed | An appeals decision in which an ALJ sets aside UIA's decision and changes that decision in favor of the appealing party on the case. |
| security | Safeguarding an entity's data from unauthorized access or modification to ensure its availability, confidentiality, and integrity. |
| threat | An activity intentional or unintentional, with the potential for causing harm to an automated information system or activity. |
| UIA | Unemployment Insurance Agency. |
| vulnerability | Weakness in an information system that could be exploited or triggered by a threat. |