Local Office On-line Payment System

February 1, 1997 to September 18, 1997

Richard L. Fair
State Auditor
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The Honorable Christine Todd Whitman  
Governor of New Jersey

The Honorable Donald T. DiFrancesco  
President of the Senate

The Honorable Jack Collins  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the Local Office On-line Payment System (LOOPS) for the period February 1, 1997 to September 18, 1997. LOOPS is operated by the Office of Telecommunications and Information Systems under the direction of the Department of Labor.

If you would like a personal briefing, please call me at (609) 292-3700.

Richard L. Fair  
State Auditor  
October 14, 1997
Local Office On-line Payment System

Scope

We have completed an audit of the Local Office On-line Payment System (LOOPS) for the period February 1, 1997 to September 18, 1997. Our audit evaluated application controls and selected general controls involved in the processing of unemployment claims.

LOOPS was developed in the mid 1970's to automate the payments of unemployment insurance benefits. System design included provision to:

- Calculate the monetary entitlement of claimants to ensure consistency of payment amounts.
- Automate the initial claims entry to track all claims by social security number, program code, and date of claim.
- Track all determinations which affected any week of eligibility to ensure payments were made only when due.
- Track payments of unemployment insurance to eliminate duplicate payments.

The system was enhanced to address many other issues, but the most important function remained to pay benefit checks in the most efficient manner possible.

Objectives

The objectives of our audit were to assess the strength of controls in place relating to the computer processing of unemployment benefit claims, accessing of system data, and safeguarding of assets.

This audit was conducted pursuant to the State Auditor’s responsibilities as set forth in Article VII,
Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

**Methodology**

Our audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Additional guidance for the conduct of the audit was provided by Assessing the Reliability of Computer-Processed Data issued by the United States General Accounting Office and Auditing Computer Applications issued by Auerbach.

In preparation for our testing, we studied system user, operation, and facility guides, system program code, circular letters promulgated by the State Comptroller, and policies of the Department of Labor (DOL). Provisions that we considered significant were documented, and compliance with those requirements was verified by interview, observations and test of controls. We also received data entry training and interviewed agency personnel to obtain an understanding of the internal controls.

A nonstatistical sampling approach was used. Our samples of program changes and access privileges were designed to provide conclusions about the integrity of the data and internal control attributes.

**Conclusions**

Our review disclosed that controls in place relating to the computer processing of unemployment benefit claims, accessing of system data, and safeguarding of assets are adequate. In making this determination, we noted certain internal control weaknesses meriting management’s attention.

**Auditee’s Response**

We have reviewed the draft audit report concerning the Local Office On-Line Payment System (LOOPS) for the period February 1, 1997 to September 18,
1997. The audit was comprehensive and evaluated application controls and selected general controls involved in the processing of unemployment claims.

The Unemployment Insurance Program and specifically the payment of benefits, is one of this department’s most important responsibilities with over $1.4 billion paid out of the Unemployment Compensation Fund in the last fiscal year. We are pleased that your audit noted our controls were adequate.

Your report makes recommendations for improvements in certain control areas and we will address those issues and implement corrective action where it is cost effective to do so.
System Security

GFM Logon

The LOOPS application currently uses a system logon id which enables any change to system data. This is known as the “GFM” logon id. We noted frequent use of this logon id. The intent of this design feature was to allow department system managers to process claims that would otherwise fail due to unanticipated errors.

Our analysis of this function disclosed that the application is not tracing any of the transactions processed under this logon id. This leaves no adequate audit trail of user activity and precludes independent review and control. According to the Office of Telecommunications and Information Systems (OTIS) management, this problem should be addressed during the system modifications being made to accommodate the year 2000.

A-250 Reports

Local office employees routinely encounter problems which prevent them from completing a benefit claim transaction. The Adjustment Unit has the responsibility of addressing these types of problems. The staff of the Adjustment Unit are assigned a “G” level security, allowing them to insert and update transactions. LOOPS generates a daily A-250 report which details any changes made to LOOPS records by a “G” level logon id. We found the report is only reviewed by the supervisor of the Adjustment Unit. The supervisor also has the “G” logon and generates adjustments. Good internal controls require a segregation of these duties.

System Access
System access is granted through the use of the software security package ACF2. Personnel with the ACF2 privilege Account can create logon ids that may access LOOPS. Currently, seven people at the Department of Labor have Account privileges with ‘Z’ authorities that allow them to assign logon ids and grant any level of access to LOOPS without further oversight or review.

Other state applications such as CFS and MACS-E have a two-part process. The agency Information Security Representative (ISR) provides the ACF2 logon id and password, and the application’s security personnel authorizes access by updating internal security tables to accept the logon provided by the ISR. The ISR cannot update the internal security tables. In LOOPS there is no such segregation of duties, and therefore, internal controls are weakened.

**Recommendation**

We recommend that management take steps to ensure that GFM tracking is enabled or alternate control procedures are instituted. The department should segregate the review of the A-250 report from the person generating the adjustments. Procedures should be established which will separate the granting of logon ids from the authorization of system access.

**Auditee’s Response**

We concur with the finding on GFM logon. As part of the Year 2000 LOOPS conversion, OTIS will incorporate the journaling of all GFM activity on LOOPS data base records. This will ensure that all such activity can be tracked for audit purposes. Access to GFM will remain absolutely limited to one or two individuals as is the present case.

We concur with the finding on the A-250 reports. We will take action to have at least one non-adjustment unit employee to be responsible for
regular review of the A-250 Insert/Update activity report. Any further action deemed appropriate as a result of this review shall be reported to a responsible manager/supervisor outside the adjustment unit.

We concur in part with the finding on system access. While we agree that separation of duties is desirable, we need to assure a flexible procedure is in place to allow the granting/authorization to LOOPS to take place without hindering the operational capabilities of the program. We will review the current procedures in light of your recommendation and to the extent practical implement separation of duties.

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**On-line Access Agreements**

Access agreements document users’ responsibilities in accessing LOOPS data and serve to limit the DOL’s liability.

The DOL Information Security Policy states that all users outside the DOL are covered by a Data Sharing Agreement. This agreement is used to inform all outside users of the conditions and responsibilities for accessing the data. There are a total of thirteen outside departments, which includes all County Welfare Agencies that access LOOPS data from the DOL mainframe.

Our audit disclosed that only nine online access agreements could be found. Of the nine, only five were in order. By not enforcing this policy, the conditions governing the use of the data may not be understood by the requesting agencies.

**Recommendation**

We recommend that the Department of Labor complete agreements with all outside users and review existing agreements to ensure they are still acceptable to the department.

**Auditee’s Response**

We concur. We are certain all users had agreements for access, however, due to various personnel and organizational changes over the years, some of the
agreements, or signed copies of same, were not located. The department will attempt to locate or secure copies of all agreements.

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System Documentation

There are no manuals or other documentation which exist that provide an accurate representation of the LOOPS application as it is currently structured. There are online descriptions of changes to LOOPS programs in the module maintenance log, however, this information does not provide details of the program logic or the interactions with other programs. Original application documentation is no longer available and documentation is not updated in conjunction with changes made to the application.

Based on industry experience and accepted business practices, the potential for errors to occur is greater, and the cost to maintain LOOPS may increase because full documentation is not available.

Recommendation

We recommend that the Department of Labor and OTIS fully document the LOOPS application to minimize future maintenance costs and reduce the potential for errors.

Auditee’s Response

We concur in part. We believe the current system documentation is adequate to maintain and revise the current LOOPS system. We agree that the original documentation of LOOPS is no longer available and that all manuals are not updated with changes to the application. While this is the maximum desirable position, it may not be practical or cost effective to update and/or maintain manuals which would then constitute “full” documentation. As stated in the audit report, there are on-line descriptions of changes to LOOPS programs. We believe when used in conjunction with other documentation, this provides...
an accurate description of the LOOPS application. To the extent possible and practical, we will consider working with OTIS in fully documenting the system.

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Operational Continuity

The OTIS Technical Service Standardization Plan states that a disaster recovery plan must be exercised at each OTIS data center at least once a year to ensure that it will satisfy a site’s processing requirements. The functions of such tests are to determine the ability to recover key processing components based on a documented set of instructions and assure that the measures in place will enable recovery. OTIS has not performed a test of its disaster recovery plan for LOOPS since October 1993. One of the primary causes of this is the lack of sufficient resources. This condition was noted in our prior report on the River Road and Barrack Street Data Centers. The issuance of approximately 10,000 unemployment benefit checks totaling $4 million would be delayed each day the LOOPS application was not operational.

Recommendation

We recommend management provide the necessary capacity to allow for the testing of the disaster recovery plan for LOOPS in compliance with OTIS’ Technical Service Standardization Plan.

Auditee’s Response

We concur. The department will work with OTIS in addressing this matter.

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