GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General

July 19, 2011

The Honorable Vincent C. Gray
Mayor
District of Columbia
Mayor's Correspondence Unit, Suite 316
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

Dear Mayor Gray:

Enclosed please find a copy of a Management Alert Report (MAR 11-1-001), entitled *Computer Programming Safeguards for Accurate Issuance of Unemployment Benefits Were Inappropriately Turned Off Due to Inadequate Internal Controls,* that the Office of the Inspector General issued to the Department of Employment Services' (DOES) Office of Unemployment Compensation (OUC) on June 8, 2011. The MAR addresses our finding that essential safeguards in OUC's Management Information System were turned off from February 2009 to July 2010. As a result, an unknown number of unemployment benefits may have been issued to individuals who were not eligible to receive them. DOES' response to the MAR, dated July 1, 2011, also is enclosed.

Although the OIG is conducting an ongoing special evaluation of DOES' OUC for which a report will be completed later this year, we are providing this information to you now so that you are aware of the importance of the issues addressed in the MAR and the corrective actions proposed by DOES.

If you have questions, please contact Alvin Wright, Jr., Assistant Inspector General for Inspections and Evaluations, at (202) 727-2540.

Sincerely,

Charles J. Willoughby
Inspector General

CJW/ebs

Enclosures

cc: See distribution list

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DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL
CHARLES J. WILLOUGHBY
INSPECTOR GENERAL

INSPECTIONS AND EVALUATIONS DIVISION

MANAGEMENT ALERT REPORT

DEPARTMENT OF EMPLOYMENT SERVICES
OFFICE OF UNEMPLOYMENT COMPENSATION

COMPUTER PROGRAMMING SAFEGUARDS FOR ACCURATE ISSUANCE OF UNEMPLOYMENT BENEFITS WERE INAPPROPRIATELY TURNED OFF DUE TO INADEQUATE INTERNAL CONTROLS

MAR 11-I-001
JUNE 8, 2011

Inspections and Evaluations Division

Mission Statement

The Inspections and Evaluations (I&E) Division of the Office of the Inspector General is dedicated to providing District of Columbia (D.C.) government decision makers with objective, thorough, and timely evaluations and recommendations that will assist them in achieving efficiency, effectiveness and economy in operations and programs. I&E's goals are to help ensure compliance with applicable laws, regulations, and policies, identify accountability, recognize excellence, and promote continuous improvement in the delivery of services to D.C. residents and others who have a vested interest in the success of the city.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General

June 8, 2011

Lisa Mallory
Interim Director
Department of Employment Services
4058 Minnesota Avenue, N.E, Suite 5000
Washington, D.C. 20019

Dear Ms. Mallory:

This is a Management Alert Report (MAR 11-I-001) to inform you that during our ongoing special evaluation of the Department of Employment Services' (DOES) Office of Unemployment Compensation (OUC), the Office of the Inspector General (OIG) found that due to inadequate internal controls at OUC, essential safeguards in its Management Information System (MIS) were inappropriately turned off for 17 months, from February 2009 to July 2010. As a result, an unknown number of unemployment benefits may have been issued to individuals who were not eligible to receive them. The OIG provides these reports when it believes a matter requires the immediate attention of District government officials.

Background: The mission of DOES is to "plan, develop and administer employment-related services to all segments of the Washington, DC metropolitan population."[1] OUC provides unemployment insurance benefits to previously employed District workers who become unemployed due to no fault of their own and are ready, willing, and able to work. During calendar year 2010, nearly 50,000 initial unemployment claims were filed in the District.[2]

OUC must verify the eligibility of those who apply for unemployment benefits. All applicants for benefits apply either electronically or via telephone, and applications are processed by one of OUC's computer systems, the District On-Line Compensation System (DOCS). DOCS is maintained by a vendor under contract to DOES. If an individual's responses to questions on the application for unemployment benefits conflict with eligibility criteria, an "issue"[3] on a claim is created in DOCS. In this case, OUC claims examiners must intervene, gather information pertaining to the issue, and make a determination that ensures payment is made to an eligible recipient.

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[1] Http://www.does.dc.gov/does/cwp/view,a,3,q,539626,doesNav_GID,1563,doesNav,%7C32096%7C,.asp (last visited Feb. 24, 2011).
[2] U.S. DEPT. OF LABOR, UNEMPLOYMENT INSURANCE WEEKLY CLAIMS DATA – REPORT R539CY, http://www.ows.doleta.gov/unemploy/wkclaims/report.asp (last visited Apr. 20, 2011).
[3] According to DOL, an "issue" is any circumstance, condition, or act that could potentially disqualify a claimant from receiving benefits. Any issue must be resolved before benefits may be paid to a claimant. For example, if a claimant indicates he was discharged from his last employment voluntarily or was terminated due to misconduct, the claimant would be ineligible for benefits.

Criteria:[4] D.C. Code § 51-109 (2009) states that in order to receive unemployment benefits, an individual must be available and physically able to work and have made a "minimum of 2 contacts for new work" for each week of unemployment. D.C. Code § 51-110 (Supp. 2010) provides circumstances that disqualify an individual from receiving benefits, such as voluntarily leaving the most recent employment without good cause connected to the work, termination due to gross misconduct, or failure to accept suitable work.

The Government Accountability Office's (GAO) Standards for Internal Control state that internal control is "[a]n integral component of an organization's management . . ." to provide reasonable assurance that there is compliance with applicable laws and regulations.[5] In addition, the GAO Federal Information System Controls Audit Manual (FISCAM) states that governmental entities should properly control all configuration changes to its IT systems.[6] FISCAM further provides:

> Authorizations for system and application software modifications should be documented and maintained. Policies and procedures should be in place that detail who can authorize a modification and how these authorizations are to be documented.[7]

The IT Governance Institute recommends that entities establish "formal change management procedures" to handle all change requests in a standardized manner. In addition, such requests should be structured in a manner to determine the impact on the operational system and its functionality and ensure that changes are authorized.[8]

Cisco Systems, Inc.[9] recommends that managers evaluate a change proposal for an IT system and "reject it if it does not meet business goals or the costs and/or risks associated with the change are deemed [too] high compared to the benefits . . . ."[10] Additionally, Cisco recommends that a change request reflect a description of the change, reason for the change, effect of not implementing the change, and a risk assessment.[11]

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[4] "Criteria" are the rules that govern the activity evaluated. Examples of criteria include internal policies and procedures, District and/or federal regulations and laws, and best practices.
[5] U.S. GOVERNMENT ACCOUNTABILITY OFFICE, STANDARDS FOR INTERNAL CONTROL IN THE FEDERAL GOVERNMENT, GAO/AIMD-00-21.3.1, 4 (Nov. 1999).
[6] U.S. GOVERNMENT ACCOUNTABILITY OFFICE, FEDERAL INFORMATION SYSTEM CONTROLS AUDIT MANUAL, GAO-09-232G, 279 (Feb. 2009).
[7] *Id*. at 280.
[8] IT GOVERNANCE INSTITUTE, COBIT 4.1, 94 (2008). According to COBIT 4.1, the Institute was established to "advance international thinking and standards in directing and controlling an enterprise's information technology." *Id*. at unnumbered copyright page.
[9] According to Cisco's Annual Report 2010, Cisco is an "innovator in the communications and information technology industry." CISCO, 2010 ANNUAL REPORT (2010) (CORPORATE INFORMATION).
[10] CISCO, CHANGE MANAGEMENT: BEST PRACTICES, ¶ 2.2.1.4 (2008).
[11] *Id*. ¶ 2.2.1.6.

Condition:[12] In January 2011, an OUC senior official[13] informed the OIG team that someone in OUC requested that programmers[14] "turn off" certain indicators or safeguards in DOCS. This official later clarified that other managers said that a former OUC manager had requested that the programmers disable these indicators. These safeguards were in place to prevent or stop payment of unemployment benefits and to create an issue in any case where the applicant stated that he/she had refused work, quit a job, was discharged from a job, was not available or able to work, or was not actively seeking work. The OIG team reviewed computer screenshots as well as a weekly status report from the vendor who maintains DOES' MIS, which confirmed that the indicators were disabled for more than 17 months during February 2009 to mid-July 2010.

The OIG team could not ascertain whether DOES officially instructed its programmers to disable these indicators. Neither the MIS vendor nor OUC officials had documentation of such an instruction. An OUC senior official stated that during a meeting with claims examiners, two of them told her that these indicators had been disabled. When the OIG team conducted follow-up interviews with these two claims examiners, one stated that she was unaware that the indicators had been disabled until the OIG inspector informed him/her. The other claims examiner explained that although he/she overheard other employees discuss the disabling of the indicators, he/she did not know that they were actually disabled and did not repeat what she overheard to anyone. A manager who works for the vendor maintaining DOES' MIS identified a former OUC manager (by name) who had verbally directed the vendor to disable the indicators.

An OUC senior official notified the U.S. Department of Labor (DOL) upon learning that these indicators were disabled.[15] This official stated that while it is not a requirement to notify DOL of changes made to DOES' MIS, it is beneficial to discuss such changes with DOL and obtain guidance regarding best practices followed by other jurisdictions in making MIS changes.

Cause:[16] An OUC senior official speculated that the indicators may have been deactivated so OUC could better handle its volume of claims as there would be fewer claims with issues to adjudicate while the indicators were disabled. This official added that the only legal reason to disable the indicators, however, is when there is a change in eligibility requirements.

A current manager for the vendor gave the OIG team additional details about this matter in May 2011. This manager identified an OUC manager (by name) who had stated that most of the claimants who indicated on their applications that they were not able to work, not willing to work, or were unavailable to work had misunderstood the application's questions. For example, we were told that after speaking with claimants, OUC claims examiners learned that some misunderstood the question that asks if he/she is available to work. Some would respond, erroneously, that they were not able to work because they did not have a job. OUC believed that

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[12] The "condition" is the problem, issue, or status of the activity evaluated.
[13] This official was no longer employed at OUC as of March 2011.
[14] An OUC senior official stated that the programmers are not DOES employees, but work for a vendor responsible for maintaining DOES' unemployment benefits MIS systems.
[15] DOL has numerous functions, which include providing "oversight, guidance, and technical assistance for the federal-state unemployment compensation system . . ." Http://www.ows.doleta.gov/unemploy/aboutoui.asp (last visited Mar. 23, 2011).
[16] The "cause" is the action or inaction that brought about the condition evaluated.

a high percentage of claimants made errors like this that were not true issues. The vendor's manager stated that he/she did not know if OUC compiled statistics that supported this explanation before requesting that the vendor disable the indicators.

Consequently, OUC verbally requested the vendor to make changes to the MIS such that if claimants responded that they were not able or not available to work, refused to work, were discharged from a job, or were not actively seeking work, the claim would not be identified as having an issue.[17] The vendor's manager cited the former OUC manager as saying that this change would allow OUC to better manage its workload because there would be fewer issues to adjudicate. The vendor's manager added that the former OUC manager told the vendor that OUC was inundated with claims and needed to pay all eligible claimants.

At the time the indicators were disabled, OUC did not have a formal procedure to document and approve programming changes to its computer systems. An OUC senior official stated that after learning about the indicators' deactivation, he/she instituted changes in August 2010 requiring completion of the *DOES System Change Approval* form to request and make changes to its MIS. This form requires a summary description of the change to be made, the effective date of the change, and the signature areas of an OUC manager and a vendor manager. The team reviewed this form and found that it does not require the approval of the DOES Director or General Counsel, who can ensure that programming changes are in compliance with current regulations. It also does not require a stated reason for a change, the effect of not implementing the change, or a risk assessment. A vendor official stated that OUC does not include sufficient detail on the form for the vendor to know exactly what is being requested by OUC.[18]

In addition, the OIG team learned that OUC does not have a written policy and procedure that articulates the appropriate circumstances for completing the *DOES System Change Approval* form and the information that should be recorded on it to request programming changes to its MIS. In February 2011, OUC senior officials informed the team that they were drafting policies for requesting and making programming modifications to its MIS. The OIG team requested that these officials give the policies to the team when finalized. As of this writing, OUC has not provided any final policies to the OIG.

A manager who works for the vendor stated that OUC typically requested modifications verbally rather than in writing. He/she said that a former senior official for the vendor handled OUC requests based solely on verbal approvals. This manager speculated that while it would have been best to obtain requests in writing, the former official was very focused on meeting OUC's requests. He/she added that the *DOES System Change Approval* form was implemented in the fall of 2010 because OUC and the vendor agreed that modifications to the MIS should be documented. A vendor official was uncertain if there was any other control beyond the *DOES System Change Approval* form to ensure that changes to OUC's MIS are authorized by DOES.

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[17] The team was given screenshots from the MIS that identified these indicators as 07 and 27. They were disabled on February 4, 2009, by an MIS employee whose initials were visible on the screenshot.

[18] The word "not" was inadvertently omitted from this sentence when the draft MAR was issued to DOES for comment. The OIG notified Director Mallory of the error and corrected it.

Effect:[19] By disabling system safeguards and not having adequate internal controls to ensure unemployment benefits are issued only to eligible applicants, many individuals may have received benefits to which they were not entitled. One claims examiner opined that it would be inappropriate to disable the indicators without first determining whether a claimant made an error on an application or there was an actual issue. Another stated that he/she did not think that the indicators should be disabled as OUC acts as a "gatekeeper" to ensure that unemployment benefits are paid only to those who are eligible for them.

According to information provided by OUC, during a recent 6-month period from July 14, 2010 (when the indicators were reactivated) to January 5, 2011, OUC detected 2,577 issues where claimants stated that they were not available, able, or actively seeking work. OUC also detected 1,213 issues where claimants stated that they were unemployed due to misconduct, voluntarily quit their last job, or refused to accept employment.

The team asked OUC to provide data regarding the number of issues not detected while the indicators were disabled as well as an estimate of overpayments during this time period. However, a senior official stated that OUC did not have data on the number of claims that should have been flagged as issues when the indicators were disabled. He/she stated that while it would be possible to obtain this information, the Information Technology (IT) staff informed him/her that it would require significant time and computer programming. He/she explained that after learning that the indicators had been disabled, officials focused on ensuring that they were reactivated so that issues on new claims would be detected. The official stated that in addition, OUC did not focus on identifying the affected claims during this time period because they had a backlog of claims to process and had to handle an extension of benefits by the federal government.

The team then requested this data from another OUC senior official. This official stated that the IT staff informed him/her that it would not be able to provide this information and could only give a rough estimate because OUC did not know if claimants filed a claim every week or sporadically. However, a vendor's manager contradicted this OUC official and stated that it would be possible and not difficult to derive the data, and that it is a matter of identifying the date when the indicators were disabled and then reactivated. It concerns the OIG team that OUC does not appear to be interested in identifying claims, possibly numerous, that may have been erroneously paid while the indicators were disabled. In addition, without official written policies and an adequate change request form to make programming modifications to its MIS, OUC may be at risk of having critical safeguards again inappropriately disabled or even altered.

Accountability:[20] DOES and OUC senior officials are responsible for ensuring that sufficient internal controls are developed, implemented, and followed. They are also responsible for determining the basis for disabling the system safeguards for 17 months, who ordered deactivation, and the number of claimants, if any, that were incorrectly identified by the MIS as eligible for benefits.

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[19] The "effect" is the impact of the condition being evaluated.
[20] "Accountability" is a description of who is responsible for the condition evaluated.

Recommendations

The OIG recommends that the Director of DOES:

1. Expeditiously ensure the completion and issuance of a clear and detailed written policy for requesting and implementing programming modifications to its MIS, and formalize a mechanism by which such a policy will be periodically reviewed and updated. The final policy should be reviewed by the DOES General Counsel and the Director, and a copy forwarded to the Inspector General.

2. In collaboration with the MIS vendor, modify the existing *DOES System Change Approval* form to require the review and approval by the Director and General Counsel of DOES, as well as the inclusion of all relevant information, such as the reason for a computer system change, the effect of not implementing the change, and a risk assessment.

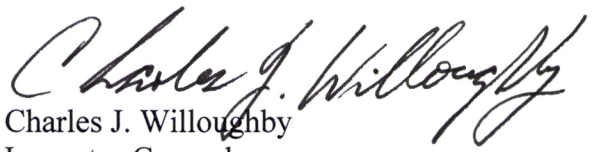
3. Determine the number of claims for which issues were not detected when indicators were disabled from February 2009 through July 2010 to ensure that only eligible individuals received unemployment benefits. Further, take necessary actions to recoup unemployment benefits that were not issued in accordance with statutes and regulations while these indicators were disabled. The results of these actions should be reported to the Inspector General when completed.

4. Conduct a comprehensive audit of OUC's computer systems to ensure that there are no existing programming mechanisms or internal control weaknesses that could allow unemployment benefits to be issued in violation of current laws and regulations.

Please provide your comments on this MAR by June 22, 2011. Your response should include actions taken or planned, dates for completion of planned actions, and reasons for any disagreement with the concerns and recommendations presented. Please distribute this MAR only to those who will be directly involved in preparing your response.

Should you have any questions prior to preparing your response, please contact [redacted], Director of Planning and Inspections, at [redacted].

Sincerely,



Charles J. Willoughby
Inspector General

CJW/bd

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GOVERNMENT OF THE DISTRICT OF COLUMBIA
Department of Employment Services

VINCENT C. GRAY
MAYOR

LISA M. MALLORY
ACTING DIRECTOR

July 1, 2011

Mr. Charles Willoughby
Inspector General
Office of the Inspector General
717 14th Street, NW
Washington, DC 20005

Dear Mr. Willoughby:

The DC Department of Employment Services (DOES) acknowledges receipt of your Management Alert Report (MAR 11-1-001), regarding inadequate internal controls at the Office of Unemployment Compensation (OUC), wherein essential safeguards in our Management Information System (MIS) were inadequately turned off for seventeen months, from February 2009 to July 2010. The disabling of this internal control resulted in the payment of benefits to claimants who may or may not have been legally entitled.

The OUC senior staff readily accepts responsibility for this error and after thoroughly researching the identified seventeen months, responds to your recommendations as follows.

OIG Recommendation 1:
Expeditiously ensure the completion and issuance of a clear and detailed written policy for requesting and implementing programming modifications to its MIS, and formalize a mechanism by which such a policy will be periodically reviewed and updated. The final policy should be reviewed by the DOES General Counsel and the Director, and a copy forwarded to the Inspector General.

DOES Response:
DOES is currently in the process of establishing Standard Operating Procedures across the board in the OUC pertaining to each program in Unemployment Insurance, as well as the way in which we communicate between OUC and our vendors. As such, DOES just implemented a formal written policy for requesting and modifying all changes to our Management Information System (MIS). Moreover, DOES is very fortunate to have filled a very integral position in our Agency, that of Deputy Director of Policy, Performance and Economics in the Office of the Director. The Deputy Director will be responsible for assisting the DOES Director in developing

and promulgating policies, rules, regulations and procedures for the effective administration of DOL mandated programs; recommend actions to maintain coordination among program components; evaluate effectiveness of service delivery program operations; and make recommendations concerning the application of improved policies and procedures. Going forward, all OUC policies will be reviewed and updated as needed.

OIG Recommendation 2:

In collaboration with the MIS vendor, modify the existing DOES System Change Approval form to require the review and approval by the Director and General Counsel of DOES, as well as the inclusion of all relevant information, such as the reason for a computer system change, the effect of not implementing the change and a risk assessment.

DOES Response:

As of June 1, 2011, DOES incorporated a Software Development Life Cycle as part of the actual vendor contract, which includes the detailed business requirements; design documentation; unit, system, integration, UAT, and regression testing, including risk evaluation. Please be advised the Change Management form reviewed by the auditors and referenced in the original MAR document is a cover sheet. It does not represent the comprehensive details of the modification. The artifact that covers the details including the purpose, scope, risk, and migrating risk actions would be included in the business requirement document. As a DOES business practice, the Associate Director of Policy, Planning, and Economics reviews all policies and procedures before forwarding to the DOES Director for final signature. The General Counsel will sign off on all policy requests for modifications as a result of changes in the District of Columbia legislation.

OIG Recommendation 3:

Determine the number of claims for which issues were not detected when indicators were disabled from February 2009 through July 2010 to ensure that only eligible individuals received unemployment benefits. Further, take necessary actions to recoup unemployment benefits that were not issued in accordance with statutes and regulations while these indicators were disabled. The results of these actions should be reported to the Inspector General when completed.

DOES Response:

Our investigation has identified that during the seventeen months in question approximately two thousand seven hundred-twelve (2,712) individuals were affected. DOES will contact each of these identified claimants and determine if the claimant was eligible to receive benefits during the weeks in question and any subsequent weeks. If the claimant did not meet the requirements for payment of benefits under the law, DOES will establish the ineligibility and which will result in and an overpayment when appropriate.

OIG Recommendation 4:

Conduct a comprehensive audit of OUC's computer systems to ensure that there are no existing programming mechanisms or internal control weaknesses that could allow unemployment benefits to be issued in violation of current laws and regulations.

DOES Response:

DOES OUC senior staff will conduct a complete internal audit as well as explore the possibility of an independent audit by an eternal vendor to identify and rectify any internal weaknesses that may potentially lead to a violation of current laws and regulations.

Further, DOES understands the severity of the actions of previous management, and as a result, has begun overall efforts to improve and reform issues surrounding policies and improper payments. Upon completion of all actions referenced in our responses, we will report our findings to the Office of the Inspector General.

Thank you for bringing this most important matter to our attention. Should you have any questions or require additional information, please contact [redacted], Acting Associate Director, Office of Unemployment Compensation, at [redacted] or via e-mail at [redacted]

Sincerely,

Lisa M. Mallory
Acting Director