



STATE OF ILLINOIS
**OFFICE OF THE
 AUDITOR GENERAL**

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS DEPARTMENT OF REVENUE

Financial Audit for the Year Ended June 30, 2016
 Compliance Examination for the Two Years Ended June 30, 2016

Release Date: April 20, 2017

FINDINGS THIS AUDIT: 10	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	1	0	1	2014		16-8, 16-10	
Category 2:	4	5	9	2012		16-9	
Category 3:	0	0	0	2010		16-3	
TOTAL	5	5	10	2007		16-7	
FINDINGS LAST AUDIT: 14							

SYNOPSIS

- (16-1) The Department failed to implement adequate change management, disaster recovery, and security controls over the enterprise wide tax system (GenTax).
- (16-2) The Department had weaknesses with the controls over the project management of the enterprise wide tax system (GenTax).
- (16-3) The Department has not completely implemented controls and safeguards over processing taxpayer information.

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).
Category 2: Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.
Category 3: Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

{Financial information and Activity Measures are summarized on next page.}

**DEPARTMENT OF REVENUE
FINANCIAL AUDIT
For the Year Ended June 30, 2016
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2016**

EXPENDITURE STATISTICS (all funds)	2016	2015	2014
Total Expenditures.....	\$ 10,968,706,632	\$ 11,133,043,327	\$ 10,810,703,301
OPERATIONS TOTAL.....	\$ 241,997,526	\$ 242,447,982	\$ 225,386,698
% of Total Expenditures.....	2%	2%	2%
Personal Services.....	107,075,755	115,242,558	118,889,919
Other Payroll Costs (FICA, Retirement).....	35,611,068	34,268,336	32,431,811
Contractual Services.....	4,056,159	12,101,052	14,538,284
Electronic Data Processing.....	15,387,596	14,825,657	14,075,883
All Other Operating Expenditures.....	79,866,948	66,010,379	45,450,801
AWARDS AND GRANTS.....	\$ 3,032,228,957	\$ 3,181,752,567	\$ 3,051,504,244
% of Total Expenditures.....	28%	29%	28%
REFUNDS.....	\$ 2,152,298,563	\$ 2,452,591,112	\$ 2,477,422,985
% of Total Expenditures.....	20%	22%	23%
NON-APPROPRIATED FUNDS.....	\$ 5,542,181,586	\$ 5,256,251,666	\$ 5,056,389,374
% of Total Expenditures.....	50%	47%	47%
Total Cash Collections.....	\$ 38,326,887,746	\$ 41,040,303,073	\$ 41,540,052,299
Income Taxes.....	\$ 19,253,705,124	\$ 22,398,692,196	\$ 23,473,570,973
% of Total Cash Collections.....	50%	55%	57%
Sales Taxes.....	\$ 14,407,351,988	\$ 13,931,378,225	\$ 13,402,872,832
% of Total Cash Collections.....	38%	34%	32%
Motor Fuel Taxes.....	\$ 1,277,867,113	\$ 1,222,550,354	\$ 1,225,728,873
% of Total Cash Collections.....	3%	3%	3%
Public Utility Taxes.....	\$ 1,536,464,050	\$ 1,650,174,990	\$ 1,642,262,559
% of Total Cash Collections.....	4%	4%	4%
Other Collections.....	\$ 1,851,499,471	\$ 1,837,507,308	\$ 1,795,617,062
% of Total Cash Collections.....	5%	4%	4%

SELECTED ACCOUNT BALANCES	2016	2015	2014
PROPERTY AND EQUIPMENT at June 30,.....	\$ 12,027,609	\$ 11,072,742	\$ 11,891,011
NET TAXES RECEIVABLE at June 30,.....			
Taxes Receivable.....	\$ 2,580,907	\$ 2,646,502	\$ 2,723,302
Allowance for Uncollectible Taxes.....	(981,392)	(952,224)	(916,140)
Net Taxes Receivable.....	\$ 1,599,515	\$ 1,694,278	\$ 1,807,162

SELECTED ACTIVITY MEASURES (Unaudited)	FY 2016	FY 2015	FY 2014
Number of individual income tax refunds issued.....	3,135,800	3,317,503	3,738,865
Number of individual income tax returns filed electronically	5,180,333	4,990,745	4,867,534
Cost to collect \$1,000 of tax and fees (in dollars).....	\$ 4.30	\$ 4.40	\$ 4.40
Tax and fee collections per staff (in millions).....	\$ 26.2	\$ 25.6	\$ 25.7
Average Number of Employees.....	1,519	1,641	1,698

DEPARTMENT DIRECTOR
During Examination Period: Brain A. Hamer (through 1-19-15); Constance Beard (effective 1-20-15)
Currently: Constance Beard

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

LACK OF CONTROLS OVER GENTAX

The Department failed to implement adequate change management, disaster recovery, and security controls over the enterprise wide tax system (GenTax). During testing, some of the items the auditors noted were as follows:

No formal change management standard in place

- The Department did not have a formal change management standard in place until April 2016 to control the change process over GenTax.

Disaster recovery plan had not been developed

- The Department had not developed a disaster recovery plan and had not conducted testing to ensure GenTax or the ancillary applications and data could be timely restored.
- The Department had not developed an access control policy rights to GenTax. (Finding 1, pages 14-15)

We recommended the Department establish and maintain adequate controls over the security, availability, integrity, and confidentiality of GenTax data.

Department agreed with auditors

The Department agreed with the recommendation and stated the change management process implemented in April 2016 is being followed. The Department is actively working with the Illinois Department of Innovation and Technology to conduct disaster recovery testing in order to gain assurance that it could recover in the event of a disaster. The Department published an Access Control Procedure Manual effective November 2016.

WEAKNESSES IN PROJECT MANAGEMENT OF GENTAX

The Department had weaknesses with the controls over the project management of the enterprise wide tax system (GenTax). During the examination period, the Department continued GenTax's expansion, which included Rollout 5 and replacing the Department's legacy Consolidated Accounting System with the GenTax General Ledger.

During testing, the auditors noted the following:

Deliverables not approved or were not approved timely

- The vendor's contract deliverables were not always approved by the Department or were approved after Rollout 5 or the General Ledger went into production.

Testing scripts not adequately documented

- Testing scripts did not always provide detail as to the actual testing performed and the testing scripts with identified problems did not contain documentation associated with the corrective action. (Finding 2, pages 16-17)

We recommended the Department ensure the development process is adequately controlled and documented.

Department agreed with auditors

The Department accepted the recommendation and stated revised procedures have been put in place to ensure documentation of all deliverable review and approvals are complete and sufficient. Department officials also stated system testing will be done using defined test cases with documented results and approvals.

CONTROLS AND SAFEGUARDS OVER THE PROCESSING OF TAXPAYER INFORMATION

Weaknesses in physical safeguards

The Department has not completely implemented controls and safeguards over processing taxpayer information. During testing, auditors noted instances in which the Department's internal controls to protect taxpayer information contained weaknesses in certain physical safeguards to control access to areas within the Department as well as the storage of taxpayer information. Department staff confirmed to the auditors they were not aware of any specific instances of loss of confidential information due to the identified weaknesses in physical safeguards. (Finding 3, pages 18-19). **This finding has been repeated since 2010.**

Department agreed with auditors

We recommended the Department ensure taxpayer information is adequately protected during both business and non-business hours from potential unauthorized access as mandated by State statute and IRS Publication 1075.

The Department accepted the recommendation and stated funding has been appropriated and the Department is on target for a completion date within fiscal year 2018. *(For the previous Department response, see Digest Footnote #1)*

OTHER FINDINGS

The remaining findings are reportedly being given attention by the Department. We will review the Department's progress towards the implementation of our recommendations in our next compliance examination.

AUDITOR'S OPINION

The auditors stated the financial statements of the Department as of and for the year ended June 30, 2016 are fairly stated in all material respects.

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the Department for the two years ended June 30, 2016, as required by the Illinois State Auditing Act. The accountants qualified their report on State compliance for Finding 2016-001. Except for the noncompliance described in this finding, the accountants stated the Department complied, in all material respects, with the requirements described in the report.

This financial audit and compliance examination was conducted by Sikich LLP.

SIGNED ORIGINAL ON FILE

BRUCE L. BULLARD
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:JVD:cc

DIGEST FOOTNOTES

#1 – CONTROLS AND SAFEGUARDS OVER THE PROCESSING OF TAXPAYER INFORMATION

2014: The Department accepts the recommendation. Safeguarding taxpayer information is one of the Department's highest priorities. The Department continues to implement compensating controls designed to restrict access to its facilities and taxpayer information. The Department continues to improve in its compliance with State statutes and the IRS Publication 1075.