

**STATE OF ILLINOIS
DEPARTMENT OF REVENUE**

Compliance Examination

For the Two Years Ended June 30, 2022

Performed as Special Assistant Auditors for
the Auditor General, State of Illinois

**State of Illinois
Department of Revenue**

**Compliance Examination
For the Two Years Ended June 30, 2022**

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**State of Illinois
Department of Revenue**

**Compliance Examination
For the Two Years Ended June 30, 2022**

Agency Officials

Director	David Harris
Assistant Director	Vacant
Associate Director	Africa (7/16/20 – Present) Vacant (7/1/20 – 7/15/20)
Chief of Staff	Jim Nichelson
Chief Financial Officer	Cory Staley
Chief Internal Auditor	Nikki Lanier
General Counsel	Colin Bowes-Carlson (9/1/21 – Present) Brian Fliflet, Acting (7/1/20 – 8/31/21)

Department Offices are located at:

Springfield, Illinois

Willard Ice Building
101 West Jefferson Street
Springfield, Illinois 62702

Chicago, Illinois (Opened 6/27/22)

555 West Monroe, Suite 1100
Chicago, Illinois 60661

Fairview Heights, Illinois

15 Executive Drives, Suite 2
Fairview Heights, Illinois 62208

Rockford, Illinois

200 South Wyman Street
Rockford, Illinois 61101

**Chicago, Illinois (Moved from this location
the weekend of 6/25/22-6/26/22)**

James R. Thompson Center
100 West Randolph Street
Chicago, Illinois 60601

Des Plaines, Illinois

Maine North Regional Building
9511 Harrison Avenue
Des Plaines, Illinois 60016

Marion, Illinois

2309 West Main Street, Suite 114
Marion, Illinois 62959

101 West Jefferson Street
Springfield IL 62702
217.785.7570

555 West Monroe Street
Chicago IL 60661
312.814.5190



JB Pritzker
Governor

David Harris
Director

STATE OF ILLINOIS
DEPARTMENT OF REVENUE

September 28, 2023

RSM US LLP
1450 American Lane, Suite 1400
Schaumburg, Illinois 60173

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Illinois Department of Revenue (Department). We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the Department's compliance with the following specified requirements during the two-year period ended June 30, 2022. Based on this evaluation, we assert that during the years ended June 30, 2022 and June 30, 2021, the Department has materially complied with the specified requirements listed below.

- A. The Department has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Department has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.
- C. The Department has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the Department are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the Department on behalf of the State or held in trust by the Department have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Yours truly,

Illinois Department of Revenue

SIGNED ORIGINAL ON FILE

David Harris, Director

SIGNED ORIGINAL ON FILE

Cory Staley, Chief Financial Officer

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Colin Bowes-Carlson, General Counsel

**State of Illinois
Department of Revenue**

**Compliance Examination
For the Two Years Ended June 30, 2022**

COMPLIANCE REPORT

SUMMARY

The State compliance testing performed during this examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide.

ACCOUNTANT'S REPORT

The Independent Accountant's Report on State Compliance and on Internal Control Over Compliance does not contain scope limitations or disclaimers, but does contain a modified opinion on compliance and material weaknesses in internal control over compliance.

SUMMARY OF FINDINGS

	<u>Current</u>	<u>2021</u>	<u>2020</u>
GAS Findings	3	1	2
State Compliance Findings	15	N/A	8
Total Findings	18	1	10
GAS New Findings	3	-	1
GAS Repeated Findings	-	1	1
GAS Not Repeated Findings	1	1	-
State Compliance New Findings	11	N/A	4
State Compliance Repeated Findings	4	N/A	4
State Compliance Not Repeated Findings	4	N/A	4

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Last/First Reported</u>	<u>Description</u>	<u>Finding Type</u>
Current Findings				
2022-001	11	NEW	Weaknesses in Internal Controls over Reporting for Federal Operating Grants	Material Weakness and Material Noncompliance
2022-002	14	NEW	Inadequate Internal Controls over Access to GenTax	Material Weakness and Material Noncompliance
2022-003	16	NEW	Inadequate Internal Control over Service Providers	Significant Deficiency and Noncompliance
2022-004	18	2022/2018	Complete Populations Not Provided	Material Weakness and Material Noncompliance
2022-005	22	NEW	Inadequate Controls over the Cigarette Tax Act	Material Weakness and Material Noncompliance
2022-006	23	2022/2020	Weakness in Cybersecurity Programs and Practices	Significant Deficiency and Noncompliance
2022-007	25	NEW	Inadequate Controls over Consolidated Agency Issues	Significant Deficiency and Noncompliance
2022-008	26	2022/2007	Exceptions in Testing Personnel	Significant Deficiency and Noncompliance

**State of Illinois
Department of Revenue**

**Compliance Examination
For the Two Years Ended June 30, 2022**

COMPLIANCE REPORT

SUMMARY (Continued)

SCHEDULE OF FINDINGS (Continued)

<u>Item No.</u>	<u>Page</u>	<u>Last/First Reported</u>	<u>Description</u>	<u>Finding Type</u>
Current Findings				
2022-009	27	2022/2018	Inadequate Controls over Monitoring, Processing and Recording of State Property and Equipment	Significant Deficiency and Noncompliance
2022-010	29	NEW	Inadequate Controls over Contracts	Significant Deficiency and Noncompliance
2022-011	31	NEW	Inadequate Controls over the Cancellation of Telecommunication Devices	Significant Deficiency and Noncompliance
2022-012	32	NEW	Failure to Demonstrate Restricted Access was Adequately Maintained	Significant Deficiency and Noncompliance
2022-013	34	NEW	Inadequate Controls over Agency Workforce Reports	Significant Deficiency and Noncompliance
2022-014	35	NEW	Inadequate Controls over the Application Process of Qualifying Water Treatment Facilities	Significant Deficiency and Noncompliance
2022-015	37	NEW	Inadequate Controls over the Security and Control of Remote Access	Significant Deficiency and Noncompliance
2022-016	38	NEW	Voucher Processing Weaknesses	Significant Deficiency and Noncompliance
2022-017	40	NEW	Inadequate Controls over Contingency Planning	Significant Deficiency and Noncompliance
2022-018	42	NEW	Inadequate Controls over the Security and Control of Confidential Information (SCCI)	Significant Deficiency and Noncompliance

Prior Findings Not Repeated

<u>Item No.</u>	<u>Page</u>	<u>Last/First Reported</u>	<u>Description</u>
A.	44	2021/2020	Lack of Census Data Reconciliation
B.	44	2020/2020	Inadequate Controls over Tax Credit Programs
C.	44	2020/2018	Lack of Agreement to Ensure Compliance with IT Security Requirements
D.	44	2020/2020	Inadequate Execution of Interagency Agreements
E.	45	2020/2020	Inadequate Accounting of Postage Balances

**State of Illinois
Department of Revenue**

**Compliance Examination
For the Two Years Ended June 30, 2022**

COMPLIANCE REPORT

Financial Exit Conference

Findings 2022-001 through 2022-003 and their associated recommendations appearing in this report were discussed with Department personnel at an exit conference on June 20, 2023. Attendees were:

Illinois Department of Revenue:

David Harris	Director
Cory Staley	Chief Financial Officer
Jacob Flori	Financial Control Bureau Manager
Nikki Lanier	Chief Internal Auditor
Jim Nichelson	Chief of Staff
Angela Bartlett	Deputy Chief Internal Auditor

Office of the Auditor General:

Janis Van Durme	Health & Human Services Senior Audit Manager
Reddy Bommareddi	Senior Audit Manager

RSM US LLP:

Bill Sarb	Partner
Katie Rodriguez	Manager

The responses to these recommendations for findings 2022-002 and 2022-003 were provided on June 21, 2023 and the response to finding 2022-001 was provided on June 23, 2023 by Nikki Lanier, Chief Internal Auditor.

State Compliance Exit Conference

Findings 2022-004 through 2022-018 and their associated recommendations appearing in this report were discussed with Department personnel at an exit conference on September 20, 2023. Attendees were:

Illinois Department of Revenue:

David Harris	Director
Cory Staley	Chief Financial Officer
Nikki Lanier	Chief Internal Auditor
Jim Nichelson	Chief of Staff
Africa	Associate Director
Angela Bartlett	Deputy Chief Internal Auditor

Office of the Auditor General:

Janis Van Durme	Health & Human Services Senior Audit Manager
Reddy Bommareddi	Senior Audit Manager

**State of Illinois
Department of Revenue**

**Compliance Examination
For the Two Years Ended June 30, 2022**

RSM US LLP:

Bill Sarb
Katie Rodriguez
Kyle Erchinger

Partner
Manager
Supervisor

The responses to these remaining recommendations were provided by Nikki Lanier, Chief Internal Auditor, in correspondence dated September 25, 2023.

**Independent Accountant's Report on State Compliance and
on Internal Control Over Compliance**

RSM US LLP

Honorable Frank J. Mautino
Auditor General
State of Illinois

Report on State Compliance

As Special Assistant Auditors for the Auditor General, we have examined compliance by the State of Illinois Department of Revenue (Department) with the specified requirements listed below, as more fully described in the *Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide)* as adopted by the Auditor General, during the two years ended June 30, 2022. Management of the Department is responsible for compliance with the specified requirements. Our responsibility is to express an opinion on the Department's compliance with the specified requirements based on our examination.

The specified requirements are:

- A. The Department has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Department has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.
- C. The Department has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the Department are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the Department on behalf of the State or held in trust by the Department have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the *Audit Guide*. Those standards, the Act, and the *Audit Guide* require that we plan and perform the examination to obtain reasonable assurance about whether the Department complied with the specified requirements in all material respects. An examination involves performing procedures to obtain evidence about whether the Department complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgement, including an assessment of the risks of material noncompliance with the specified requirements, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our modified opinion.

We are required to be independent and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to this engagement.

Our examination does not provide a legal determination on the Department's compliance with the specified requirements.

Our examination disclosed material noncompliance with the following specified requirement applicable to the Department during the two years ended June 30, 2022.

As described in the accompanying Schedule of Findings as items 2022-001, 2022-002, 2022-004 and 2022-005, the Department had not complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

In our opinion, except for the material noncompliance with the specified requirement described in the preceding paragraph, the Department complied with the specified requirements during the two years ended June 30, 2022, in all material respects. However, the results of our procedures disclosed instances of noncompliance with the specified requirements, which are required to be reported in accordance with criteria established by the *Audit Guide* and are described in the accompanying Schedule of Findings as items 2022-006 through 2022-018.

The Department's responses to the compliance findings identified in our examination are described in the accompanying Schedule of Findings. The Department's responses were not subjected to the procedures applied in the examination and, accordingly, we express no opinion on the responses.

The purpose of this report is solely to describe the scope of our testing and the results of that testing in accordance with the requirements of the *Audit Guide*. Accordingly, this report is not suitable for any other purpose.

Report on Internal Control Over Compliance

Management of the Department is responsible for establishing and maintaining effective internal control over compliance with the specified requirements (internal control). In planning and performing our examination, we considered the Department's internal control to determine the examination procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Department's compliance with the specified requirements and to test and report on the Department's internal control in accordance with the *Audit Guide*, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings, we did identify certain deficiencies in internal control that we consider to be a material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the specified requirements on a timely basis. *A material weakness in internal control* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material noncompliance with the specified requirements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items 2022-001, 2022-002, 2022-004, and 2022-005 to be material weaknesses.

A significant deficiency in internal control is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items 2022-003 and 2022-006 through 2022-018 to be significant deficiencies.

As required by the *Audit Guide*, immaterial findings excluded from this report have been reported in a separate letter.

The Department's responses to the internal control findings identified in our examination are described in the accompanying Schedule of Findings. The Department's responses were not subjected to the procedures applied in the examination and, accordingly, we express no opinion on the responses.

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing based on the requirements of the *Audit Guide*. Accordingly, this report is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

Schaumburg, Illinois
September 28, 2023

**State of Illinois
Department of Revenue**

**Schedule of Findings (Continued)
For the Two Years Ended June 30, 2022**

Current Findings

Finding 2022-001 Weaknesses in Internal Controls over Reporting for Federal Operating Grants

The Department of Revenue (Department) did not properly reflect the reporting for federal operating grant activity in the financial statements.

Historically, the Department has not been involved in the administration of federal grant programs impacting the State of Illinois (State). Based on new grant funding programs, largely associated with the COVID-19 pandemic, the Department has been asked to work with other State agencies in the processing of grant transactions and their associated reporting responsibilities. During our review of the Department's draft financial statements, audit adjustments were proposed for two of the Department's governmental funds; Fund 0286 (Illinois Affordable Housing Trust) and Fund 0324 (State Coronavirus Urgent Remediation Emergency) to properly reflect revenue and expenditure recognition requirements for federal operating grants that are being administered by the State and passed through to a component unit of the State. The proposed adjustments were recorded and reflected as follows:

- Fund 0286: An adjustment of \$204,700,000 to reduce federal operating grant revenue and increase unearned revenue due to revenue recognition requirements related to the fact that the ultimate grantee did not incur qualifying expenditures as of fiscal-year end.
- Fund 0324: Three adjustments as follows:
 - An adjustment of \$585,394,000 to remove the debit balance posted to the federal operating grants revenue account in error, the corresponding adjustment removed the same balance reported as a SAMS transfer out within other financing sources.
 - An adjustment of \$73,306,000 to record federal operating grant revenue associated with the grant program for amounts that passed through the Department to the ultimate grantee during the year.
 - An adjustment of \$49,729,000 to reduce federal operating grant revenue and increase unearned revenue due to revenue recognition requirements related to the fact that the ultimate grantee did not incur qualifying expenditures as of fiscal-year end.

Per GASB Codification N50, *Nonexchange Transactions, Paragraph .128:*

Governmental entities often receive grants and other financial assistance to transfer to or spend on behalf of a secondary recipient. These amounts are referred to as pass-through grants. All cash pass-through grants received by a governmental entity (referred to as a recipient government) should be reported in its financial statements. As a general rule, cash pass-through grants should be recognized as revenue and expenditures or expenses in the funds of the primary government and in the government-wide financial statements. In those infrequent cases in which a recipient government serves only as a cash conduit, the grant should be reported in a custodial fund. A recipient government serves only as a cash conduit if it merely transmits grantor-supplied moneys without having administrative or direct financial involvement in the program. A recipient government has administrative involvement if, for example, it (a) monitors secondary recipients for compliance with program-specific requirements, (b) determines eligible secondary recipients or projects, even if using grantor-established criteria, or (c) has the ability to exercise discretion in how the funds are allocated. A recipient government has direct financial involvement if, for example, it finances some direct program costs because of a grantor-imposed matching requirement or is liable for disallowed costs. [GASBS 24, ¶14, as amended by GASBS 35, ¶15; GASBS 24, ¶15, as amended by GASBS 35, ¶15 and GASBS 84, ¶18; GASBS 34, ¶6]]

**State of Illinois
Department of Revenue**

**Schedule of Findings (Continued)
For the Two Years Ended June 30, 2022**

Current Findings

Finding 2022-001 Weaknesses in Internal Controls over Reporting for Federal Operating Grants (Continued)

Per GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, Paragraph 21 for revenue recognition requirements:

Providers should recognize liabilities (or a decrease in assets) and expenses from government-mandated or voluntary nonexchange transactions, and recipients should recognize receivables (or a decrease in liabilities) and revenues (net of estimated uncollectible amounts), when all applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met should be reported as advances by the provider and as deferred revenues by recipients, except as indicated in paragraph 22 for recipients of certain resources transmitted in advance.

The Department indicated its financial statements present only its transactions and not the State in its entirety. The federal revenue was administered by the Illinois Emergency Management Agency (IEMA). The Illinois Office of the Comptroller directed IEMA, and not the Department, to report the revenue.

In addition, during our review of the Department's draft financial statements, we noted Fund 0324 was misclassified as a Special Revenue Fund instead of as a General Fund. Accordingly, the Department subsequently reclassified Fund 0324 from a Special Revenue Fund to the General Fund to be consistent with the rest of the State of Illinois which reports Fund 0324.

Per the Statewide Accounting Management System (SAMS) Manual Exhibit 27.50.10-A, Fund 0324 State Coronavirus Urgent Remediation Emergency was determined by the State to be reported as a sub-account of the General Fund.

Department management indicated the misclassification of Fund 0324 was due to oversight.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Failure to ensure the proper classification of funds and the reporting of federal operating grants could materially misstate the Department's financial statements and potentially impact the State's Annual Comprehensive Financial Report. (Finding Code No. 2022-001)

Recommendation

We recommend the Department reinforce their understanding of the requirements for classifying of funds and for grant reporting and the related impacts they have on the financial statements in order to strengthen the internal controls in place related to the administration and reporting of federal grant programs.

**State of Illinois
Department of Revenue**

**Schedule of Findings (Continued)
For the Two Years Ended June 30, 2022**

Current Findings

Finding 2022-001 Weaknesses in Internal Controls over Reporting for Federal Operating Grants (Continued)

Department Response

The Department has accepted the recommendation.

**State of Illinois
Department of Revenue**

**Schedule of Findings (Continued)
For the Two Years Ended June 30, 2022**

Current Findings

Finding 2022-002 Inadequate Internal Controls over Access to GenTax

The Department of Revenue (Department) did not have adequate internal controls over access to the enterprise tax system (GenTax).

During our testing, we requested the Department provide the populations of individuals hired and terminated from employment during the audit period. In response to our request, the Department provided the populations; however, we noted the populations were not timely updated to reflect the changes in the activity for new hires and terminations in Fiscal Year 2022. Therefore, we were unable to conclude whether the populations were complete and accurate under the Professional Standards promulgated by the American Institute of Certified Public Accountants (AU-C § 500.08 and AT-C § 205.36).

Even given the population limitations noted above, we performed testing over the security controls of GenTax noting:

- 2 of 23 (9%) individuals' GenTax access were activated six and eight days before the employment start date.
- 4 of 14 (29%) individuals' GenTax access were not terminated upon separation, and we were unable to determine when those separated employees' access were terminated.
- 1 of 14 (7%) individual's GenTax access was not terminated timely upon separation. The access was terminated five days after separation.

The *Security and Privacy Controls for Information Systems and Organizations* (Special Publication 800-53, Fifth Revision) published by the National Institute of Standards and Technology (NIST), Access Control section, requires entities to timely grant individuals' access to the applications, and to terminate access upon separation. In addition, the *Guide to Computer Security Log Management* (Special Publication 800-92) published by the NIST sets forth internal controls over computer security.

In addition, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to ensure State resources are used efficiently and effectively, and funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation.

Further, the Department's Access Control Procedures require the Department to remove GenTax access of separated employees immediately after separation.

Department management indicated the incomplete populations were due to the manual nature of the Department's personnel tracking system and the other exceptions noted were due to a lack of oversight.

Failure to monitor, track, and account for newly hired or terminated individuals at all times puts the Department at risk of unauthorized access to GenTax. In addition, failure to document the timely granting and termination of users' access puts the Department at risk of unauthorized access to GenTax. (Finding Code No. 2022-002)

**State of Illinois
Department of Revenue**

**Schedule of Findings (Continued)
For the Two Years Ended June 30, 2022**

Current Findings

Finding 2022-002 Inadequate Internal Controls over Access to GenTax (Continued)

Recommendation

We recommend the Department strengthen its internal controls over the records maintained related to hiring and terminations. We further recommend the Department strengthen its internal controls to ensure users' access are immediately terminated in accordance with Department policy and new hires are not granted access prior to their start dates.

Department Response

The Department has accepted the recommendation.

**State of Illinois
Department of Revenue**

**Schedule of Findings (Continued)
For the Two Years Ended June 30, 2022**

Current Findings

Finding 2022-003 Inadequate Internal Control over Service Providers

The Illinois Department of Revenue (Department) had not implemented adequate internal controls over its service providers.

We requested the Department provide the population of service providers utilized during the audit period to determine if the Department had reviewed the internal controls over its service providers. In response to our request, the Department provided a listing; however, the Department did not provide documentation demonstrating the listing was complete and accurate.

Due to these conditions, we were unable to conclude the Department's population records were sufficiently precise and detailed under the Professional Standards promulgated by the American Institute of Certified Public Accountants (AU-C §550.08 and AT-C § 205.36). Even given the population limitations noted above, we performed testing of four service providers identified by the Department. The Department utilized service providers for mail processing, lock box services, data entry and credit card payment processing.

Our testing noted the Department had not:

- Obtained System and Organization Controls (SOC) reports or performed adequate independent reviews for two out of four (50%) service providers.
- Conducted an analysis to determine the impact of noted deviations within the SOC reports for one out of four (25%) service provider.
- Monitored and documented the operation of the Complementary User Entity Controls (CUECs) related to the Department's operations for two out of four (50%) service providers.
- Developed or implemented formalized written procedures for the monitoring service providers.

In addition, the Department obtained a bridge letter for one (25%) service provider; however, the Department did not address the risk of relying on the bridge letter which covered nine months of the fiscal year.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds, property and other assets and resources are safeguarded against waste, loss, unauthorized use and misappropriation and maintain accountability over the State's resources.

The Security and Privacy Controls for Information Systems and Organizations (Special Publication 800-53, Fifth Revision) published by the National Institute of Standards and Technology (NIST), Maintenance and System and Services Acquisition sections, requires entities outsourcing their information technology environment or operations to obtain assurance over the entities' internal controls related to the services provided. Such assurance may be obtained via System and Organization Controls reports or independent reviews.

Department management indicated they did not formalize procedures to ensure all service providers were identified, assessed, and monitored due to oversight.

Without obtaining and reviewing SOC reports or another form of independent internal control review, the Department does not have assurance the service providers' internal controls are adequate and operating effectively. (Finding Code No. 2022-003)

**State of Illinois
Department of Revenue**

**Schedule of Findings (Continued)
For the Two Years Ended June 30, 2022**

Current Findings

Finding 2022-003 Inadequate Internal Control over Service Providers (Continued)

Recommendation

We recommend the Department strengthen its controls in identifying and documenting all service providers. Further, we recommend the Department:

- Obtain and review SOC reports (or perform independent reviews) of internal controls associated with outsourced systems at least annually.
- Conduct an analysis to determine the impact of the noted deviations within the SOC reports.
- Monitor and document the operation of the CUECs related to the Department's operations.
- Develop or implement procedures for monitoring service providers.
- Ensure no significant changes to the service providers' internal control when bridge letters are obtained for extended periods.

Department Response

The Department has accepted the recommendation.

**State of Illinois
Department of Revenue**

**Schedule of Findings (Continued)
For the Two Years Ended June 30, 2022**

Current Findings

Finding 2022-004 Complete Populations Not Provided

The Department of Revenue (Department) was unable to provide adequate records substantiating the completeness of populations for one or more laws, regulations, or other requirements.

During our examination, we noted the following:

- While testing compliance with commodities, we requested the Department's commodities year-end balances (quantity) for Fiscal Years 2021 and 2022. To determine completeness of the listings, we recalculated ending balances based on supporting documentation. The recalculation for Fiscal Year 2021 resulted in 10 less commodity items than the ending balance provided by the Department. This also resulted in an incorrect beginning balance for Fiscal Year 2022. In addition, the recalculation for Fiscal Year 2022 resulted in 1,094 more commodity items than in the ending balance provided by the Department. As a result, we are unable to determine if there were other items which should have been included in the commodity balances of which we may be unaware.

Department management stated the errors can be attributed to human error due to the omission of amounts that should have been included in the commodities balance. In addition, Department management stated a supervisory review of the information was not performed due to staffing limitations.

- While testing compliance with contractual agreements, we requested and the Department provided its contractual agreement populations and reconciliations for Fiscal Years 2021 and 2022. The Department was unable to provide reconciliations between the Agency Contract Report (SC14) or the Obligation Activity Report (SC15) for 5 of the 24 months (21%) requested. In addition, when comparing the SC14 reports to the Department's population, we noted eleven contracts found in the SC14 reports were not included in the Department's population.

Department management stated a review of the SC14 reports was performed but not documented. Further, Department management stated it did not have a formal reconciliation process documenting the review process until December 2020. Past reports for July 2020 through November 2020 were unable to be generated. Department management further indicated the contracts not included in the Department's population occurred due to a lack of oversight by the program area.

- While testing compliance with Agency Workforce Reports, we requested the Department to provide support for reported employees and their salaries for Fiscal Years 2021 and 2022. However, the Department could not provide the requested documentation as it was not retained by the Department. As a result, we are unable to determine if the reports filed were complete and accurate.

Department management stated this occurred due to a lack of oversight by the program area.

**State of Illinois
Department of Revenue**

**Schedule of Findings (Continued)
For the Two Years Ended June 30, 2022**

Current Findings

Finding 2022-004 Complete Populations Not Provided (Continued)

- While testing compliance with personal services, we requested the Department's employee populations for employees who were hired, employees who had separated employment from the Department, and active employees as of the last payroll period for Fiscal Years 2021 and 2022. When comparing the details of the listings to each other the following exceptions were noted:
 - One separated employee was not reflected in the Fiscal Year 2021 separations listing.
 - One candidate was added to the Fiscal Year 2021 Active Listing but never started and was not removed.
 - Three employees were included in the Fiscal Year 2021 separations listing but were not employees of the Department.

Department management stated based on the need to manually compile the listings, the noted exceptions were due to human error.

- While testing compliance with telecommunications, we requested the Department provide a population of electronic devices assigned to employees who had separated from the Department during the examination period in order to determine if the electronic device was terminated appropriately. When comparing the details of the population provided to the Department's equipment listing, the following exceptions were noted:
 - 112 newly issued telecommunication devices were improperly excluded from the Department's equipment listing as of June 30, 2022.
 - 9 devices were reported as being turned-in but were excluded from the Department's equipment listing as of June 30, 2022.

As a result, we are unable to determine if there were other electronic devices that should have been included of which we were unaware.

Department management indicated there are no procedures currently in place to reconcile the Department's equipment listing against the listing of telecommunication devices from its legacy system.

- While testing compliance with Property Tax Code (35 ILCS 200), we requested the Department provide a population of water treatment facility applicants for Fiscal Years 2021 and 2022, which have 2020 and 2021 assessments for tax purposes. However, the Department could not provide documentation to ensure the population was complete. As a result, we are unable to determine if the population of water treatment facilities that applied with the Department in Fiscal Years 2021 and 2022 were complete and accurate.

Department management stated this occurred due to a lack of oversight by the program area.

**State of Illinois
Department of Revenue**

**Schedule of Findings (Continued)
For the Two Years Ended June 30, 2022**

Current Findings

Finding 2022-004 Complete Populations Not Provided (Continued)

Despite the population limitations above which hindered our ability to conclude whether the selected sample was representative of the population as a whole, we obtained the populations provided by the Department for each of the areas above, selected a sample, and tested for compliance. For the samples tested, we reported noncompliance for the following areas: Finding 2022-008 for Exceptions in Testing Personnel; Finding 2022-009 for Inadequate Controls over Monitoring, Processing and Recording of State Property and Equipment; Finding 2022-010 for Inadequate Controls over Contracts; Finding 2022-011 for Inadequate Controls over the Cancellation of Telecommunication Devices; Finding 2022-013 for Inadequate Controls over Agency Workforce Reports; and Finding 2022-014 for Inadequate Controls over the Application Process of Qualifying Water Treatment Facilities.

According to the Attestation Standards promulgated by the American Institute of Certified Public Accountants (AT-C § 205.36), when using information produced by the entity, the practitioner should evaluate whether the information is sufficiently reliable for the practitioner's purposes, including, as necessary, obtaining evidence about the accuracy and completeness of the information, and evaluating whether the information is sufficiently precise and detailed for the practitioner's purposes.

The State Records Act (5 ILCS 106/8) requires the Director to make and preserve records containing adequate and proper documentation of the essential transactions of the Department to protect both the legal and financial rights of the State and of persons directly affected by the Department's activities.

The State Employment Records Act (5 ILCS 410/20) requires the Department to collect, classify, maintain, and report certain employment statistics for women, disabled, and minority groups. Annual reports summarizing the information in a prescribed format are required to be filed with the Secretary and the Governor by January 1 each year for the preceding fiscal year.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls, to provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

The Property Tax Code (35 ILCS 200/) indicates in section 11-161 that applications for assessment as a qualifying water treatment facility must be filed with the Department in the manner and form prescribed by the Department.

This finding was first reported in the Department's *State Compliance Examination* for the two years ended June 30, 2018. In subsequent years, the Department has been unsuccessful in implementing an adequate corrective action plan.

Failure to provide complete and adequate documentation impedes us in completing our procedures and providing useful and relevant feedback to the General Assembly regarding the Department's compliance for the above areas. Further, the Department is unable to demonstrate it has met each compliance requirement it is subject to when sufficient records are not maintained. (Finding Code No. 2022-004, 2020-003, 2018-005)

**State of Illinois
Department of Revenue**

**Schedule of Findings (Continued)
For the Two Years Ended June 30, 2022**

Current Findings

Finding 2022-004 Complete Populations Not Provided (Continued)

Recommendation

We recommend the Department strengthen controls over the records maintained for each area in which a compliance requirement is present.

Department Response

The Department accepts the recommendation. We will review internal processes for accuracy to ensure complete populations are reported. As applicable, procedures will be updated and disseminated to staff.

**State of Illinois
Department of Revenue**

**Schedule of Findings (Continued)
For the Two Years Ended June 30, 2022**

Current Findings

Finding 2022-005 Inadequate Controls over the Cigarette Tax Act

The Department of Revenue (Department) did not prepare or publish reports of summary statistical information relating to license or permit applications of cigarette retailers as required by the Cigarette Tax Act (Act).

The Act (35 ILCS 130/) indicates in section 4g that the following parties are ineligible to receive a cigarette retailer's license: 1) persons convicted of a cigarette or tobacco-related felony if an investigation determines the person to not be sufficiently rehabilitated and 2) a corporation if any officer, manager, director or other shareholder owns more than 5% of the stock.

Further, the Act (35 ILCS 130/) indicates in section 4i that the Department must prepare, publicly announce, and publish a report of summary statistical information relating to new and renewal license or permit applications from the preceding calendar year, including information on denials, approvals, and applicants with prior conviction history.

During testing, we noted the Department's application process for cigarette retailers currently does not include background checks for felony convictions or a review of financial information to determine if more than 5% of a corporation is owned by any officer, manager, director or stockholder.

Department management indicated the cigarette retailers application (REG-1) does not contain the qualifying questions that would collect the information required due to management oversight.

As a result of the Department's application process not including a background check or a financial review, the Department is unable to demonstrate that ineligible applicants did not receive cigarette retailer licenses. Further, the Department's failure to obtain the required information at the time the applicant applies for the license results in noncompliance with the Act and results in the public not having access to the information regarding license and permits applied for and granted under the Act. (Finding Code No. 2022-005)

Recommendation

We recommend the Department enhance its application process to include a background check and financial review of the cigarette retailer applicants and to update its Bureau of Criminal Investigation database to include criminal conviction information in order to publish the required report.

Department Response

The Department accepts the recommendation. We will modify the registration process and systemic edits to ensure ineligible applicants do not receive cigarette retailer licenses. In addition, we will coordinate the publication of a report of summary statistical information relating to new and renewal license or permit applications from the preceding calendar year.

**State of Illinois
Department of Revenue**

**Schedule of Findings (Continued)
For the Two Years Ended June 30, 2022**

Current Findings

Finding 2022-006 Weakness in Cybersecurity Programs and Practices

The Department of Revenue (Department) had weaknesses related to cybersecurity programs and practices.

As a result of the Department's role in maintaining and collecting tax and other information, the Department maintains computer systems that contain large volumes of confidential or personal information such as names, addresses, and Social Security numbers, etc.

The Illinois State Auditing Act (30 ILCS 5/3-2.4) requires the Auditor General to review State agencies and their cybersecurity programs and practices. During the examination of the Department's cybersecurity program and practices, we noted the Department had not:

- Developed a process to receive, review or respond to vulnerability reports performed by the Department of Innovation and Technology (DoIT).
- Developed a comprehensive risk management methodology, performed a comprehensive risk assessment, and implemented risk-reducing internal controls or security solutions over assets.
- Developed a project management framework.
- Developed a comprehensive incident management procedure.
- Classified its data according to the data classification methodology.

The Framework for Improving Critical Infrastructure Cybersecurity and the Security and Privacy Controls for Information Systems and Organizations (Special Publication 800-53, Fifth Revision) published by National Institute of Standards and Technology (NIST), requires entities to consider risk management practices, threat environments, legal and regulatory requirements, mission objectives and constraints in order to ensure the security of their applications, data, and continued business mission.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use and misappropriation.

Department management indicated the project management, incident response, and implementation of data classification were not formalized as the Department relied on DoIT's policies and procedures.

The lack of adequate cybersecurity programs and practices could result in unidentified risk and vulnerabilities, which could ultimately lead to the Department's confidential and personal information being susceptible to cyberattacks and unauthorized disclosure. (Finding Code No. 2022-006, 2020-005)

**State of Illinois
Department of Revenue**

**Schedule of Findings (Continued)
For the Two Years Ended June 30, 2022**

Current Findings

Finding 2022-006 Weakness in Cybersecurity Programs and Practices (Continued)

Recommendation

We recommend the Department:

- Develop a process to receive, review, and respond to vulnerability assessments performed by DoIT.
- Develop a risk management methodology, conduct a risk assessment, and implement risk reducing internal controls.
- Develop a project management framework.
- Develop incident management procedures.
- Classify its data according to the data classification methodology and ensure adequate protection of information.

Department Response

The Department accepts the recommendation. We will work to develop policies and procedures over cybersecurity.

**State of Illinois
Department of Revenue**

**Schedule of Findings (Continued)
For the Two Years Ended June 30, 2022**

Current Findings

Finding 2022-007 Inadequate Controls over Consolidated Agency Issues

The Department of Revenue (Department) did not ensure adequate internal controls to promote the security, processing, integrity, availability, and confidentiality of its applications and data.

On January 25, 2016, the Governor signed Executive Order 2016-01, which created the Department of Innovation and Technology (DoIT). Under the Executive Order, DoIT assumed responsibilities for the State's IT decisions and spending, including the Department's Information Technology infrastructure and functions. Commencing on July 1, 2016, DoIT and the Department were to work together in order to "transfer all relevant functions, employees, property, and funds" to DoIT.

During our examination, we noted the Department did not have a formal process for reviewing DoIT's environment to ensure compliance with external legal and regulatory requirements.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that property and resources are safeguarded against waste, loss, unauthorized use, and misappropriation.

Department management stated that there are internal controls in place for reviewing DoIT's control environment. However, these controls were not properly documented during the compliance period.

Without an adequate process in place to monitor consolidated agency issues, the Department cannot ensure its IT function, which hosts and maintains all critical systems, is in compliance with external legal requirements and regulatory requirements. (Finding Code No. 2022-007)

Recommendation

The Department has the ultimate responsibility for ensuring DoIT complies with external requirements imposed. Specifically, we recommend the Department establish a formal process for reviewing and evaluating DoIT's compliance with external legal and regulatory requirements.

Department Response

The Department accepts the recommendation. We will work to develop a plan to review DoIT's compliance with external legal and regulatory requirements.

**State of Illinois
Department of Revenue**

**Schedule of Findings (Continued)
For the Two Years Ended June 30, 2022**

Current Findings

Finding 2022-008 Exceptions in Testing Personnel

The Department of Revenue (Department) did not have adequate internal control over the administration of its personnel functions. Specifically, we noted the Department did not perform employee evaluations as required.

Although we were unable to obtain a complete population of Department employees who were hired, employees who had separated employment from the Department, and active employees as of the last payroll period for Fiscal Years 2021 and 2022 (see Finding 2022-004), we sampled 60 employees which were required to have had 66 total evaluations performed during the examination period. Of the 60 personnel files tested, we noted the following:

- 21 (35%) of the performance evaluations were completed between 33 and 331 days late.
- Two (3%) of the performance evaluations were not on file and available to review.

This finding was first reported in the Department's *State Compliance Examination* for the two years ended June 30, 2007. In subsequent years, the Department has been unsuccessful in implementing an adequate corrective action plan.

The Illinois Administrative Code (80 Ill. Adm. Code 302.270) requires an evaluation to be completed on employees on an annual basis at a minimum. The Department's Policy Handbook states that new employees will be on a probationary six-month period, during which they will have two evaluations; one at the midpoint of the six-month period and one two weeks prior to the end of the probationary period. Employees who have been promoted or transferred are to be evaluated at the midpoint and during the final month of the probationary period.

Department management indicated the exceptions were due to competing priorities of supervisors.

Performance evaluations are a systematic and uniform approach used for the development of employees and communication of performance expectations to employees. Late or the lack of performance evaluations could hinder the basis for the Department's salary adjustments, promotion, demotion, discharges, layoffs, recalls, and reinstatement decisions. (Finding Code No. 2022-008, 2020-008, 2018-007, 2016-007, 2014-010, 12-17, 10-36, 09-18, 08-13, 07-07)

Recommendation

We recommend the Department ensure employee performance evaluations are performed in a timely manner in accordance with the Illinois Administrative Code and the Department's Policy Handbook.

Department Response

The Department accepts the recommendation. We are committed to the performance review process and ensuring reviews are completed in a timely manner. A monthly report is sent to all program area administrators with upcoming or past due evaluation due dates. In addition, Human Resources will generate a report for reviews that are more than 60 days overdue and share with Senior Leadership to support accountability.

**State of Illinois
Department of Revenue**

**Schedule of Findings (Continued)
For the Two Years Ended June 30, 2022**

Current Findings

Finding 2022-009 Inadequate Controls over Monitoring, Processing and Recording of State Property and Equipment

The Department of Revenue (Department) did not have adequate internal control over the monitoring, processing, recording, and tracking of State property and equipment.

We sampled 40 property additions for detailed testing. Of the 40 property additions tested, we noted 5 (13%) equipment additions tested, totaling \$50, were input into the Department's property records more than 90 days after acquisition. The additions ranged from 6 to 27 days late.

The Illinois Administrative Code (Code) (44 Ill. Admin. Code 5010.400) requires the Department to adjust its property records within 90 days after acquisition, change, or deletion of equipment items.

In addition, for one of seven (14%) unlocated devices tested, the Department was unable to provide supporting documentation regarding whether the associated device contained confidential information and that the device had been wiped/shredded. As a result, we could not determine if a notice of breach should have been issued under the Personal Information Protection Act (815 ILCS 530/10) and if a Form CSD-1 should have been completed in accordance with IRS Publication 1075, section 9.38 Incident Response.

The State Property Act (30 ILCS 605/4) requires the Department to be accountable to the Department of Central Management Services (DCMS) for the supervision, control, and inventory of all property under its jurisdiction.

Further, according to Personal Information Protection Act (815 ILCS 530/10) states, "... (b) Any data collector that maintains or stores, but does not own or license, computerized data that includes personal information that the data collector does not own or license shall notify the owner or licensee of the information of any breach of the security of the data immediately following discovery, if the personal information was, or is reasonably believed to have been, acquired by an unauthorized person. In addition to providing such notification to the owner or licensee, the data collector shall cooperate with the owner or licensee in matters relating to the breach. That cooperation shall include, but need not be limited to, (i) informing the owner or licensee of the breach, including giving notice of the date or approximate date of the breach and the nature of the breach, and (ii) informing the owner or licensee of any steps the data collector has taken or plans to take relating to the breach..."

In accordance with IRS Publication 1075 (PUB 1075), section 9.3.8 Incident Response, Department personnel are immediately required to contact the Department's Internal Affairs and the Disclosure Officer, who will then contact the IRS Office of Safeguards and the Treasury Inspector General for Tax Administration (TIGTA) immediately but no later than 24 hours after identification of a possible issue involving Federal Tax Information (FTI). Incidents include, but are not limited to, a data breach, the compromising of any taxpayer data, a virus detected on a user's machine, a lost PC or an undelivered piece of mail that contains taxpayer data. Form CSD-14 – Security Breach Policy Form is available on the Intranet and must be used when any form of information compromise is detected. Appropriate action will be taken to protect the taxpayer as deemed necessary following the evaluation of the severity of the breach.

**State of Illinois
Department of Revenue**

**Schedule of Findings (Continued)
For the Two Years Ended June 30, 2022**

Current Findings

Finding 2022-009 Inadequate Controls over Monitoring, Processing and Recording of State Property and Equipment (Continued)

Lastly, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls, to provide assurance that funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation, and revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Department management stated the property additions paperwork did not previously depict the steps involved in the process for recording asset additions accurately resulting in miscommunications between program areas. In addition, Department management stated the unlocated property error was caused by miscommunication between the specific Department program area and another State Agency.

This finding was first reported in the Department's *State Compliance Examination* for the two years ended June 30, 2018. In subsequent years, the Department has been unsuccessful in implementing an adequate corrective action plan.

Failure to maintain adequate records for State property additions increases the likelihood that a loss of equipment could occur and not be detected in a timely manner. In addition, failure to monitor and track the possession of equipment could also result in a breach of confidentiality under PUB 1075 and failure to adequately notify the IRS. (Finding Code No. 2022-009, 2020-009, 2018-010)

Recommendation

We recommend the Department strengthen its internal controls to ensure Department staff are complying with current policies and procedures regarding the tracking and monitoring property and equipment.

Department Response

The Department accepts the recommendation. We have implemented a new process to track the timeline when phones are received, tagged, logged, and a value added into the Enterprise Resource Planning System (ERP System). We will implement additional controls to ensure we have proper oversight of inventory as it arrives or leaves the Department.

**State of Illinois
Department of Revenue**

**Schedule of Findings (Continued)
For the Two Years Ended June 30, 2022**

Current Findings

Finding 2022-010 Inadequate Controls over Contracts

The Department of Revenue (Department) did not have sufficient internal controls in place over its processing of contracts to ensure Contract Obligation Documents (C-23 Form) were properly being completed.

Although we were unable to obtain a complete population of the Department's Fiscal Years 2021 and 2022 contractual agreements (see Finding 2022-004), we sampled eight contractual agreements and their associated C-23 Forms for detailed testing.

The SAMS Manual (Procedure 15.20.10) requires a C-23 Form to be used to obligate contracts, leases, purchase orders, sub-orders, and printing orders and must contain data elements indicated on Exhibit 15.20.10-A.

The results of our testing noted the following exceptions:

- For one (13%) C-23 Forms sampled, totaling \$160,582, the Department did not fill out the Award Code portion of the form. Additionally, the C-23 Form did not contain an explanation in the description area outlining the reason for its exemption.

The Exhibit 15.20.10-A requires the reporting of Procurement Information, including an applicable Award Code. If utilizing Award Codes N-Z, the Department is also required to cite the applicable statutory reference that allows contract to be exempt from Illinois Procurement Code, along with a brief explanation to be added to in the Description section of the C-23 Form.

- For one (13%) C-23 Forms sampled, totaling \$110,465, was not properly completed by the Department. The Department did not cite the correct transaction code for leases.

The Exhibit 15.20.10-A also requires the Department to have a transaction code on the C-23 Form which indicates the type of obligation and processing action that will need to be taken by the Office of Comptroller (Comptroller).

Department management indicated the errors were due to a lack of oversight by the applicable program areas.

Failure to maintain adequate internal controls over contractual agreements by the Department may result in a lack of accountability or impact on the Department's or the Comptroller's ability to effectively carry out part of their administrative and operational duties. (Finding Code No. 2022-010)

Recommendation

We recommend the Department strengthen its internal controls surrounding the filing of its C-23 Forms, which may include retraining staff and ensuring there is an adequate review process in place of the forms prior to the Department's submission to the Comptroller.

**State of Illinois
Department of Revenue**

**Schedule of Findings (Continued)
For the Two Years Ended June 30, 2022**

Current Findings

Finding 2022-010 Inadequate Controls over Contracts (Continued)

Department Response

The Department accepts the recommendation. We will ensure staff have access to and review the procedures defined within the Statewide Accounting Management System (SAMS) Manual in order to ensure future COD filings with the Illinois Office of the Comptroller are submitted completely and accurately.

**State of Illinois
Department of Revenue**

**Schedule of Findings (Continued)
For the Two Years Ended June 30, 2022**

Current Findings

Finding 2022-011 Inadequate Controls over the Cancellation of Telecommunication Devices

The Department of Revenue (Department) did not have adequate internal controls over the cancellation of portable telecommunication devices.

Although we were unable to obtain a complete population of electronic devices assigned to employees who had separated from the Department during the examination period (see Finding 2022-004), we sampled 14 cancellation requests for detailed testing.

The results of our testing noted the following exceptions:

- For 14 (100%) employees sampled that left the Department or received an upgraded device, documentation could not be provided by the Department to determine if the device had been returned in a timely manner.
- For 8 (57%) employees sampled that left the Department or received an upgraded device, documentation provided did not support the device had been deactivated in a timely manner after the employees' departure. Estimated charges for devices not timely deactivated totaled \$2,538.
- For 2 (14%) employees sampled that left the Department or received an upgraded device, documentation provided did not support the device had been deactivated as of the time of testing. Estimated monthly charges for devices not deactivated totaled \$2,877 and continue to accrue.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to maintain a system, or systems, of internal fiscal and administrative controls to provide reasonable assurance that property is safeguarded against waste, loss, unauthorized use, and misappropriation.

Per the Illinois Administrative Code (44 Ill. Admin. Code 5010.400), the Department is required to adjust its property records within 90 days after acquisition, change, or deletion of equipment items. Furthermore, good internal controls over telecommunications includes deactivating a wireless communication device before the cutoff of the next billing date, if possible, to avoid unnecessary changes.

Department management indicated errors were due to program area oversight.

Failure to document and/or perform timely deactivations of portable telecommunication devices could result in misuse of State assets and improper telecommunication expenditures. (Finding Code No. 2022-011)

Recommendation

We recommend the Department strengthen its internal controls over portable communication devices to ensure their timely cancellations.

Department Response

The Department accepts the recommendation. We will explore ways to strengthen the controls over the cancellation of telecommunication devices.

**State of Illinois
Department of Revenue**

**Schedule of Findings (Continued)
For the Two Years Ended June 30, 2022**

Current Findings

Finding 2022-012 Failure to Demonstrate Restricted Access was Adequately Maintained

The Department of Revenue (Department) did not have adequate internal controls in place over access to restricted areas.

During the testing of restricted area access, the Department was unable to provide us sufficient evidence demonstrating employees' restricted access was appropriate. Specifically, we noted the following:

- For 21 of 27 (78%) employees sampled, the Department could not provide support that it had completed a ID-85 form for the associated employees' access to the restricted area.
- For 2 of 6 (33%) employees sampled, the Department could not provide support demonstrating an email was sent to the Department of Innovation and Technology (DoIT) requesting the employees' access to the restricted area.
- For 11 of 11 (100%) employees sampled, the Department was unable to provide support for when the employee's user access revocation request was submitted to DoIT.
- For 1 of 6 (17%) employees sampled, an employee accessed a restricted area before they were approved to access the area.

Per Department policy, employees, contracts, and vendors, are required to be approved and have their access rights supported by a completed form ID-85. This form is required to be completed by the Department's Disclosure Officer and the Department's Internal Affairs division before being emailed to DoIT. DoIT then is responsible for granting the physical access to the Department's restricted areas. When access rights are to be changed or revoked, the Department will send an email to DoIT about the requested change.

The Income Tax Act (35 ILCS 5/917) requires all information received by the Department for returns filed under this Act to be confidential.

The State Records Act (5 ILCS 106/8) requires to the Department to make and preserve records containing adequate and proper documentation of the essential transactions of the Department to protect both the legal and financial rights of the State and of persons directly affected by the Department's activities.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls, to provide assurance that property and taxpayer information is safeguarded against waste, loss, unauthorized use, and misappropriation.

Department management indicated the errors noted for granting and removing access to restricted areas were a result of miscommunication between the Department and DoIT personnel.

Failure to provide complete and adequate documentation impedes us in completing our procedures and providing useful and relevant feedback to the General Assembly regarding the Department's compliance. Furthermore, the Department is unable to demonstrate it has met each compliance requirement it is subject to when sufficient records are not maintained which may result in unauthorized individuals accessing restricted areas. (Finding Code No. 2022-012)

**State of Illinois
Department of Revenue**

**Schedule of Findings (Continued)
For the Two Years Ended June 30, 2022**

Current Findings

**Finding 2022-012 Failure to Demonstrate Restricted Access was Adequately Maintained
(Continued)**

Recommendation

We recommend the Department strengthen its internal controls over access to restricted areas.

Department Response

The Department accepts the recommendation. We will evaluate internal controls over access to restricted areas to identify areas for improvement and to ensure adequate documentation is maintained.

**State of Illinois
Department of Revenue**

**Schedule of Findings (Continued)
For the Two Years Ended June 30, 2022**

Current Findings

Finding 2022-013 Inadequate Controls over Agency Workforce Reports

The Department of Revenue (Department) did not have adequate internal controls over its preparation and submission of Agency Workforce Reports (Report).

Although we were unable to determine if the Reports filed were complete and accurate during the examination period (see Finding 2022-004), we performed detailed testing over the Reports.

The results of our testing indicated the following exceptions:

- The Department filed its Fiscal Year 2020 Report with the Secretary of State and the Office of the Governor 11 days late on January 11, 2021.
- The Department filed its Fiscal Year 2021 Report with the Secretary of State and the Office of the Governor 6 months late on July 1, 2022.
- The Department's Fiscal Year 2021 Report, due January 1, 2022, did not contain the required percentages for the various categories.

The State Employment Records Act (Act) (5 ILCS 410/15) requires the Department to collect, classify, maintain, and report certain employment statistics for women, disabled, and minority groups. The Act (5 ILCS 410/20) requires the Reports to be filed with the Secretary of State and the Governor by January 1 each year for the preceding fiscal year.

Department management indicated the errors were due to a lack of oversight by the applicable program area.

Failure to include complete and accurate information in the Department's Reports and submit reports timely could deter efforts by State officials, administrators, and residents to achieve a more diversified State workforce. (Finding Code No. 2022-013)

Recommendation

We recommend the Department implement internal controls over Agency Workforce Reports to ensure they are complete, accurate, and timely filed with the Secretary of State and the Office of the Governor. In addition, we recommend the Department file a corrected Fiscal Year 2021 Agency Workforce Report in accordance with the Illinois State Auditing Act (30 ILCS 5/3-2.2(b)).

Department Response

The Department accepts the recommendation. We will evaluate internal controls over the completion and submission of the agency workforce reports. The Fiscal Year 2021 report will be resubmitted.

**State of Illinois
Department of Revenue**

**Schedule of Findings (Continued)
For the Two Years Ended June 30, 2022**

Current Findings

Finding 2022-014 Inadequate Controls over the Application Process of Qualifying Water Treatment Facilities

The Department of Revenue (Department) did not maintain adequate internal controls over the application process of qualifying water treatment facilities.

According to the Department's PTX-1004, *The Illinois Property Tax System*, the Department assesses qualifying water treatment facility properties and certifies values to the applicable county clerks, who include the assessments in the local tax bases.

With the passage of Public Act 101-199, effective January 1, 2020, the Property Tax Code (35 ILCS 200/11-161) requires applications for assessment as a qualifying water treatment facility to be filed with the Department in the manner and form prescribed by the Department. The application is to contain appropriate documentation that the applicant has been issued a valid facility number by the Illinois Environmental Protection Agency and is entitled to tax treatment. The effective date of an assessment is required to be January 1st preceding the date of approval by the Department or preceding the date construction or installation of the facility commences, whichever is later.

Per the Department's process, applicants that meet requirements for certification receive a notification, which includes a Memorandum of Certification as prepared by the Department and signed by the Director. Approval through the Director's signature is required prior to the Department's Legal Department notifying the applicant of certification. After certification has been obtained and when it has been determined by the Department's Property Tax Division that it is time for the assessment to be conducted, the Department sends the qualifying water treatment facility a PTAX 401-W Form. The PTAX 401-W Form needs to be completed and filed with the Department as it contains the information needed for the Department to perform the assessment. The PTAX 401-W Form states, "Failure to receive or complete this form does not relieve the obligation of facility to file (the PTAX 401-W Form)."

Although we were unable to obtain a complete population of water treatment facility applicants for Fiscal Years 2021 and 2022, which have 2020 and 2021 assessments for tax purposes (see Finding 2022-004), we sampled 2 applicants out of a population of 2 (100%) for detailed testing.

The results of our testing noted the following exceptions:

- For one (50%) application selected for testing, the notification sent to the qualifying water treatment facility to communicate their certification was dated August 10, 2020, while the Memorandum of Certification was approved by the Director on September 17, 2020.

Department management indicated the current process relies on manual intervention by staff, and the issue noted was due to a lack of oversight.

- For one (50%) application selected for testing, the applicant was properly certified as a qualifying water treatment facility with an effective date of January 1, 2021, but it did not submit a completed PTAX 401-W Form for fiscal year 2021. As a result, an assessment was not performed.

Department management indicated it could not perform the assessment without the proper forms, which were not filed by the applicable water treatment facility. The water treatment facility was new and historical data to perform an estimate was not available.

**State of Illinois
Department of Revenue**

**Schedule of Findings (Continued)
For the Two Years Ended June 30, 2022**

Current Findings

Finding 2022-014 Inadequate Controls over the Application Process of Qualifying Water Treatment Facilities (Continued)

While the qualifying water treatment facility did meet requirements for certification, Director approval acts as an internal control to ensure facilities are not improperly certified. There is a risk that the Director's review could detect a reason to prevent a certification. In addition, qualifying water treatment facilities are obligated to file a return and are subject to tax assessments. When this process is not performed, the qualifying water treatment may not properly pay property taxes, thereby lessening the local government's revenue stream to pay for essential needs of its citizens. (Finding Code No. 2022-014)

Recommendation

We recommend the Department strengthen its controls to ensure compliance with the property tax code, specifically responsibilities related to water treatment facilities.

Department Response

The Department accepts the recommendation. We have implemented additional controls and checks into the application process of qualifying water treatment facilities to prevent this issue from occurring in the future. In addition, the Department is planning to update the computer system used to administer this program, allowing for greater tracking of the water treatment facilities.

**State of Illinois
Department of Revenue**

**Schedule of Findings (Continued)
For the Two Years Ended June 30, 2022**

Current Findings

Finding 2022-015 Inadequate Controls over Security and Control of Remote Access

The Department of Revenue (Department) did not have adequate internal controls over remote access to its environment, applications and data.

Our review of the Department's internal controls over remote access noted the Department did not maintain documentation to demonstrate:

- Users were formally authorized prior to receiving remote access, and
- Mechanisms were in place to monitor remote access.

The Security and Privacy Controls for Information Systems and Organizations (Special Publication 800-53, Fifth Revision) published by National Institute of Standards and Technology (NIST), Access Control and System and Communication Protection sections, requires entities to implement adequate internal controls over access to its environment, applications and data.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal controls to provide assurance that funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use and misappropriation.

Department management stated that there are internal controls in place over security and control of remote access. However, these controls were not properly documented during the compliance period.

Failure to have adequate internal control over remote access for users could result in unauthorized access to the environment, applications and data maintained by the Department, which may also result in malicious activity. (Finding Code No. 2022-015)

Recommendation

We recommend the Department maintain documentation to ensure users are formally authorized prior to receiving remote access and document monitoring of remote access.

Department Response

The Department accepts the recommendation. We will explore the best method by which authorization for remote access will be granted and ensure documentation is retained to evidence authorization.

**State of Illinois
Department of Revenue**

**Schedule of Findings (Continued)
For the Two Years Ended June 30, 2022**

Current Findings

Finding 2022-016 Voucher Processing Weaknesses

The Department of Revenue (Department) did not have adequate internal control over the processing, approval, and timely payment of vouchers.

Due to our ability to rely upon the processing integrity of the Enterprise Resource Planning (ERP) System operated by the Department of Innovation and Technology (DoIT), we were able to limit our voucher testing at the Department to determine whether certain key attributes were properly entered by the Department's staff into ERP System. In order to determine the operating effectiveness of the Department's internal controls related to voucher processing and subsequent payment of interest, we selected a sample of key attributes (attributes) to determine if the attributes were properly entered into the ERP System based on supporting documentation. The attributes tested were 1) vendor information, 2) expenditure amount, 3) object(s) of expenditure, and 4) the later of the receipt date of the proper bill or the receipt date of the goods and/or services.

We then conducted an analysis of the Department's expenditures data for fiscal years 2021 and 2022 to determine compliance with the State Prompt Payment Act (Act) (30 ILCS 540) and the Illinois Administrative Code (Code) (74 Ill. Admin. Code 900.70). While we did not note any exceptions related to the Act, we did note the following noncompliance with the Code:

- The Department did not timely approve twelve vouchers processed during the examination period, totaling \$15,807. We noted these late vouchers were approved between 4 and 22 days late.

The Code (74 Ill. Admin. Code 900.70) requires the Department to timely review each vendor's invoice and approve proper bills within 30 days after receipt.

Further, during our examination, we tested various types of vouchers processed by the Department and noted the following:

- For 2 of 40 (5%) vouchers tested totaling \$9,671, the purchase orders associated with those vouchers were not approved by the respective supervisor. Both vouchers were related to EDP.
- For 1 of 2 (50%) EDP vouchers tested totaling \$3,991, there was no documentation provided to verify the EDP purchase was properly authorized by the DoIT.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls which are to provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Department management indicated the errors were due to a lack of oversight by the applicable program area staff.

Failure to timely process and review vouchers, and to maintain supporting documentation represents noncompliance with State laws, rules, and regulations, and could lead to errors or other irregularities. (Finding Code No. 2022-016)

**State of Illinois
Department of Revenue**

**Schedule of Findings (Continued)
For the Two Years Ended June 30, 2022**

Current Findings

Finding 2022-016 Voucher Processing Weaknesses (Continued)

Recommendation

We recommend Department management improve its internal controls governing the voucher process in order to ensure invoices are reviewed and approved and vouchers are generated in a timely manner, and all supporting documentation is maintained.

Department Response

The Department accepts the recommendation. We will evaluate internal controls over voucher processing to identify areas for improvement.

**State of Illinois
Department of Revenue**

**Schedule of Findings (Continued)
For the Two Years Ended June 30, 2022**

Current Findings

Finding 2022-017 Inadequate Controls over Contingency Planning

The Department of Revenue (Department) did not ensure adequate recovery plans were maintained.

As a result of the Department's role in maintaining and collecting tax and other information, the Department maintains computer systems that contain large volumes of confidential or personal information such as names, addresses, and Social Security numbers, etc. In order to meet its mission, the Department utilizes a myriad of applications.

During the examination of the Department's contingency program and practices for its in-house systems and applications, we noted the Department had not updated its Contingency Plan (Plan), including its Business Impact Assessment (BIA), since 2018; therefore, we were unable to determine if the Plan had been updated and maintained to depict the Department's system and component changes. Further, we noted the Plan:

- Was limited in scope and did not contain comprehensive recovery strategies.
- Did not document Recovery Point Objectives (RPO) and Recovery Time Objectives (RTO).
- Did not contain detailed recovery scripts.

In addition, the Department did not provide documentation an annual recovery test was performed for in-house applications during the examination period.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that property and resources are safeguarded against waste, loss, unauthorized use, and misappropriation.

In addition, *the Security and Privacy Controls for Information Systems and Organizations* (Special Publication 800-53, Fifth Revision) published by the National Institute of Standards and Technology (NIST), Contingency Planning section, calls for developing and documenting an up-to-date business continuity plan and testing the plan.

Department management stated there were internal control processes in place for data recovery plans but were not formalized.

Inadequate contingency plans could result in the Department being unable to ensure its critical systems are recovered within an acceptable period and minimize the impact associated with a disaster. (Finding Code No. 2022-017)

Recommendation

We recommend the Department review and update its Plan at least annually or after recovery testing. Further, we recommend the Department update the Plan to document:

- Comprehensive recovery strategies
- RPOs and RTOs
- Detailed recovery scripts

**State of Illinois
Department of Revenue**

**Schedule of Findings (Continued)
For the Two Years Ended June 30, 2022**

Current Findings

Finding 2022-017 Inadequate Controls over Contingency Planning (Continued)

Finally, we recommend the Department conduct a business impact analysis, an annual recovery testing, and maintain documentation of recovery test results or lessons learned.

Department Response

The Department accepts the recommendation. We will work to develop and implement procedures to ensure adequate contingency planning is performed.

**State of Illinois
Department of Revenue**

**Schedule of Findings (Continued)
For the Two Years Ended June 30, 2022**

Current Findings

Finding 2022-018 Inadequate Controls over the Security and Control of Confidential Information (SCCI)

The Department of Revenue (Department) had inadequate internal controls over the security of its confidential information.

During our testing over confidential information, we noted the Department had not:

- Developed breach notification procedures.
- Maintained documentation demonstrating encryption was installed on Information Technology assets.
- Identified biometric information to be considered as personnel information in order to protect such information in accordance with the Personal Information Protection Act.

The Security and Privacy Controls for Information Systems and Organizations (Special Publication 800-53, Fifth Revision) published by the National Institute of Standards and Technology (NIST), Personally Identifiable Information Processing and Transparency section, requires entities to develop policies and procedures to ensure security, integrity, and confidentiality of personal information maintained in their environment and applications.

Also, the Personal Information Protection Act (Act) (815 ILCS 530/5) requires the Department to treat biometric information as personal information and protect such information.

In addition, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of fiscal and administrative controls to provide assurance that funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use and misappropriation.

Department management stated that there are internal controls in place for breach notification polices and encryption. However, these controls were not properly documented during the compliance period. In addition, due to oversight, biometric information was not considered as personal information.

Failure to adequately secure confidential and personal information could result in exposure of such information to unauthorized parties or data breaches. In addition, failure to treat biometric information as personal information resulted in noncompliance with the Act. (Finding Code No. 2022-018)

Recommendation

The Department has the ultimate responsibility for ensuring confidential information is protected from accidental or unauthorized disclosure. Specifically, we recommend the Department:

- Develop and document breach notification procedures.
- Install encryption on IT assets with confidential information and maintain documentation to support the installation.
- Include biometric information as part of personnel information in accordance with the Act.

**State of Illinois
Department of Revenue**

**Schedule of Findings (Continued)
For the Two Years Ended June 30, 2022**

Current Findings

Finding 2022-018 Inadequate Controls over the Security and Control of Confidential Information (SCCI) (Continued)

Department Response

The Department accepts the recommendation. We will work to develop and implement procedures to ensure the specific items referenced are addressed.

Schedule of Findings (Continued)
For the Two Years Ended June 30, 2022

Prior Findings Not Repeated

A. Lack of Census Data Reconciliation

During the prior engagement, the Department of Revenue (Department) did not fully implement a reconciliation process to provide assurance census data submitted to its pension and other postemployment benefits (OPEB) plans was complete and accurate.

During the current engagement, we noted the Department was able to work with the State Employees Retirement System (SERS) to complete the first full reconciliation as well as the follow-up reconciliation and has established a process to continue an annual reconciliation process covering the Department's active membership information to the census data utilized by the pension plan administered by SERS and the State Employees Group Insurance Program (SEGIP) OPEB plan administered by the Department of Central Management Services (CMS). As a result, this finding is not repeated. (Finding Code No. 2021-001, 2020-002)

B. Inadequate Controls over Tax Credit Programs

During the prior engagement, the Department did not maintain adequate controls over income tax abatements resulting from tax credits issued under the Economic Development for a Growing Economy (EDGE) program administered by the Department of Commerce and Economic Opportunity (DCEO). Specifically, we noted the Department abated taxes for taxpayers that did not submit a copy of their Certificate of Verification when they filed their taxes.

During the current engagement, we noted no exceptions in which the Department did not receive the Certificate of Verification prior to giving the taxpayer the abatement. As a result, this finding is considered not repeated. (Finding Code No. 2020-004)

C. Lack of Agreement to Ensure Compliance with IT Security Requirements

During the prior engagement, the Department had not entered into a detailed agreement with the Department of Innovation and Technology (DoIT) to ensure prescribed requirements and available security mechanisms were in place in order to protect the security, processing integrity, availability, and confidentiality of its systems and data.

During the current engagement, we received the detailed signed intergovernmental agreement between the Department and DoIT. As a result, this finding is considered not repeated. (Finding Code No. 2020-006, 2018-011)

D. Inadequate Execution of Interagency Agreements

During the prior engagement, the Department of Revenue (Department) failed to adequately execute interagency agreements.

During the current engagement, we noted the interagency agreements selected for testing were properly executed. As a result, this finding is considered not repeated. (Finding Code No. 2020-007)

**State of Illinois
Department of Revenue**

**Schedule of Findings (Continued)
For the Two Years Ended June 30, 2022**

Prior Findings Not Repeated (Continued)

E. Inadequate Accounting of Postage Balances

During the prior engagement, the Department did not properly reconcile beginning balances for postage during the examination period.

During the current engagement, we performed an analysis for postage meters by taking the beginning balance plus purchases less usage for determining the reasonableness of the ending balance. Based on the analysis, all ending balances were deemed reasonable. As a result, this finding is considered not repeated. (Finding Code No. 2020-010)